

Triodos  Bank

Annual Report 2020

Appendix V - The United Nations Principles for Responsible Banking

In September 2019 Triodos Bank signed the UN principles of Responsible Banking. The principles define the global banking industry's role and responsibilities in addressing current societal problems, including the climate emergency and inequality. They were launched, to some fanfare, during 'climate week' in New York during the summer. 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. Currently over 200 banks globally had signed up to the Principles.

The participating banks promise to strategically align their business with the goals of the Paris Agreement on Climate Change and the Sustainable Development Goals and scale up their contribution to the achievement of both. By signing up to the Principles, banks said they believe that "only in an inclusive society founded on human dignity, equality and the sustainable use of natural resources", can help their clients, customers and businesses thrive.

Triodos Bank is one of them. And as part of this we are committed to provide an update on what we have done or are doing in relation to each principle. The summary below highlights this work.

Principle 1: Identifying society's goals as expressed in the SDGs/ Paris Agreement/other relevant frameworks. Aligning the bank's business strategy with the identified goals

Triodos Bank is in business to help create a society that protects and promotes the quality of life of all its members, and that has human dignity at its core. Since 1980, we have enabled individuals, organisations and businesses to use their money in ways that benefit people and the environment. As a result, we only finance social, environmental and cultural sectors. Principle 1 is implemented as a logical consequence of this approach. Our annual report integrates relevant frameworks and goals throughout all chapters of the executive board report. Specifically, chapter Impact and financial results (see page 36), Understanding impact (see page 58), and the Appendix III – UN Sustainable Development Goals (see page 343) highlights our work in relation to the Paris Agreement and other frameworks. Prior to the creation of the SDGs, Triodos Bank has always produced an integrated annual report showing how sustainability is embedded in Triodos Bank's strategy (see www.triodos.com/vision-on-impact).

Principle 2: Based on a portfolio impact analysis identifying the bank's most significant (actual and potential) positive and negative impacts. Setting SMART targets that address the bank's most significant impacts, and drive alignment with the SDGs/Paris Agreement/other relevant frameworks

Triodos Bank's focus is to deliver positive impact, as described above. We assess and manage our impact in a couple of ways:

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.

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 next year when the system has been embedded more thoroughly.

Our emissions & PCAF

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 funds' investments (see page 53) 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.

Metrics

For our key sectors, we monitor positive impact in numbers our loans and investments we generate within our three main impact sectors (environmental, social and cultural impact). These metrics can be found in chapter Impact by sector (see page 49).

SDG reporting

We also define our aspirations in relation to the SDGs specifically, in the appendix, on three levels; our baseline activity, direct activity and where we can play a role as a catalyst for systemic change. More on the specifics and governance of our impact management can be found in Understanding impact (see page 58).

Principle 3: Working with clients and customers to achieve more sustainable outcomes

This principle is safeguarded through our policies and implemented through our business as this is key for reaching positive impact. Given the sustainable orientation of Triodos Bank's business we have always engaged in dialogue with clients about optimising sustainability impact.

Our policies:

Our lending criteria, business principles and minimum standards focus on working with clients to achieve more impact.

Implementation:

Given the sustainable orientation of Triodos Bank's business we have always engaged in dialogue with clients about optimising sustainability impact. With the Impact Prism we have a mechanism to talk to customers about opportunities to increase their impact. This analysis allows us to understand, monitor and steer on impact in a more deliberate way. This way, we can work with our clients to have a greater – and more targeted – impact. This includes working with clients to help them think more cross-sectorally to increase their positive social and environmental impact.

During 2020 we engaged with customers working in sectors with the largest greenhouse gas emissions, relative to our wider loans and investments, to improve carbon footprint data quality, and as a first step before discussions about footprint reductions in future years. We also offer products to incentivise more sustainable outcomes, such as a mortgage which offers a discounted interest rate for more energy efficient houses and additional discounts to help customers make environmental improvements to their home.

Since 2018, The European Investment Fund (EIF) and Triodos Bank have worked on the Social Entrepreneurship guarantee agreement in The Netherlands under the EU Programme for Employment and Social Innovation (EaSI). This new guarantee agreement allowed us to provide a total of EUR 65 million to 430 social entrepreneurs over 5 years in the Netherlands, Belgium, Spain and France. Social entrepreneurs benefit from loans at a reduced interest rate with lower collateral requirements under the EU supported programme. Triodos Bank provides financing to a vast range of social enterprise sectors, targeting innovative, socially-oriented start-ups, companies in the organic food supply chain, sustainable fashion, labour exclusion, as well as organic and sustainable hotels, and restaurants.

Principle 4:
Consulting, engaging and/or partnering with stakeholders in order to improve the bank's impacts. Developing a stakeholder engagement policy/process.

Triodos Bank was a co-founder of a number of initiatives which foster the development of approaches to improve the impact of the bank and the wider sector; they include the Dutch Sustainable Finance Lab (and a similar initiative developed in Spain in 2019), and the Global Alliance for Banking on Values, a network of independent sustainable banks, which Triodos Bank chairs.

In our section on Changing finance (see page 63), we report on our collaborations in the financial sector at a national and international level.

In addition, we engage with stakeholders throughout the year at a national, regional and sectoral level, including a stakeholder engagement meeting at Triodos Bank's Head Office, the process and results of which are reported in Our stakeholders and material topics (see page 20).

Principle 5:
Having an effective governance structure in place that will enable implementation of the Principles. Developing a culture of responsible banking within the bank.

Triodos Bank's governance structure stems from its sustainability agenda which is aligned, and in some

ways goes beyond the principles for responsible banking. Triodos Bank does not have shareholders, but Depository Receipt holders instead, and it is not listed on a stock exchange. This structure helps safeguard its mission and optimise its sustainability impact.

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 growth of our bank, together with the 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).

Triodos Bank's culture also stems from this mission and is detailed in Co-worker report (see page 66).

Principle 6:
Reporting on positive and negative impacts, and progress made on targets and implementation of the Principles.

This annual report, and this section of it in particular, details our progress in the implementation of our mission, which focuses on delivering positive impact for people and the environment. As such it meets these goals. We have made a deliberate choice to use impact-based targets sparingly to ensure that we 'hit the target without missing the point'. This approach is explored in more detail in Understanding impact (see page 58). We aim to assess both the positive and negative impacts on sustainability of all the loans and investments we make, via Triodos Bank's Impact Prism and our PCAF

report. In addition, we use negative screening criteria to avoid financing sectors we consider to be inherently 'unsustainable' such as the fossil fuel industry.