

**Triodos  Bank**

Annual Report 2020

# The year 2020 - unlike any other

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The year 2020 was unlike any year in our history and one we will not easily forget. Triodos Bank started 2020 expecting a stable development, building on the results of 2019. We also expected to celebrate the fact that Triodos Bank was founded 40 years ago, in 1980. Forty years of making money work for positive change.

By the end of February however, the world was facing one of the biggest crises we have experienced in recent times. As the COVID-19 virus spread, governments announced increasing measures restricting freedom of movement, resulting in the World Health Organisation declaring a pandemic on 11 March 2020.

Whilst the summer brought some relief, most European countries were confronted with a second wave of infections and lockdown measures in the autumn, with a third wave of even more stringent restrictions for citizens emerging just before year end.

The COVID-19 pandemic disrupted our lives and our economy in an unprecedented way. As the scale of the crisis was spreading across the globe, economic outlooks worsened and financial markets became very volatile. The crisis had a major impact on our customers and our operations.

## Running the business in unusual circumstances

Maintaining our business operations is critical to the continuation of our services to our customers. With the outbreak of COVID-19 at the beginning of this year, the bank's crisis management committee was activated to analyse the evolving situation and define measures for Triodos entities in all countries.

Almost all our co-workers were able to work from home within a few days and our systems worked without any major problems.

From the start of the pandemic our attention went to customers, especially our credit customers. We have been in close contact with most business customers throughout the year to assess their immediate needs as a result of the crisis. We have contributed to initiatives with other banks, governments and regulators to

discuss measures that could be effective to support business, particularly in the SME sector.

The support measures taken by the different governments vary, but everywhere large amounts of money have been made available to support income or debt of entrepreneurs and citizens. Triodos Bank has been doing its utmost to support customers, fostering their economic resilience during the crisis by facilitating 1,042 Covid-19 related guarantees across countries and, at its highest point in September 2020, 800 repayment holidays for customers.

## Who owns Triodos Bank

When founding the bank in 1980, principles of ownership were established which are directly related to the mission and identity of the bank. The first principle is that providing capital to the bank should not lead to control over the bank, which is why the shares are held in a foundation which issues DRs for investors. The second principle is about the pricing mechanism of the DRs: the price is based on the book value of the assets of Triodos Bank minus the book value of the liabilities of Triodos Bank and not determined by supply and demand between investors. And finally: Triodos Bank enables people to use money more consciously. The essence of the bank is the personal commitment of its key stakeholders – the engagement of people with the mission – and this requires their active involvement. Therefore, Triodos Bank opted for a broad DR-holder community, consisting of people that are prepared to support the bank's development with long-term investment.

## Exceptional decisions

The uncertainty created by the COVID-19 pandemic for the economy at large, including the financial sector, impacted investor behaviour globally and also affected trade in Depository Receipts of shares in Triodos Bank in the first wave of the pandemic. Triodos Bank had to take an exceptional decision on 18 March 2020, to suspend the possibility to buy and sell Triodos Bank Depository Receipts. Trade was resumed on 13 October

2020, with a new prospectus and measures in place to limit the amount of Depository Receipts investors could sell in one settlement. Despite the mitigating measures we took, the patterns of buying and selling of Depository Receipts did not return to the balance we were expecting. The ongoing uncertainty around the corona crisis and its longer-term economic effects have not disappeared; on the contrary, further lockdown measures and other restrictions were seen globally in the last two months of 2020. The trading pattern we were experiencing put into question whether the balance in trade in Depository Receipts will be restored in the current economic context. It also poses the question of what measures we can take to achieve balanced trading, as we must now assume that previous trading patterns will likely not recover in the short term. Trade was therefore suspended on Tuesday 5 January 2021.

Another exceptional decision taken was to withdraw the dividend proposal for 2019. Considering the uncertainty of the wider impact of COVID-19 on society and the economy at large, the European Central Bank (ECB) and De Nederlandsche Bank (DNB) strongly advised banks to provide a clear signal to the public that they would make maximum efforts to ensure the continuity of lending and to retain prior year's profits until the extent of the crisis is known. Triodos Bank, being part of the Dutch and European financial sector, felt it could not ignore such a request. The Executive Board decided on 1 April 2020 to withdraw the dividend proposal which was published in the Annual Report 2019. Initially, the proposal was to distribute 50% of the profit for 2019 as a dividend.

## Dividend

On 15 December 2020, De Nederlandsche Bank (DNB) called on the major banks under its supervision to be very restrained in paying dividends and buying back own shares, in line with the recommendation of the European Central Bank. This recommendation is related to the current exceptional circumstances and will run until the end of September 2021. At that time, DNB expects, in the absence of material unfavourable developments, to return to a normal assessment of the capital distribution of banks.

Banks that nevertheless intend to pay out dividends are expected to consult with the regulator before any dividend proposal is made. Dividend payments should not exceed 15% of the cumulative earnings for 2019 and 2020, and should be no more than 20 basis points of the CET1 ratio. Banks that intend to pay out dividends must be profitable and have a consistently solid capital buffer.

We also decided, for the first time in our history, to participate in Targeted Long-Term Refinancing Operations (TLTROs). The ECB introduced TLTROs in 2014. TLTROs offer long-term funding at attractive conditions to banks in order to further ease private-sector credit conditions and stimulate bank lending to the real economy. As a European bank under direct supervision of DNB, Triodos Bank is part of the Eurosystem. The Eurosystem carries costs and benefits. To date, Triodos Bank and its customers have mostly been confronted with the cost of this system, through negative interest rates and quantitative easing which affect the yield curve for financial institutions. Triodos Bank feels a responsibility to play a role in financing the recovery post COVID-19. The terms offered for the TLTROs provide an opportunity and incentive to increase our lending to entrepreneurs who are instrumental in delivering sustainable development, which is crucial for the recovery of the economy. In the TLTRO tender III.5 Triodos Bank applied for and obtained EUR 750 million.

Lastly, as part of an ambitious cost-reduction programme which was launched in 2020, we took the decision to structurally change the way of working, starting in The Netherlands and Spain. All co-workers in these countries will continue to work partially from home after the coronavirus pandemic. This means that the bank will concentrate all activities in The Netherlands in the new office, De Reehorst in Driebergen. In Spain, we decided to rent out one of our two head office buildings in Madrid.

### Reset the economy – and the role of the financial sector

The COVID-19 pandemic has brought big issues to the fore. It has exposed the structural weaknesses in the contemporary global economic system with its global supply chains and economic monocultures. Our relationship with nature is broken, caused by climate change and the loss of biodiversity. And the crisis exposes significant societal inequality, leaving certain groups of people more affected by the pandemic – economically, socially or health-wise – than others. Fundamental flaws in the way we have organised our economy in our unrelenting efforts to strive for economic growth have been laid bare.

We strongly believe that the corona crisis is also an opportunity for a redesign of the economy. Linking social fairness and ecological vitality with finance can realise a recovery that is more resilient. Rather than just restoring an old model, we can make our economy fairer and more sustainable. Triodos Bank published a vision paper ‘Reset the economy’ in June in which we stressed the need for a transition to an economy that is more resilient, more sustainable and more inclusive. Our aim in this paper is to map a pathway for a resilient and inclusive recovery once the coronavirus has been contained.

Triodos Bank has been part of this new economy and has helped shape it ever since our foundation in 1980. Triodos Bank uses the concepts of impact, risk and return to understand our overall development and place in the world around us. This requires a positive, long-term and holistic perspective. It also requires a conscious choice about the sectors we invest in and

the sectors we choose to avoid. Because we focus on delivering sustainable social, environmental and cultural impact, our horizon is inherently longer term.

Opportunities exist for companies and initiatives that focus on impact and understand what the coronavirus pandemic teaches us to strive for: with sustainable and more local food production, by paying more attention to biodiversity, and emphasising social inclusion and the new forms of cooperation that make this possible. We see that more and more people, especially in the communities we are part of, recognise the opportunity for transformation and are willing to embrace new economic and social models.

#### Triodos Regenerative Money Centre

Triodos Regenerative Money Centre (TRMC) aims to increase the conscious use of money, through donations and catalytic investments. The initiative’s goal is to support a regenerative economy that serves people and is a steward of the Earth’s ecosystems.

TRMC aims to deliver its goals by supporting initiatives that pioneer new business models with an explicit goal to regenerate society and the planet. These are initiatives that have the potential to be game-changers as they can fulfil a catalytic role. The goal of every donation and catalytic investment is to increase consciousness and provide new perspectives on current questions in areas where, for different reasons, traditional bank and investment products cannot provide an answer.

#### Diversity and inclusion

Triodos Bank wants to be at the forefront of the developments in society that are needed for renewal. It is important to recognise that we not only need an economic reset, we should also embrace the chance to steer more rigorously on social inclusion. The Black Lives Matter movement, examining the ingrained attitudes to race and privilege, this year has not only sparked debate in society it has also ignited a discussion inside our own organisation. Our mission

states that we pursue a society that has human dignity at its core. The question to ourselves has been: can we truly say that we have human dignity at our core when we are unaware of whether all our co-workers feel seen and respected? To make sure that this time next year we know the answer to these questions, we have put diversity and inclusion firmly on the agenda as a topic for the organisation.

### Changing finance

Since our foundation forty years ago, part of our mission has been to influence the financial sector systemically at a national and global level to make money work for positive change. This has become even more urgent in the context of the 'green and just' recovery from the corona crisis.

We believe the financial sector is an essential part of society and should serve the real economy. It should therefore put positive impact, diversity and transparency at its core, supported by appropriate regulations and supervision. A financial sector that has truly integrated those elements in its business will be able to help improve people's quality of life and achieve positive impact on the world around us. We cannot achieve this alone. We collaborate with many other European and global institutions and associations like the Global Alliance for Banking on Values (GABV), the Club of Rome, the Sustainable Finance Lab, governments and banking associations. Together we have been able to create momentum to change finance.

An important part of our change finance agenda is focused on the three strategic themes of Triodos Bank: energy and climate, food and agriculture, and social inclusion. For instance, in Germany we took the initiative to gain a commitment from the financial sector to the Paris climate agreement; we published our vision document 'Reset the economy' with a strong focus on social inclusion; and we signed the Finance for Biodiversity Pledge.

### The loss of biodiversity is one of the greatest challenges for the existence of life on Earth

The damage to biodiversity caused by our way of living, specifically farming, is considerable. We have reached a point where we should not talk about reducing harm to biodiversity, but rather talk about regeneration. Biodiversity is very relevant for the financial sector. For Triodos Bank, this goes beyond the commercial risks that financial institutions run when they finance companies whose business depends on ecosystem services or that have a major negative impact on biodiversity. In 2020, Triodos Bank signed the Finance for Biodiversity Pledge. The signatories commit themselves to collaborating, engaging, assessing their own biodiversity impact, setting targets and reporting on biodiversity matters by 2024 at the latest. We are also a member of the Partnership Biodiversity Accounting Financials, which works to develop a common accounting methodology for the sector's impact on biodiversity.

We believe national and European rules and regulations should stimulate the transition of the financial sector to put positive impact first, ahead of return. Therefore, on a national and European level, we put a lot of time and effort into the revision of the legal framework for all financial institutions and markets. We see positive developments. We welcomed the Renewed Sustainable Finance Strategy of the European Commission. It is ambitious and emphasises the relationship between social resilience, environmental balance and financial soundness. A sustainable financial sector is key for a sustainable post-coronavirus recovery.

To influence at an international, national and even regional level is not easy. But despite our relatively small size, we have persevered, often by partnering with others, to persuade decision-makers to develop legislation that supports the transition to a sustainable economy, and that enables and stimulates the financial sector to play an active role in transition.

## Measuring up

Triodos Bank was among 16 financial institutions that created the global accounting standard for greenhouse gas (GHG) emissions of the Partnership for Carbon Accounting Financials (PCAF). Banks, asset managers and asset owners now have access to a free, standardised, robust and clear way of measuring and reporting greenhouse gas emissions tied to their lending and investment portfolios.

Triodos Bank supports the world's transition to a low-carbon and climate-friendly future, in line with the Paris climate goals, to limit the temperature increase to at most 1.5 degrees Celsius. To contribute to this future, financial institutions need to know the carbon footprint of their loans and investments. If financial institutions know what the emissions are, they can be transparent about their climate impact and it will help them set climate targets and steer decision-making.

Triodos Bank wants to make sure that our activities and associated emissions contribute to, at most, a 1.5-degree global increase in temperature. Triodos Bank started using the PCAF methodology in its own business in 2018 for about 68 percent of its portfolio. In 2019, we measured the emissions of our entire portfolio of loans and direct investments. In 2020, we are still one of only a handful of banks able to report fully on the carbon intensity of its portfolio.

Given our mission and the focus of our finance, it's safe to say that our carbon results compare well to the emissions of mainstream banks. By mapping our emissions, we can identify the loans and investments with relatively high GHG emissions within our portfolio. It provides input to steer our (long-term) strategy to align with the Paris agreement. In our efforts to develop climate targets, we want to hit the target without missing the point.

As a frontrunner bank on sustainability, we have a responsibility to finance the transition towards a sustainable future. For Triodos Bank this may mean that our carbon emissions actually go up if we decide to finance more businesses that still have to make the transition instead of leaving them behind. In the short

term this may not contribute to our targets, but in the longer term we will ensure that we get to net zero. We are researching how quickly we may be able to take the lead in reaching a net-zero portfolio (and beyond). This requires us to reflect critically on our portfolio. We want to make sure we do this carefully rather than set arbitrary targets too quickly. We will disclose our transition plan with long- and short-term targets in the run up to COP26, November 2021.

## From niche to frontrunner

In recent years the financial sector has set out on a journey to integrate sustainability in its business models and strategies. Sustainability was considered a niche activity forty years ago when Triodos Bank started, but has become more and more mainstream, even though the financial sector as a whole still has a long way to go.

In the last four decades Triodos Bank has moved from being a niche bank to a frontrunner. Our mission – to use money consciously to create positive development in society, with human dignity at its core – has been a guiding principle throughout our history and has found a lot of resonance in society and the financial sector.

Given our frontrunner position in the context of increasing competition, we continued working on our three impact themes that address the most urgent societal challenges: energy and climate, food and agriculture, and social inclusion.

Despite the business challenges of the coronavirus pandemic, we have continued to finance new projects and customers in the energy and climate and food and agriculture sectors in 2020, as described in our vision papers published last year. The third impact theme in our strategic agenda is social inclusion. The vision paper for this theme is in consultation both inside and outside our organisation and we expect to publish it in the first half of 2021.

## The challenges of banking

The business of running a bank has become increasingly complex compared to when Triodos Bank was founded in 1980. Providing quality products

and services while meeting growing regulatory requirements, including executing customer due diligence and monitoring transactions effectively, comes with costs in terms of time and resources. Because our starting point is to deliver greater impact over the long term, it is essential that we are financially resilient and that we consistently focus on building a high-quality loan portfolio.

Low interest rates continue to have a strong impact on Triodos Bank because the growth of funds entrusted outpaces the growth of the loan portfolio. The excess liquidity is placed with the European Central Bank at a negative interest rate and at a cost for Triodos Bank. The low interest rate environment also encourages borrowers to refinance at lower rates and to pay back their borrowing earlier than planned. Both trends continued in 2020. They have a downward effect on net interest margins with a subsequent direct downward impact on Triodos Bank's financial performance.

To address the issue of shrinking margins, we have had to be more selective about the projects within the sectors we finance and the allocation of loan growth to the countries where we are active. We have reviewed the products and services we offer to our customers to focus on loans which will deliver both financial and impact benefits. We acknowledge that this may diminish the rate of loan growth.

Becoming more efficient by applying digital solutions and streamlining our operations with better customer journeys are also important for staying financially healthy, as is fair pricing of these services. Meeting the increasing costs of constantly increasing regulation creates challenges and impacts our overall profitability.

This raises important questions for Triodos Bank. We are continuously working to address them by reducing costs where we can and increasing fee income – principally through the expansion of our Triodos Investment Management activity and fee-generating business on the banking side – to compensate for the diminishing margins of the loan business.

During 2020, we introduced new rates and fees for banking customers in an effort to charge fair

and transparent prices for our products. In The Netherlands, we were the first bank to introduce a negative interest rate for retail savers with deposits higher than EUR 100,000 and charged a fixed administrative fee of EUR 2 per month for each saving account. In Belgium we announced the closure of one of our so-called 'tax-regulated' savings account products, which had become unsustainable due to the regulatorily required minimum interest rate of 0.11%.

In addition, and importantly, we continue to develop ICT and digitalisation solutions to help enhance customer experience and make processes more effective and therefore less costly.

### First year of adopting International Financial Reporting Standards (IFRS)

This Annual Report is the first report we publish using the IFRS accounting principles, besides the pro forma financial statements 2019, which we published on 3 July 2020. With the switch to IFRS the structure of the report has changed accordingly. An important change from the previous method we used (Dutch GAAP) is that we must apply the Expected Credit Loss (ECL) model. In line with the new accounting standards, IFRS-9 was applied for the ECL model. This model requires the incorporation and assessment of forward-looking macro-economic parameters (like GDP growth, unemployment), which are sensitive to the COVID-19 pandemic. The macro-economic parameters are only applicable in stage 1 and stage 2. In 2020 the build-up ECL provision was mainly related to forward-looking aspects, around 62% of the ECL impairments in 2020. The stage 3 impairments were far less influenced, signalling the strength of our portfolio. This is described in more detail in Impact and financial results (see page 36).

### Gatekeeper role

On 6 March 2019, Triodos Bank received an instruction from its supervisor about shortcomings in its customer due-diligence processes and monitoring of customer transactions in the period up to 2018. Triodos Bank accepted this instruction and is implementing mitigating measures. In December 2020, the supervisor imposed a fine on Triodos Bank related to this earlier

instruction. Triodos Bank accepts the decision and has paid the fine, amounting to EUR 475,000, in full.

### Leadership transition

On 22 September we announced that our CEO, Peter Blom, has decided to step down from his role, having worked at Triodos Bank for forty years. He will leave the bank at the end of this year's AGM, on 21 May 2021. On 9 February 2021, Triodos Bank announced the decision of Jellie Banga to step down from her role as Vice-Chair of the Executive Board and Chief Operating Officer (COO), effective 1 May 2021. In reviewing the scope of Jellie's role, it has been decided to split her role into a COO role, focusing on the operating side of the bank, and a Chief Commercial Officer (CCO) role, focusing on the commercial side of the bank. This brings the total number of Executive Board members to five. The Supervisory Board has initiated the recruitment process for both the COO and the CCO roles.

### External rating

Fitch Ratings (Fitch) announced on 16 February 2021 it has assigned Triodos Bank a Long-Term Issuer Default rating at 'BBB' with a stable outlook and a Viability Rating at 'bbb'. Fitch's rating analysis was done at the request of Triodos Bank. The rating gives Triodos Bank a better position on the financial markets should the need arise. It will improve access to institutional debt funding and potentially reduce the cost of funding. Therefore, it supports the bank's financial health.

### Triodos Bank in 2021

An urgent focus for this year is addressing the strategic challenge presented by the suspension of trade of the Depository Receipts of ordinary shares (DRs) and the impact this suspension has on our Depository Receipt holders and our broader capital strategy.

Growing volumes and profit are dependent on external developments, our ability to respond to these developments and seizing opportunities in a pro-active way to fulfil the bank's mission while maintaining a sound level of risk and return. Our capital and liquidity position is expected to remain robust and resilient,

in line with internal target ratios and well above the regulatory minimum requirements.

The banking sector continues to be faced with increased regulations and persistently low interest rates. We have partly compensated for the decreasing interest margin by introducing service fees and negative interest rates. Our revised pricing policy for loans was strictly applied and this will continue in 2021.

Our overall loan portfolio benefits from geographical diversification and reflects modest credit risk, underpinning sustained profit generation and low earnings volatility. As the COVID-19 pandemic is still continuing, the build-up of the ECL provision will continue over the year 2021 in line with the IFRS accounting standards in combination with the bank's prudent business approach. In 2020, we took part in the TLTRO tender III.5. We will consider further upcoming TLTRO tenders in the future.

In the short term, customers will face economic challenges, especially if COVID-19 related government support schemes expire. However, in the medium and long term, we believe our customers – and therefore Triodos Bank itself – are well positioned to be part of the more sustainable and socially inclusive economic recovery that is expected to emerge.

Triodos Bank expects to grow its fee income over time by growing the activities of Triodos Investment Management as well as fee-based banking activities. Moreover, we have the ambition to realise more impact by growing our bank balance sheet modestly, maintaining a stable loan to deposit ratio. We will continue to adjust our business model, becoming less dependent on interest margins in a very low interest rate environment in Europe and balancing increased regulatory costs with efficiency measures.

The bank will focus on positive impact, a fair return and a moderate risk appetite regarding its loans and investments. Triodos Bank will partner with frontrunners in their fields and finance the entrepreneurs who are developing the sustainable industries of the future.



To aid active steering on this ambition, Triodos Bank will set science-based targets for the most important sectors we operate in to ensure our portfolio develops in such a way that we actively contribute to a net-zero economy.

Our priority in 2021 is to navigate the bank and our customers through the COVID-19 pandemic and to focus on the effective execution of our corporate strategy, ensuring we fulfil our role as frontrunner in responsible finance whilst generating maximum impact in line with our goals, as well as realising stable profits with modest risk.

Zeist, 17 March 2021

Triodos Bank Executive Board

Peter Blom, Chair  
Jellie Banga, Vice Chair  
André Haag  
Carla van der Weerd