

Mission-led business review
Call for evidence
7 July 2016

Introduction to Triodos Bank

[Triodos Bank](#) is Europe's leading sustainable bank. Our mission is to make money work for positive social, environmental and cultural change. We connect savers and investors who want to change the world for the better with entrepreneurs and sustainable companies doing just that. We only lend our depositors' money to organisations benefitting people or the environment and are totally [transparent](#) about who we lend to. We have €12.3bn assets under management and more than 600,000 customers across Europe.

We have branches in The Netherlands (Zeist), Belgium (Brussels), the [United Kingdom](#) (Bristol), Spain (Madrid) and Germany (Frankfurt). We have a representative office in France. Our head office, and legal address, is located in Zeist, The Netherlands.

Triodos Bank is a mission-led business. We are a Dutch NV, which is similar to a UK public limited company. Our shares are held by a foundation, called SAAT (the foundation for the administration of Triodos Bank shares). SAAT issues depository receipts which are held by around [32,000] individuals and organisations. These depository receipts entitle the holder to the economic rights of the shares, namely a dividend. SAAT holds the voting rights of the shares and in essence helps to protect Triodos Bank's social mission. More information on our governance structure can be found [here](#).

Triodos Bank was certified as a B Corporation on 21 April 2015, the first pan European bank to be certified.

The call for evidence

We lend, invest and raise capital for mission led businesses – as well as mission locked organisations – so we felt it important that we participate in this call for evidence.

We don't segment our business based on legal form of the borrower or investee but develop expertise in the sectors and markets where our clients operate. We estimate that roughly half of our £695m drawn loan book is to mission led businesses with the balance to mission locked organisations such as charities, coops, CICs or community benefit societies.

Our lending team is divided in four teams:

- Small loans
- Social sector and arts & culture
- Food, farming and trade
- Environment

We also have a corporate finance business that assists charities, social enterprises, sustainable businesses and environmental organisations to raise the capital they need directly from investors.

Below we touch on a number of areas that you raise in the call for evidence.

Financial performance

Triodos Bank operates as a profitable mission driven business balancing the needs of a broad set of stakeholders including savers, borrowers, depository receipt holders, employees and the needs of the wider community. Our net profit for 2015 was Euro 40.7m and our return on equity was 5.5%.

Triodos Bank publishes an annual report every year which is available online [here](#). Key figures are provided on the next page.

The depository receipt holders of the bank have enjoyed steady financial returns as shown by the tables below.

Triodos Bank depository receipts returns

	NAV*	3 months	1 year	3 year average	5 year average
Depository receipts	EUR 80.00	1.2%	5.1%	4.7%	4.7%

* NAV: net asset value as per 05-07-2016

Source: Triodos Bank, as per 31-05-2016

Returns over the last 5 years

2015	2014	2013	2012	2011
5.1%	5.3%	4.0%	4.0%	4.1%

Triodos Bank – Annual Report 2015

Key figures

Amounts in millions of EUR	2015	2014	2013	2012	2011
Financial					
Equity	781	704	654	565	451
Number of depository receipt holders	35,735	32,591	31,304	26,876	21,638
Funds entrusted	7,283	6,289	5,650	4,594	3,731
Number of accounts	707,057	628,321	556,146	454,927	363,086
Loans	5,216	4,266	3,545	3,285	2,838
Number	44,418	36,320	29,620	24,082	21,900
Balance sheet total	8,211	7,152	6,447	5,291	4,291
Funds under management*	4,087	3,480	3,199	2,754	2,495
Total assets under management	12,298	10,632	9,646	8,045	6,786
Total income	211.6	189.6	163.7	151.6	128.7
Operating expenses	-150.2	-138.4	-112.6	-100.1	-89.9
Impairments loan portfolio	-7.6	-11.1	-17.1	-20.9	-15.8
Value adjustments to participating interests	0.2	0.2	0.2	0.2	-0.1
Operating result before taxation	54.0	40.3	34.2	30.8	22.9
Taxation on operating result	-13.3	-10.2	-8.5	-8.2	-5.6
Net profit	40.7	30.1	25.7	22.6	17.3
(Common) equity tier 1 ratio**	19.0%	19.0%	17.8%	15.9%	14.0%
Total Capital ratio**	19.0%	19.0%	17.8%	16.0%	14.4%
Leverage ratio***	8.4%	8.8%	8.7%	9.0%	8.4%
Operating expenses/total income	71%	73%	69%	66%	70%
Return on equity in %	5.5%	4.4%	4.3%	4.5%	4.3%
Return on assets in %	0.5%	0.4%	0.4%	0.4%	0.4%
Per share (in EUR)					
Net asset value at year end	81	78	77	75	74
Net profit****	4.40	3.41	3.23	3.37	3.18
Dividend	1.95	1.95	1.95	1.95	1.95
Social					
Number of co-workers at year end*****	1,121	1,017	911	788	720
Co-worker turnover	14%	10%	7%	10%	9%
Women as percentage of management team	38%	40%	40%	42%	37%
Training costs per co-worker in EUR	1,692	1,856	2,055	1,731	2,020
Ratio of the highest full-time salary to the median full-time salary*****	5.7	5.6			
Environment					
Emission of CO ₂ (1,000 kg)	3,041	3,084	2,906	2,986	2,885
CO ₂ compensation	100%	100%	100%	100%	100%

* Including funds under management with affiliated parties that have not been included in the consolidation.

** The calculation of the (common) equity tier 1 ratio and the total capital ratio for 2015 and 2014 is based on the reporting requirement under the Capital Requirement Directive (CRD) and Capital Requirement Regulation (CRR) known as at reporting date. The calculation of the comparative figures is based on the Basel III rules.

*** The calculation of the leverage ratio for 2015 and 2014 is based on the reporting requirement under the Capital Requirement Directive (CRD) and Capital Requirement Regulation (CRR) known as at reporting date. The calculation of the comparative figures is based on the Basel III rules.

**** The figure of net profit per share is calculated on the average number of issued shares in circulation during the financial year.

***** Concerns all co-workers employed by Triodos Bank NV, excluding co-workers employed by the joint venture Triodos MeesPierson.

***** As of 2015 instead of the ratio between the lowest and highest salary, we report the ratio of highest full-time salary to median full-time salary (the median is defined excluding the maximum full-time salary in order to be transparent about the difference between the highest paid co-worker and the rest of the co-worker group), based on the GRI criteria. This ratio, available as of 2014, is considered best practice and provides a more meaningful indication of the ratio between salaries.

Social impact

Triodos Bank exists to deliver positive change.

- We focus on qualitative evidence of our impact before numbers
- We maximise our impact by only financing sustainable enterprise
- We are fully transparent about the impact of the money entrusted to us

Our vision on measuring impact reflects a focus on delivering our mission. That means we try and find qualitative evidence of our impact first and foremost and back it up with numbers only when it's relevant. Crucially, we want to provide verifiable, relevant information that reflects Triodos Bank's grounding in financing the real economy.

We understand impact finance to be transformational, and define it as directing money so that it benefits people and the environment over the long-term. As a consequence it provides fair financial and non-financial returns to its stakeholders.

For a second year we have worked with our auditors to provide limited assurance on the impact data we publish in the Executive Board report, to further improve how and what we report. Because as an integrated business we think it's important that we verify both our financial and non-financial data.

More information on our impact can be found [here](#).

Assessing and reporting on an organisation's impact can be resource intensive. This could be an area of welcomed support for mission led businesses.

Mission drift

The risk of mission drift is one of the concerns raised in your call for evidence. Speaking from our own experience, there are several ways in which we have successfully mitigated against this risk.

1. *Embedding our impact in our business model.* We have made our social mission part of the DNA of the company so that it can't be stripped out when it becomes inconvenient. Savers bank with us because of who we lend their savings to. Creating a positive impact is an integral part of who we are and why we are successful in attracting savers and investors. This is very different from the 'Robinhood' business model that maximises financial profit undertaking a conventional business activity in order to donate money or subsidise an impactful activity.
2. *Being 100% transparent about what we do with savers' money and who we lend it to.* The reality is that some people will have a different view than us on which sectors or borrowers we should lend to. For example we are conformable lending to organic farms who rear livestock. Some argue that livestock rearing is too detrimental to the environment even when practiced according to organic standards. The way to square that circle is to be transparent about who we lend to so that our savers and investors can form their own view as to whether we are catalysing investment to the sectors and organisations they wish to support.
3. *Having a legal structure that protects the mission.* The voting shares in the bank are held by a foundation. This helps to protect the social mission and ensure that it can't be high jacked by purely financially motivated investors. We believe that this structure has served us well though we recognise that it places limitations on our ability to raise capital in a more conventional fashion – through a stock market listing for example. To date, we haven't found this an impediment to our continued growth.

There is sometimes a struggle between the need for scale in order to be financially sustainable and the desire to create the depth of impact that mission led businesses aspire to. We experience this tension: as we take in more deposits, we need to grow the loan book in tandem. This growth is more achievable if we make multimillion pound loans than by making £50k loans. Some larger loans are of course incredibly impactful but there is a risk that we miss out on supporting some of the more innovative social enterprises and charities by not providing loans at the smaller end of the spectrum or being willing to finance earlier stage organisations. We suspect that other mission led businesses experience this same tension, which is why it is crucial to have the social mission embedded in the fabric of the organisation.

Barriers to growth

Access to appropriate finance is often a barrier to growth for small and growing companies. Mission led businesses are no exception.

Anecdotally we find working with mission led entrepreneurs that they often are even more averse to raising equity than other entrepreneurs. They don't want to give up control of their company and fear external influence from new shareholders who might push their business in a different – and less impactful – direction. This can sometimes translate into mission led businesses trying to raise debt finance when the risk is more suited for an equity investment because the company is at an early stage and therefore higher risk or doesn't have any fixed assets for security on a loan.

Mission led entrepreneurs navigate these early years just as other entrepreneurs do by putting lots of sweat equity in the business and getting investment from family and friends. An area that might be worthy of further research would be to investigate how larger, more established mission led businesses finance themselves. In our case, the governance structure and our shares being held in a foundation mean that it would be challenging to list on a stock exchange. This limits our ability to raise capital from more mainstream investors. To date this hasn't posed a problem for us as we have been successful in raising investment directly from individuals. We prefer this approach as we find it more stable because of the very large number of investors investing relatively modest amounts. However, we know of mission led businesses with similar golden share type arrangements that have found raising the equity capital they need to grow to be a challenge.

We can't underestimate the importance of mission led financial institutions in ensuring that mission led businesses access the capital they need. At Triodos Bank we understand that these organisations are more than 'just profit' companies and we operate our own business along similar impact driven lines. If mission led businesses are to grow and thrive, they will need access to more capital from investors who understand what they are all about. As well as financing progressive entrepreneurs, we also want to [influence the banking sector](#) itself, to help deliver our mission. Because the more sustainable, diverse and transparent the banking industry, the more we believe people's quality of life will improve.

Values

Triodos Bank has a very strong set of values. Our approach is based on the fundamental belief that economic activity can and should have a positive impact on our society and the environment. We value people, planet and profit - and take all three into account in everything we do.

Our four key values are: Sustainability, Transparency, Excellence and Entrepreneurship.

We protect our mission and values in a number of ways:

- We have a clearly defined set of business principles that apply to everything we do, and set the standard by which internal and external stakeholders can judge us.
- We have rigorous lending criteria and investment criteria that guide our everyday lending decisions, and make us accountable to our savers and investors, ensuring their money is only used to actively do good.
- And we also have strong corporate governance, including a share ownership structure that ensures voting rights are exercised in a way that respects the bank's goals and mission.
- Finally, our total transparency protects our mission and values: when the world can see precisely what we are doing with our customers' money, we can never relax our standards or let slide our commitment to sustainability.

We recognise that we need to work with co-workers to help to reinforce our values and create a shared understanding of who we are. Our training and development programmes reflect this. In addition to external experts, the Triodos Academy offers development programmes based on Triodos Bank's values. 88 co-workers participated in the Academy's programmes in 2015.

Special meetings were introduced during 2015 to create a more in-depth understanding of Triodos Bank's roots and its values, and to support new co-workers to reflect on societal issues and their relevance for Triodos Bank. In 2015 three co-workers also participated in a new leadership programme from the Global Alliance for Banking on Values.

In our experience the strongest mission led businesses we know have very clearly articulated values. For example our customer The Better Food Company sets out on its website who they are, why they do what they do and their values. They call it the [Better Food Compass](#). We think explicitly stated values that are continually reinforced are key to success for mission led businesses.

Role of certification systems

In your call for evidence, you ask what the role is of certification systems like B Corporation. Triodos Bank was certified as a B Corporation on 21 April 2015, the first pan European bank to be certified.

We chose to join the B Corps movement because some of their ambitions broadly resonate with ours, such as their desire to build communities and to drive capital to higher impact investments. We wanted to be supportive of the B Corps movement and wanted to be on the inside shaping it, which is why we joined quite early on during their launch in Europe. We hope that we can help them to refine their methodology for assessment, learn from others around impact assessment and also benefit from the opportunities for networking that will arise.

It is still too early to know what the benefits of certification will be. We will review this in early 2017 prior to a decision about extending our membership.

It is possible however that the benefits of being a B Corp will be more obvious for smaller mission led businesses who are looking for a community of like-minded businesses to join and also for some of the large multinationals who are consciously changing their business practice in order to become more sustainable. Triodos Bank founded the [Global Alliance for Banking on Values](#) in 2009 and already benefits from being part of a global network of sustainable banks.

Further information and comments

Please don't hesitate to get in touch with us if you would like any further information about us or our views.