

Triodos  Bank

Annual Report 2020

1.4 Understanding impact

As a values-based bank, Triodos Bank integrates impact, risk and return when making decisions. Since the foundation of Triodos Bank 40 years ago, creating positive impact has been the driving principle. This section summarises our vision on impact and how this is embedded in our organisation. Triodos Bank is an active member of several frontrunning initiatives on impact management and we highlight the most important ones for 2020 here. We also look at some key challenges in impact management for the coming years.

Our approach to impact management

Finance can make a positive difference in people's lives. It can contribute to progress on key issues that are relevant for society. Financing change is the foundation of what Triodos Bank has been doing over the last forty years. And at the same time, we have been changing finance – showing others that making choices for positive impact are possible and that a business model which takes into account the interests of multiple stakeholders is viable.

From that very first wind turbine we financed in 1985 to experimenting with the role catalytic money and gift money can play in reimagining finance models today, we find ways to fund initiatives that seem impossible at first and eventually find their way into the mainstream.

At Triodos Bank, we have been managing impact consciously since long before much of today's terminology existed. Our approach to impact management is to maximise our positive impact first; and minimise negative impact. We define an impact initiative as having the power to transform, directing money so that it benefits people and the environment over the long term. We have placed impact, risk and return at the core of our mission ever since the foundation of Triodos Bank. We are delighted to see that impact management is now receiving more mature consideration among our partners. We continued to share our insights and challenges to contribute to this in 2020.

For Triodos Bank, integrating reporting doesn't just mean reporting on how the organisation behaves as a responsible corporate citizen – by using renewable energy to power our buildings for example, important as this is. It means reporting in depth on the impact of our activity in the widest sense – from the greenhouse

gas emissions of our loans and investments to giving analysts a deeper understanding of the sustainability value of our work.

Our values and our mission are continuously reinforced within our culture by being fully integrated into our operations. We have not separated sustainability as a department or a function – it is intrinsic to everything we do in the organisation. In 2020, impact management was explicitly embedded in our governance with the creation of the Triodos Group Impact Committee (TGIC). This was partially triggered by the growth of our bank, together with growing regulatory and non-financial reporting requirements. This committee is the Executive Board's delegated body overseeing the development of impact management. It is responsible for strategy and operational activity relating to impact and for creating a Group-level framework for managing impact. The TGIC supports and enables co-workers in pursuing their individual responsibilities within the organisation to manage and deliver impact.

Since its establishment in September 2020, the TGIC focuses on target setting; streamlining our impact data capture; external commitments which are in line with our mission; and embedding growing regulatory requirements, resulting from the EU Action Plan on Sustainable Growth (Sustainable Finance Action Plan, SFAP).

Our positive approach: business principles and minimum standards

How we at Triodos Bank direct, administer and control our work says a lot about our identity. We have developed processes and policies, and implemented laws, to both meet our obligations and reflect our mission. In addition to the broad vision and key values that underpin our business, we have principles that guide and support our day-to-day decision-making.

We are committed to:

- **Promoting sustainable development** and considering the social, environmental and financial impact of everything we do.
- **Respecting and obeying the law** in every country where we do business.
- **Respecting human rights** of individuals, and within different societies and cultures; supporting the aims of the United Nation's Universal Declaration of Human Rights.
- **Respecting the environment** and doing all we can to create and encourage positive environmental impact.
- **Being accountable** to all our stakeholders for our actions.
- **Continuous improvement.** We are always looking for better ways of doing things in every area of our business.

Triodos Bank uses a positive approach for both its banking services and its investment management activities. Triodos Bank is guided by the impact it wants to have. Our minimum standards contain exclusions that logically follow from this positive approach. The Triodos Bank Minimum Standards set out the absolute minimum requirements that Triodos applies to its banking and investment activities.

Managing and measuring impact is not without challenges. Implementing groundbreaking commitments and partnerships, such as the UN Principles for Responsible Banking and the SFAP, required extensive and complex reporting structures in

2020. While Triodos Bank has actively advocated these commitments, our unique position, as a values-based bank within a rules-based reporting environment, makes it challenging to stay true to our mission and lead on impact.

Triodos Bank safeguards its vision on impact through four implementing pillars:

1. Our foundation – using positive impact to guide our financing decisions
2. Increasing our impact through engagement
3. Changing finance
4. Impact reporting

1 Our foundation: positive impact through principles, standards and transparency

First of all, we have a simple business model: we only lend the money entrusted to us by savers and investors to entrepreneurs we know well. We only work in the real economy and we don't invest in complex financial instruments. All the loans and investments we make are designed to improve social and environmental sustainability and the quality of life for communities.

We aim to deliver as much positive impact as possible by *only* lending to and investing in sustainable enterprises and enterprises transitioning to sustainable approaches. We have established strict business principles, lending criteria and minimum standards to safeguard our mission. These can be found on www.triodos.com/download-centre. In addition, we use screening criteria to avoid financing sectors we consider to be inherently unsustainable, such as the fossil-fuel industry.

We believe that sustainable finance depends on trust and transparency, so we publish details of *all* the organisations we lend to. Our savers and investors can see how we're using their money. Explore this in 'Know where your money goes' at www.triodos.com/know-where-your-money-goes.

With these principles in place, Triodos Bank ensures a baseline for positive impact and minimises negative impact.

2 Increasing our impact: engaging with our clients on impact

Second, engagement is key. Our vision on impact stems from understanding that metrics and targets do not tell the whole story. In practice, that means we try and find qualitative evidence of the impact first and foremost, and back it up with numbers when it's relevant to do so. Where we do lean on data, we measure in order to manage and we use this to start the conversation with our stakeholders on how we lead the transition to an even more inclusive and sustainable world.

While meaningful indicators are included in, for example, Impact by sector (see page 49), we have limited 'hard metrics' in our impact measurement. Instead, Triodos Bank is developing 'theories of change' in its key sectors to help structure its impact-driven activity and deliver goals that reflect real needs in society.

To support this approach, the Triodos Impact Prism was developed in 2018 and 2019 to understand, monitor and equip the business to steer on impact in service of the goals described in these theories of change. Thirty-five questions identify the broader impact and purpose of each loan or investment, ranging from questions on social justice to their exemplary role in sustainability. The main goal is to use the results to discuss opportunities during the relationship to increase the impact of the customers and projects we finance.

From 2019, we integrated the Prism into our daily business processes. Usage steadily increased during

2020. The tool was used for more new clients and the coverage of the total portfolio improved. Due to the focus on the COVID-19 pandemic, we have not yet made sufficient progress to be able to report aggregated results. Next steps include improving added value for clients and relationship managers, adjustments for better usage of the tool and starting meaningful reporting on client, sector and – eventually – Group level. We intend to report the results of this work in the coming years when the system has been embedded more thoroughly.

Alongside our Impact Prism, we measure our own (direct) and financed (indirect) emissions during the lifecycle of a loan or investment. These results clearly indicate that financing a sustainable economy for many years has resulted in substantial avoided emissions relative to our generated and sequestered emissions. Our direct emissions are reported in our Environmental report. Our financed emissions are measured through PCAF and reported in the 'Climate impact of our loans and investments' section.

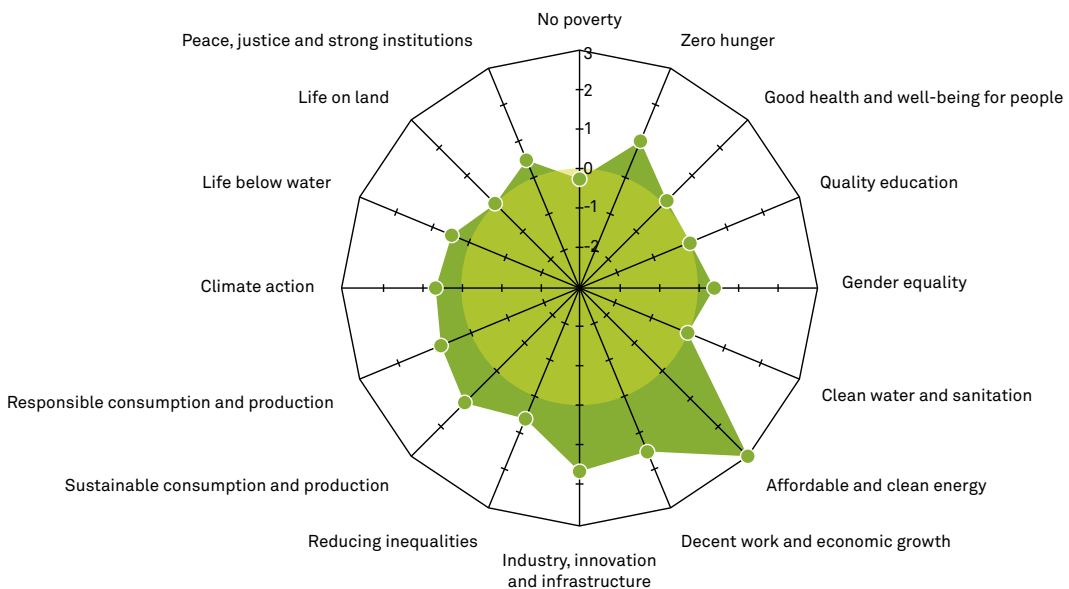
Although Triodos Bank believes that the emissions of our loans and investment portfolio are relatively low compared to other financial institutions, the analysis identifies high-emissions sectors in our portfolio that need effective plans to support a sustainable and inclusive transition towards a climate-neutral portfolio. Developing and setting science-based targets in 2021 will help develop ambitious but necessary plans.

Triodos Bank Impact Prism

A prism breaks light up into its constituent spectral colours. In a similar way, Triodos Bank Impact Prism takes information about a project we finance, breaks it down and provides insights about its various parts. Relationship managers assess loans or investments at the outset and periodically against four different impact areas of the Prism: people, planet, prosperity and purpose.

The Prism scores awarded on all four areas provide insights into the sustainability value of our projects. This mechanism uncovers opportunities to increase the impact of the customers and projects we finance. This analysis allows us to understand, monitor and steer on impact in a more deliberate way. Ultimately, we can work with our clients to have a greater – and more targeted – impact.

Our prism scores can be translated to scores on 16 SDGs, to adapt to the more global framework used by some of our clients. SDG 17 (partnerships) is not included. Below, a fictional example is given of the scorecard on SDGs via the Impact Prism:



Our take on targets

Triodos Bank is careful in its approach to target setting. We are critical of one-dimensional targets that do not consider a broader perspective of impact. For example, setting targets on metrics like the number of visitors to a museum without considering the full impact on climate or biodiversity of the project. We are mindful of

targets that could driving the wrong kind of behaviour, often losing sight of their original goal. We believe that impact is in many cases too complex to capture in a single key performance indicator (KPI).

Where targets provide important information linked to strategic goals, or where they are required by relevant external organisations, Triodos Bank reports against

them. However, we believe that targets are only credible if backed up by concrete and realistic plans to reach them. At the same time, we recognise that targets can be a powerful tool for changing behaviour. For example, the current climate emergency calls for an actionable strategy to keep in line with the Paris Agreement. In 2020, Triodos Bank carefully and deliberately weighed the climate targets and their implications, and we will continue this progress in 2021. We aim to disclose a detailed net-zero strategy, including science-based targets, by the end of 2021.

Target setting: hitting the target without missing the point

Triodos Bank is in the process of setting appropriate targets to align the organisation's portfolio with the Paris Agreement. But we don't want these to adversely affect the way we work. We aim not just to set targets but to identify effective plans for executing them in a way that supports a sustainable and inclusive transition. This approach – for example, financing more homes that need improved energy-efficiency – may not always lead to short-term emission reductions. However, in the longer term, it ensures we tackle global warming in a structural way.

We intend to use targets that help deliver our mission and that clearly includes both environmental and social objectives. Our portfolio's actual emissions provide a baseline. We can now start to improve and monitor our progress in working with our clients to reduce their emissions.

Our climate impact report shows that our loans and investments have a relatively low climate intensity. 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 running up to COP26, November 2021.

Other financial institutions will need to plot a similar path if we are to play our part as an industry in keeping the global increase in temperature within acceptable bounds.

Triodos Bank is urging the financial sector to divest fossil assets. In our 2019 vision paper on energy and climate we called on all financial institutions to take a leading role in addressing the climate emergency.

3 Changing finance

As well as financing progressive entrepreneurs, we also want to influence the financial sector at a national and global level, to help deliver our mission. We believe that the more sustainable, diverse and transparent the financial industry, the more money will be used consciously, and the greater the improvement in people's quality of life.

We change finance in different ways. We publish vision papers, write opinions and support letters to government bodies and join calls to action. We share our knowledge and expertise on sustainable finance with policymakers, politicians and supervisors in meetings or through feedback in public consultations. We encourage other financial institutions to make different choices and commit to sustainable finance. We work together with like-minded organisations and create formal and informal partnerships to strengthen each other. This is done locally in the countries in which we operate as Triodos Bank, but also at European and international levels.

Triodos Bank engages with domestic policymakers and others on the future direction of the financial industry in every country where we are active. For a lot of institutions, it helps to have a framework of regulation or law to encourage better decisions. In 2020, we actively contributed to consultations by the European Union, UNEP-FI and several international think-tanks who are developing sustainable finance standards and other green deal initiatives.

An important publication in the first half year of 2020 was the 'Reset the Economy' vision paper, in which we call for a resilient and inclusive recovery from the global corona crisis. This paper was food for discussion. Triodos Bank Belgium organised well attended public webinars and Kees Vendrik, Chief Economist of Triodos Bank, shared the bank's vision in the Dutch television program Buitenhof.

A big topic in the financial sector is how to contribute to reducing GHG emissions to tackle climate change. Following the financial sector commitments in the Netherlands and in Spain in 2019, Triodos Bank

Germany was the driving force of the German financial sector commitment for climate and both Triodos Bank UK and Triodos Bank Germany were important drivers for the local PCAF chapters to support measuring carbon footprints and setting targets. Triodos Bank Belgium signed the Belgium alliance on Climate Action Pledge and Triodos Bank Netherlands is still participating at the implementation table of the build environment of the Dutch Climate Agreement. Triodos Bank UK is also a driving force behind Bankers for NetZero and Triodos Bank Spain was invited by Spanish ministries and the Spanish Central Bank to discuss the monitoring of the Spanish Climate commitment. The Spanish branch also contributed to discussions on the Spanish Climate law. The Managing Director of Triodos Bank Germany participates in the Sustainable Finance Council of the German government. Triodos Investment Management acted as stakeholder of the Ecolabel working group.

With regard to systemic change of the financial sector, Triodos Bank co-founded the Club of Rome Finance Impact Hub at the beginning of 2020. This Hub organised multiple sessions with relevant European policymakers on what needs to happen to transition to a sustainable economy. Triodos Bank UK's CEO Bevis Watts contributed to the international WWF film, 'Our Planet: Too Big to Fail'.

These are all specific examples of how we try to change finance. In all our public appearances, opinion pieces, publications or interviews we keep on referring back to the transformational power of money and the role of the financial sector in society.

4 Our impact reporting: measure to manage

To demonstrate Triodos Bank's commitment to transparency we spend considerable time and energy producing impact data that's reviewed by an independent auditor. Impact reporting serves two important goals: internally, to reflect and adjust our course; and externally, to engage with our stakeholders and change finance by advocating transparency.

Reporting on what matters to us and our stakeholders helps us reflect critically on our impact and adjust

our actions when needed. For instance, we may improve our theories of change, update our minimum standards or adjust our targets to continue to be the ambitious sustainable bank we are. The Triodos Group Impact Committee oversees the adoption of these developments into our business throughout the year.

We are careful not to just retrofit our reporting to meet the requirements of benchmarks or initiatives. We believe that meaningful sustainable developments that contribute to a fairer economy come from principle-based decision-making and not from rule-based compliance and 'box ticking'. However, where relevant external organisations provide frameworks or guidelines for impact measurement, Triodos Bank reports against them. We use a number of frameworks to inform our impact activity, both in delivering and reporting on it. They include the Global Reporting Initiative, International Integrated Reporting Council, the Partnership for Carbon Accounting Financials and B Corps.

European developments in regulations and directives

Triodos Bank is a strong supporter of the Renewed Sustainable Finance Strategy and a taxonomy rooted in climate and environmental science. We see a clear role for the financial sector to contribute to a more sustainable and resilient society, especially now that the COVID-19 pandemic has highlighted the critical need to strengthen the sustainability and resilience of our societies and revealed weaknesses in the ways in which our economies function. We also recognise the urgency of transparency: clear comparability between financial institutions is needed to counteract greenwashing. In 2020, we responded to multiple consultations on this topic. For example, we prepared a detailed response to the European Commission's draft Delegated Act on the EU Sustainable Taxonomy.

The EU's Sustainable Finance Action Plan (SFAP)

In May 2018, the European Commission adopted new legislation to steer the financial industry towards three key goals:

1. Re-orient capital flows towards sustainable investment to achieve sustainable and inclusive growth
2. Incorporate sustainability into risk management
3. Foster transparency and long-termism in financial and economic activity

At Triodos Bank, we have been guided by similar principles since our foundation 40 years ago. We therefore fully support and underline the importance of these regulations.

With the implementation of the Sustainable Finance Disclosure Regulation (SFDR), there will be more regulatory pressure to report on sustainability from 2020 onwards. Even though this means more reporting pressure for us as a medium-sized bank, we encourage the implementation of the SFDR as it will also put pressure on the sector to become more sustainable. Having been a values-based bank since our establishment in 1980, we believe that our business model, business principles, minimum standards and reporting on key impact matters (qualitative, quantitative, positive and negative) uniquely equip us to adapt to the SFAP.

Our partnerships in impact

By partnering with others, Triodos Bank hopes to co-create new reporting and disclosure approaches that better meet the needs of stakeholders and businesses within a more sustainable economy. We are already aligned with many of the global frameworks through our local activities across our operations. They include the following:

- The Global Alliance for Banking on Values (GABV): the GABV uses a scorecard as a structured approach to capture the vision, strategy and results of any bank relative to values-based banking. The scorecard is based on the GABV's Principles of

Values-based Banking. It allows a bank to self-assess, monitor, and communicate its progress on delivering values-based banking. Appendix IV– Global Alliance for Banking on Values scorecard – quantitative evidence of our impact (see page 369) provides more detailed information on our scorecard results.

- UN Principles for Responsible Banking: The principles define the global banking industry’s role and responsibilities in addressing current societal problems, including social inclusion and the climate emergency. Triodos Bank played a leading role in developing this global framework, as part of the core group of banks who developed the principles and shaped the framework. Appendix V - The United Nations Principles for Responsible Banking (see page 373) provides more detailed information.
- Paris Climate Agreement: Our energy generation portfolio consists of 100% renewable energies – such as wind and solar. This is a sector where we have been leaders and pioneers for four decades.
- We are a founding member of PCAF (the Partnership for Carbon Accounting Financials) and we report the climate contribution of our entire portfolio. PCAF is now a global initiative with over 91 financial institutions collaborating across the world to account for their portfolio climate impact as a first step towards setting targets. Climate impact of our loans and funds’ investments (see page 53) provides more detailed information.
- We have a framework in place for addressing the Sustainable Development Goals and monitor our impact across all areas, detailed throughout the annual report and in Appendix III – UN Sustainable Development Goals (see page 343).
- We signed the Finance for Biodiversity Pledge that launched during the Nature for Life Hub in the margins of the 75th UN General Assembly in New York. In the pledge, which was signed by 26 financial institutions from around the globe, the signatories call upon world leaders to reverse nature loss this decade and commit to collaborating, engaging, assessing their own biodiversity impact, setting targets and reporting on biodiversity matters by 2024 at the latest.
- Triodos Bank is also part of the Partnership for Biodiversity Accounting Financials (PBAF),

which is working on a harmonised biodiversity accounting approach.

Beyond these collaborations, we are also committed to the following global initiatives: the Global Impact Investing network (GIIN); UN Principles for Responsible Investment (UN PRI); the Diversity Charter; Club of Rome Finance Impact Hub; the Sustainable Finance Lab; Business Principles on Human Rights.