Degroof Petercam

Commissioned Research

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Triodos Bank

Running Up That Hill

Target valuation range

EUR 55-76

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- **From pioneering start-up to mid-sized powerhouse in ESG banking**. Triodos Bank is a leading expert in sustainable finance, with a focus on banking and fund management. Since its foundation in 1980, the company expanded through the launch of new/innovative products, and by entering new geographies.
- **A strong track record of growing income and profits, yet flattish EPS**. The top-line has grown for 20 consecutive years. Profits also grew strongly, albeit at a bumpier pace. Earnings per depository receipt, however, have been flattish, as growth was often fuelled through equity issues. Growth in income and profits was despite pressure from more than a decade of decreasing interest rates and the ECB deposit rate turning negative. Today, however, the tide has turned, as interest rates and the ECB deposit rate have surged. This resulted in a strong improvement in profitability in H2-22, which bodes well for 2023 and beyond.
- **A refreshingly new strategy with a focus on impact and value creation**. The new management team has made subtle yet sound changes to the strategy. The intention is to grow at a more moderate pace than in the past, to fuel growth through retained earnings and moderate dilution to the CET-1 ratio, and to focus more on integration and cost efficiency. This should create impact, just like in the past, and it should create value for depository receipt holders.
- **Solid earnings growth on the cards**. Profits improved strongly in H2-22, which should continue based on a healthy interest rate climate and the new strategy. In 2023, profits will face an easy base in H1, and a normal base in H2. Therefore, we expect strong profit growth in 2023, and healthy growth in 2024 and 2025.
- **We set our target valuation range at EUR 55-76**. Our methodology is based on peer group-derived target multiples set against our estimates for 2024. This includes a P/E ratio of 10.6x with a premium/discount range of 15%, and a P/B ratio of 1.0x adjusted for differences in ROE. Mid-term, there could be more upside as it takes time before the loan portfolio is rolled over at higher margins.

Company description

Triodos Bank is a mid-sized Dutch bank that is a leading expert in the field of sustainable finance. It has activities in banking and investment management in the Netherlands, Belgium, Germany, Spain, and the UK.

EUR m	12/19a	12/20a	12/21a	12/22a	12/23e	12/24e	12/25e
Total income	292	305	342	375	414	440	468
Profit pre prov.	57	60	67	75	103	120	130
Profit before tax	54	35	67	67	95	112	122
Adj. net profit	37	47	51	65	80	89	96
Adj. EPS (EUR)	2.67	3.27	3.56	4.54	5.61	6.24	6.73
Div. per share (EUR)	0.00	0.65	1.80	2.11	2.51	2.96	3.21
C/I ratio	80.3%	80.4%	80.5%	80.0%	75.1%	72.7%	72.3%
Return on Equity	3.3%	2.3%	4.1%	4.0%	5.6%	6.3%	6.6%
CET-1 ratio	17.9%	18.7%	17.5%	17.3%	16.7%	16.5%	16.4%

Source: Triodos/Degroof Petercam

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COMPANY PROFILE

Triodos Bank is a Dutch mid-sized bank that is a leading expert in the field of sustainable finance. It has activities in banking and investment management.

- Banking includes business units in the Netherlands, Belgium, Germany, Spain, and the UK, which are also active in other countries.
- Investment management is active in various countries worldwide, offering investing services through investment funds or investment institutions bearing the Triodos name. There are 20 active funds grouped along various sustainable themes.

Circa 2/3 of income is from net interest income (NII), 1/3 is fees & commission (F&C), and a tiny bit is other income.

Total income has grown 20 consecutive years in a row, from EUR 23m in 2002 to EUR 375m in 2022. Profits grew as well, albeit at a bumpier pace, to a record of EUR 65m in adjusted net profit in 2022, with an adjusted ROE of 5.1%.

For 2023, management has not issued quantified guidance.

VALUATION

Target valuation range: we set our 12-months target valuation range at EUR 55-76 based on peer group derived target multiples set against our estimates for 2024. Mid-term, there could be more upside, as it takes time before a considerable share of the loan portfolio is rolled over at more attractive net interest margins.

- **P/E**: The historically average P/E of the peer group of 10.6x, set against our adjusted EPS estimate for 2024 of EUR 6.24, points to a target value of EUR 66. A premium/ discount range of 15%, points to a range of EUR 56-76.
- **P/B**: The historically average P/B of the peer group is 1.0x on an ROE of 8.7%. We apply a discount range of 25-40% for Triodos' adjusted ROE of 5.1% (2022) and 6.7% (our 2024 estimate). The implied target multiples of 0.6x and 0.7x, set against our 2024 estimate for book value/DR of EUR 94, points to a target range of EUR 55-69, with a midpoint of EUR 62.
- **More potential mid-term**: A simulation based on our 2025 estimates for adjusted EPS and BPS, points to a target valuation range of EUR 57-82.

DRIVERS FOR THE SHARE PRICE

- **EPS growth**. A key driver is plain vanilla growth in EPS (earnings per depository receipt/DR). The new strategy of financing growth through retained earnings and modest dilution to the balance sheet, provides better prospects for EPS growth than financing through equity issues as done in the past. EPS growth is especially on the cards now that interest rates have surged after more than a decade of decline. Higher interest rates should boost NII and facilitate operating leverage.
- **An end to legal disputes**. There is no visibility on the length, outcome, and potential consequences (if any) from various proceedings between a group of DR holders and individual DR holders against Triodos. Uncertainty generally weighs on a share price until all proceedings have come to an end/can be quantified.
- **More focus on the interests of DR holders**. In our view, there are two initiatives that greatly benefit the interests of DR holders: 1) Financing growth internally should not lead to dilution, unlike the equity issues of the past. 2) In recent discussions, it was suggested that DR holders could be offered the right to retain their voting rights, which are now held by a foundation. This would improve on governance.

SWOT ANALYSIS

Strengths

- ESG is embedded in the Triodos DNA
- Solid track record of growing income and profits
- Always profitable, history of low loan loss provisions
- Well capitalised balance sheet

Weaknesses

- C/I ratio above and ROE below Benelux peers
- Subpar profitability in Spain, modest scale in Germany
- Modest scale vs. peers hampers operational efficiency
- Growing the business requires capital

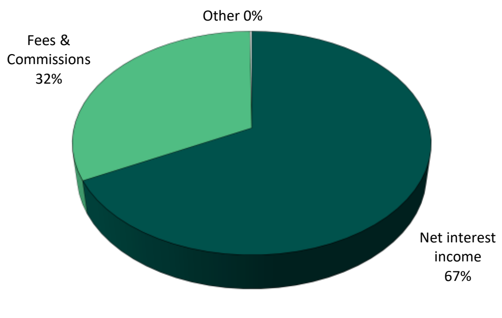
Opportunities

- Increasing importance of ESG should drive growth
- Higher interest rates should boost net interest income
- Increased focus on cost efficiency
- More efficient use of capital

Threats

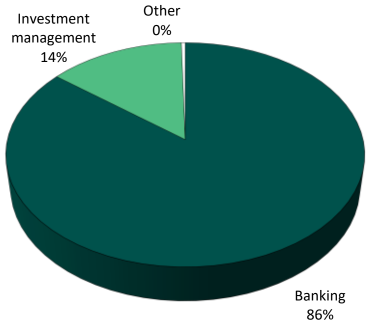
- Regulatory changes re costs and capital requirements
- Regular banks are moving into sustainable finance
- Dispute with a group of depository receipts holders
- Political addiction to low interest rates

Total income by source 2022 (%)



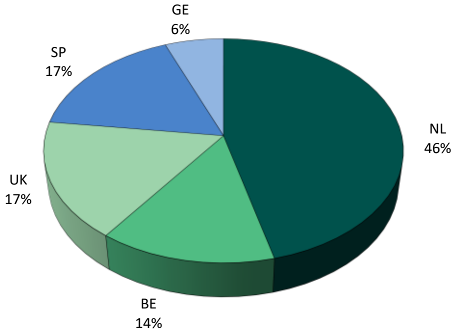
Source: Triodos, Degroof Petercam

Total income by activity 2022 (%)



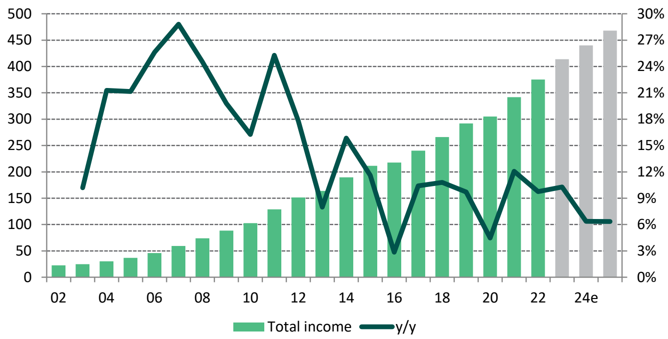
Source: Triodos, Degroof Petercam

Banking income by banking business unit 2022 (%)



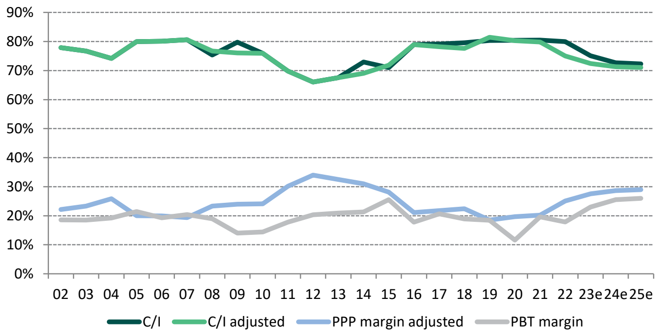
Source: Triodos, Degroof Petercam

Total income (EUR m) and growth y/y (%)



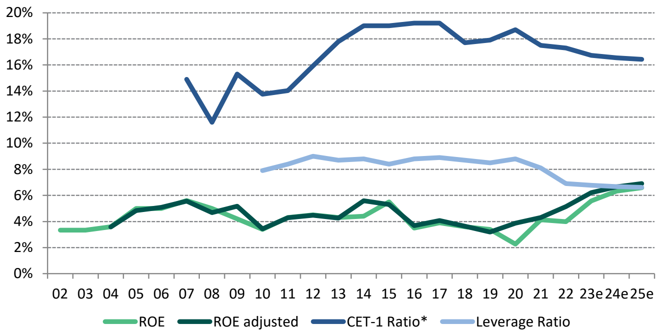
Source: Triodos, Degroof Petercam

Cost income ratio and operating margins (%)



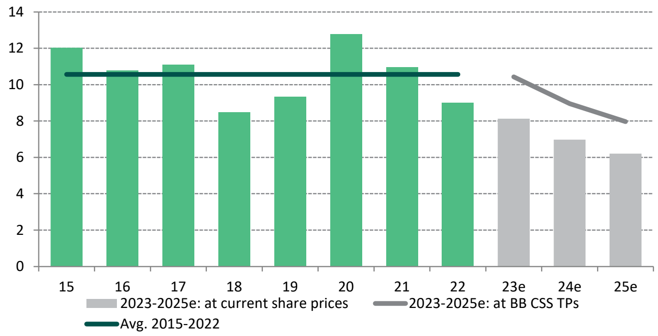
Source: Triodos, Degroof Petercam

ROE and balance sheet ratios (%)



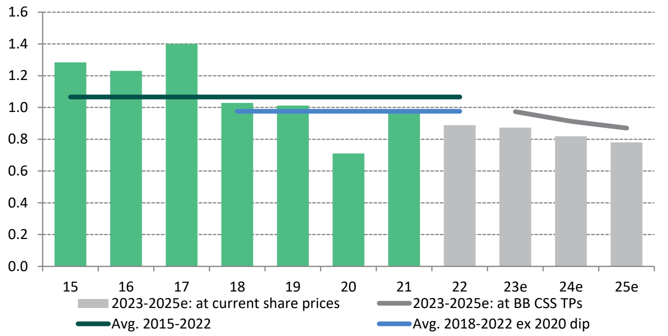
Source: Triodos, Degroof Petercam; * 2009-2013: Tier-1 ratio

P/E multiples peer group (x)



Source: ABN, ING, KBC, Bloomberg, Degroof Petercam

P/B multiples peer group (x)



Source: ABN, ING, KBC, Bloomberg, Degroof Petercam

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Chapter I: From Pioneer to Powerhouse in Sustainable Finance

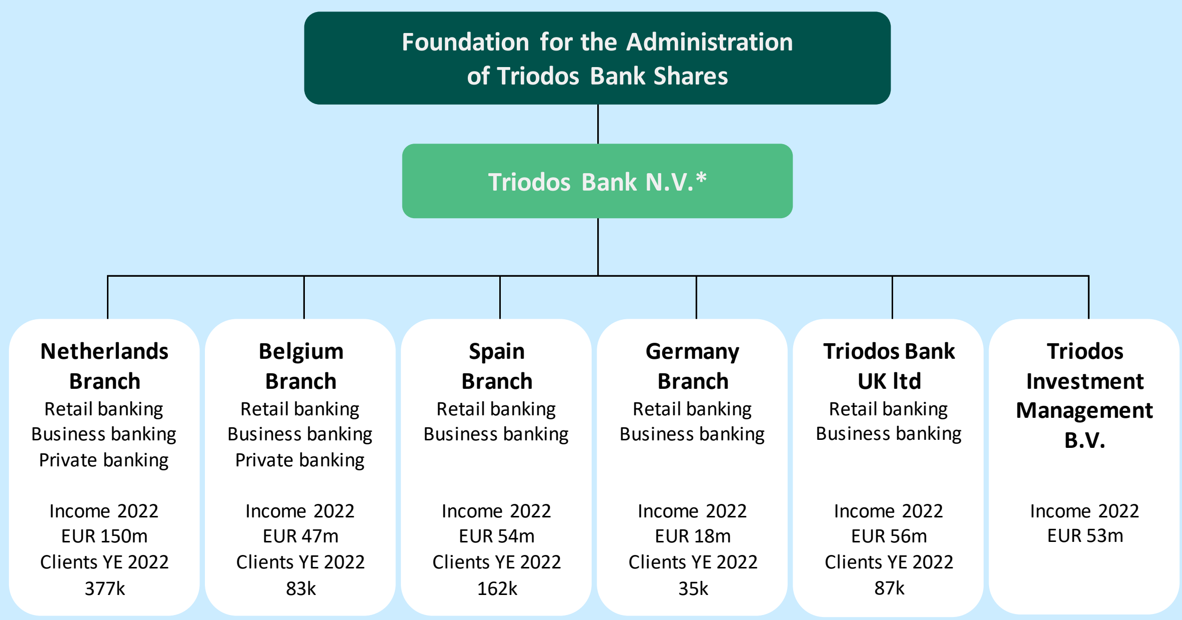
More than 40 years of banking for a better world

Triodos Bank is a leading expert in sustainable finance with roots that go back to 1968, when a study group was formed by four Dutchmen with the purpose to research how money can be managed sustainably. This resulted in creation of the Triodos Foundation in 1971, which used gifts and loans to support innovate projects and companies. In 1980, Triodos Bank (Triodos) was founded with a starting capital of EUR 0.5m and a full banking license from the Dutch Central Bank (DNB). Since then, the company expanded through growth in customers, the launch of new and innovative products, and geographical expansion. Among the highlights are:

- 1990 Launch of Biogrond Beleggingsfonds, the first green fund in Europe
- 1993 Launch of Triodos Bank Belgium
- 1995 Establishment of Triodos Bank UK
- 1999 Foundation of Triodos Investment Management
- 2004 Set up of Triodos Bank Spain
- 2009 Opening of a branch in Germany
- 2009 Co-founded the Global Alliance for Banking on Values
- 2012 Launch of the first green mortgage
- 2015 Became a Certified B Corporation (re-certified in 2022)
- 2022 Launch of the first bio-based mortgage

Today, Triodos has banking operations in five European countries, and it has an Investment Management (IM) activity. After Brexit, the UK branch was transformed into a subsidiary.

Exhibit 1 Triodos Bank Group Structure



* Including the division TRMC (Triodos Regenerative Money Centre)

Source: Triodos, Degroof Petercam

Triodos is active in four fields of financial services:

The business model is simple: funds entrusted from customers (savings and current accounts) are directed to loans and investments in the real economy. Triodos does not offer derivatives or other complex products, it is not active in proprietary trading, and it has no stranded assets. For reporting purposes, the banking activities are bundled per country, IM is a separate segment, and Triodos Regenerative Money Centre (TRMC) is part of head office/unallocated.

- **Retail Banking**: Offers products like current accounts, savings accounts, payments, lending, private banking, and investments.
- **Business Banking**: Offers savings and payment accounts, and loans to organisations whose aim is to bring about positive and lasting change. Lending focuses on five transition themes: Food, Resource, Energy, Social, and Well-Being.
- **Investment Management**: Offers impact investing services through investment funds or investment institutions bearing the Triodos name. There are 20 active funds grouped along the following themes: Energy & Climate, Inclusive Finance, Sustainable Food & Agriculture, and Impact Equities & Bonds.
- **Triodos Regenerative Money Centre**: Lends, invests, and donates money with an innovative and impact-first approach. The objective is to make pioneering, transformative initiatives possible that cannot be financed via traditional means.

Triodos is Europe's largest pure play impact bank

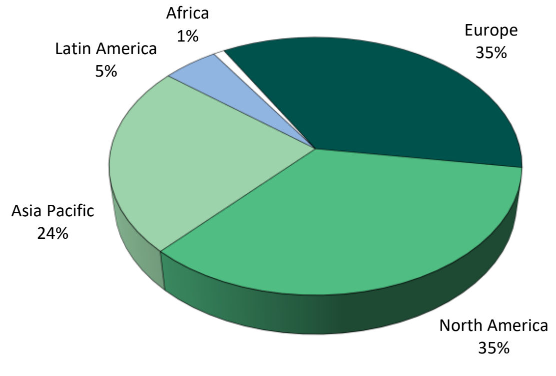
Triodos is one of the ten founding members of the Global Alliance for Banking on Values (GABV), which was established in 2009. Today, GABV has 70 members and 16 supporting partners with activities in more than 40 countries. The alliance serves more than 60 million customers, with more than USD 200bn in funds under management (FuM). Their mission:

- "Our purpose is to expand and strengthen the practice of values-based banking, and to lead the way for a financial system that promotes social equity, responds to the climate emergency and delivers true and lasting prosperity and well-being for all."

Within GABV, Europe and North America are similar in size. Within Europe, Triodos is by far the largest impact bank with EUR >10bn in loans at year-end 2021. Within GABV, only Canadian bank Vancity is bigger than Triodos, with circa EUR 16bn in loans at year-end 2021.

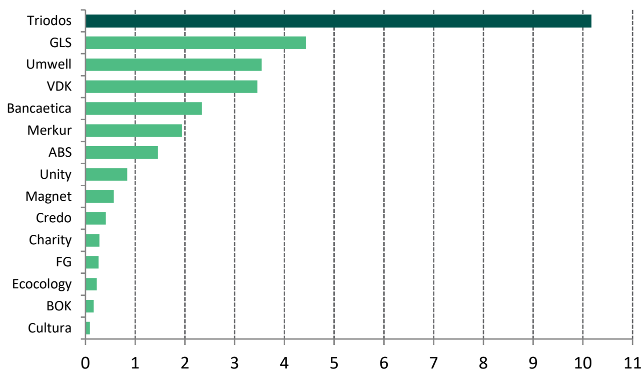
According to management, regular banks are moving into sustainable finance, which they applaud because there is plenty of opportunity for all. In our view, the entry of regular banks into sustainable finance is likely to benefit growth in this segment of the banking industry.

Exhibit 2 **GABV FuM 2021 (EUR 197bn)**



Source: GABV, Degroof Petercam

Exhibit 3 **Loan portfolio of European GABV members (EUR bn)**

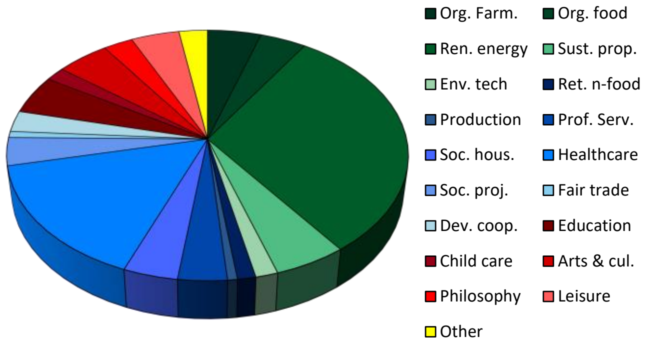


Source: Companies (via Triodos), Degroof Petercam

An exemplary ESG profile, already when most had not yet even heard about ESG

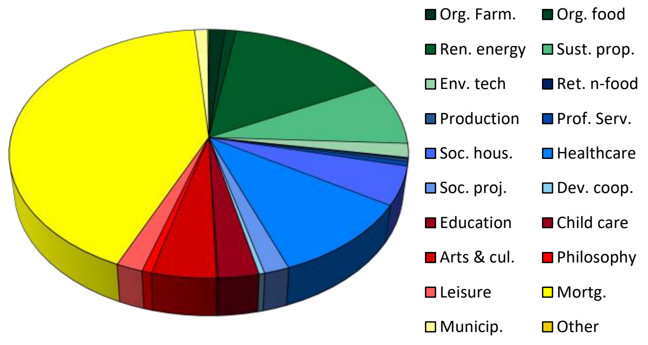
As far as our data goes back, Triodos has been exemplary in disclosure on ESG-related topics. Take for instance the loan mix (exhibits 4, 5). In 2007 it was broken down into sub-segments for Nature & Environment (green slices), Social Business (blue), Culture & Welfare (red), and Other (yellow). In 2022, the sub-segments are also disclosed by region (not displayed here).

Exhibit 4 **Loan mix 2007 (%)**



Source: Triodos, Degroof Petercam

Exhibit 5 **Loan mix 2022 (%)**



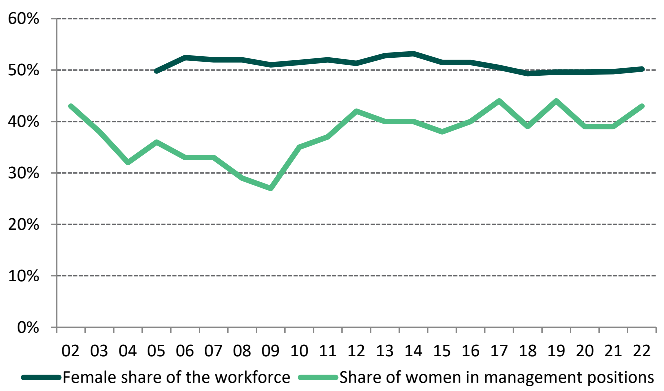
Source: Triodos, Degroof Petercam

Another example of transparency is the workforce.

- The annual report 2008 features a breakdown of workforce by country, a breakdown of temps by country, training costs per employee per country, and an age pyramid. There was also information on the male/female ratio, the share of women in management positions, vintage of the workforce, turnover rate, and absenteeism.
- The annual report 2022 features even more: training costs per employee per activity, absenteeism per activity, attrition rate per activity, contract type per activity (fixed/variable), employees per contract type per gender, employees by collective bargaining agreement per country, an age pyramid, and a vintage pyramid.

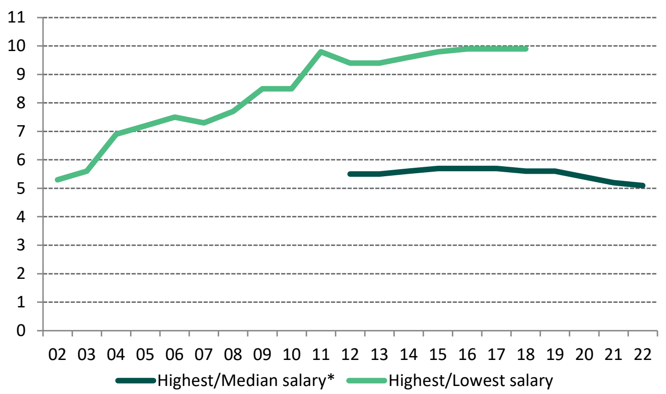
Some information is nice to know, but not need to know, like absenteeism in Germany, training costs per employee in Spain, attrition in the UK, and contract structure in Belgium. Other data is relevant from an ESG-viewpoint, including e.g. female participation and wages (exhibits 6, 7). The former clearly shows that Triodos was ahead of its time re participation and promotion of women. The latter shows a remuneration structure that appears reasonable.

Exhibit 6 **Female participation (%)**



Source: Triodos, Degroof Petercam

Exhibit 7 **Highest to median/lowest salary (x)**

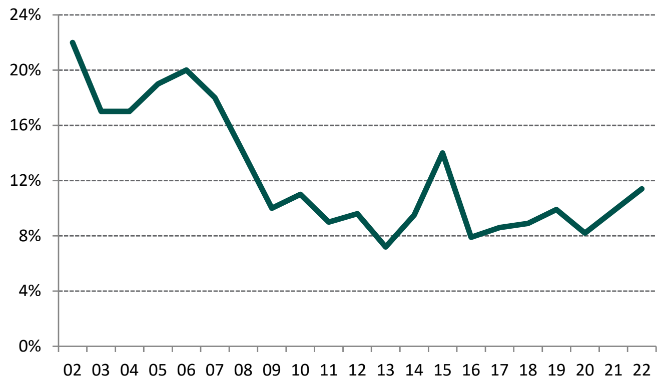


Source: Triodos, Degroof Petercam; * Median ex Highest

Other data provide meaningful economic insights, like attrition. In the past, attrition was very high (exhibit 8), which must have had a negative impact on productivity. New recruits require training before they can take over from those that have left, and they have a learning curve to tackle. Eventually, management succeeded in bringing down attrition to around 8-9%, which resulted in a steady increase in the vintage of the workforce (exhibit 9). Attrition was on average 9% in 2017-2021, which suggests that vintage could eventually grow towards circa 9-10 years (not towards 11 years, because the company's growth strategy and continuously changing regulations require expansion of the workforce, which automatically pushes down vintage).

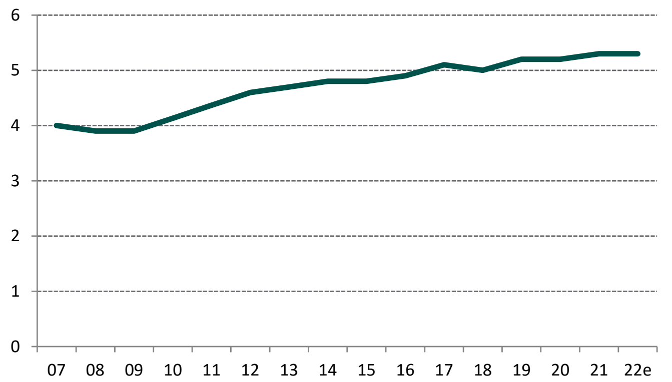
A high vintage has pros and cons. Advantages include a.o. a wealth of experience, high productivity, low training costs, and low switching costs. Disadvantages are e.g. cost efficiency due to elevated staff costs, difficulties for the lower echelons to get promoted to senior management positions, and ageing of the workforce which could create a problem should too large a number of people reach the age of retirement at the same time.

Exhibit 8 **Staff turnover (%)**



Source: Companies, Degroof Petercam

Exhibit 9 **Vintage of the workforce (years)**



Source: Triodos, Degroof Petercam

A brand-new yet seasoned management team

In recent years, the Triodos management board experienced many changes, due to a.o. retirement and/or board members seeking new opportunities. Today, the board consists of five people that all joined in the past five years. Each of them carries a wealth of experience within the financial services industry, including managerial roles and international exposure (see appendix A). CEO Jeroen Rijpkema, COO Nico Kronemeijer, and CCO Jacco Minnaar were appointed in 2021 (the latter two were internal promotions). CFO Kees van Kalveen was appointed in January 2023, as a successor to the former CFO that stepped down to become CFO at Dutch bank De Volksbank. CRO Carla van der Weerdt was appointed in 2019, yet she is currently recovering from the long-term effects of a Covid infection. Her role is temporarily filled by CRO ad interim Marjolein Landheer, who was appointed in January 2023.

Remuneration of the board consists of fixed salary, pension contribution, social security, compensation for the private use of a company car, and severance payment when applicable. It is not linked to the performance of the company. Total remuneration amounted to EUR 1.3m in 2019, and EUR 1.7m p/a in 2020, 2021, and 2022. Excluding severance payments, total costs were respectively EUR 1.0m, EUR 1.4m EUR 1.4m, and EUR 1.7m. Triodos does not offer bonuses or share option schemes to the management board, or to other employees.

In 2022, remuneration of the supervisory board was EUR 118k, and remuneration of the SAAT board (see next page for more on SAAT) was EUR 41k in 2022.

Triodos shares are held by the SAAT foundation to protect mission and identity

From the Triodos website:

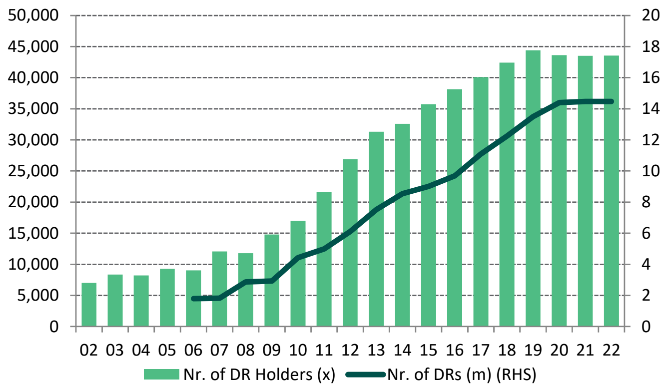
- "Triodos Bank is in business to help create a society that protects and promotes the quality of life of all its members, and that has human dignity at its core. Since 1980, we have enabled individuals, organisations and businesses to use their money in ways that benefit people and the environment. We promote sustainable development by offering our customers sustainable financial products and high-quality service."

To protect this mission and the corporate identity, all shares in Triodos are held in trust by a foundation with the name 'Stichting Administratiekantoor Aandelen Triodos Bank' (SAAT). SAAT has issued depository receipts (DRs) for Triodos shares to the public and to institutional investors. These DRs represent the economic aspects of the Triodos shares.

SAAT exercises the voting rights for the Triodos shares, guided by the company's goals and mission, business interests, and the interests of the holders of the DRs.

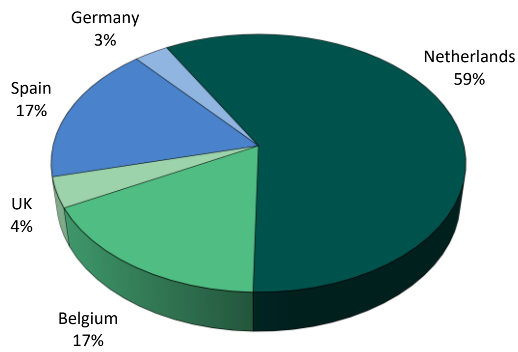
The number of DRs and DR holders has increased strongly (exhibit 10) as the growth strategy of the company was funded by regularly issuing new DRs, while the growing preference for sustainable finance among the public attracted new investors. At present, there are circa 14.5m DRs outstanding, of which 14.3m are held by DR holders and 0.2m by Triodos. The number of DR holders was 43,545 at year-end 2022, up from 43,521 at the end of December 2021 due to transactions among DR holders without the involvement of Triodos. One DR holder has >3% of capital: Coöperatieve Centrale Raiffeisen-Boerenleenbank (Rabobank) with 4.0%.

Exhibit 10 Nr. of DR holders and DRs at year-end (x)



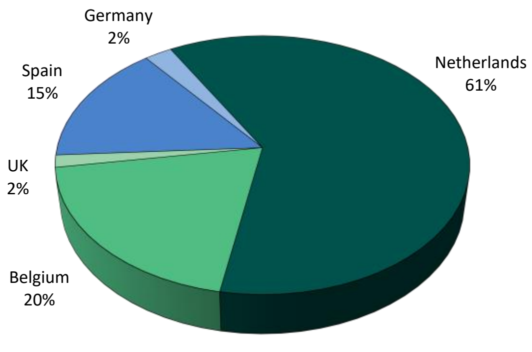
Source: Triodos, Degroof Petercam

Exhibit 11 DR holders (43,545) at YE22 by country (%)



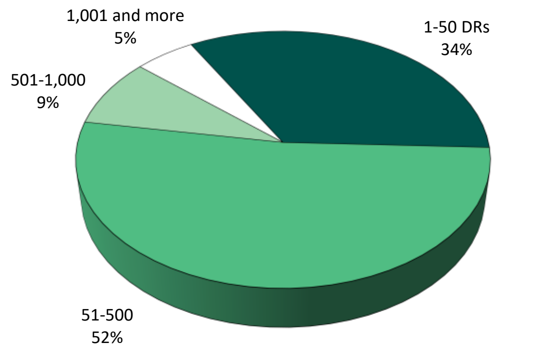
Source: Triodos, Degroof Petercam

Exhibit 12 DRs (14,2m) at YE22 by country (%)



Source: Triodos, Degroof Petercam

Exhibit 13 DR holders (43,545) at YE22 by nr. of DRs held (%)



Source: Triodos, Degroof Petercam

The trading in DRs has been suspended and will move to a new trading platform

In the past four decades, DR trading took place on an internal trading platform at net asset value (NAV) per DR. Until 2008, a seller would have to wait until a buyer showed up. As from 2008, Triodos acted as a market maker with a buffer of at most 3% of the bank's equity (EUR 36m). The buffer was hardly ever used. During covid, supply and demand got disrupted with supply far exceeding demand, according to management, due to which trading was suspended in January 2020. In October 2020, trading resumed, but it was suspended again in January 2021 as supply again strongly exceeded demand. The issue price at the last day of trading (5 January 2021) was EUR 84, just shy of NAV of EUR 85 at year-end 2020. Since then, DR holders have not been able to trade. Meanwhile, NAV increased to EUR 88 at year-end 2021 and EUR89 at year-end 2022.

In absence of trading, management communicated an estimated valuation for fiscal purposes as determined by Triodos. The estimated value at 31 December 2021 of EUR 59 included a 30% discount to NAV related to illiquidity. The estimated value at 31 December 2022 of EUR 60 included a discount of 3% to the estimate valuation. The 2022 estimate was based on a valuation range analysis performed by a specialized accounting and consulting firm. It included traditional valuation methodologies and it incorporated Triodos' specific impact/ESG proposition. It was emphasised that the director's valuation was for tax purposes only, and that it was not indicative of future pricing. A (estimated) value is necessary for fiscal (income tax) purposes of Dutch holders of DRs.

Director's valuation for tax purposes:

- 31 December 2021 EUR 59 per DR
- 31 December 2022 EUR 60 per DR

To resolve the limitations of the former trading system, management decided to move the trading of DRs to a multilateral trading facility (MTF), which was approved by the EGM on 11 October 2022. On this MTF, the price of the DRs will be determined by supply and demand, as opposed to NAV on the former trading platform. The MTF will be operated by Captin, which is a Dutch financial services provider under supervision of DNB and AFM (Autoriteit Financiële Markten, Dutch Authority for Financial Markets). Existing DR holders and new investors will have to register on the platform to be able to trade.

Once the MTF is operational, DR holders will also be able to ask SAAT to transfer the voting rights from SAAT to themselves, as part of an update to the governance policy of the bank. DR holders, however, will not be able to set the agenda, determine the strategy, or change the mission of the company.

Management targets for trading on the MTF to go live in the second quarter of 2023. The press release from 16 March 2023 (FY22 results), mentions: "The preparations for the intended listing in June 2023 are progressing according to plan".

An MTF was chosen after considering several alternatives, including: 1) maintaining the existing trading system, 2) attracting cornerstone investors, 3) changing the structure of the bank to a cooperative, 4) a merger with a like-minded company, and 5) seeking a trading solution on an MTF or a public exchange like Euronext.

We will come back on the decision to move to an MTF in chapter IV.

Chapter II: A Solid Track Record of Growing Income and Profits

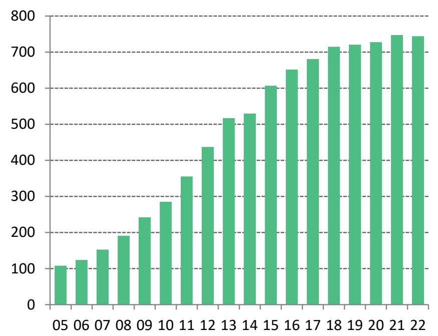
Triodos has an impressive track record of growing the top-line

The Triodos business model is pretty straightforward:

- **Banking**: Triodos attracts deposits/savings from retail (circa 2/3 of deposits in 2022) and business customers (circa 1/3) and lends them to retail and business customers, which generates NII. It also provides services on which it generates F&C, like e.g. current and savings accounts subscriptions, payments services, and private banking.
- **Investment Management**: Triodos manages 20 investment funds for which it receives management fees (F&C). These funds are not on the bank's balance sheet, they have their own separate annual reports, and they have their own AGMs.

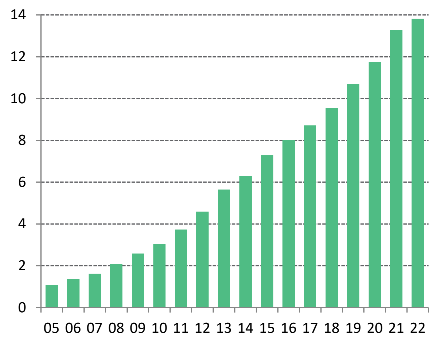
The number of customers has grown strongly over time, driven by a.o. marketing campaigns to increase awareness among the public about sustainable finance, and the opening of branches in Spain (where operating branches is important). Growth in customers stagnated in recent years because of: 1) lower spending on marketing amidst covid-related uncertainty, and 2) pruning customer numbers by removing unused accounts. The growing customer base has driven steady growth in deposits, FuM, and loans (exhibits 15, 16, 17).

Exhibit 14 Nr. of customers (x1,000)



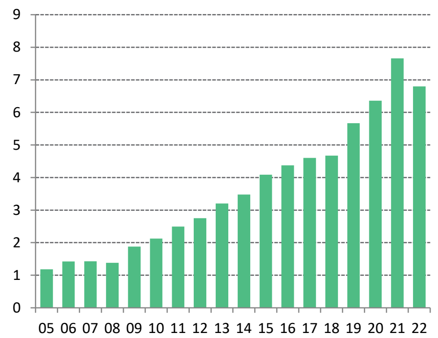
Source: Triodos, Degroof Petercam

Exhibit 15 Deposits (EUR bn)



Source: Triodos, Degroof Petercam

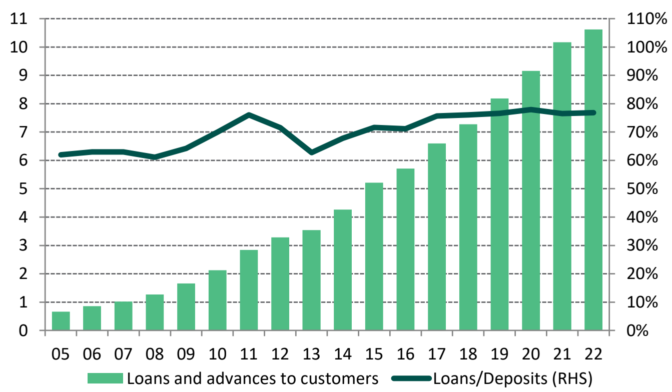
Exhibit 16 FuM (EUR bn)



Source: Triodos, Degroof Petercam

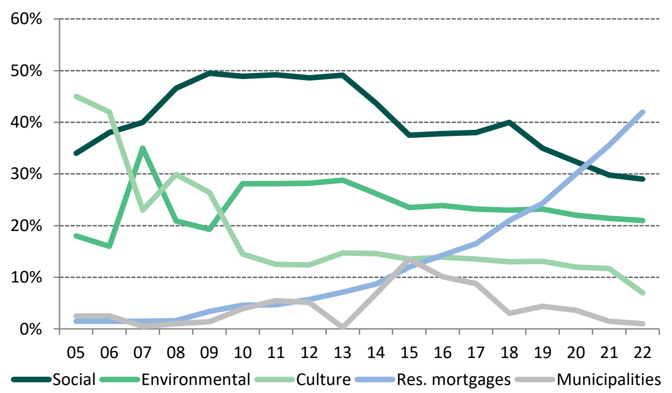
The loan mix has changed over time, with residential mortgages gradually becoming the largest segment. The majority of loans in this segment is in the Netherlands.

Exhibit 17 Loans and advances to customers (EUR bn)



Source: Triodos, Degroof Petercam

Exhibit 18 Loan mix by segment (%)

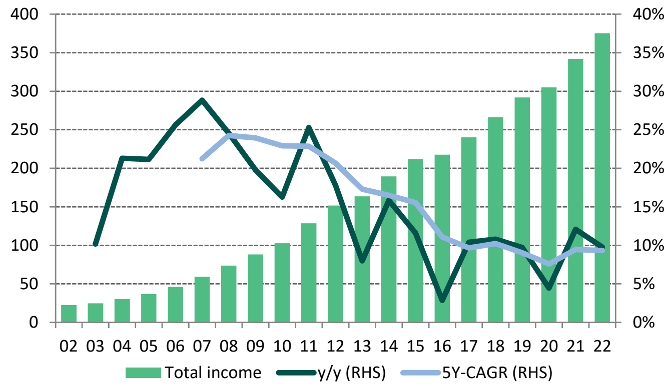


Source: Triodos, Degroof Petercam

Twenty years of uninterrupted organic top-line growth

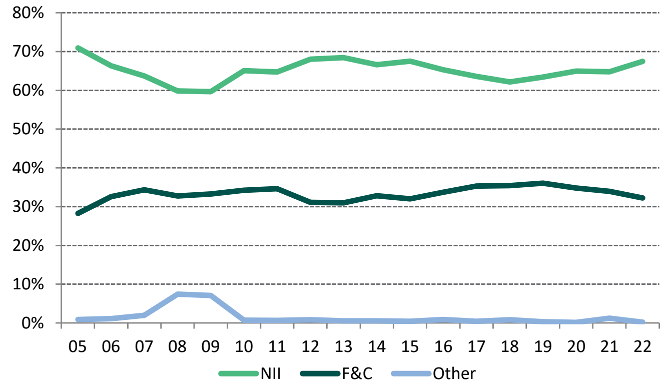
Growth in loans and funds entrusted has resulted in an impressive track record of 20 years of uninterrupted growth in total income (exhibit 19). This is as far as our data goes back, so it could be even longer. Growth was almost entirely organic in nature, as the impact from fluctuations in the GBP/EUR exchange rate was generally small. As the company grew bigger, the pace of growth levelled off to the current high-single digit level. Over time, the mix fluctuated slightly, with NII generally being around 2/3 of total income and F&C around 1/3 (exhibit 20).

Exhibit 19 Total income (EUR m), and growth (%)



Source: Triodos, Degroof Petercam

Exhibit 20 Income mix (%)

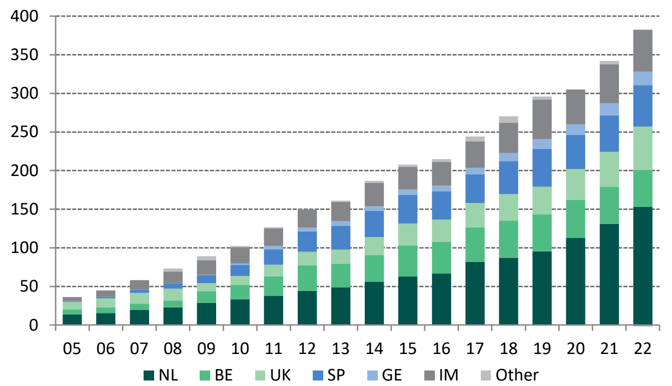


Source: Triodos, Degroof Petercam

Top-line growth was achieved across all activities (exhibit 21). Total income per capita has been structurally higher in the Netherlands and Belgium (exhibit 22), which implies a higher market share, considering:

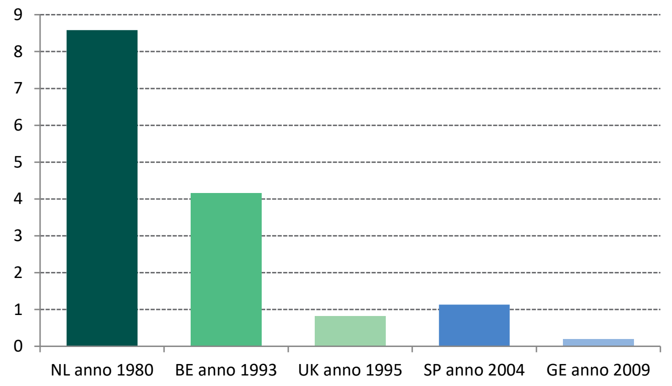
- The regional income mix resembles the regional loan mix so there cannot have been a huge difference in net interest margins between the various countries (exhibits 23, 24)
- The local Triodos websites reveal that there are only small (slightly bigger) differences in current account fees for retail (business) customers.
- Triodos offers Private Banking services exclusively in the Netherlands and Belgium, but this cannot have had a large impact because in 2016, the last year in which Private Banking was disclosed separately, it was only 4.7% of combined income (NL+BE+PB).

Exhibit 21 Total income (EUR m)



Source: Triodos, Degroof Petercam

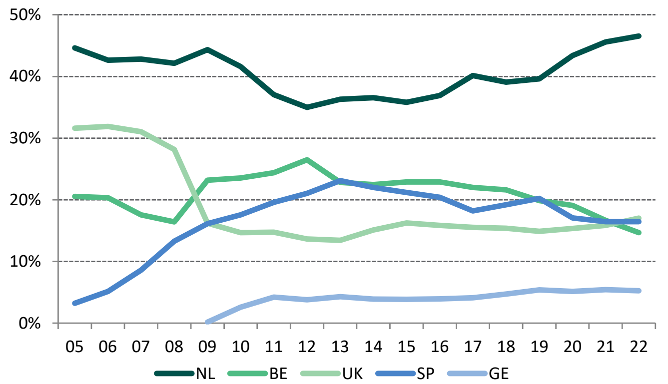
Exhibit 22 Triodos total income per capita 2022 (EUR)



Source: Google, Triodos, Degroof Petercam

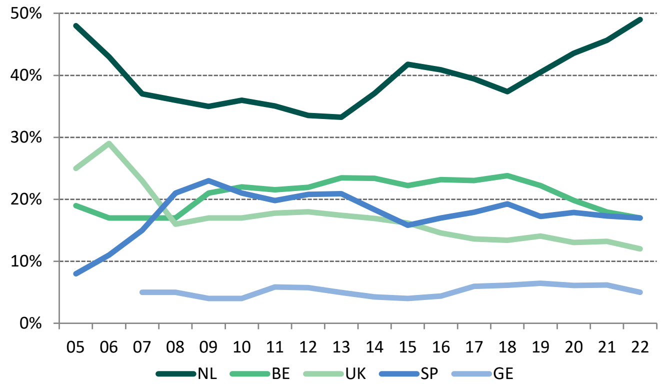
There are small differences in current accounts subscription fees for retail customers: EUR 5 p/m in the Netherlands, GBP 3 in the UK, EUR 3 in Spain, EUR 5.5 in Germany, and there is no current account offering to private individuals in Belgium. There are other fees, e.g. for opening an account, receiving a bank card, etc., but they are generally not recurring. The differences in fees are larger for professional customers, but not big enough to make a difference, in our view.

Exhibit 23 Total income mix (%)*



Source: Triodos, Degroof Petercam; * Excluding IM

Exhibit 24 Loan mix (%)



Source: Triodos, Degroof Petercam

Profits have grown as well, albeit at a more volatile pace

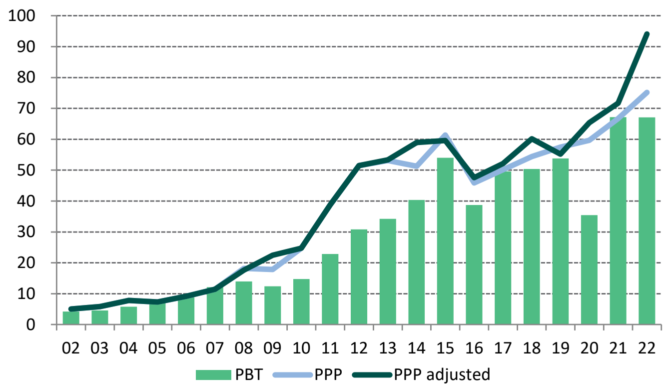
In the period 2002-2022, total income grew by a factor 17x. Operating profits grew at roughly the same pace, albeit that the ride was bumpier, especially since 2015 (exhibit 25).

- Profit pre-provisions (PPP) grew by a factor 15x (or 19x on an adjusted basis).
- Profit before tax (PBT) grew by a factor 16x (or 20x on an adjusted basis).

PPP is total income minus operational costs, excluding loan loss provisions (LLP). PPP is useful to assess the underlying performance excluding credit losses. This was especially insightful in 2020, when LLP amounted to EUR 24m, of which 57% was for stage 1 and stage 2 (potential losses), and 43% was for stage 3 (incurred losses). LLP went up strongly in that year because the macro-economic parameters were adjusted due to the impact of the covid-19 pandemic.

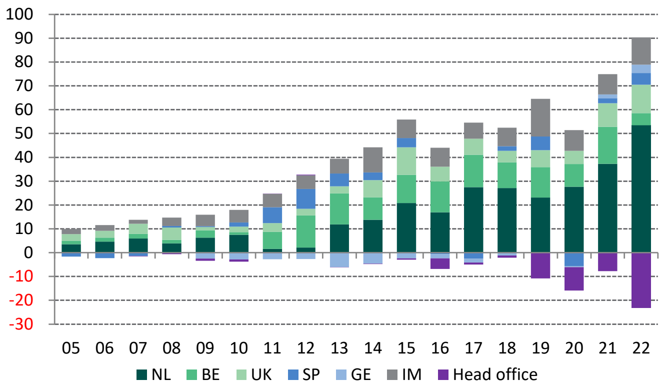
Adjusted figures relate to the adding back of: 1) amortisation/impairment of goodwill in the past, and 2) exceptional costs or income. The adjusted numbers of the past are crude estimates because disclosure on exceptional items was generally modest. Disclosure improved strongly in the past twelve months, which is probably linked to the fact that there were three large non-recurring cost items in the 2022 accounts, on which we will elaborate later in this report.

Exhibit 25 Operating profit (EUR m)



Source: Triodos, Degroof Petercam

Exhibit 26 PBT (EUR m)



Source: Triodos, Degroof Petercam

There is room for improvement in cost efficiency

In recent years, management frequently commented that operating costs were on the rise due to (especially) growing regulatory costs, costs for a Deposit Guarantee System (DGS), investments in the business (products, services), elevated consultancy and audit costs for e.g. Brexit and the transition to IFRS reporting, and one-offs like a provision related to the decision not to proceed with the opening a branch in France, and an impairment on the head office building due to the covid-related new method of working partly from home.

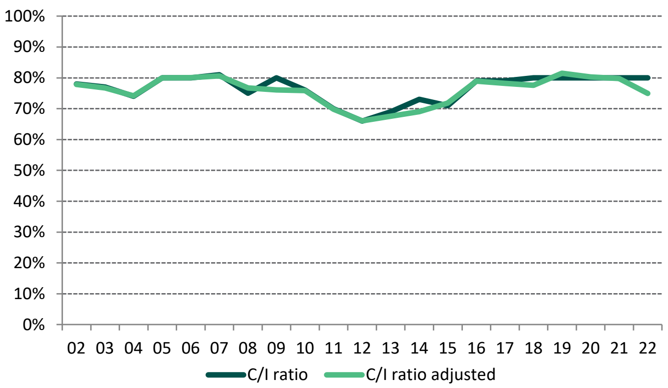
The breakdown of PBT per activity reveals several interesting insights (exhibit 26):

- The Spanish operations became profitable four years after setting up the business. Profits peaked in 2012, when they were 27% of group PBT on only 18% of total income. Since then, profits fell to lower levels, were volatile over time, were negative in 2017 and 2020, and were modest in 2021. We believe that the Spanish operations suffered more than the other operations from a decade of decreasing interest rates, because a dominant share of loans in the Spanish market is at variable interest rates.
- It took the German operations 13 years to become profitable, at estimated cumulative start-up losses of EUR 22m (PBT level). It probably took Germany longer than Spain because Spain ramped up faster and thus reached critical mass sooner. We assume the long path to profitability is one of the reasons for management to abandon the idea of opening a branch in France, as that would probably face a similarly long start-up period.
- IM reported a spike in profits in 2019: EUR 16m compared to EUR 8m in 2018 and EUR 9m in 2020. This was largely due to non-recurring income of EUR 5.4m, which boosted PBT in 2019 and created a tough base for 2020.
- Overhead costs were high in 2016, and very high as from 2019.

In the early 2000s, when Triodos was much smaller than today, the cost/income (C/I) ratio was around 75-80% (operating costs excluding LLP/total income). Over time, it improved to 65-70%, but that was not to last. In our view, this was because of three reasons. 1) More than a decade of decreasing interest rates hampered growth in NII, resulting in negative operating leverage. 2) Negative interest rates on excess cash parked in ECB deposits, pushing down NII. 3) Changes in regulatory requirements re e.g. compliance, anti-money laundering (AML), and DGS, resulted in new types of costs and an increase in existing costs, resulting in negative operating leverage.

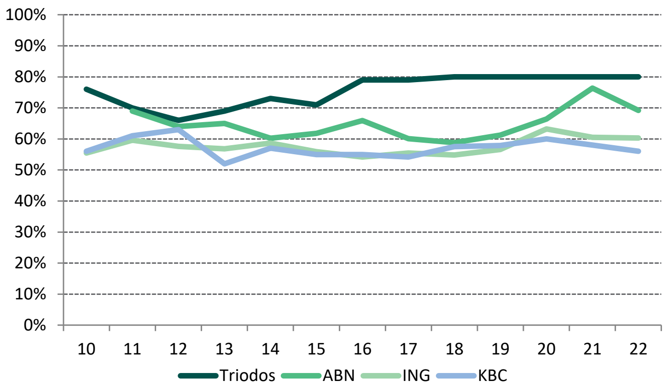
Other (much larger) Benelux banks obviously faced similar pressure but fared better (exhibit 28). ABN's C/I ratio was trending up in recent years, but that was partly due to one-off costs, and the improvement in 2022 was because said costs were starting to fade.

Exhibit 27 C/I ratio Triodos (%)



Source: Triodos, Degroof Petercam

Exhibit 28 C/I ratio Benelux banks (%)

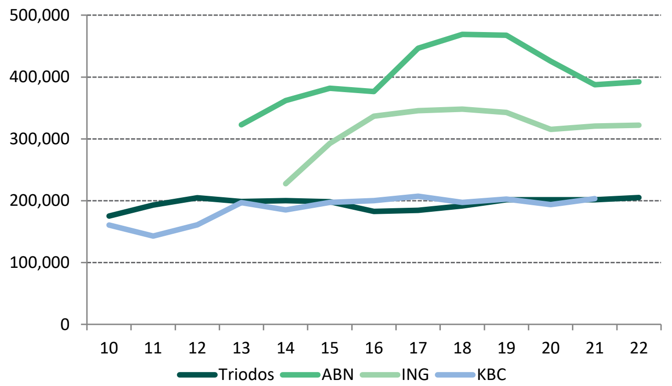


Source: Companies, Degroof Petercam

Triodos is small compared to the other Benelux banks, with only 1% of combined total income in 2022 (ABN 22%, ING 52%, KBC 24%). Hence, lower cost efficiency should be natural due to economies of scale. However, mix effects probably also play a role, considering total income per FTE (A), employee costs per FTE (B), and direct profit per FTE (C=A-B) (exhibits 29, 30, 31).

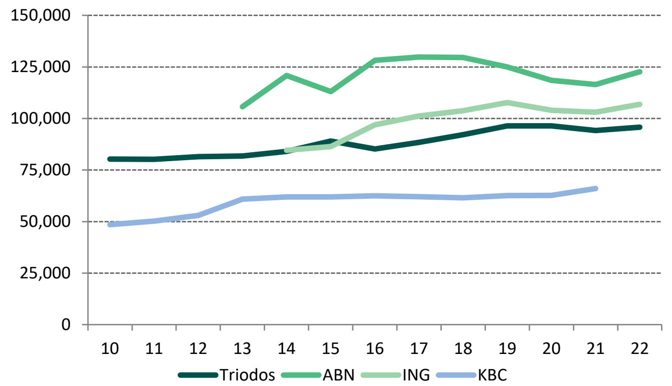
- Compared to Triodos, ABN and ING (post carve out of insurance) have much higher income per FTE and only moderately higher employee costs per FTE.
- Compared to Triodos, KBC has similar income per FTE and much lower employee costs per FTE. The latter is probably because a significant share of their business is in Eastern Europe where wages are lower than in Western Europe.
- Consequently, direct profit per FTE is superior at ABN and ING, and higher at KBC.

Exhibit 29 Total income per FTE (EUR)



Source: Companies, Degroof Petercam

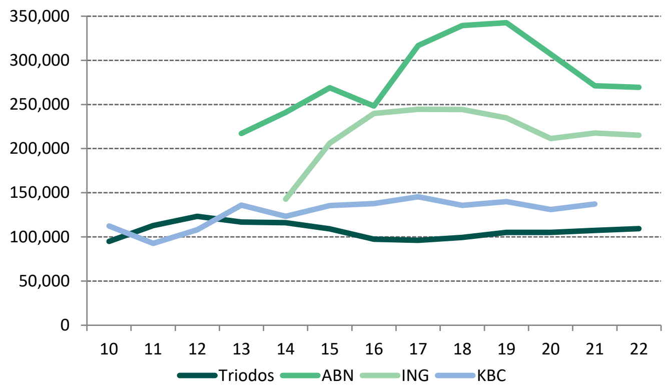
Exhibit 30 Employee costs per FTE (EUR)



Source: Companies, Degroof Petercam

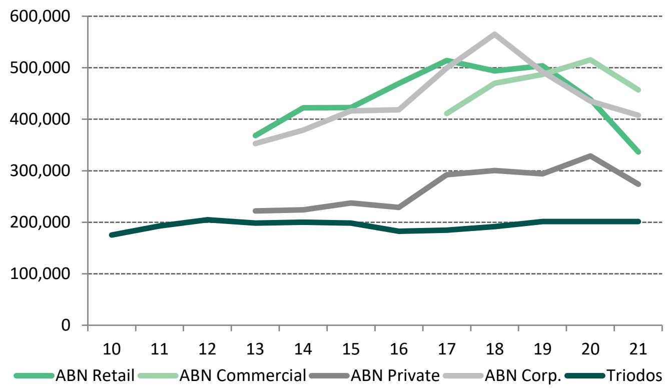
Only ABN provides sufficient disclosure to calculate income per FTE per segment (exhibit 32). Each segment outperforms Triodos, albeit that they have all been trending down, whereas Triodos has been stable. We lack detailed information to assess why ABN is more productive, but we suspect it is because of scale, and because of a mix that includes larger loans that are much more efficient to process than smaller loans (albeit with a higher risk profile).

Exhibit 31 Direct profit per FTE (EUR)



Source: Companies, Degroof Petercam

Exhibit 32 ABN income per FTE (EUR)

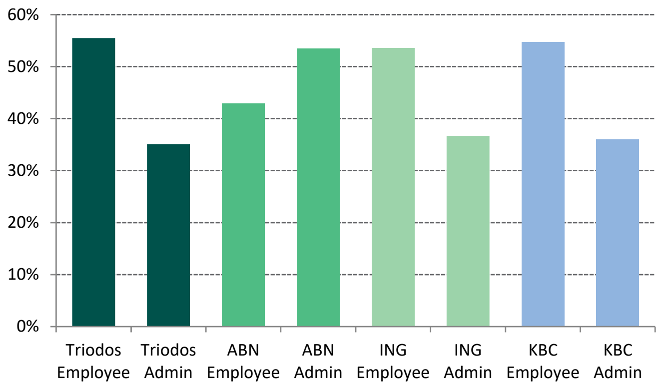


Source: ABN (new segments as of 2022), Triodos, Degroof Petercam

In recent years, the Triodos cost mix (employee vs. administrative) was almost identical to that of ING and KBC (exhibit 33). This suggests that Triodos is also less efficient re administrative costs vs. these two peers, and the numbers indeed point in that direction. Administrative costs were on average 28% of Triodos income in 2019-2021, compared to 22% at ING, and 21% at KBC. ABN has been an outlier on cost structure for many years, with 36%.

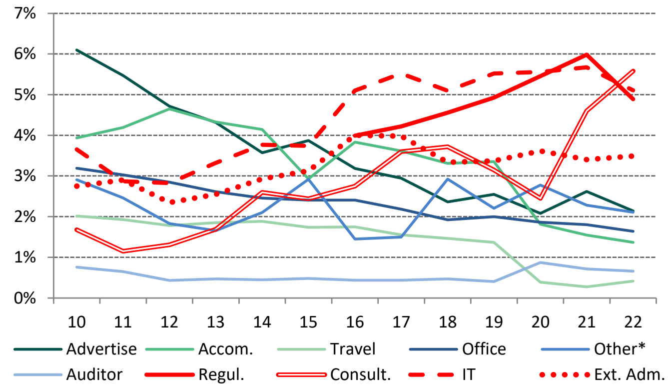
Administrative costs (excluding depreciation, amortisation, and asset impairments) were 30% of Triodos' income in 2022, or 24% on an adjusted basis. They include ten categories, of which 'regulatory' was disclosed separately for the first time in the annual report 2017. Prior to that it was part of 'other'.

Exhibit 33 Cost mix 2019-2021 (%)*



Source: Companies, Degroof Petercam; * Excluding D, A, Imp.

Exhibit 34 Administrative costs/total income (%)



Source: Triodos, Degroof Petercam; * Excluding a one-off in 2014

Positive/negative operating leverage from internal/external cost drivers

In the period 2010-2022, six out of ten types of administrative costs experienced positive leverage (green and blue lines, exhibit 34), and four types experienced negative leverage (red).

- **Positive leverage**: from 18.9% of total income in 2010, to 8.2% in 2022.
- **Negative leverage**: from 8.1% of total income in 2010, to 19.1% in 2022.
- **Positive and negative leverage combined**: From 27.0% in 2010 to 27.4% in 2022.

In our view, there is a clear distinction between the nature of these two buckets.

The categories that experienced positive leverage are mainly internal by nature, since management decides on discretionary spending on advertising, accommodation, travel, and office (circa 2/3 of the bucket). Auditor costs appear external by nature, but they are hardly impacted by external drivers, aside from a few hours of extra auditing when there are changes in accounting policies. Including auditing, circa 75% of the bucket is internal by nature. This leaves 25% for the other category, of which a large share is most likely internal as well.

The categories that experienced negative leverage are largely external in nature. Regulatory costs got a boost in 2016, following the foundation of the DGS in the Netherlands, which is funded by the banks. DGS costs started due to a political decision, and experienced negative leverage due to growth in deposits in combination with pressure on NII due to the interest rate policies of the ECB. The DGS share of regulatory costs increased from 68% in 2016 to 71% in 2022. Consultancy experienced strong negative leverage, but it is volatile, and we believe it is largely driven by external events that temporarily require special assistance, like Brexit (large impact on the UK operations), the transition from Dutch GAAP to IFRS, and the move to an MTF. IT has gone up gradually, which must be related to continuously tightening of regulatory requirements (e.g. compliance, AML), but there must be an internal angle as well due to ongoing investments in efficiency. External administrative is external by name, and has modestly experienced negative leverage, presumably because of ongoing growth in administrative requirements.

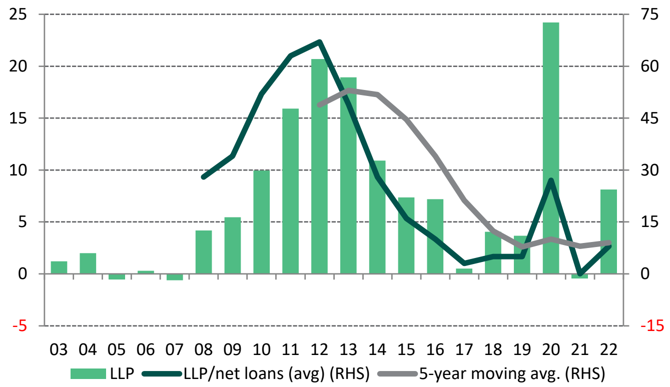
In our view, external forces played a major role in the financial performance of Triodos. We will get back on this in more detail in Chapter III.

The performance on credit risk has improved strongly over time

The performance on LLP has improved over time, trending down in absolute numbers and in bps of the loan portfolio (exhibit 35). The outlier in 2020 was triggered by growing macro-economic uncertainty related to the covid pandemic: the majority of the LLP of EUR 24m was for potential losses (not for actual losses). In our view, the improved performance is due to a.o.: 1) the growing share of mortgages in the mix, most of which are in the Netherlands where defaults are generally very low (even during economic downturns), and 2) there were setbacks in the past with loans to innovative biomass projects (waste-related, not tree-cutting) that did not perform, after which loans to these types of projects were scaled back considerably (2008-13: 41% of impairments were in Biomass).

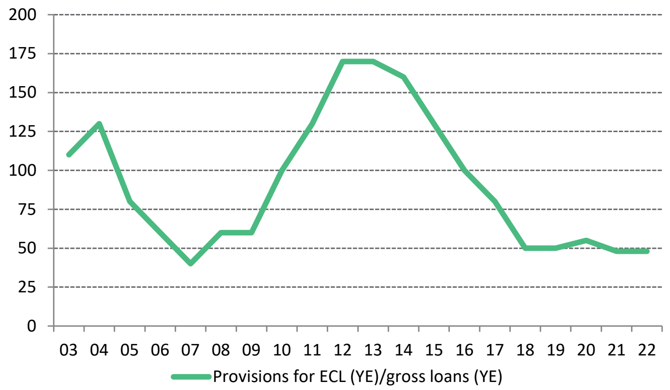
The five-year average credit loss was 9 bps of the value of the loan portfolio (2018-2022), and the 10-year average was 15 bps (including a tail of biomass). According to management, the average over 2014-2021 was 12 bps vs. 22 bps for a peer group of five Dutch banks.

Exhibit 35 LLP (EUR m) and LLP/loans (bps)



Source: Triodos, Degroof Petercam

Exhibit 36 ECL provisions/gross loans (bps)

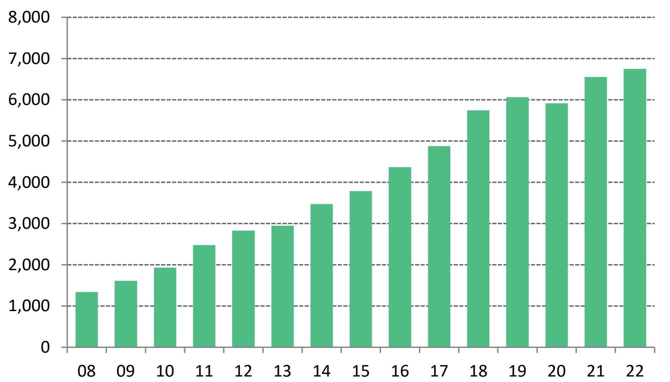


Source: Triodos, Degroof Petercam

The improved risk profile is also reflected in the risk-weighted assets (RWA), which have grown strongly, but not as much as loans to customers or the balance sheet total (exhibits 37, 38). In our view, this is because of the growing dominance of mortgages in the mix, with below-average risk, and risk-avoiding strategies, like e.g. 1) focussing on smaller loans (bullets next page), 2) focussing on simple products, 3) focussing on loans with collateral (mortgage loans: circa 98% backed), and 4) refraining from proprietary trading.

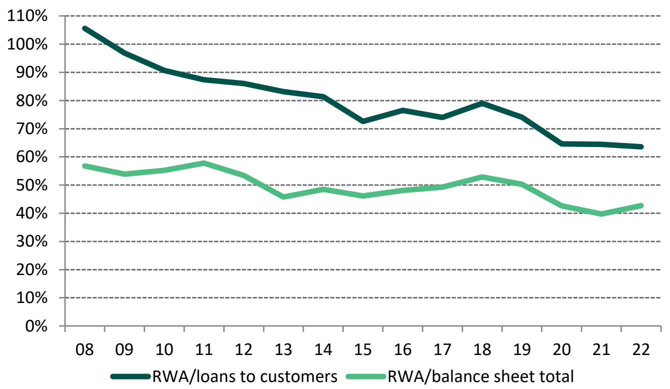
In the past four years, RWA comprised circa 91% credit risk and circa 9% operational risk. There is no meaningful counterparty risk due to collateral, or market risk.

Exhibit 37 RWA (EUR m)



Source: Triodos, Degroof Petercam

Exhibit 38 RWA vs. balance sheet total and loans (%)



Source: Triodos, Degroof Petercam

At year-end 2022, the average loan to value (LTV) of the mortgage portfolio was 55%. The 'other' loan category includes retail overdrafts, credit card debt, and loans to municipalities. Overall, the average loan size was a mere EUR 268k. According to management, less than 0.5% of loans has a value of EUR ≥25m.

Loan portfolio H1-22	Loans (x)	Avg. loan	Value	Share
• Business: Enviro.	2.9k	EUR 1.0m	EUR 2.9bn	28%
• Business: Social	3.0k	EUR 0.7m	EUR 2.2bn	20%
• Business: Culture	2.8k	EUR 0.4m	EUR 1.1bn	11%
• Retail: Mortgages	15.8k	EUR 0.3m	EUR 4.3bn	40%
• Retail: Other	15.2k	EUR 0.01m	EUR 0.1bn	1%

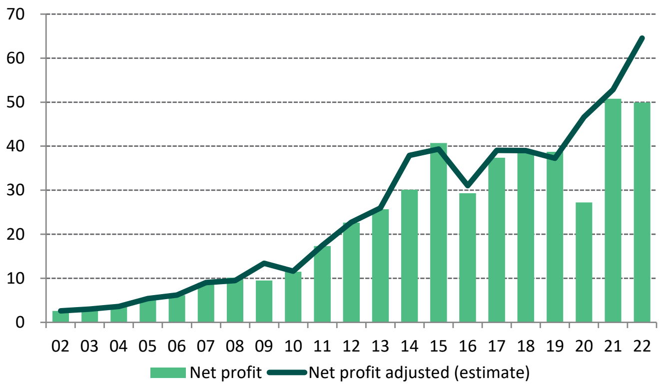
Growing profits but flattish EPS and DPS

From PBT to net profit is a small step for Benelux banks, because the tax-rate is usually around 25% (except for years with large swings in special items), and the impact from associates and minorities is generally small. Consequently, growth in net profit (exhibit 39) resembles growth in PPP and PBT. Adjusted net profit (estimated) largely follows net profit, except for two years: 1) 2020: we consider the LLP of EUR 24m to be a pandemic-related oddity. 2) 2022: there was a EUR 5m restructuring provision, there was EUR 9.1m in costs for the transition towards the MTF listing, and there was EUR 4.8m in legal costs re the DRs.

EPS, however, did not grow much (exhibit 40) because the growth strategy used to be funded by regularly issuing new equity, which was dilutive. In the period 2005-2022, Triodos raised in total EUR 838m in equity (exhibit 41), while returning EUR 124m (rounded) to DR holders through dividends (EUR103m) and buybacks (EUR 22m). Another EUR 25m will be paid to DR holders in 2023, representing the final dividend over FY22. These numbers compare to equity of EUR 1,259m at the end of December 2022.

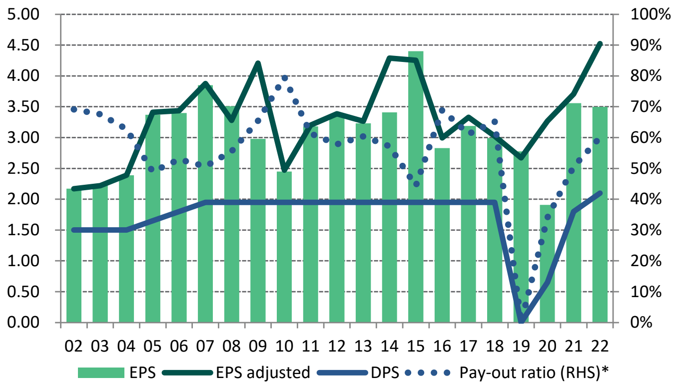
The dividend per DR (DPS) was stable for many years at EUR 1.95. In 2020, payment of the 2019 dividend was skipped upon request of DNB, which wanted Dutch banks to maintain balance sheet strength amidst the covid pandemic. Dividend payments resumed the year thereafter, albeit at a lower pay-out ratio than before. Today's policy is to pay 50% of reported net profit, although an exception could be considered should there be a considerable amount of extraordinary items. In 2022, Triodos paid a special dividend of EUR 1.01 per DR related to the withdrawal of a formerly proposed DR buyback programme. This special dividend is not part of the 2022 pay-out ratio of 60%.

Exhibit 39 **Net profit (EUR m)**



Source: Triodos, Degroof Petercam

Exhibit 40 **EPS, EPS adjusted, DPS (EUR), and pay-out ratio (%)**



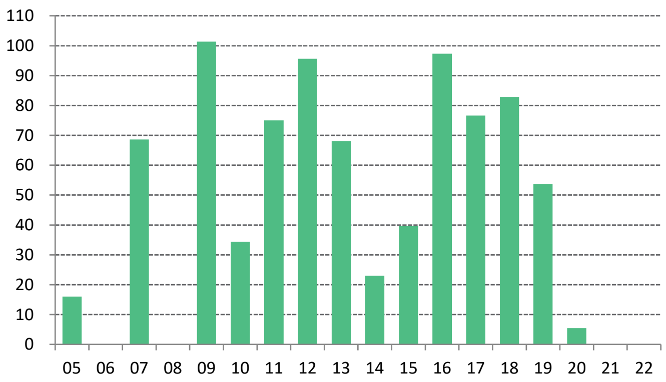
Source: Triodos, Degroof Petercam; * On reported EPS

A structurally solid balance sheet

The capital allocation strategy aims to maintain a solid balance sheet. The leverage and CET-1 ratios have consistently exceeded the minimum required levels (exhibit 42). The Benelux peers have also enjoyed strong CET-1 ratios:

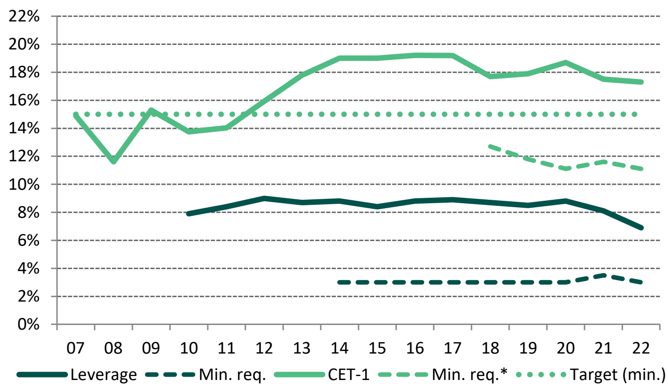
CET-1 ratio	Avg. 2018-2022	Year-end 2022
• ABN	17.1%	15.2%
• ING	15.0%	14.5%
• KBC	16.3%	15.4%
• Triodos	17.8%	17.3%

Exhibit 41 Equity raised (EUR m)



Source: Triodos, Degroof Petercam

Exhibit 42 Balance sheet ratios (%)



Source: Triodos, Degroof Petercam; * Equity tier-1 ratio

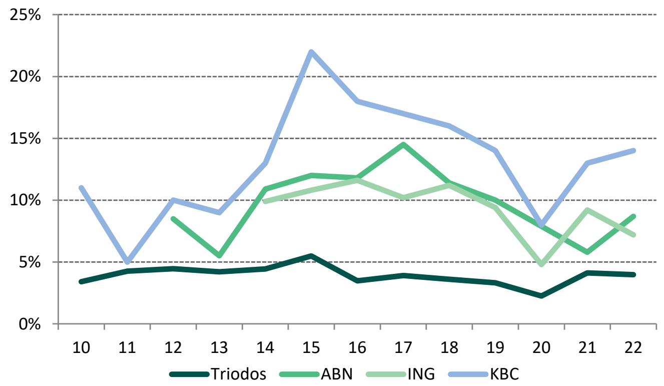
A higher C/I ratio and stronger balance sheet ratios spell lower returns

Triodos' above-average C/I ratio and stronger balance sheet ratios, translate into a return on equity (ROE) that is below that of the Benelux peers (exhibit 43). The mid-term target for ROE has changed several times and was raised at the release of the FY22 results on 16 March 2023 to a range of 5-7%, to be reached by 2025. The ROE of ABN trended down due to one-offs, as already highlighted, and started to recover in 2022.

Triodos' ROE is impacted by many factors, including e.g. interest rates, cost efficiency, capital allocation, and loan mix. The latter impacts RWA, CET-1 ratio, and thus the associated amount of excess capital. Banks generally have excess capital as their CET-1 ratios exceed the minimum regulatory requirements and their internally set targets. Excess capital, however, is not a pot of gold for DR holders to plunder, in our view. Banks need excess capital to finance growth, to act as a buffer for unexpected credit losses, and to act as a buffer for potential regulatory changes (that usually lead to higher capital requirements). In addition, excess capital is one of the factors that determine a bank's credit rating. Taking too large a bite out of excess capital to e.g. boost the loan portfolio or to remunerate DR holders, c/would negatively affect the credit rating, thus leading to higher funding costs and therefore pressure on profitability.

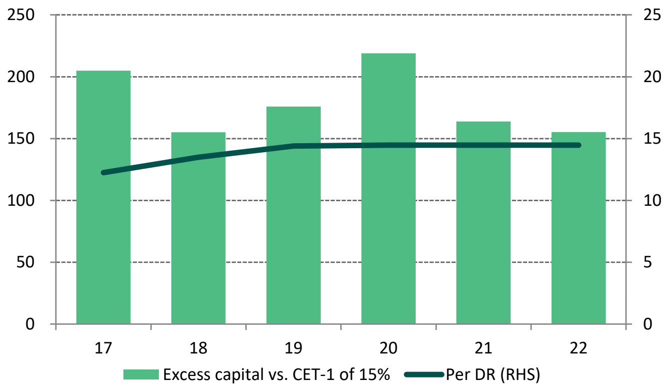
In 2022, Triodos paid a special dividend of EUR 1.01 per DR for a total of EUR 14.4m. This was easily funded through the company's excess capital (exhibit 44), calculated as the difference between the CET-1 ratio and the target of >15% (we used 15% in the calculations). Excess capital is even higher if we would use the difference between the CET-1 ratio and the minimum as required by the regulator, but that would provide little insight because it would be very dangerous to spend it, for reasons of liquidity and credit rating.

Exhibit 43 **ROE (%)**



Source: Companies, Degroof Petercam

Exhibit 44 **Excess capital (EUR m) and per DR (EUR)**



Source: Triodos, Degroof Petercam

Chapter III: A Tale of Three Growth Drivers

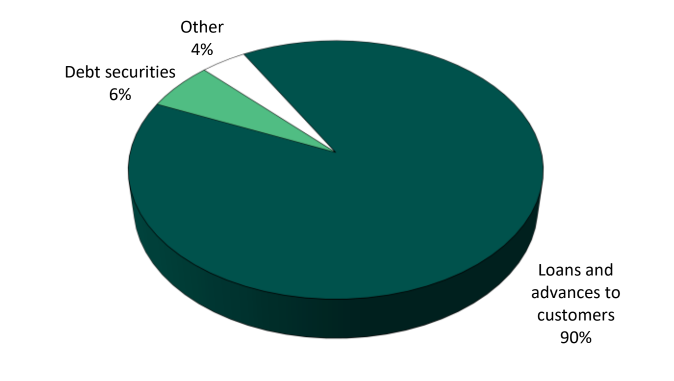
Three income categories have been driving growth

Circa 2/3 of total income is from NII and circa 1/3 is from F&C. Two other income categories (investment income, other income) are negligible so we ignore them.

- Around 90% of gross interest income (GII; before interest expenses) comes from interest on loans to customers, although this came down to 85% in 2022.
- Circa 45% of gross F&C income (before F&C costs) is from management fees from IM.
- Close to 26% of gross F&C income is from payment transactions.

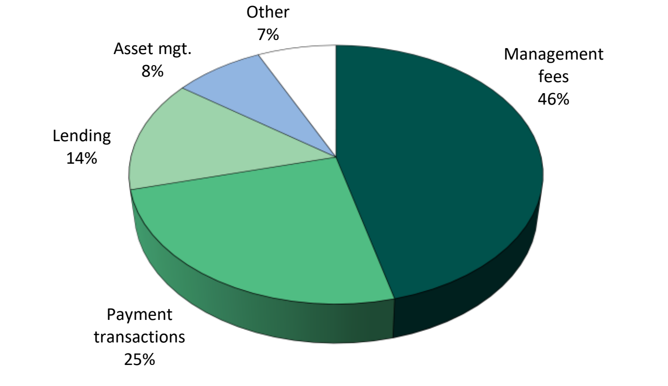
In 2022, these segments combined generated gross income of EUR 342m, which is 81% of total gross income (before interest and F&C costs). These categories, when compared to respectively deposits, loans, funds entrusted, and nr. of customers, reveal interesting trends.

Exhibit 45 **GII: avg. 2017-2022 (%)**



Source: Triodos, Degroof Petercam

Exhibit 46 **Gross F&C income: avg. 2017-2022 (%)**

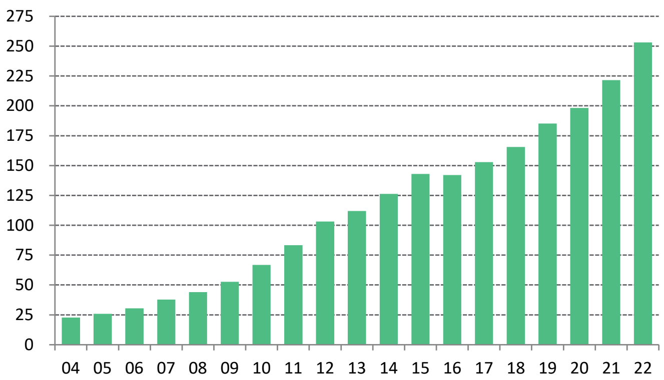


Source: Triodos, Degroof Petercam

1) NII on the rise despite fighting an uphill battle

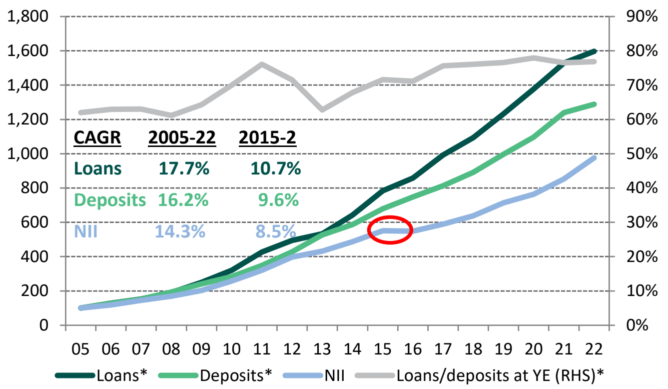
NII, which is circa 2/3 of Triodos' top line, has grown at a healthy pace, despite fighting an uphill battle. Growth in deposits from customers coincided with faster growth in loans to customers as the loan/deposit ratio expanded, yet slower growth in NII due to pressure on the net interest margin (NII/loans) (exhibits 47, 48, 49). The latter was due to decreasing/negative interest rates. There was a decoupling in 2015, which in our view was no coincidence.

Exhibit 47 **NII (EUR m)**



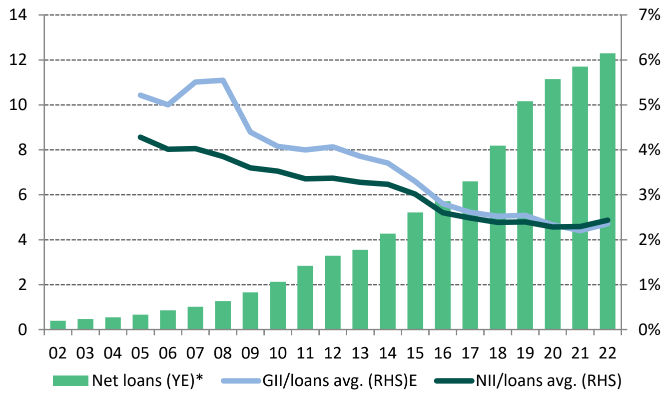
Source: Triodos, Degroof Petercam

Exhibit 48 **Growth rebased (2005 = 100)**



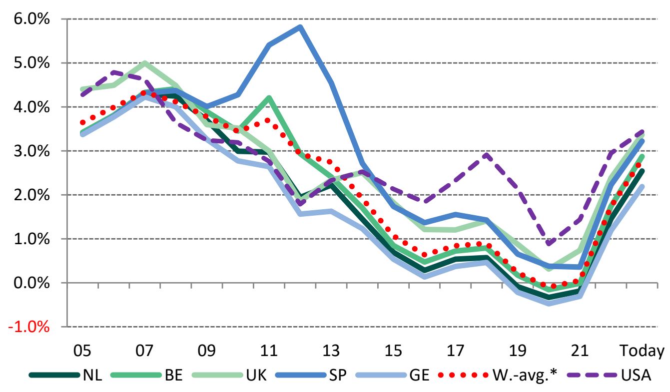
Source: Triodos, Degroof Petercam; * To customers

Exhibit 49 **Loans (EUR bn), GII/loans (%), and NII/loans (%)**



Source: Triodos, Degroof Petercam; * After provisions, to customers

Exhibit 50 **Average yield on 10-year government bonds (%)**



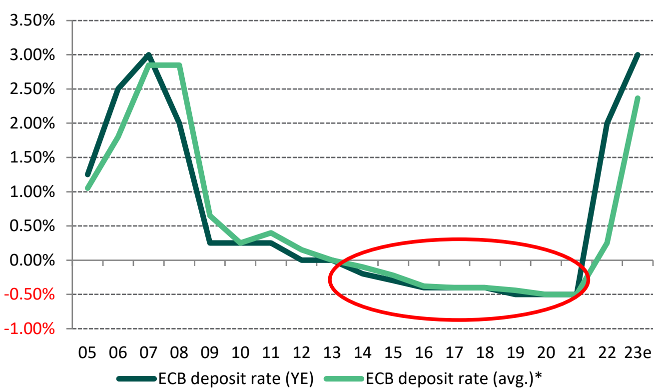
Source: Bloomberg, Triodos, Degroof Petercam; * Based on loan mix

For many years, the ECB and the FED were in a race to the bottom regarding interest rates (exhibit 50, today: 27 March 2023). This changed in the summer of 2020 for the FED, and at the start of 2022 for the ECB, and now they are in a race to the top. This is positive for banks as they should be able to boost net interest margins. One immediate benefit for European banks is that they should no longer pay negative interest on deposits held at the ECB (exhibit 51). Prior to 2014, Triodos received more interest income on excess cash parked at the ECB, than that they passed on to the savings accounts. This reversed in 2014, as the ECB deposit rate turned negative. From then on, Triodos paid negative interest on excess cash, and paid zero to the savings accounts, thus pushing down NII. It took until 2022 for this toxic situation to finally reverse for the better.

A simplified simulation in which we multiply excess cash (defined as: customer deposits - customer loans) by the average ECB deposit rate in the period from 2014 until H1-22, suggests that the ECB policies depressed Triodos' NII in by a cumulative EUR 88m. This translates into a negative cumulative impact on net profit of EUR 66m, or EUR 4.63 per DR. The simulation is even nastier if we add an opportunity loss of say 50 bps, which would turn the cumulative negative impact to EUR 198m for NII, EUR 149m for net profit, and EUR 10.44 for EPS.

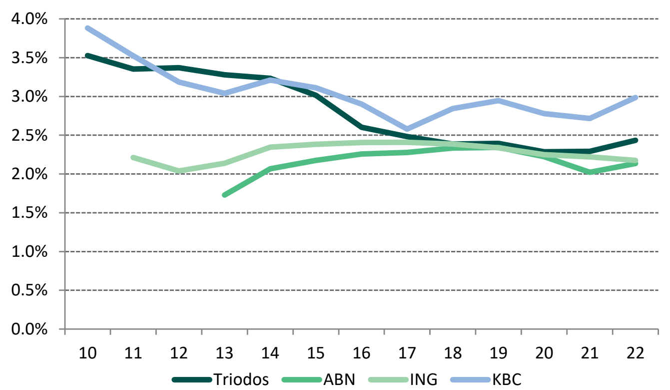
Decreasing interest rates did not have the same impact on Benelux banks (exhibit 52). From 2010-2022, NII/loans decreased at Triodos by 110 bps, at KBC by 90 bps, it was flattish at ING, while ABN saw a 40 bps uptick. We lack detailed information to judge the impact from changes in the mix of the Triodos loan portfolio (exhibits 53, 54), or whether the loan mix at ABN and ING is different enough to make them more resilient (e.g. re regions, segments, customer size, loan size). Triodos management frequently highlighted that results were negatively impacted by decreasing interest rates, while not mentioning anything about mix or scale.

Exhibit 51 **ECB deposit rate (%)**



Source: Bloomberg, Degroof Petercam; * 23e: YTD until 27 March

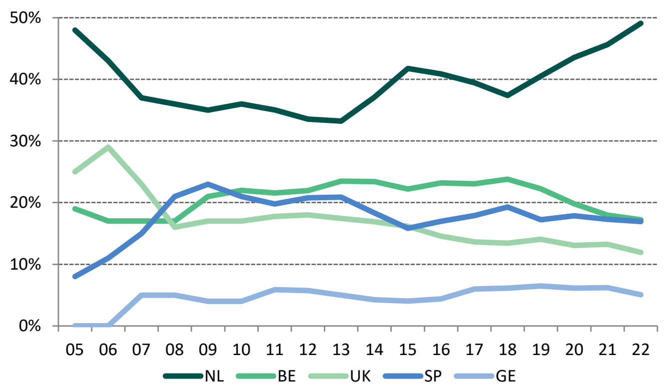
Exhibit 52 **NII/loans (%)**



Source: Companies, Degroof Petercam

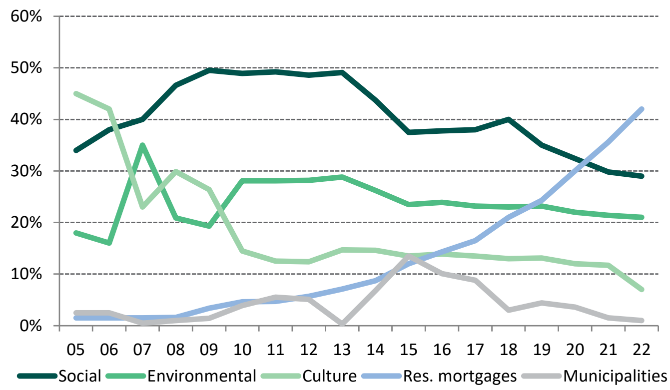
Despite the growing dominance of mortgages in the loan mix, the share of loans with a maturity of >5 years came down (exhibit 55). This looks counterintuitive as mortgages generally have a long time-to-maturity, especially in the Netherlands which made up 83% of net mortgage loans at year-end 2022.

Exhibit 53 Loan mix by region (%)



Source: Triodos, Degroof Petercam

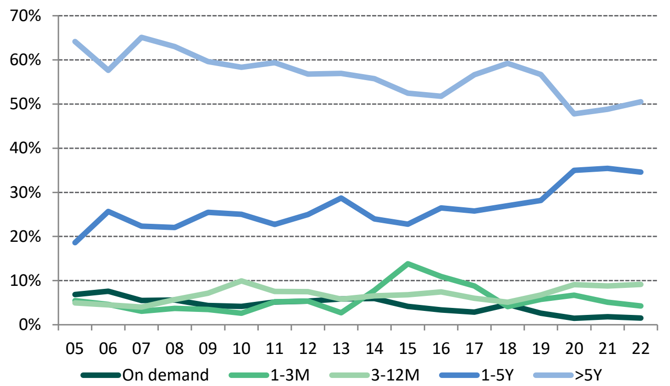
Exhibit 54 Loan mix by segment (%)



Source: Triodos, Degroof Petercam

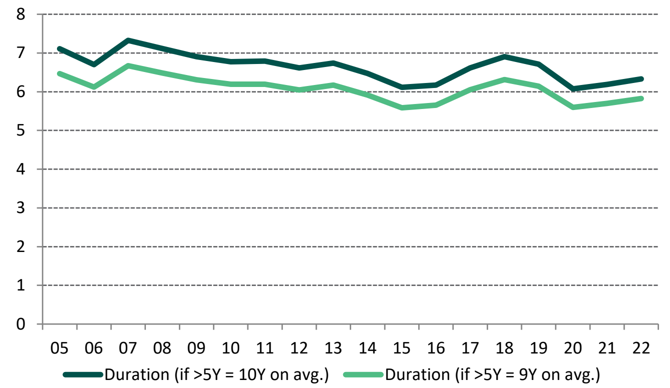
Because of changes in the mix by maturity, the estimated duration came down by almost a year (exhibit 56). We do flag that the actual duration could be different as we used two crude proxies (9 and 10 years) for the average for the category >5 years. In recent years, management highlighted that customers have been redeeming prematurely to benefit from refinancing at lower rates. They did not mention, though, whether these redemptions were on loans with a short or long maturity.

Exhibit 55 Loan mix by maturity (%)



Source: Triodos, Degroof Petercam

Exhibit 56 Estimated duration (years)

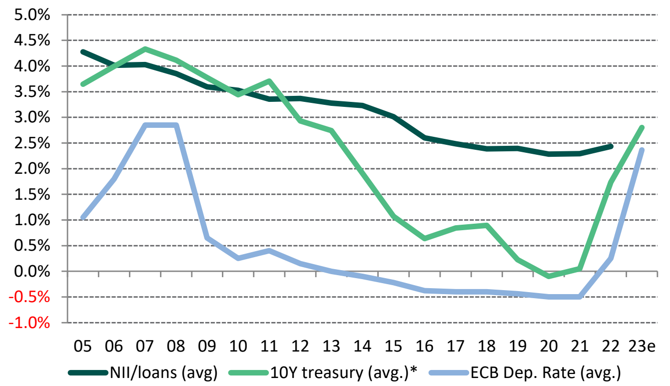


Source: Triodos, Degroof Petercam

Today, however, a shorter duration should be good. Based on the recent surge in interest rates, the net interest margin should be able to expand faster than with a longer duration. The pace and strength of future margin expansion is difficult to assess as we lack detailed information on the interest rates that are embedded in the various brackets. The estimated duration of around six years suggests that the current strength in interest rates should have largely filtered through by 2027, but the impact on the net interest margin is not yet clear (exhibit 58).

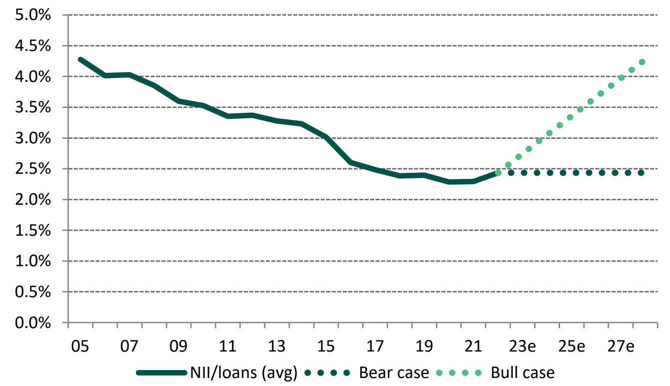
Once the infliction point has been reached (net interest margin on new loans > maturing loans), NII should grow at a faster pace than loans and deposits, and there should be strong potential for operating leverage.

Exhibit 57 NII/loans, 10Y treasury yield, ECB deposit rate (%)



Source: Bloomberg, Triodos, Degroof Petercam; * Reg.-weighted

Exhibit 58 A crocodile scenario for NII/loans (%)

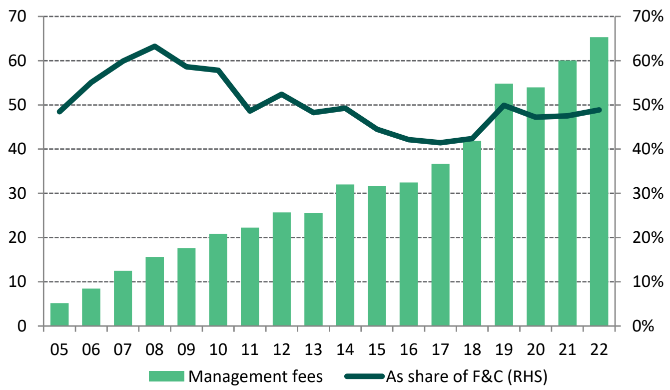


Source: Triodos, Degroof Petercam

2) F&C on the rise due to strong growth in management fees

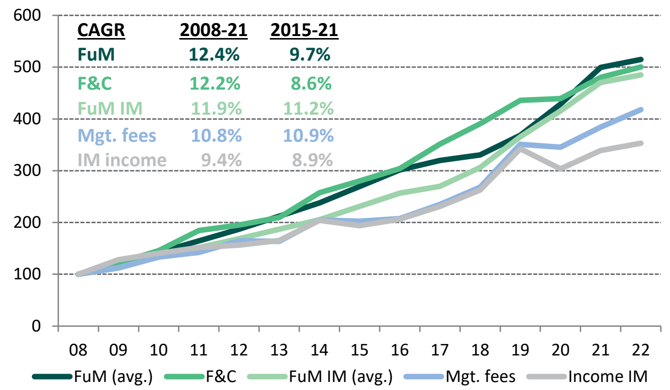
F&C, which is circa 1/3 of Triodos' top line, has grown at a healthy pace on the back of growth in nearly all sub-segments. Growth has been especially strong in management fees (exhibit 59), which relates to the fees earned by IM. Management fees have been between 40-50% of F&C in recent years. They have grown strongly, driven by growth in FuM of which IM FuM represented 80-90% in recent years. Growth in FuM strongly outpaced moderate margin pressure (exhibits 60, 61).

Exhibit 59 Management fees (EUR m) and share of F&C (%)



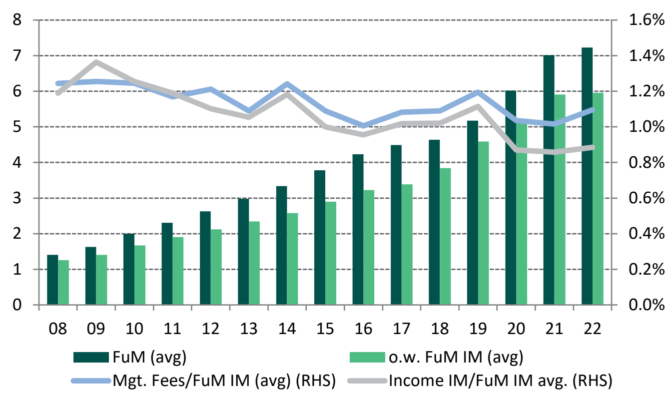
Source: Triodos, Degroof Petercam

Exhibit 60 Growth rebased (2008 = 100)



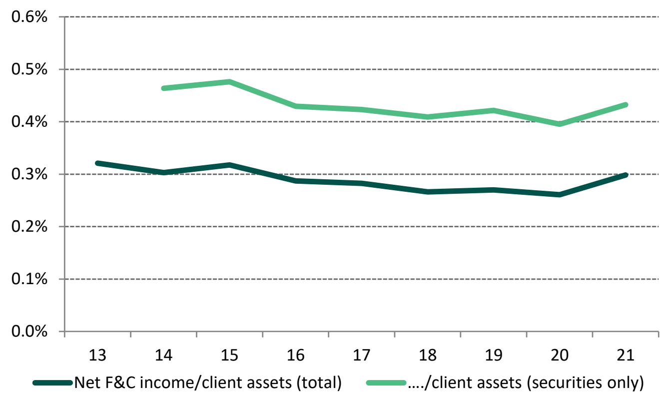
Source: Triodos, Degroof Petercam

Exhibit 61 FuM (EUR bn) and F&C margin (%)



Source: Triodos, Degroof Petercam

Exhibit 62 F&C margins ABN private banking (%)



Source: ABN, Degroof Petercam

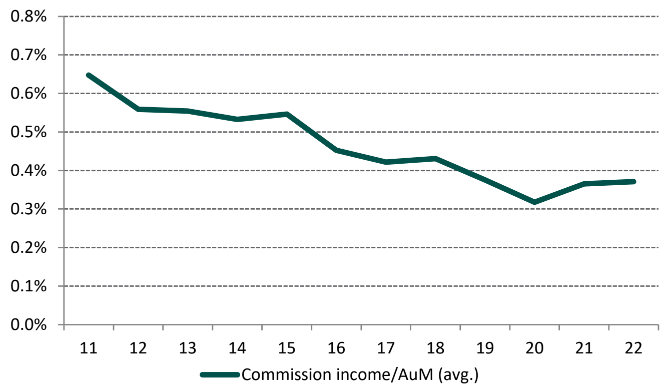
Margin pressure in asset management type of activities also happens at other banks, like e.g. at the private banking activities of ABN (exhibit 62) and the asset management activities of Dutch bank Van Lanschot Kempen (VLK) (exhibit 63). These examples are for illustration purposes only because their operations are not entirely comparable to those of Triodos due to differences in e.g. activity and regional mix. In addition, the underlying trends at ABN and VLK are clouded by several add-on acquisitions.

Triodos' financial reports do not elaborate on margin trends, so we assume that pressure is due to one or more of the following reasons, which apply to all companies in the banking sector:

- **Volume discounts**: e.g. if customer boosts the amount of assets they put in, they most likely get a more attractive rate.
- **Competition from passive investments**: active investment funds have been facing growing competition from passive investments (e.g. ETPs) re inflow and fees, and the latter probably resulted in pressure.
- **Transparency on fees**: regulatory changes have resulted in much more transparency on banking fees, which may have impacted fees across the industry.
- **More competition in sustainable finance**: other banks have been working on closing the gap re sustainable finance, and more competition may have impacted fees.

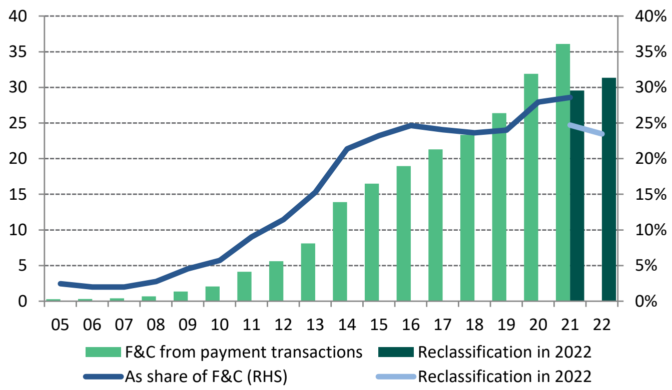
Going forward, FuM should grow further, and continue to outpace moderate margin pressure.

Exhibit 63 F&C margins VLK asset management (%)*



Source: VLK, Degroof Petercam; * Segmentation changed in 2021

Exhibit 64 Payment transactions (EUR m) and share of F&C (%)



Source: Triodos, Degroof Petercam

3) F&C on the rise due to strong growth in payment transactions

F&C, which is circa 1/3 of Triodos' top line, has grown at a healthy pace on the back of growth in nearly all sub-segments. Growth has been especially strong in payment transactions, which relate to fees for opening and maintaining current and savings accounts, of which the maintenance part relates to a monthly subscription fee. This activity represented a mere 2.5% of F&C in 2005 and it gradually grew to 29% in 2021 (exhibit 64), after which it fell to 23% in 2022 due to relocation of part of the fees to asset management. Growth has been driven by an increase in the number of customers and an increase in fees per customer (exhibit 65).

For many years now, Dutch banks have been raising subscription fees for current accounts because of growing costs in general and growing regulatory costs in particular. Triodos was no exception. In the Netherlands, they were among the first to introduce a fee for a savings account, among the first to charge negative interest, and their current account fee of EUR 5 p/m exceeds that of most other Dutch banks (ABN: EUR 2.95, ASN: EUR 2.20, ING: EUR 2.70, Rabo: EUR 3.70). Despite the growing costs for customers, anecdotal evidence suggests that Dutch banking fees are still among the lowest in Europe.

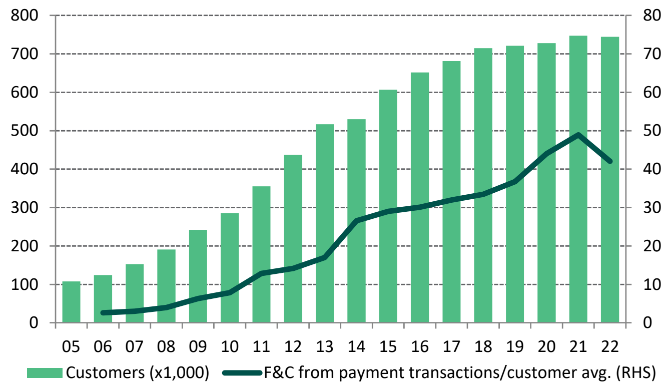
At present, Triodos charges the following fees for a current account for a private individual:

- Triodos Netherlands — EUR 60m p/a (based on a fee of EUR 5 p/m).
- Triodos Belgium — No offering
- Triodos UK — GBP 36 p/a
- Triodos Spain — EUR 36 p/a
- Triodos Germany — EUR 66 p/a for an account + EUR 15 p/a for a bank card.
- Unweighted avg. — EUR 43 p/a

Triodos provides segmentation of customers by country, but no sub-segmentation of products or paid/free accounts per customer or per country. Hence, we cannot determine specific drivers (like e.g. volume, price, mix) for the increase in fees per customer. Nevertheless, price increases must have played a major role, and the optical acceleration in fees per customer in recent years was partly due to the removal of unused accounts.

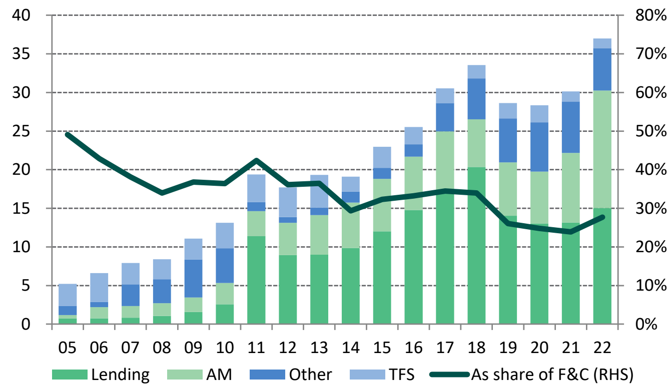
Going forward, we assume modest growth in the number of customers and in fees per customer, which should drive further growth in payment transactions. A simple way to boost growth would be to introduce a current account for private individuals in Belgium. According to management, however, that would not necessarily boost profits, because: 1) the Belgium banking market is competitive so a fee would not automatically be as high as say in the Netherlands, and 2) it would require plenty of compliance costs (KYC, AML) so the payback time of customer acquisition costs would probably be long.

Exhibit 65 Customers (x1.000) and fees per customer (EUR)*



Source: Triodos, Degroof Petercam; * 2022: down due to relocation

Exhibit 66 Other F&C (EUR m) and share of F&C (%)



Source: Triodos, Degroof Petercam

4) Other F&C categories grew as well, but at a slower pace

Management fees and payment transactions have been key growth drivers for F&C. The other categories also grew, albeit at a different pace (exhibit 66).

- Lending relates to non-interest related income from loans. A change of the accounting principle re the way of using the effective interest rate (IFRS) resulted in a lower income base in 2019 (pro-forma 2018: EUR 12m).
- Asset management (AM) relates to fees for trust and fiduciary activities. It has grown steadily over time. Income 2022 benefited from reclassification of fees from payments.
- Other is a bucket of different services. It has grown, albeit with ups and downs from time-to-time, and it has been relatively stable in recent years.
- Transaction fee securities (TFS) relates to fees for processing transactions in securities.

Chapter IV: A Year of Transition

There was extensive news flow throughout 2022

In 2022, Triodos issued many press releases on regular topics like the full year results, the interim results, Fitch updates, mission updates, AGM, and on irregular topics like management changes, EGMs, restructuring, the MTF, and a legal dispute with a group of DR holders.

News flow on management changes, in chronological order:

- **27 January**: CRO Carla van der Weerdt requires an extended period of recovery from long Covid-19. CFO André Haag will temporarily fulfil this role.
- **17 March**: Intention to appoint Franca Vossen as CRO ad interim.
- **16 May**: Nominated CRO ad interim Franca Vossen will pursue a career elsewhere. CFO André Haag will continue the risk function until a new candidate has been found.
- **30 May**: CFO André Haag will leave Triodos. Willem Horstmann will temporarily step down from the supervisory board and is nominated to take the role of CFRO ad interim.
- **21 June**: The supervisory board appoints Willem Horstmann as member of the executive board ad interim, in the role as CFRO.
- **15 September**: Alexander Rinnooy Kan nominated as board member of SAAT as of 1 January 2023. The board of SAAT intends to appoint him as chairman.
- **11 October**: The EGM and the SAAT meeting adopted all proposals, including:
  - EGM appointed Kristina Flügel as member of the supervisory board.
  - SAAT appointed Alexander Rinnooy Kan as chairman of SAAT.
  - Intended extension of Willem Horstmann as member of the board as CFRO.
- **14 November**: Kees van Kalveen nominated as CFO, which was approved at the EGM in January 2023.
- **1 December**: Hans Stegeman appointed Chief Economist, including the responsibility for the company’s impact strategy.
- **16 December**: Nomination of Marjolein Landheer as CRO ad interim, which was approved by the EGM in January 2023.

News flow on mission-like topics, in chronological order:

- **5 April**: Revamp of the mobile banking app, which now shows customers the impact they create with every euro invested in one of the Triodos investments funds.
- **25 October**: Triodos and Alternative Bank Switzerland entered into an agreement to jointly finance sustainable businesses in the coming three years.
- **17 November**: Paper: “Building open/resilient communities for an inclusive society”.
- **7 December**: Recertified as a B Corporation. B Corporations meet strict social and environmental criteria and offer a positive vision of a better way to do business.
- **13 December**: Calls for ambitious biodiversity targets and recognition of ecocide at the 15th UN Biodiversity Conference.

News flow on financial topics (excluding results), in chronological order:

- **4 February**: Fitch reaffirms long-term issuer default rating at 'BBB rating', and viability rating at 'bbb'. Outlook: 'Stable'.
- **15 February**: Announces a restricted buyback programme of DRs of EUR 14.4m including EUR 3.0m for solidarity agreement, subject to approval of the EGM.
- **22 February**: Appoints ABN as financial advisor for the listing of DRs on an MTF.
- **29 March**: EGM adopts the proposal for the buyback and the solidarity agreement.
- **20 May**: AGM adopts all proposals
- **01 August**: Proposes special dividend of EUR 1.01 per DR, withdraws DR buyback
- **10 October**: Stichting Certificaathouders Triodos Bank (SCTB) filed a petition with the Enterprise Chamber of the Amsterdam Court of Appeal (EC). SCTB asked the EC to order an investigation into the decision-making procedures of the board of management. Triodos management regretted the escalation and will ask the EC to reject the request.
- **11 October**: The EGM and the SAAT meeting adopted all proposals, incl. 1) special div. of EUR 1.01 per DR for EUR 14.4m re withdrawal of the buyback. 2) approval of listing/admission DRs to trade on an MTF, targeted for Q2-23.
- **9 December**: Fitch affirms long-term issuer default rating at 'BBB rating', and viability rating at 'bbb'. Outlook revised to 'Negative' (from 'Stable') due to a legal dispute with some of the DR holders re suspension of trade of DRs, which may create uncertainty.
- **21 December**: Est. economic value for fiscal purposes of DRs as per 1/1/23: EUR 60.

In May, management announced a restructuring programme to boost efficiency

At the release of the 2021 results, management expressed the following for 2022 and beyond:

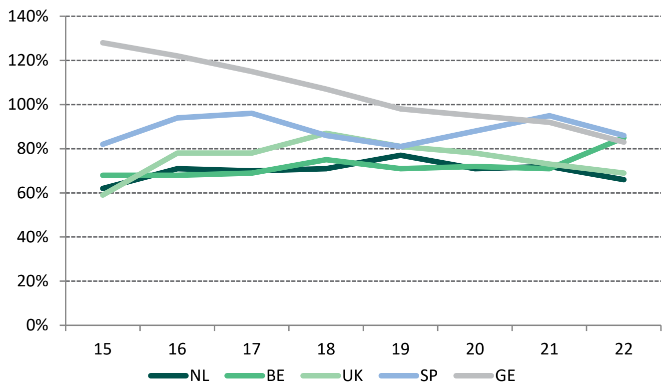
- Growth in F&C over time by further growing IM and fee-based banking activities.
- Modest growth in balance sheet, maintaining a stable loan/deposit ratio (2021: 77%).
- Repeated targets for 2025: C/I ratio of <75%, and ROE of 4-6% (later raised to 5-7%).

Shortly thereafter, they announced a restructuring programme to improve efficiency. This involves a reduction of 130-150 jobs in banking via natural attrition, redeployment, and redundancies. A provision of EUR 6m was announced (later cut to EUR 5m), and costs savings should reach circa EUR 11-12m p/a by the end of 2024 (later widened to EUR 10-12m p/a).

The range of 130-150 jobs represents 8.2-9.5% of the workforce at year-end 2021. This range, set against EUR 150m in employee costs in 2021, points to potential savings of EUR 12-14m p/a. That range, however, ignores differences in wages between functions and countries.

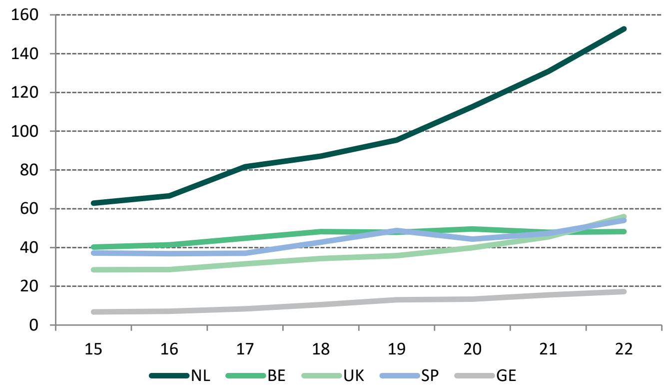
Generally, one would expect most job losses in Spain and Germany, as their C/I ratios are above-average (exhibit 67). Germany, however, has shown steady progress, and its subpar efficiency is due to a modest (yet growing) scale (exhibit 68). Hence, Germany should simply be allowed to grow further, as that should drive the C/I ratio further down. Spain, on the other hand, has sufficient scale, but it has been operating a large network of branches and an above-average workforce. In addition, Spain must have been impacted more than the other countries by decreasing interest rates, since a dominant share of the Spanish lending market is on variable interest rates. Spain did improve in 2022, which is probably due to a combination of rising interest rates and restructuring measures. The Belgium C/I ratio went up strongly in 2022 due to extra costs for customer due diligence remediation and a DGS contribution. The former is due by the end of 2023, so the Belgium C/I ratio should improve as from 2024.

Exhibit 67 C/I ratio (%)



Source: Triodos, Degroof Petercam

Exhibit 68 Total income (EUR m)



Source: Triodos, Degroof Petercam

After a sluggish H1-22, the mother of all turnarounds started in H2-22

H1-22: total income +5% y/y, net profit -32% y/y, adjusted net profit -13% y/y (exhibit 69)

The business continued to be impacted by pressure on the net interest margin and regulatory costs. On top came the war in Ukraine, inflation, and turmoil on the financial markets (affecting IM) due to a surge in interest rates. The latter, however, benefited NII as from H2-22 as highlighted on the next page, driving a strong turnaround in net profit growth.

- Total income grew by 5% y/y, including +6% in NII and +5% in F&C.
  - Growth in NII of 6% was driven by 10% growth in average deposits and average loans, so the loan/deposits ratio remained unchanged at 77%, and a 9 bps decrease in net interest margin to 2.18%.
  - Growth in F&C of 5% was driven by payment transactions (+7%) and lending fees (+28%). Growth was modest in management fees (+1%). Income from IM (part of management fees) was -2% y/y, as it was affected by turmoil on the financial markets that pushed equity and bond prices down. AuM decreased by EUR 676m compared to year-end 2021, due to EUR 571m from lower asset prices, and EUR 105m from net outflow.
- Operating costs rose by 16% y/y, resulting in a strong increase in the C/I ratio to 87.2% compared to 79.2% in H1-21 and 81.7% in H2-21. There were exceptional costs, including a restructuring provision of EUR 6m, and costs for the MTF and a legal dispute with a group of DR holders that added up to EUR 1.3m. Excluding these items, costs grew by 10% y/y, and the adjusted C/I ratio was 83.0%. Once again, there were extra costs for compliance and AML, and an additional DGS contribution.
- LLP were a EUR 2m reversal, compared to a reversal of EUR 1m in H1-21.
- Net profit decreased by 32% y/y to EUR 19m (from EUR 28m). Adjusted net profit decreased by 13% y/y to EUR 24m (from EUR 28m).
- The CET-1 ratio increased to 17.6% vs. 17.5% at year-end 2021. The leverage ratio decreased to 6.5% vs. to 8.1% at year-end 2021. The latter was due to the termination of a temporary exemption that allowed exposure to central banks to be excluded.
- The ROE was 3.0%, or 3.9% on an adjusted basis.
- The number of customers at the end of H1-22 was 747,299 compared to 747,413 at the end of 2021.

<u>**H2-22**: total income +14% y/y, net profit +35% y/y, adjusted net profit +63% y/y (exhibit 69):</u>

The business was again impacted by external factors, but this time in a positive way. There was a strong uplift in the net interest margin due to a surge in interest rates in general and the ECB deposit rate in particular. This boosted NII, especially since higher interest rates were hardly or not yet passed on to the savings accounts. On the other hand, regulatory costs increased further, and IM continued to be affected by turmoil on the financial markets

- Total income grew by 14% y/y, including +22% in NII and +4% in F&C.
    - Growth in NII of 22% was driven by 6% growth in average deposits and 7% growth in average loans (marginal impact on loan/deposits ratio which was a rounded 77%), and a 35 bps increase in net interest margin to 2.66%.
    - Growth in F&C of 4% was driven by AM (+135%) and management fees (+16%). Income from payment transactions decreased (-33%). Income from IM (part of management fees) was +9%. IM remained affected by uncertainty on the financial markets. AuM decreased further compared to mid-year, although the pace of decline was much softer. AuM decreased by EUR 150m compared to mid-2022, due to EUR 101m from lower asset prices, and EUR 49m from net outflow.
- Operating costs rose by 3% y/y, despite EUR 12m in exceptional costs compared to only EUR 2m such costs in H2-21. This resulted in a strong improvement in C/I ratio to 73.7% vs. 81.7% in H2-21 and 87.2% in H2-21. Exceptional costs included EUR 13m for the MTF and a legal dispute with a group of DR holders combined, and a EUR 1m reversal on the EUR 6m provision that was taken in H1-22, as it was EUR 5m for FY22. Excluding these items, costs decreased by 4% y/y, and the adjusted C/I ratio was 67.9%.
- LLP were EUR 10m, compared to EUR 1m in H2-21. This included the net impact from a release of covid-related provisions, and provisions taken related to growing economic uncertainty in general, and for the UK in particular.
- Net profit increased by 35% y/y to EUR 31m (from EUR 23m). Adjusted net profit increased by 63% y/y to EUR 40m (from EUR 25m).
- The CET-1 ratio was down a modest 20 bps y/y to 17.3% and remained well above the target of >15%. The leverage ratio decreased to 6.9% vs. 8.1% at year-end 2021. This was mainly due to the termination of a temporary exemption that allowed exposure to central banks to be excluded.
- The ROE was 4.0%, or 5.2% on an adjusted basis (for H2-22).
- The number of customers at the end of 2022 was 744,477 compared to 747,413 at the end of 2021.

Exhibit 69 H1-22 and H2-22 results (EUR m)

	H1-21	H2-21	H1-22	y/y	H2-22	y/y
Deposits from customers (avg.)	**12,187**	**12,955**	**13,408**	10%	**13,673**	6%
y/y	10%	12%	10%		6%	
Loans to customers (avg.)	**9,683**	**10,168**	**10,523**	10%	**10,571**	7%
y/y	13%	11%	9%		7%	
Loans/deposits (avg.)	77%	77%	77%		77%	
Net interest margin	2.3%	2.3%	2.2%		2.7%	
NII	**107**	**115**	**113**	6%	**140**	22%
y/y	16%	8%	6%		22%	
F&C	**57**	**59**	**59**	5%	**62**	4%
y/y	12%	7%	5%		4%	
Other income	**2**	**2**	**2**	-4%	**-1**	-157%
y/y	NM	NM	-1%		-1%	
Total income	**166**	**176**	**174**	5%	**201**	14%
y/y	16%	9%	5%		14%	
C/I ratio	**79.2%**	**81.7%**	**87.2%**		73.7%	
Operating costs	**131**	**144**	**152**	16%	**148**	3%
o.w. employees	74	75	83	12%	84	11%
%	44.9%	42.9%	47.7%		41.6%	
o.w. administrative	45	54	57	25%	55	2%
%	27.2%	30.5%	32.4%		27.3%	
o.w. D+A+I	12	15	12	4%	10	-35%
PPP	**35**	**32**	**22**	-35%	**53**	64%
%	20.8%	18.3%	12.8%		26.3%	
LLP	1	-1	2		-10	
PBT	**36**	**31**	**24**	-32%	**43**	36%
%	21.5%	17.9%	13.9%		21.3%	
Taxes	-8	-8	-5	-32%	-12	39%
Tax-rate	22.4%	26.7%	22.6%		27.2%	
Net profit	**28**	**23**	**19**	-32%	**31**	35%
Exceptionals in operating costs*	0	-2	-7		-12	
C/I ratio adjusted	**79.2%**	**80.4%**	**83.0%**		**67.9%**	
PPP adjusted	**35**	**35**	**30**	-14%	**65**	87%
%	20.8%	19.6%	17.0%		32.1%	
PBT adjusted	**36**	**34**	**32**	-12%	**54**	61%
%	21.5%	19.2%	18.1%		27.1%	
Net profit adjusted	**28**	**25**	**24**	-13%	**40**	63%

Source: Triodos, Degroof Petercam; * Estimates

Welcome back to reality

Albert Einstein is credited with many famous quotes, including the one below, although there is no evidence to support that he said it since there were no phones with cameras in his lifetime:

- "There is no force in the universe more powerful than compound interest"

We like to borrow from this genius, by reversing the quote:

- "There is no force in the universe more destructive than negative interest"

In our view, artificially low interest rates, and especially negative interest rates, are fundamentally wrong, especially in a healthy macro-economic environment. They generally trigger undesirable behaviour, including e.g.: 1) consumers and corporates leveraging up more than is healthy, 2) the creation of bubbles by inflating asset prices like e.g. equities, bonds, and real estate, and 3) politicians (ab)using low interest rates to keep spending and/or to prevent reform. Once interest rates go up again, for whatever reason, things can become nasty!

For many years, the ECB policies have been painful for groups like pensioners, people with savings accounts, and banks. However, things have turned for the better for the aforementioned groups, and especially for banks, as demonstrated by Triodos' insanely strong turnaround in the second half of 2022.

A key driver for the improvement in NII in H2-22 was the surge in the ECB deposit rate, resulting in Triodos receiving interest income on deposits held at the ECB, rather than paying interest.

		NII	Avg. p/m	NII/loans (avg.)
•	H1-22	EUR 113m	EUR 18.8m	2.2%
•	H2-22	EUR 140m	EUR 23.4m	2.7%
•	Delta h/h	EUR 27.8m	EUR 4.6m	0.5%

In H2-22, the ECB rate (exhibit 70) started at -0.5%, ended at 2.0%, the average was 0.72%, and today it is 3.0%. Hence, the EUR 28m sequential improvement in NII in H2-22 was on only a modest improvement in the ECB rate (0.72% is only 36% of the exit rate of 2.0%). As such, NII of EUR 23.4m p/m probably started close to EUR 19m from H1-22, and probably ended around EUR 28m at an annual run rate of EUR 336m. The latter, however, is not automatically the starting point for 2023. Triodos was lagging other banks in passing on higher interest rates to the savings accounts. Therefore, the December exit rate of gross interest income should be the starting point for 2023, but that should be offset by an increase in net interest costs as Triodos recently raised the interest rates on the savings accounts.

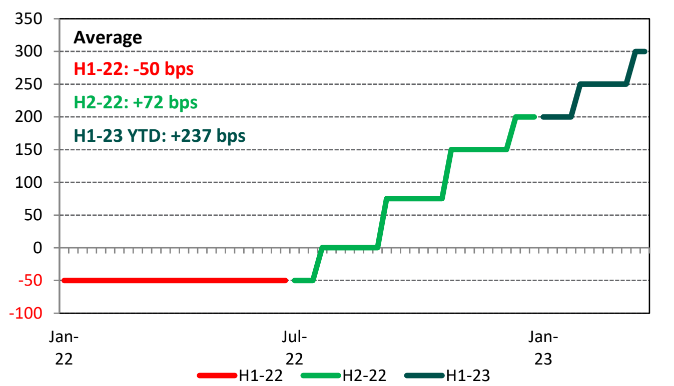
According to management, Triodos historically passed on 40-70% of higher ECB/BoE deposit rates. In the first two months of 2022, Triodos offered 0.20% on Dutch savings accounts. As from 1 March, they offer 0.45% up to EUR 50k in savings, and 0.30% as from EUR 50k. Customers are said to be sticky, and to prioritise impact over the highest interest rate. From 0.20% to a range of 0.30-0.45% appears a small step compared to the surge in the ECB deposit rate, but it is against a much larger base because deposits are huge in the balance sheet.

The overview of rates offered on Dutch savings accounts (exhibit 71) is not comprehensive:

- The website spaarrente.nl reveals there are: 1) three other names that offer ≥0.5% and <1.0%, 2) eleven names with ≥1.0% and <2.0%, and 3) two names with ≥2.0%. Most names are foreign banks, or alternative financial institutions. We assume that a decent share of Dutch consumers is cautious re the joining a strange bank, as the 2008 collapse of Icelandic bank Icesave caused mayhem (it offered high rates in the Netherlands).
- A new development at some banks is that the published rate applies to a first bracket of say EUR 25k, EUR 50k, or EUR 100k, with a lower rate above that bracket.

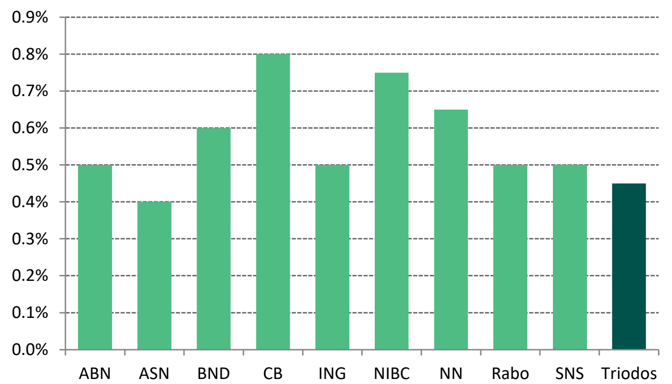
There could be upside to NII from relending at higher net interest margins, but mix effects make it difficult to quantify this. At year-end 2022, 15% of loans had a maturity of ≤1 year.

Exhibit 70 **ECB deposit rate 2022-YTD 2023 (bps)***



Source: Bloomberg, Degroof Petercam; * YTD: 27 March 2023

Exhibit 71 **Rates on dir. accessible Dutch savings accounts (%)**



Source: Companies, Degroof Petercam

The year ended in court

The decision to change trading platform, and the potential implication for the value of the certificates, was not appreciated by everybody. A group of DR holders founded 'Stichting Certificaathouders Triodos Bank' (SCTB, foundation certificate holders Triodos Bank), with the goal to promote the mission of Triodos and to stand up for the rights of DR holders.

The SCTB website (in Dutch) reveals they are unhappy with the following:

- **Trading**: DR holders have not been able to trade for a period of three years (March 2020 - Mid-2023), so they have no access to their capital.
- **Potential losses**: The introduction of an MTF is said to result in a potential loss in value of the DRs of up to 45% or more, according to analysts (they did not mention a source, somewhere else on the website they mention a potential loss of 30-45%).
- **Dividends**: Since the suspension of trading, Triodos paid fewer dividends than before, and there is no indication that this will change (the latter was probably conceived before the surge in interest rates in 2022, so it may potentially be outdated).
- **Transparency**: There is lack of transparency by Triodos towards its DR holders.

The SCTB website reveals that 2,810 DR holders sympathise with SCTB per 15 November 2022 (6.5% of DR holders), of which 1,830 donated to SCTB (65% of sympathisers, 4.2% of DR holders). This involves 1.8m DRs, which is 12.5% of DRs outstanding. SCTB mentions that foreign DR holders have also joined SCTB, and that DR holders in Belgium and Spain have teamed up locally. They highlight that there have been 13 lawsuits in Spain, of which 8 were won by Triodos and 5 by DR holders, and that the expectation is that all parties will appeal.

There have been several meetings between SCTB and Triodos and SAAT, and several exchanges via letters that are published on the website of SCTB. This has not resulted in a solution acceptable to both parties. In response, SCTB filed a petition with the Enterprise Chamber of the Amsterdam Court of Appeal (EC) to ask for an investigation into the decision-making process of the management board of Triodos.

On 22 December, there was a session at the EC. It was SCTB joined by VEB (Vereniging van Effectenbezitters, Dutch Association of Securities Holders) against Triodos and SAAT. Both sides were heard by the court, were able to react to each other's pleas, and were asked questions by the court.

A live blog by Dutch newspaper Financieele Dagblad (FD) reported on the matter. Below are the most interesting findings, in our view, in chronological order, as reported by FD:

- SCTB refers to two secret analyst reports, published in 2021 by ABN and Lazard. These reports were allegedly sceptical about a new trading platform, and about the valuation of the DRs. There were allegedly also worries about potential demand for the DRs. STCB is prepared to accept a new trading platform and it could accept a potential adjustment to the value of the DRs. Their main goal is to find out the truth, to restore trust.
- Triodos mentions that decision-making is done by the board of a company, not by DR holders. The MTF is the best solution, and it makes no sense to look back. Triodos emphasises that they are a bank, which is under supervision of regulators, and that the main goal is to ensure continuity. Continuity prevails, which means that the interest of DR holders can be of lesser importance at certain moments.

- SAAT highlights that the board of Triodos has not shown enough empathy. SAAT was surprised that the old trading system got stuck, and they asked whether it could be fixed. They are now of the opinion that the MTF is the best way forward. SAAT wishes to meet with DR holders to discuss a reform of governance, including e.g. a one DR one vote principle, and the possibility to appoint members of the supervisory board.
- In response to questions by the EC:
  - Triodos mentions that there were no doubts about the validity of the former trading system before March 2020. In 2021, they analysed whether the former trading system could resume, including significant modifications. The decision to introduce an MTF was made while weighing tradability, price stability, and protecting the mission of the bank.
  - SCTB is critical about the decision-making process. Management acted during a crisis, in a way that seriously hurts the interests of DR holders. If the decision-making was done carelessly, they should perhaps terminate loans to compensate DR holders.
  - VEB believes there are alternatives, like e.g. a merger, a transfer of DRs, an IPO on a public exchange, or a termination of loans. VEB is very critical about the management because they continued a trading system for far too long, even though (allegedly) knowing that it was not sustainable.
  - The EC wonders why SCTB wants an investigation, considering that all Dutch banks were hit big during covid, including a loss in value of up to 50%, while Rabobank had difficulties in paying dividends. SCTB is of the opinion that covid is not the reason for the trading system to no longer function properly. Hence, their wish for an investigation into the decision-making process.
  - The EC wonders why Triodos did not act immediately during covid. Triodos mentions that the system worked properly for such a long time, that it was not easy to conclude that is no longer a viable trading system. It took time and many internal discussions to draw this conclusion.
- The chairman of the EC tries to bring the parties together. He concludes that: 1) an investigation by the EC is not in the interests of DR holders as it would suppress demand for DRs, 2) Triodos is willing to have talks under supervision of a mediator, 3) SAAT is willing to make concessions, yet 4) SCTB is not willing to concede. On the other hand, Triodos has not shown empathy, and has not suggested any form of compensation.
- Another round of pleas:
  - SCTB and VEB comment that Triodos only opened up re sharing of information shortly before the session at the EC, that Triodos failed for 10-15 years to move to a more sustainably trading system, and that DR holders are with their backs against the wall facing a considerable decline in value. They quote a professor in economics that was allegedly critical about the former trading system.
  - Triodos comments that it has shown accountability, considered alternatives, and that the move to an alternative trading system would have also been painful 10-15 years ago. They quote the same professor who allegedly praised the former trading system in a scientific article. The current management was confronted with the situation, looked for a solution, and found one.
  - SAAT asks all parties to resume a dialogue without lawyers.

The chairman of the EC concluded the session by announcing that the EC will go into consultation and will prepare a verdict for a soon to be determined date. The FD journalist found this remarkable because the EC usually provides an indication about the timing of their verdict. After the session, the EC communicated that a verdict will be reached by 1 March 2023 at the latest.

An overview of the legal proceedings as per 3 February 2023

According to management, the outcome of the legal proceedings and possible future proceedings, is unknown. They expect this uncertainty to last for some time. At this moment, it is not possible to provide a reliable estimate or quantify Triodos' exposure. Until now, the number of DR holders that has filed individual claims and the capital involved, are still relatively limited when compared to the total number of DR holders and capital.

- In Spain, as of 3 February 2023, 246 lawsuits of individual DR holders have been filed. The plaintiffs claim primarily that they were not adequately informed about the risks and characteristics of the DRs, which should give the right to annulment of the purchase, or a right to compensation.
- In Spain, as of 3 February 2023, there have been 19 judgements, of which 13 claims were rejected, and 6 claims were granted. All these verdicts were issued by local courts, and none are final and irrevocable because they were all appealed.
- In the Netherlands, 18 individual DR holders have filed complaints with Kifid, the Dutch extrajudicial body that may give (binding) opinions on consumers' complaints about financial services companies. In 8 cases, Kifid ruled that the claims were not admissible, so they were denied without a ruling on the merits, and the DR holders can appeal. One claim was rejected based on the merits, it was not appealed, and the period of appeal has expired. The other 9 claims are still pending. So far, no complaint has been upheld against Triodos Bank. One DR holder has requested a preliminary witness hearing (a.o. former CEO and current CEO) to obtain sworn testimony from witnesses in an open court to prove his alleged claim. The request was denied in first instance, and an appeal is currently pending.
- In Belgium and Germany, one claim has been filed each. It is uncertain when judgements will be rendered. There are no claims in the UK.

On 16 March 2023, the EC announced it rejects the request for an investigation

From the press release (translated from Dutch):

- **Shut down of trade in certificates**: A group of DR holders from Triodos and VEB had asked the EC to conduct an investigation in this inquiry procedure. This concerned Triodos' decision to suspend internal trading in its certificates in 2020 and 2021 and Triodos' decision to allow trading in certificates to take place via an external trading platform in the future.
- **Doubts about correct policy before March 18, 2020, but not thereafter**: The EC ruled that Triodos already knew in 2017 that problems were imminent with the internal trade in certificates and should have investigated possible solutions earlier. But otherwise, there are no valid reasons to doubt Triodos' correct policy and course of affairs. After Triodos suspended trading on March 18, 2020, it has extensively researched possible solutions. The alternatives were mapped out and the interests of both the bank and its mission and the DR holders were carefully weighed against each other. In the end, it was decided to allow trading in certificates via a listing on an external trading platform, so that the certificate holders can sell their certificates again after three years.

- **Balancing interests**: According to the EC, an investigation into errors made before March 18, 2020 is not in the interest of Triodos and its DR holders. They would particularly benefit from a successful listing of the certificates on an external trading platform, which is scheduled to start in the second quarter of 2023. An investigation would entail the risk of delaying the listing process, while an investigation could also have a negative impact on the demand for certificates on the trading platform and the price to be received by the certificate holders. A consideration of the interests involved therefore leads to the request for an investigation being rejected.

The management of Triodos has taken note of the ruling, and they will study it carefully. They indicated that they are working closely with all stakeholders, including DR holders, to realise the listing on an MTF and to restore tradability of the DRs.

The board of SCTB has taken not of the ruling, and they are disappointed about the outcome. They will study the verdict, and the implications for their organisation.

Chapter V: A Refreshing Strategy Update

Triodos is heading for the high ground

The new management has made subtle yet refreshing changes to the strategy. They focus on profitable growth rather than growth at any cost, they are focusing on operational efficiency, and they intend to finance growth via retained earnings, asset light financing, and modest dilution to the CET-1 ratio as opposed to financing via dilutive equity issues. Going forward, the new strategy and a healthier interest rate environment should boost fundamentals like NII, C/I ratio, ROE, EPS, and DPS.

The financial targets for the mid-term, which we interpret as 2025, are:

- **Growth in loan portfolio of 15-20%** (CAGR 6%): The focus is to grow in a controlled manner whereby new loans are produced at an ROE of at least 6%, as opposed to growing as fast as possible. The goal is to grow RWA at a CAGR of 5%, so the business should become asset lighter. This should be achieved through: 1) proportionally more mortgages in the mix, which require less capital than loans to other segments, 2) attracting guarantees from e.g. the EU, governments, or other organisations, so that loans require less capital, and 3) offloading mortgages from the balance sheet.
- **F&C at 30-40% of total income**: This suggests continued growth in F&C, as NII should increase through growth of the loan portfolio, higher interest rates and ECB deposit rates turning positive. The range was between 31-36% in the period 2006-2022.
- **C/I ratio of 70-75%**: The focus is on the lower end of the range. Improvement should come from a more efficient cost structure, and in our view also from operating leverage from higher net interest margins.
- **CET-1 ratio >15%**: The ratio should decrease slightly vs. 17.3% at the end of 2022 because an ROE of say 6% (or 7%) and a dividend pay-out of 50% suggest retained earnings of 3% (or 3.5%). This is below the target of 5% growth in RWA (CAGR).
- **ROE of 5-7%** (raised from 4-6%): The focus was on the upper end of the former range. Improvement should be driven by improved profitability from more conscious pricing of new loans, healthier net interest margins, and a more efficient cost structure.
- **Dividend pay-out 50% of reported EPS**: Between 2007-2018, the pay-out was between 44-80% as DPS was fixed at EUR 1.95, while EPS fluctuated. The weighted average was 59.4%. The new pay-out is lower, which should allow for more retained earnings, which is supportive to growth, which should indirectly benefit future dividends.

In our view, the former strategy was too much focussed on growing as fast as possible to create as much impact as possible. Double-digit growth of the loan portfolio in every year but two in the period 2004-2022 (2016: 9%, 2022: 4%), required many equity issues to maintain balance sheet strength. As a result, EPS hardly grew, despite strong growth in net profit. Basically, Triodos was continuously rushing to impact society, therefore always thirsty for capital, thus creating little shareholder value. Although shareholder value may sound 'dirty' for a bank with a focus on sustainability, it is the DR holders that are financing it so they should not be neglected simply for the sake of impact.

We consider the new strategy much healthier. Moderate yet controllable growth should have substantial impact because of the high starting point, should be easier to manage so with a better risk profile, and should create more value since it will be funded through retained earnings rather than through dilutive equity issues. The current CET-1 ratio allows for plenty of years of internal growth, especially if the strategy of pricing loans at an ROE of >6% pushes the ROE beyond the target range.

Shaking the tree to become more efficient

Triodos has a strong track record of growing the loan portfolio, NII, and F&C, and we are confident that Triodos will be able to grow the top-line further. The track record on C/I ratio is less impressive, and too high a ratio is largely to blame for not generating healthier ROEs. As such, it is encouraging that management announced Triodos' first restructuring programme ever, no matter how unpleasant that must be for those affected.

Snippets from the press release of 17 May 2022:

- "While our mission to create positive impact remained unchanged, the financial landscape has changed and requires us to evolve with it.
- To remain a frontrunner in sustainable finance, we need to improve our cost-to-income ratio and return on equity. Adjusting our business and operating model by leveraging our scale across the various countries will enable us to achieve this."
- "The envisaged changes will facilitate better alignment of activities, deeper integration of processes and simplified governance across the group….. "

In our view:

- The financial landscape has indeed changed, due to a decade of decrease in interest rates, negative ECB deposit rates, and strongly growing costs for non-commercial activities (e.g. KYC, AML, DGS), all of which have pressured profits. The former two, however, have reversed.
- The C/I ratio must improve because too high a ratio translates into too low an ROE, and that: 1) results in retained earnings being too small to finance growth, 2) translates into a low valuation, which means that equity issues to finance growth are more dilutive, and 3) creates little value for DR holders.
- Leveraging scale across countries relates to the fact that the five countries used to operate like a federation, according to management, which resulted in duplicate costs. They intend to reshape Triodos into one bank. One example is the IT architecture. The five countries share the front end (website) and back end (data warehouse), but there are three core banking systems in the middle (one for Netherlands/Belgium/UK, one for Germany, and one for Spain). This will change to one system for all countries.
- Deeper integration relates to the fact that Operations, KYC & Financial Crime, and all other support functions will have clear and single group ownership due to integration of said functions. There will no longer be local ownership whereby everybody has to invent the wheel.

One restructuring effort of special interest is the digitalisation and downsizing of the Spanish network, on which we touched briefly on page 28. At the end of 2021, Triodos operated 19 full offices in Spain, of which >10 were closed in 2022, and the goal is to have 5 full offices in the larger cities by the end of 2023. We assume this to be Madrid and Barcelona, and three cities out of Valencia, Sevilla, Zaragoza, and Malaga. This shift is accompanied by a strong push in digitalisation, so that customers can interact with Triodos in a much more cost-efficient way than before, just like in the other countries. There will, however, also be new satellite offices opened in smaller cities so that customers can still interact face to face if needed. These satellites will be located in rented space in shared offices like e.g. Regus or WeWork. This new approach should significantly lower rental costs in Spain, next to lower employee costs, both of which are part of the targeted savings of between EUR 10-12m p/a as from 2024.

One simulation to rule them all

Throughout this report we highlighted that Triodos has been fighting an uphill battle due to gradually decreasing interest rates, negative rates on deposits held at the ECB, and continuously growing costs for non-operational items. The sheer magnitude of this battle becomes apparent when we simulate what 2022 profits would have looked like had the net interest margin developed differently, ceteris paribus (exhibit 72).

However, the tide has turned as interest rates have risen strongly and the ECB deposit rate turned positive. This allows for expansion of the net interest margin, as demonstrated by the H2-22 results. Hence, Triodos will be running up that hill as from now. The simulation suggests that the net interest margin only needs to recover to 2.5-2.6%, in combination with cost savings of EUR 11.5m, to reach the targeted C/I ratio of 70-75%. Reality will obviously be slightly different because the loan portfolio should grow further in the years to come (target CAGR 6%), while costs for compliance should also grow further.

In our view, the sheer size of the Triodos loan portfolio, in combination with more conscious pricing, a much healthier interest rate environment, and a stronger focus on cost efficiency, makes the target for the C/I ratio of 70-75% achievable in the mid-term. Reaching this target, notably the low end of the range, should drive strong growth in EPS, and thus in DPS.

Exhibit 72 Simulation 2022 results (EUR m)

	Reported		Simulation of 2022 results, based on net interest margins of the past and targeted cost savings											
	2022		**2011**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
NII	253													
F&C + Other	122													
Total income	375													
Loans avg.	10,394	→	10,394	10,394	10,394	10,394	10,394	10,394	10,394	10,394	10,394	10,394	10,394	10,394
Net interest margin	2.4%		3.5%	3.4%	3.4%	3.3%	3.2%	3.0%	2.6%	2.5%	2.4%	2.4%	2.3%	2.3%
Extra NII vs. reported			114	95	97	88	83	60	17	5	-5	-4	-16	-15
Total income	**375**		**489**	**471**	**472**	**463**	**458**	**435**	**393**	**380**	**370**	**371**	**360**	**360**
Operating costs	-300	→	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300
Cost savings			12	12	12	12	12	12	12	12	12	12	12	12
Operating costs new			-289	-289	-289	-289	-289	-289	-289	-289	-289	-289	-289	-289
C/I ratio	**80.0%**		**59.0%**	**61.3%**	**61.1%**	**62.3%**	**63.0%**	**66.3%**	**73.5%**	**75.9%**	**78.0%**	**77.8%**	**80.2%**	**80.1%**
PPP	75		200	182	184	174	170	147	104	92	82	83	71	72
LLP	-8	→	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8
PBT	67		192	174	176	166	161	139	96	84	74	74	63	64
Taxes	-17		-49	-45	-45	-43	-41	-36	-25	-21	-19	-19	-16	-16
Tax-rate	25.6%	→	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%
Net profit	**50**		**143**	**129**	**131**	**124**	**120**	**103**	**71**	**62**	**55**	**55**	**47**	**47**
Shares avg. (m)	14.3	→	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3
EPS (EUR)	**3.50**		**10.02**	**9.08**	**9.16**	**8.67**	**8.42**	**7.24**	**5.00**	**4.36**	**3.83**	**3.88**	**3.28**	**3.32**
Pay-out	51%	→	51%	51%	51%	51%	51%	51%	51%	51%	51%	51%	51%	51%
DPS (EUR)	1.80		5.15	4.67	4.71	4.46	4.33	3.72	2.57	2.24	1.97	2.00	1.69	1.71
Adjusted for exceptional costs in 2022 (Est.: EUR 19m gross, EUR 15m net)														
C/I ratio adjusted	74.9%		57.5%	59.7%	59.5%	60.7%	61.4%	64.6%	71.6%	73.9%	76.0%	75.8%	78.2%	78.0%
Net profit adjusted	64		157	144	145	138	135	118	86	77	69	70	61	62
EPS adjusted	**4.52**		**11.04**	**10.10**	**10.18**	**9.69**	**9.45**	**8.26**	**6.03**	**5.39**	**4.86**	**4.91**	**4.31**	**4.35**

Source: Triodos, Degroof Petercam

Chapter VI: Our Estimates

We expect further growth in top-line and profits

Our estimates reflect the strongly improved interest rate environment, which should reverse a decade of pressure on NII and cost efficiency. This reversal should only gradually filter through as it takes time before loans are rolled over at better rates, while the shift in ECB deposit rates from negative to positive will at some point have to be passed on to the savings accounts.

Our estimates for the P&L account (exhibit 73)

For the top-line, we assume: 1) growth in deposits of 5% p/a, 2) the loan/deposit ratio to remain unchanged, translating into 5% growth p/a in loans, which continues the moderate pace set in during 2022, 3) A NII/loans ratio of 2.7% in H1-23 (sequentially flat), a sequential decline of 10 bps to 2.6% in H2-23 as Triodos raised the interest rates on savings accounts per 1 March 2023, and a 5 bps improvement in both 2024 and 2025, and 4) Growth in F&C should improve vs. 4% in 2022, as stock markets have been in recovery mode after a sluggish performance in 2022.

We forecast a gradual improvement in cost efficiency as operating leverage from net interest margin expansion and efficiency gains from restructuring should outweigh general cost inflation and growth in regulatory costs. General cost inflation includes a.o. Dutch wage increases of 3.5% per 1 January 2023, 1% per 1 July 2023, and 4% per 1 January 2024, based on the CLA. For 2025, we expect an adjusted C/I ratio of 71.0%, which is at the low end of the target range of 70-75%. Our estimates include EUR 11m in exceptional costs for 2023 (EUR 5m MTF + EUR 6m legal) and EUR 6m p/a for legal costs in 2024 and 2025, as we have no visibility on when the proceedings between DR holders and Triodos may end.

For LLP we assume EUR 8m p/a, just like in 2022, related to macro-economic uncertainty.

We expect the tax rate to remain around 25%. We keep the number of DRs unchanged at 14.3m, as management intends to grow via retained earnings rather than through equity issues.

Bottom-line, this translates into adjusted EPS for 2023, 2024, and 2025 of respectively EUR 5.61, EUR 6.24, and EUR 6.73.

Our estimates for the cash flow statement (exhibit 74)

Cash flow (CF) from operations is generally volatile due to small swings in CF from business operations and large swings from time to time in CF from financial operations.

- For business operations, we use our estimates from the P&L for net profit, depreciation (excluding leases), amortisation, and LLP. We expect EUR 2.5m outflow from provisions in 2023 and 2024 re restructuring. We include lease payments, which Triodos reports in CF from investments, as we consider leases an operational item. Consequently, our CF from operations is circa EUR 3.5m lower than what Triodos reports.
- For financial operations, we use our assumptions for growth in deposits and loans. This translates into CF of between EUR 160-176 p/a, which compares to an average of EUR 144m p/a in the period 2019-2022 (low: EUR -203m, high: EUR 506m).

For CF from investments, we assume around EUR 20m p/a for capex and development costs combined. Capex is well below depreciation, following a large investment in the Netherlands several years ago, which is now in depreciation mode. Capitalisation of development costs structurally exceeds amortisation by a small amount, as is the case with many companies that capitalise software development costs. M&A has not been on the menu since 2008.

For CF from financing, we use a dividend pay-out ratio of 50%, no equity issues, no buybacks, and we do not include lease payments (which we moved to CF from operations).

Exhibit 73 P&L account (EUR m)

	2020	2021	2022	2023e	2024e	2025e
Deposits from customers (avg.)	**11,219**	**12,516**	**13,551**	**14,162**	**14,870**	**15,613**
y/y	11%	12%	8%	5%	5%	5%
Loans to customers (avg)	**8,672**	**9,662**	**10,394**	**10,885**	**11,429**	**12,001**
y/y	12%	11%	8%	5%	5%	5%
Loans/Deposits (avg.)	77%	77%	77%	77%	77%	77%
Net interest margin	**2.3%**	**2.3%**	**2.4%**	**2.6%**	**2.7%**	**2.7%**
NII	**198**	**221**	**253**	**284**	**304**	**325**
y/y	7%	12%	14%	12%	7%	7%
F&C	**106**	**116**	**121**	**128**	**135**	**141**
y/y	1%	9%	4%	6%	5%	5%
Other income	**1**	**4**	**1**	**2**	**2**	**2**
y/y	-1%	nm	-1%	187%	0%	0%
Total income	**305**	**342**	**375**	**414**	**440**	**468**
y/y	4%	12%	10%	10%	6%	6%
C/I ratio	**80.4%**	**80.5%**	**80.1%**	**75.1%**	**72.7%**	**72.3%**
Operating costs	245	275	300	311	320	339
PPP	**60**	**67**	**75**	**103**	**120**	**130**
%	19.6%	19.5%	19.9%	24.9%	27.3%	27.7%
LLP	-24	0	-8	-8	-8	-8
PBT	**35**	**67**	**66**	**95**	**112**	**122**
%	11.6%	19.6%	17.7%	23.0%	25.5%	26.0%
Taxes	-8	-16	-17	-24	-28	-30
Tax-rate	23.3%	24.4%	**25.8%**	**24.8%**	**25.0%**	**25.0%**
Net profit	**27**	**51**	**49**	**71**	**84**	**91**
Exceptionals in operating costs	-0	-2	-19	-11	-6	-6
C/I ratio adjusted	**80.3%**	**79.8%**	**75.0%**	**72.4%**	**71.3%**	**71.0%**
PPP adjusted	60	69	93	114	126	136
%	19.7%	20.2%	25.0%	27.6%	28.7%	29.0%
PBT adjusted	36	69	85	106	118	128
%	11.8%	20.3%	22.8%	25.6%	26.9%	27.2%
Net profit adjusted	**47**	**53**	**65**	**80**	**89**	**96**
EPS (EUR)	1.91	3.56	3.51	5.03	5.92	6.41
EPS adjusted (EUR)	**3.27**	**3.71**	**4.54**	**5.61**	**6.24**	**6.73**

Source: Triodos, Degroof Petercam

Exhibit 74 Cash flow statement (EUR m)

	2020	2021	2022	2023e	2024e	2025e
Net profit	27	51	50	71	84	91
Depreciation	10	9	8	6	6	6
Amortisation	11	12	14	16	17	18
Impairment	5	2	-0	0	0	0
Provisions	-3	2	2	-3	-3	0
Other	33	7	10	5	5	5
CF from business operations	**83**	**83**	**84**	**95**	**109**	**119**
CF from financial operations	562	1,039	-1,694	160	168	176
CF from operations	**645**	**1,122**	**-1,610**	**255**	**277**	**295**
CAPEX	-3	-2	-3	-2	-2	-2
Intangibles	-15	-14	-17	-17	-18	-19
Acquisitions	0	0	0	0	0	0
Divestments	1	2	7	0	0	0
Financial items	-12	-5	-0	0	0	0
CF from investments	**-29**	**-20**	**-13**	**-19**	**-20**	**-21**
Change in equity	5	0	0	0	0	0
Change in minorities	0	0	0	0	0	0
Dividends	0	-9	-45	-30	-36	-42
Share buy back	-20	-1	0	0	0	0
Other	6	248	12	0	0	0
CF from financing	**-9**	**238**	**-33**	**-30**	**-36**	**-42**
Net change in cash	**607**	**1,340**	**-1,655**	**206**	**221**	**232**

Source: Triodos, Degroof Petercam

Our estimates for the balance sheet (exhibit 75)

We split the assets side in two, mimicking the balance sheet of an industrial company. Fixed assets support the operations (except for investments), while financial assets generate income.

- **Fixed assets**: tangibles, intangibles, right-of-use-assets (RouA), participations, deferred tax assets.
  - There is no goodwill. We expect intangibles to increase modestly because capitalisation of development costs generally exceeds amortisation.
  - We expect tangibles to decrease because the asset base is relatively young: book value/cost price 66% at year-end 2022 (property 88%, equipment 34%).
  - We assume RouA, tax assets, and financial assets to remain flattish over time.
- **Financial assets**: cash and cash equivalents, loans to banks, loans to customers, debt securities at amortised costs, derivatives, current tax assets, assets for sale.
  - We assume 5% growth in loans to customers, as highlighted in the P&L section.
  - We keep loans to banks and debt securities unchanged.
  - The cash item grows through the net change in cash from the CF statement.
- **Liabilities**: they follow our assumptions from the assets side. We assume 5% growth in deposits, as highlighted in the P&L section. We keep deposits from banks unchanged. Debt issued relates mainly to a green bond issued in 2021, and which runs until 2032.

We assume RWA to grow by 4.5% p/a. This implies that the leverage and CET-1 ratios will decrease slightly vs. year-end 2022, as intended by management, to levels that remain ahead of the minimum requirements, and above the CET-1 target of >15%.

Exhibit 75 Balance sheet (EUR m)

	2020	2021	2022	2023e	2024e	2025e
Intangible FA	46	48	51	52	53	54
Tangible FA	101	95	89	85	82	78
Investments	42	48	52	52	52	52
RouA	19	17	13	13	13	13
Other	15	14	13	13	13	13
Fixed assets	**224**	**221**	**219**	**216**	**214**	**211**
Cash	2,956	4,278	2,581	2,787	3,008	3,240
Loans to banks	151	266	332	332	332	332
Loans to customers	9,157	10,168	10,620	11,151	11,708	12,294
Debt securities	1,317	1,483	1,690	1,690	1,690	1,690
Other	65	76	353	353	353	353
Assets for sale	19	13	6	6	6	6
Financial assets	**13,665**	**16,283**	**15,582**	**16,318**	**17,097**	**17,914**
Deposits from banks	815	1,608	337	337	337	337
Deposits from customers	11,747	13,285	13,816	14,507	15,233	15,994
Debt issued	6	256	260	260	260	260
Other	111	105	128	125	123	123
Liabilities	**12,680**	**15,254**	**14,541**	**15,229**	**15,952**	**16,714**
Equity	**1,208**	**1,250**	**1,259**	**1,305**	**1,358**	**1,412**
Balance sheet total	**13,888**	**16,504**	**15,800**	**16,535**	**17,310**	**18,126**
Leverage ratio	8.8%	8.1%	6.9%	6.8%	6.7%	6.6%
CET-1 ratio	18.7%	17.5%	17.3%	16.7%	16.5%	16.4%
ROE adjusted	3.9%	4.3%	5.1%	6.2%	6.7%	6.9%

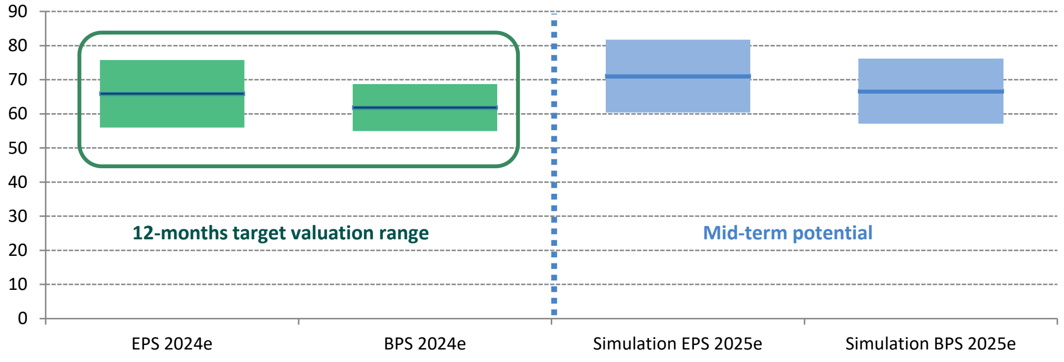
Source: Triodos, Degroof Petercam

Chapter VII: Valuation

We set our target valuation range at EUR 55-76

Our valuation methodology is based on peer group-derived target multiples set against our estimates for 2024: 1) a P/E ratio of 10.6x with a premium/discount range of 15%, and 2) a P/B ratio of 1.0x adjusted for differences in ROE. This points to a 12-months target valuation range of EUR 55-76. Mid-term, there could be more upside as it takes time before a considerable share of the loan portfolio is rolled over at more attractive net interest margins.

Exhibit 76 Target valuation range (EUR)



Source: Bloomberg, Peer Group, Triodos, Degroof Petercam

Should Triodos be trading at a premium or a discount vs. the peer group?

We can think of several reasons why Triodos should be trading at a premium, a discount, or on par vs. the peer group of Benelux banks (ABN, ING, KBC). However, there is no historical reference to support a particular choice, let alone the magnitude, because in the past trading happened at NAV per DR. This was very different from trading based on supply and demand whereby investors weigh fundamentals like e.g. growth, C/I ratio, ROE, equity issues vs. buybacks, competitive position, track record, and/or legal claims.

Below are several reasons (in no particular order) for a discount/premium vs. the peer group:

Reasons for a premium

- Industry-leading ESG profile of the operations
- No history of market or customer abuse/huge fines/bailout
- No exposure to countries that are ‘evil’ or that facilitate tax-dodging
- Solid track record on credit losses vs. peers
- Stronger balance sheet ratios vs. peers

Reasons for a discount

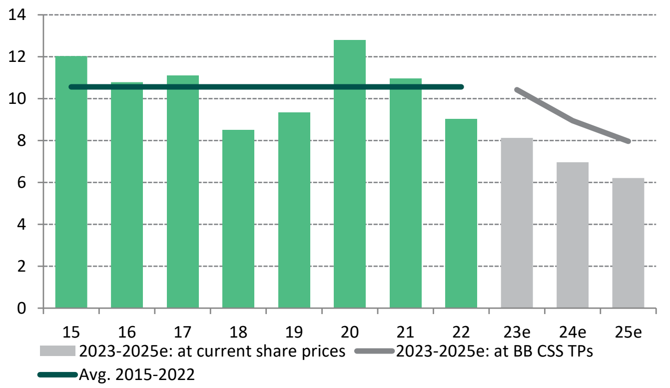
- Track record of above-average C/I ratio and below average ROE
- Small size is generally punished with a discount (small cap effect)
- No voting rights for certificates (although this is about to change for the better)
- Liquidity of DRs at the MTF is probably limited
- Legal dispute with a group of DR holders

Valuation on P/E multiples points to a target valuation range of EUR 56-76

The P/E multiple of the peer group was on average 10.6x in the period 2015-2022 (exhibit 77). There was no general re-rating from decreasing interest rates, or de-rating amidst rising interest rates, like happened with industrial companies. Whenever the multiple was above or below the average, it reversed. The 2022 multiple appears low, which is partly because Q4-22 earnings of all companies in the peer group were stronger than expected. Bloomberg consensus (CSS) target prices, CSS EPS estimates, and share prices of 23 March 2023 combined, point to a target multiple of 10.4x for 2023, which is broadly in line with the long-term average.

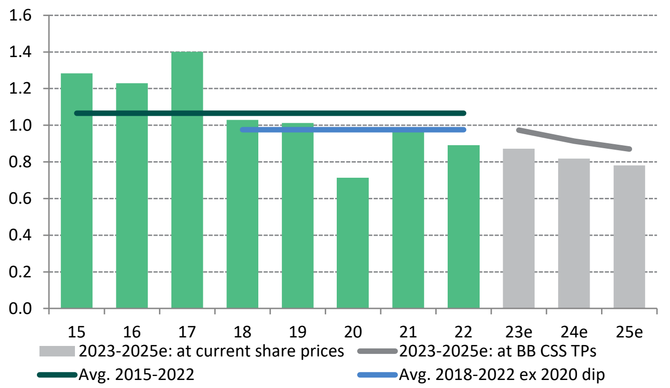
A target P/E multiple of 10.6x and our estimate for adjusted EPS in 2024 of EUR 6.24 points to a 12-months target value of EUR 66 (rounded, also elsewhere). A premium/discount range of 15% vs. the peer group leads to a target valuation range of EUR 56-76.

Exhibit 77 P/E multiples peer group (x)



Source: Bloomberg, Peer Group Companies, Degroof Petercam

Exhibit 78 P/B multiples peer group (x)

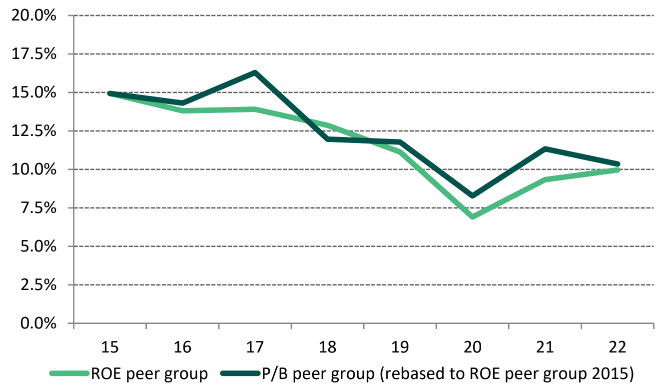


Source: Bloomberg, Peer Group Companies, Degroof Petercam

Valuation on P/B multiples points to a target valuation range of EUR 55-69

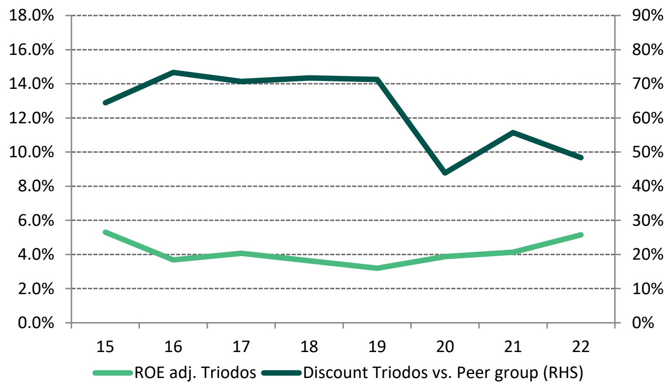
The P/B multiple of the peer group trended down without reversing, except for a recovery from the 2020 dip (exhibit 78). This mimics the ROE of the peer group (exhibit 79). Therefore, we use a target multiple of 0.98x as a starting point (rounded to 1.0x), being the average of the years 2018-2022 excluding the 2020 dip. CSS target prices and book value per share (BPS) estimates point to a target multiple of 0.97x for 2023, which is almost identical. From there we use a rounded discount range of 25-40% to reflect Triodos' adjusted ROE of 5.1% in 2022 and the 6.7% that we forecast for 2024, compared to the peer group average of 8.7% in 2020-2022 (exhibit 80). This points to target P/B range of 0.6-0.7x. This range set against our BPS estimate for 2024 of EUR 94 points to a 12-months target range of EUR 55-69, with a EUR 62 midpoint.

Exhibit 79 ROE peer group (%) and P/B rebased to ROE (%)



Source: Bloomberg, Peer Group Companies, Degroof Petercam

Exhibit 80 ROE adj. Triodos and discount to peer group (%)



Source: Peer Group Companies, Degroof Petercam

Mid-term, there is more upside potential

Our 12-months target valuation range is based on our 2024 estimates, because in 12 months from now the 2023 profits will be in the bag, and the focus should have shifted to 2024. The year 2024, however, is too early for most loans to have rolled over at more attractive net interest margins. Hence, we did a simulation based on our EPS and BPS estimates for 2025.

- For EPS 2025, we use the same target P/E and the same premium/discount range.

  Target valuation range EUR 60-82, with a midpoint of EUR 71

- For BPS 2025, we use the same target P/B, yet a rounded discount range of 20-40% (instead of 25-40%) to reflect Triodos' adjusted ROE of 5.1% in 2022 and the 6.9% that we forecast for 2025 vs. the peer group average of 8.7% in 2020-2022.

  Target valuation range EUR 57-76, with a midpoint of EUR 67

Simulations on the net interest margin and the C/I ratio

In view of the importance of external drivers like e.g. interest rates and regulatory costs, we did four simulations on valuation, based on our scenario for EPS in 2024:

- We simulated a C/I ratio of 75.0% and 70.0%, instead of the 72.7% in our model.
- We simulated a 10 bps higher/lower net interest margin than the 2.7% in our model.

Our simulation shows the huge impact from small changes in net interest margin (just like happened in H2-22), whereas the impact from a change in cost efficiency is much smaller. Nevertheless, it is too early to start dreaming of target values based on the simulation in exhibit 72, which showed an adjusted EPS of EUR 11.02 based on the 2011 net interest margin of 3.5%. That EPS and our target P/E multiple of 10.6x would translate into a target value of EUR 117 and a DPS of EUR 5.51. At the time, the loan portfolio was 'only' EUR 2.8bn and competition in sustainable finance must have been moderate. Today, the loan portfolio is much bigger which could suggest there is less potential for cherry picking, while competition is on the rise in sustainable finance which may prevent a return to net interest margins of the past.

Exhibit 81 Simulation target valuation (EUR m)

	2024e	Simulation 1	Simulation 2	Simulation 3	Simulation 4	Delta	Delta
Loans avg.	11,429	11,429	11,429	11,429	11,429		
Net interest margin	**2.7%**	**2.7%**	**2.7%**	**2.6%**	**2.8%**		**0.1%**
NII	304	304	304	292	315		
F&C	135	135	135	135	135		
Other	2	2	2	2	2		
Total income	**440**	**440**	**440**	**429**	**452**		
C/I ratio	**72.7%**	**75.0%**	**70.0%**	**72.7%**	**72.7%**	**1.0%**	
Operating costs	-320	-330	-308	-312	-328		
PPP	120	110	132	117	123		
LLP	-8	-8	-8	-8	-8		
PBT	112	102	124	109	115		
Taxes	-28	-26	-31	-27	-29		
Tax-rate	25.0%	25.0%	25.0%	25.0%	25.0%		
Net profit	**84**	**77**	**93**	**82**	**87**		
C/I ratio adjusted	71.3%	73.6%	68.6%	71.3%	71.4%		
Exceptional costs (gross)	-6	-6	-6	-6	-6		
Exceptional costs (net)	-5	-5	-5	-5	-5		
Net profit adjusted	**89**	**81**	**98**	**86**	**91**		
EPS adjusted	**6.24**	**5.70**	**6.86**	**6.07**	**6.40**	**0.23**	**0.60**
Target multiple P/E (x)	10.6	10.6	10.6	10.6	10.6	10.6	10.6
Target valuation (EUR)	**66**	**60**	**72**	**64**	**68**	**2**	**6**
15% discount (EUR)	56	51	62	55	57	2	5
15% premium (EUR)	76	69	83	74	78	3	7

Source: Triodos, Degroof Petercam

The impact (if any) from the dispute with DR holders cannot yet be quantified

As highlighted previously, Triodos is involved in legal disputes with a group of DR holders (SCTB) and with individual DR holders. At present, it is impossible to assess how long this will last, what the outcome will be, and whether there will be financial consequences.

As a rule of thumb, if there would be financial damage of any sort, our target valuation would be negatively impacted by EUR 1 per DR for every EUR 14.2m in damage. This assumes that a potential cash outflow (if any) would have no material impact on the company's balance sheet ratios, so that the credit rating would not be affected.

We expect the current turmoil in the banking sector to have no meaningful impact on Triodos' income and profits

The recent mishaps at Silicon Valley Bank (SVB) and Credit Suisse (CS) have shaken the banking industry. Risk is on the rise, which has resulted in share price declines across the board, including the share prices of the banks in our Benelux peer group. The MSCI Europe Banks Index (Bloomberg ticker MXEU0BK) peaked on 28 February with a performance of +21% YTD, after which it fell to +5.1% YTD by 31 March.

In the past, during periods of considerable economic turmoil (financial crisis, covid-19 pandemic), Triodos grew top-line and PPP, almost as if there was no cloud in the sky. Based on the company's strong track record and risk-averse strategy, we are confident that they will be able to withstand the current period of uncertainty. Factors of resilience include a.o.:

- A highly diversified deposit base across five countries
- Funds entrusted are invested in the real economy, not into financial products
- Interest exposure is hedged on an ongoing basis
- The loan mix has gradually shifted towards lower-risk mortgages
- Healthy balance sheet ratios

Chapter VIII: ESG Analysis

Embedding impact in everything they do

Triodos has always been a pioneer in shaping sustainable finance with early commitment and outstanding reporting efforts. The bank stands out vs. peers by putting impact at the heart of everything they do. We acknowledge that competition has made significant progress over the past few years, progressively catching up on reporting while also setting up a responsible investment offering. Nevertheless, Triodos differentiates by committing to delivering positive impact and it goes a step further by innovating in embedding sustainability in different financial products. Although governance has up to now been tarnishing the picture in our view, the recent decision to transfer the trading of DRs to a multilateral trading facility with the possibility for DR holders to recover voting rights, is likely to improve the situation.

Sector analysis – ESG trends for 2023 and beyond

Looking at the trends that will shape sustainable banking in 2023 and beyond, Triodos is already positioned on most of them, and often already for several years. In the sections below we will go through these five main trends:

Net-zero reached the agenda, but it is still far away

According to a study conducted by investment research firm Morningstar in July 2022, only four out of the 43 asset managers that joined the Net Zero Asset Managers Initiative in the last 12 months committed 100% of their assets to net-zero, thus highlighting the challenge it represents for the industry. Vanguard Group - the world's second largest asset manager - came last with 4% net-zero assets under management. On the other hand, one could argue that smaller institutions benefit from greater agility to make the shift, compared to bigger structures for which it is likely to take longer.

A survey conducted by Accenture found that 60% of the world's leading banks have committed to net zero. In the EU banking industry, net-zero targets are most of the time limited to corporate performance. Among the peers we selected (KBC Group, ING Group, ABN AMRO), KBC and ING reached carbon neutrality at corporate level with offset (share of offset emissions not disclosed). ABN AMRO commits to achieve carbon neutrality across their own operations by 2030 with max 5% offset. ING targets the most carbon-intensive parts of its portfolio to reach net zero by 2050. Intermediate 2030 targets have been set for these nine sectors, eight of which are aligned with a net-zero scenario. ABN AMRO has set 2030 intermediate carbon reduction targets for several portfolios and for their own operations, and it has a roadmap for further target setting. They will also start implementing climate-related ambitions in Discretionary Portfolio Management. Triodos is the first EU bank to strive for net zero across both its loan and investment portfolio by 2035, which is an ambitious target.

The journey to net-zero will certainly take time as it entails to reinvent business models, adapt culture, and most importantly find the right balance between risk and impact. Finding that balance is a new exercise that will constitute a challenge for many institutions which are facing increasing demand from stakeholders and regulators. Triodos stands out in that regard as this is an exercise that they have been working on already for years.

The increasing risk of sustainability inaction

Banks acting proactively by embedding ESG in their operations are foreseen to better align with increasing internal and external stakeholders' expectations.

Climate urgency and social challenges exacerbated during the pandemic have contributed to shifting expectations of stakeholders, who are increasingly asking for sustainability to be put at the agenda. Banks are not only expected to become net-zero but also to help their customers to transition.

Retail investors, especially among Gen Z and Millennials, are increasingly looking for data and tools to make better informed investment decisions and combine their financial- and non-financial objectives. Hence, customers are more and more asking for impact reports supplementing traditional financial performance data. This represents a challenge as we lack standard impact measurement methodologies. Triodos asset management has developed a proprietary impact assessment methodology and publishes annual impact reports.

Beyond customers, sustainability is becoming increasingly relevant for attracting talent. The workforce has become more demanding and is increasingly valuing employers integrating ESG considerations within their business. A study conducted by CNBC and Randstad showed that only 10% of Gen Z and Millennials are interested in a career in financial services, questioning banks' cultures and further making the case for change.

Regulations are becoming more stringent

The EU has set up a target to become carbon neutral by 2050. While 2050 may seem far away, it is not when compared to the lifecycle of a building or an industrial asset. Hence, companies must act now. Regulations supporting this ambitious objective are foreseen to multiply. Increasing disclosure requirements will force banks to ensure compliance with global standards to remain competitive. Banks will be impacted by various regulations, including SFDR, Taxonomy alignment, GAR and GIR ratio requirements, pillar 3, and CSRD.

The impact of climate change is becoming evident. Financial regulators are assessing whether this could contribute to systematic risk. Hence, it is reasonable to assume that the consideration of potential climate-related risks will become more and more material.

Transparency will become key as greenwashing comes under heavy scrutiny

In recent years, pressure on the financial sector intensified to back up environmental efforts claims with real actions. In 2022, investigations into the ESG claims of DWS - Deutsche Bank's asset management branch - by the US authorities, and the severity of the sanctions including reputational damage, have emphasized the importance of setting up a sound ESG strategy banking on transparency. While we have clearly seen reporting efforts ramping up over the past years, we have so far only seen a few EU banks taking strong commitment to back up their claims. Some banks like HSBC (the largest EU bank), ING, or La Banque Postale have committed to no longer finance new fossil fuel projects.

We believe that Triodos clearly stands out in this regard by being one of the first banks to be committed to use finance as a force for good. Triodos is shaping the future of sustainable banking while positioning itself as a leader in this field.

Innovation in sustainable finance products

As green bonds are becoming a core and stable part of financial markets with the Green Bond Principles celebrating their 10-year anniversary in 2024, the evolution of stakeholders' expectations and the momentum around "transition finance" will call for innovation and the creation of new products for banks to remain relevant. Triodos was also a pioneer on this front with the launch of sustainability-linked products such as green- or bio-based mortgages.

Sustainability-linked loans for example, providing for reduced margin of revolving facility in case of achieved sustainability performance targets, will become increasingly relevant as companies progress on their carbon reduction strategies and seek instruments reflecting their commitment.

ESG risks vs. impact

While ESG integration is still often mainly about ESG risks mitigation, we see an evolution towards impact. This shift is illustrated by the emergence of regulations such as the EU Taxonomy or the CSRD. They provide for the consideration of the impact a company has on its environment, rather than solely the ESG risks that could affect its financial performance. Impact measurement is still challenging with few measurement standards currently available. Banks which will develop a clear vision on how they plan to play a positive role in the transition are foreseen to stand out in the future. As impact measurement will become the norm, we believe that companies such as Triodos, which have already been taking that dimension into account for many years, will beneficiate from a competitive advantage.

Likewise, going forward, we expect differentiation to occur at social level. The pandemic shed light on the social side of corporate behaviour. Today, focus is leaning towards environmental aspects as those are more tangible and easier to objectivize than social aspects. We believe that going forward, environmental compliance will become the norm with social initiatives and considerations becoming strong levers of differentiation. Players like Triodos, already acting on the social dimension, are foreseen to benefit from a competitive advantage.

Financing the change-to-change finance

While the growing ESG momentum leads many corporations - including banks - to embed ESG considerations in their activities, Triodos goes a step further by setting positive social impact as an objective. Its Articles of Association state that Triodos aims to contribute to social renewal through its banking activities. The group has always been a frontrunner in sustainable finance with a history of more than 40 years of aiming for impact. As a pioneer in impact banking, Triodos aims to set the example and lead the financial system towards more conscious allocation of customer savings. Triodos is a founding member of the GABV, an independent association gathering banking institutions whose aim is to use finance as a force for good. In Europe, Triodos is the largest GABV member by outstanding loans with EUR 10bn in loans at the end of 2022.

Triodos’ impact strategy is built around five transition themes: resource transition, food transition, energy transition, societal transition, and wellbeing transition. Energy and societal transitions account for the majority of Triodos’ exposure.

Impact is embedded throughout the different branches of the Bank’s activities. In 2022, 77% of Triodos’ assets were not only focused on economic benefits, but also on positive social and environmental benefits (i.e. triple bottom line assets). 77% of assets were committed to the real economy and 93% of income was derived from the real economy.

Triodos has been a pioneer on several fronts including the introduction of green (2012) and bio-based (2022) mortgages. Green mortgages are meant to foster the development of more energy-efficient homes by granting lower interest rates for houses with better energy labels. Likewise, interest free loans (max EUR 25k) are offered for energy saving measures. The majority of the mortgage loan portfolio (56%) consists of (high credit worthy) Energy A-labels, and the average LTV is 55%. Bio-based mortgages aim to promote plant-based and circular materials.

Both positive and negative impact is considered throughout Triodos’ investment process and balanced with financial considerations. First, the contribution to the transition themes is assessed. Then, adverse environmental and social impacts of clients/investees is considered, alongside sustainability risks. Finally, the ability of Triodos to contribute to accelerate the transition is evaluated.

ESG performance

Triodos reports elaborately on its non-financial performance. The bank also reports against a series of reporting standards such as the Global Reporting Initiative, International Integrated Reporting Council, the Partnership for Carbon Accounting Financials, the Global Alliance for Banking on Values and B Corps. Triodos reports against the SDGs notably via a mapping exercise which can be found in its annual report. Furthermore, the bank already assessed its alignment with the EU Taxonomy.

Triodos is certified B-Corp since April 2015. This label differentiates from other ESG rating by focusing on impact rather than on ESG risks mitigation.

1) Environmental dimension

Financed emissions

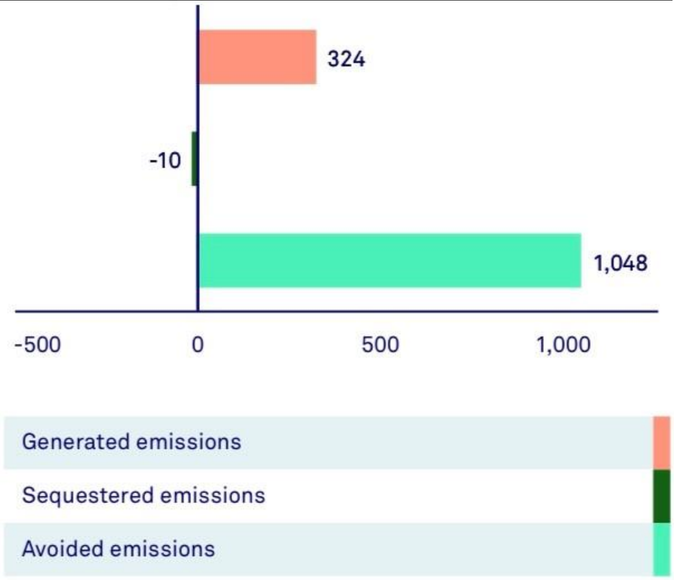
Triodos is the first EU bank to strive for net zero across both its loan and investment portfolios (i.e. financed emissions) by 2035. These targets, that cover 43% of the bank's total investment and lending by total assets under management as of 2020, have been validated by the SBTI on March 10, 2023. An overview of Triodos' scope 3 asset class level targets is provided below:

- Electricity generation project finance (Sector Decarbonization Approach (SDA) method): Triodos Bank commits to continue only financing renewable electricity projects through 2030.
- Commercial real estate (SDA method): Triodos Bank commits to reduce its scope 3 GHG emissions from commercial real estate within its private debt and equity portfolio 70% per square meter by 2035 vs. base year 2020.
- Corporate loans (portfolio coverage method): Triodos Bank commits to 27% of all other corporate lending, by gross carrying amount, setting SBTi validated targets by 2025, and 82% by 2035.
- Listed equity, private equity, and corporate bonds (SDA + portfolio coverage method):
    - Triodos Bank commits to reduce its scope 3 GHG emissions from the pulp & paper sector within its listed equity and corporate bond portfolio 45% per ton paper and board produced by 2035 vs. base year 2020.
    - Triodos Bank commits to reduce its scope 3 GHG emissions from the transport - vehicle manufacturing (PLDV) sector within its listed equity and corporate bond portfolio 44% per vehicle km by 2035 vs. base year 2020.
    - For all other sectors, Triodos Bank commits to 51% of its listed equity, private equity and corporate bond portfolio by net asset value setting SBTi validated targets by 2025, and 82% by 2035.

Triodos identified high-emissions sectors that will need support to transition towards a climate-neutral portfolio. The banks reports against the Partnership for Carbon Accounting Financials (PCAF) standards since 2018 and reports on the carbon footprint of 100% of its loans and funds' investments since 2019. PCAF is a collaboration between Dutch financial institutions which has evolved into the Global GHG Accounting and Reporting Standard for the Financial Industry. As one could expect, obtaining data is sometimes a challenge. Triodos built a data quality scale ranging from 1 (certain: 5-10% error margin) to 5 (40-50% error margin). In 2022, the overall data quality reached 3.2. The detailed climate impact of Triodos' loans and funds' investments is available in the company's annual report.

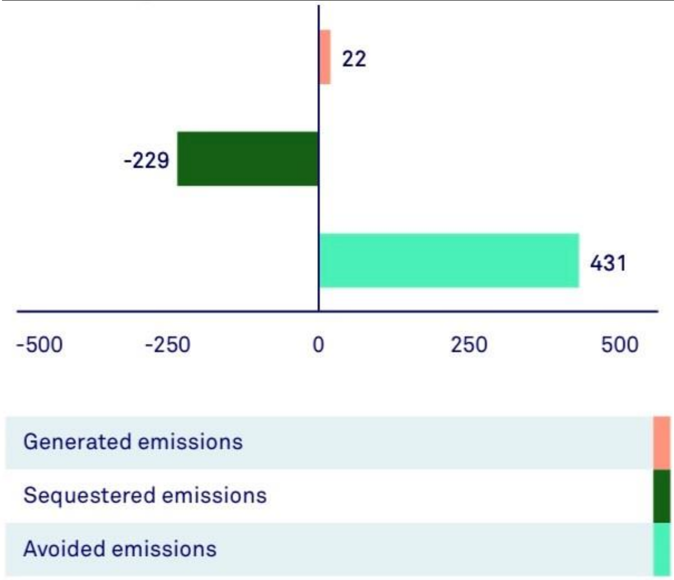
In 2022, we saw a decline in emissions generated by loans and investments (324 kt CO2e in 2022 vs. 379 kt CO2e in 2021). The latter was mainly linked to lower investment volumes in the Impact Equities and Bonds funds. The sector “environmental - other” is associated with the highest level of emissions intensity (i.e. 115 kt CO2e/EUR bn) which can be explained by the lack of good emissions factors for recycling companies and other technology projects. Triodos expects these emissions to decline as they collect more data from these projects.

Exhibit 82 **Portfolio emissions (kt CO2e)**



Source: Triodos, Degroof Petercam

Exhibit 83 **GHG emissions intensity per EUR bn lend/invested**



Source: Triodos, Degroof Petercam

Taxonomy alignment

Triodos Bank currently reports on Taxonomy-eligibility. Taxonomy-alignment reporting will only be required as of reporting year 2023. As a credit institution, Triodos needs to report the proportion of its credit assets that are Taxonomy-aligned relative to its total covered assets (i.e. green asset ratio (GAR)). The Bank relies on client information to determine GAR. Considering that the Taxonomy currently only covers two out of the six environmental objectives, most of Triodos’ sustainable lending portfolio fall outside of the Taxonomy’s scope. Sectors such as healthcare, education, or arts and culture are currently out of scope. In addition, SMEs - which Triodos has a high exposure to - are currently excluded from the Taxonomy mandatory reporting, limiting the data available to calculate the GAR. SMEs represent 33.8% of Triodos’ total assets. In total, 39.6% of Triodos Bank’s covered assets are Taxonomy-eligible, and 26% of total assets are excluded from GAR calculation.

Corporate emissions

At corporate level, Triodos commits to reduce absolute scope 1 and 2 GHG emissions by 63% by 2035 (vs. the 2020 baseline) and to increase annual sourcing of renewable electricity from 98.6% in 2020 to 100% by 2030. Triodos Bank commits to reduce absolute scope 3 categories 1-14 GHG emissions (i.e. excluding financed emissions mentioned above) by 63% by 2035 (vs. the 2020 baseline). These targets have also been validated by the SBTI on March 10, 2023.

Exhibit 84 GHG emissions of loans and investments per sector in 2022

Emission type / Transition theme	Impact sector	Gross amount (million EUR)[1]	Attributed emissions (ktonne CO2e)	Emission intensity (ktonne CO2e / billion EUR)	Data quality score high quality = 1 low quality = 5
Generated emissions					
Food	Organic farming	309	9	30	2.8
	Organic food	157	8	49	4.4
Resources	Sustainable property	1,084	26	24	3.0
	Residential mortgages	4,450	21	5	3.2
	Resources - other	135	5	38	4.6
Energy	Environmental - other	206	24	115	5.0
Society	Social housing	590	21	35	3.9
	Society other and municipalities	233	7	32	4.9
	Inclusive finance and development	946	12	13	5.0
Wellbeing	Care for the elderly	742	14	19	3.3
	Healthcare - other	471	11	24	4.8
	Education	321	9	28	4.0
	Arts and culture	523	18	35	4.3
	Wellbeing- other	278	9	31	4.9
IEB funds	Corporate equities and bonds	2,180	112	51	2.0
	(Sub-)Sovereign bonds	449	10	22	3.8
Other	Other loans and investments	1,872	8	4	4.4
		14,946	**324**	**22**	**3.5**
Sequestered emissions					
Resources	Nature development and Forestry	45	-10	-229	3.0
Net emissions		**14,991**	**314**	**21**	**3.5**
Avoided emissions					
Energy	Renewable energy	2,429	1,048	431	1.5
	Total[2]	**17,420**			**3.2**

Source: Triodos, Degroof Petercam

The group's CO2 emissions increased by 30% y/y to 0.74t CO2/FTE in 2022 after decreasing for the second year in a row in 2021 (-27%). Part of the increase in 2022 is obviously linked to the return to normal activity post Covid, resulting in normalisation of commuting and business travel. Nevertheless, new ways of working, with employees working from home on average 50% of total working days in 2022 (down from 76% in 2021), have resulted in emissions in 2022 to be 55% lower than before covid. Management indicated that they do not expect emissions to return to pre-covid levels. The bulk of Triodos' emissions is linked to employee mobility. While these emissions used to make up >90% of the group's total carbon footprint, in 2022 this proportion went down to 76%.

There is currently no international methodology to measure the impact of working from home. However, Triodos sees it as an opportunity to engage with employees on domestic energy systems. The bank offsets any unavoidable emissions through Gold Standards projects. Triodos aims for the Dutch headquarter (located in De Reehorst) to become energy neutral. In addition, it is the first office building in the world to have a 100% circularity potential.

Electricity consumption per FTE decreased by 22% in 2022 y/y. A reduction of 17% was achieved in gas consumption per FTE. Both were supported by working from home, with lower office occupancy than before the covid pandemic, and downsizing of office space.

Progress made towards key 2022 environmental objectives are summarized in the exhibit below.

Exhibit 85 **Progress towards key 2022 environmental objectives**

Our key objectives for 2022	How we did	Progress at a glance
Sustainable mobility: Formulate and introduce an updated international travel policy, with sustainability as an important starting point	We introduced a new, Group-wide International Travel policy, with travel safety and sustainability as keystones. Regarding sustainability, we introduced guiding principles, like trains being the default when travelling less than 700 kilometres and, in case of flying, direct flight in economy class being the default.	●●●
Working with sustainable suppliers: Step up awareness-building activities and investigate tools to assist Triodos co-workers in assessing the impact position of their vendors, where possible extending their total impact	Over the past year, we have further developed our maturity level in our team and the skills within the team to be able to better support our business in assessing the sustainability impact of our suppliers. We have also started working on creating a Supplier Code of Conduct, which will help our organisation to stimulate our suppliers even more to work on improving their sustainability. We have also been working on selecting a new data vendor to help us assess the impact position on vendors, to help those vendors become even more sustainable.	●○○
Circular business operations: Develop an inventory of the possibilities for a circular approach to ICT resources in the Netherlands	A group of students has investigated the possibilities for a more circular approach of our ICT resources in the Netherlands, focusing on the use phase and the disposal phase. The conclusion was that we are already doing quite well. The most concrete finding was a recommendation for cooperation with an organisation that works with waste compensation. We will follow up on that recommendation in 2023.	●●●

Source: Triodos, Degroof Petercam

Outlook 2023

- Sustainable business operations: Triodos plans to build a roadmap for the reduction of its scope 1 and 2 CO2e emissions (i.e. linked to housing and car fleet).
- Waste management: Triodos aims to improve data quality of the waste generated in the operations.
- Sustainable procurement: Triodos will set the first steps in assessing the impact position of its most critical suppliers, and the next steps in the implementation of its Supplier Code of Conduct.

2) Social dimension

Based on a survey conducted among employees in 2021, Triodos built an equity, diversity, and inclusion (EDI) plan called "From Green to Colourful" that was rolled out in 2022. This aims to create awareness, address unconscious bias, and create an environment that favours dialogue and self-driven initiatives. Currently, 50% of employees are women. This is in line with the requirements provided by the Gender Balance Act. Triodos has set up gender diversity targets at the supervisory board, executive board, and senior leadership levels (exhibit 86).

Exhibit 86 Gender diversity targets

Targets Gender balance Triodos Bank (m/f)

	2023	2024	2025	2026
Supervisory Board	At least 33% under represented gender	At least 33% under represented gender	At least 33% under represented gender	50/50
Executive Board	80/20	80/20	At least 33% under represented gender	At least 33% under represented gender
Senior Leadership	60/40	To be determined*	To be determined*	To be determined[1]

Source: Triodos, Degroof Petercam

An in-depth gender pay gap and gender pay bias analysis was conducted in 2022 in collaboration with AnalitiQs, to align with EBA guidelines published in 2021. The outcome leads to the conclusion that an overall correction is not needed. In the UK, the bank has already been reporting on gender pay gap for some years, following reporting guidelines, and it built an action plan to reduce the pay gap.

Physical and mental support is provided to employees in a variety of domains with the aim to improve wellbeing (e.g. professional mental support, childcare support, home office equipment, etc.). 2021 shed light on the benefits hybrid working brings to work-life balance. 2022 marks the first-year new ways of working was not influence by government measures.

The company promotes continuous dialogue between managers and team members. The so-called FLOW-Dialogues now replace traditional one-off mid-year and year-end meetings. In the beginning of 2022, Triodos launched a continuous listening platform to collect feedback from its staff. The annual employee engagement survey has been complemented by two shorter pulse surveys to follow-up on key areas.

Triodos strives to improve overall efficiency by fostering better integration between the departments. The bank has been working for three years on improving efficacy with multidisciplinary teams tackling areas such as digitalization, regulatory demands, data, and reporting. In May 2022, in line with its "One Bank" mission, Triodos announced the launch of a new Triodos Operating Model (TOM) meant to improve overall efficiency by avoiding tasks and duplication of responsibilities.

Triodos also strives to engage with its suppliers. The procurement policy sets business principles and minimum standards that suppliers have to comply with. The company commits to reinforce the monitoring of suppliers in the coming years. In 2023, Triodos will look for tools to assist employees in assessing suppliers' impact.

An overview of the progress made towards key 2022 social objectives can be found in the annual report 2022, starting at page 88.

Outlook 2023

- Continue to work on TOM project
- Complete the implementation of new designs for the functional domains KYC, Risk and IT, and commence design and implementation in all other functional areas.
- Further implement a differentiated talent management framework.
- Continue the EDI journey through and roll out the roadmap for 2023 including an EDI governance structure. A new group ED&I policy will be drafted, and a transformational EDI change programme will be defined and implemented.
- Make the necessary preparations to improve the HR information system and develop a more data-driven and fact-based approach by improving the reliability, usability, and accessibility of HR data.
- Focus on the ongoing development of the FLOW dialogue methodology.
- Strengthen talent acquisition capabilities through further development of employer brand and recruitment process.
- Extend the roll-out of the LEAN way of working to other parts of Triodos Bank.

3) Governance dimension

The board includes three female and two male directors, all of which are independent.

Sustainability is embedded at all levels throughout the organization. Therefore, Triodos does not have a dedicated sustainability department. The group's sustainability strategy is overseen at board level. We believe it is necessary for a sustainability strategy to be defined and managed at the highest management levels to ensure alignment with the group's overall strategy. The involvement of the board is an indication of the group's commitment towards the development of its sustainability strategy, in our view.

Triodos does not consider financial incentives as an appropriate way to motivate and reward co-workers in a values-based bank, and therefore it does not offer bonus or share option schemes to members of the executive board, supervisory board, the board of SAAT, or co-workers. Individual tokens of appreciation may be offered to employees (except executive board) for extraordinary achievements. However, those are restricted to a maximum of one month salary and EUR 10k gross each year. As part of preparation to the MTF launch, the International Nomination & Remuneration Policy and the Remuneration Policy for the executive board will be reviewed and updated in 2023. To increase transparency, Triodos will also develop a supervisory board remuneration policy.

ESG considerations are embedded in the group's risk management process. Business units have local decision-making committees in place, such as a local Non-financial Risk Committee and a local Anti-Money Laundering and Countering Terrorist Financing Risk Committee. Business units that engage in local lending also have a local Credit Committee in place. Triodos has a data protection policy and is committed to ensure data protection and privacy.

The group's whistle-blower policy guarantees anonymous reporting and therefore ensures that breaches to the Business Principles are reported to the highest instances of management.

As explained in a previous section of this report, to protect Triodos' mission, all shares are held in trust by the SAAT foundation which exercises the voting rights. In the past four decades, DR trading took place on an internal trading platform at net asset value per DR. To resolve certain limitations of the former trading system, management decided to move the trading of DRs to a MTF, which was approved by the EGM on 11 October 2022. On this MTF, the price of the DRs will be determined by supply and demand, as opposed to NAV per DR on the former trading platform.

Once the MTF is operational, DR holders will also be able to ask SAAT to transfer the voting rights from SAAT to themselves, as part of an update to the governance policy of the bank. DR holders, however, will not be able to set the agenda, determine the strategy, or change the mission of the company. Currently, DR holders are entitled to vote at each DR holders' meeting. SAAT board members are appointed by the meeting of DR holders on the basis of a binding nomination of candidates put forward by the board of SAAT. Former members of the executive board and supervisory board, employees, or permanent advisers of the company can be members of the board of SAAT. None of the current members of the SAAT board work at Triodos. However, they all have relevant industry experience.

In 2022, SAAT had seven board meetings independently, and 14 board meetings together with the Triodos executive board. In 2022, SAAT held 17 meetings with stakeholders, DR holders, and groups of DR holders.

Although the legitimacy of the former system, including an internal trading platform and no voting rights for DRs holders, can be questioned, we believe that the decision to move to an MTF and to return voting rights to DR holders will significantly improve on this.

Competitive analysis

Triodos stands out vs. the Benelux competition by putting impact at the heart of everything they do. While peers are catching up reporting-wise, notably at impact assessment level, sustainability is not yet a focus with SRI still representing a relatively limited share of total AUM and this is foreseen to remain so in the next couple of years. At KBC, SRI funds represented EUR 32bn in AuM in 2021 or 13% of total AuM (EUR 236bn in 2021), or 33% of total assets under distribution. KBC targets to reach 55% of total assets under distribution by 2030. ABN's sustainability asset volume reached 31% in 2022 with 36% targeted by 2024. With 77% of triple bottom line assets, we believe that Triodos will remain a pioneer and leader in sustainable investing for the next couple of years.

The table below provides an overview of Triodos' performance vs. peers.

Exhibit 87 Triodos vs. Benelux peers

	Units	Triodos 2022	ABN 2022	ING 2022	KBC 2021
Environmental dimension					
Carbon intensity	t CO2/FTE	0.74	2.3	0.5	1.34
Net zero targets	Y/N	Y	Y	Y	N
Portfolio/corporate level		Both	Corporate	Both	-
SBTI validation		Validated	-	Committed	-
Electricity intensity	kWh/FTE	1,158	2,339	4,307	3,444
Renewable energy	%	98.6	-	100	100
Renewable energy target	%	100% (2030)	-	-	100% (2030)
Waste intensity	kg/FTE	45	25,98 (NL)	/	107
Paper consumption	kg/FTE	18	-	-	50
Social dimension					
Employee turnover	%	11	-	11.9	14
Number of FTE	#	1,679	20,038	57,569	37,244
Sickness rate	%	4.7	4.1	-	3.8
Share of women employees	%	50	31	49	56
Share of women in the management board	%	33	43	25	14
UN compact signatory	Y/N	Y	Y	Y	Y
PRI signatory	Y/N	Y	Y	Y	Y
Governance dimension					
Board size	#	5	7	12	15
Share of women on the board	%	60	57	33	38
Board independence	%	100	100	100	13.3
Independent chairperson	Y/N	Y	Y	Y	Y
ESG overseen at board level	Y/N	Y	Y	Y	Y
ESG integrated in remuneration	Y/N	N	Y	-	Y

Source: Bloomberg, Companies, Degroof Petercam

Appendix A: Management Board

Jeroen Rijpkema: CEO (1960, Dutch)

- **2021-present, Triodos, CEO and Chair of the Executive Board**
- 2021-present, Stichting Triodos Holding, Board member
- 2021-present, Dutch Banking Association, Board member
- 2019-present, Stichting Graaf Carel van Lynden, Board Member
- 2018-present, Stichting Social Finance NL, Board member
- 2020-2020, Transactie Monitoring Nederland, Quartermaster and Manager a.i.
- 2019-2020, Dutch Banking Association, Program Lead TMNL
- 1985-2018, ABN AMRO Bank, Managerial roles in Corporate and Retail Banking, SVP Int. Corporate Group and Trade & Commodity Finance AA New York, EVP Corporate Clients South West Region NL, Managing Director AA Private Clients NL, Member Supervisory Board Amstel Lease, Member Supervisory Board AA Foundation, CEO AA Switzerland, Chairman Supervisory Board AA Switzerland, CEO Private Banking Int.
- 2010-2017, Banque Neuflize, Chairman/Member of the Supervisory Board
- 2008-2017, Bethmann Bank, Chairman/Member of the Supervisory Board
- 2008-2008, Fortis Bank, CEO Private Banking Belgium

Kees van Kalveen: CFO (1971, Dutch)

- **2023-present, Triodos, CFO and Member of the Executive Board**
- 2013-2023, Nationale Nederlanden Bank, Head of Treasury, CFO a.i., CFO.
- 2010-2013, WestlandUtrecht Bank, Head of Treasury
- 2006-2010, GMAC, Finance Director
- 1996-2006, NIBC Bank, Associate Director Structured Finance

Carla van der Weerdt: CRO (1964, Dutch) (recovering from long term effects of Covid)

- **2019-present, Triodos, CRO and Member of the Executive Board**
- 2010-2019, Triodos, Member of the Supervisory Board/Chair Audit & Risk Committee
- 2015-present, DWS Zorgverzekeraar, Chair of the Supervisory Board
- 2016-2019, Hogeschool Inholland, Member of the Supervisory Board
- 2017-2019, Rechtbank Gelderland, Member of the Advice Council
- 2016-2019, Habion, Member of the Supervisory Board/Chair Audit Committee
- 2016-2019, Vastgoed Zorgsector, Board Member
- 2014-2019, BinckBank, Member of the Supervisory Board/Chair Audit Committee
- 2008-2019, Accent Organisatie Advices, Owner/Managing Director
- 2006-2014, Saxon Hogescholen, Member Supervisory Board/Chair Audit Committee
- 1992-2007, ABN AMRO Bank, Risk Management, COO/CFO Transaction Banking
- 1988-1992, IBM, Sales

Marjolein Landheer: CRO ad interim (1970, Dutch)

- **2023-present: Triodos, CRO ad interim and Member of the Executive Board**
- 2022-present, Natuurmonumenten, Non-Executive Board Member
- 2018-2023, Cordaid, Member of the Supervisory Board
- 2001-2022, FMO, Member of the Asset and Liability Committee, Member of the Internal Review Committee, Member of the Investment Committee, Director Risk, Head of Risk Management, Head of Special Operations & Restructuring, Manager Agribusiness, Food & Water, Manager Structured Finance Housing, Manager Business Development, Investment Officer Europe & Central Asia,
- 2000-2000, Cordaid, Financial Officer Latin America
- 1994-1999, ING Group, Account Manager Trade & Commodity Finance

Nico Kronemeijer: COO (1964, Dutch)

- **2021-present, Triodos, COO and Member of the Executive Board**
- 2013-2021, Triodos, Director ICT
- 2005-2013, Friesland Bank, Director ICT
- 2003-2005, Asset Control, Director Products & Services
- 1998-2003, KPN, Manager IT Innovation
- 1989-1998, Logica, Management and Consultancy

Jacco Minnaar: CCO (1971, Dutch)

- **2021-present, Triodos, CCO and Member of the Executive Board**
- 2006-2021, Triodos Investment Management, Fund Manager, Director, Managing Director, Chair of the Management Board
- 2006-2015, iFinance (DR of Congo), Centenary Bank (Uganda), Reliance Financial services (Gambia), all Non-Executive Director
- 2001-2006, International Finance Corporation, Acting Manager
- 2001-2004, ZOA Refugee Care, Consultant
- 1995-2001, Z&P Groep, Consultant and Project Manager
- 1995-1995, Unilever, Assistant Brand Manager

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Profit & Loss (EUR m)	12/19	12/20	12/21	12/22	12/23e	12/24e	12/25e
Net interest income	185	198	221	253	284	304	325
Net fee and commission income	105	106	116	121	128	135	141
Other income	2	1	4	1	2	2	2
Total income	**292**	**305**	**342**	**375**	**414**	**440**	**468**
Growth yoy	10%	4%	12%	10%	10%	6%	6%
C/I ratio	80.3%	80.4%	80.5%	80.0%	75.1%	72.7%	72.3%
Operating costs	**-235**	**-245**	**-275**	**-300**	**-311**	**-320**	**-339**
Employee costs	-134	-135	-150	-167	-177	-187	-199
Administrative costs	-84	-82	-99	-111	-109	-107	-113
Depreciation	-6	-13	-12	-8	-9	-9	-9
Amortisation	-9	-11	-12	-14	-16	-17	-18
Impairment	-1	-5	-3	0	0	0	0
Profit pre provisions	**57**	**60**	**67**	**75**	**103**	**120**	**130**
Loan loss provisions	**-4**	**-24**	**0**	**-8**	**-8**	**-8**	**-8**
Profit before tax	**54**	**35**	**67**	**67**	**95**	**112**	**122**
Taxes	-15	-8	-16	-17	-24	-28	-30
Tax rate	28.0%	23.3%	24.4%	25.6%	24.8%	25.0%	25.0%
Associates	0	0	0	0	0	0	0
Minorities	0	0	0	0	0	0	0
Discontinued	0	0	0	0	0	0	0
Net profit	**39**	**27**	**51**	**50**	**71**	**84**	**91**
Exceptional items in operating costs	3	-0	-2	-19	-11	-6	-6
Adj. C/I ratio	81.5%	80.3%	79.8%	75.0%	72.4%	71.3%	71.0%
Adj. profit pre provisions	54	60	69	94	114	126	136
Adj. profit before tax	50	36	69	86	106	118	128
Adj. net profit	**37**	**47**	**51**	**65**	**80**	**89**	**96**

Balance sheet (EUR m)	12/19	12/20	12/21	12/22	12/23e	12/24e	12/25e
Tangible fixed assets	135	101	95	89	85	82	78
Right of use assets	0	19	17	13	13	13	13
Goodwill	0	0	0	0	0	0	0
Other intangible assets	42	46	48	51	52	53	54
Financial fixed assets	24	42	48	52	52	52	52
Deferred tax assets	0	15	14	13	13	13	13
Total fixed assets	**201**	**224**	**221**	**219**	**216**	**214**	**211**
Cash & cash equivalents	2,270	2,956	4,278	2,581	2,787	3,008	3,240
Loans and advances to banks	228	151	266	332	332	332	332
Loans and advances to customers	8,187	9,157	10,168	10,620	11,151	11,708	12,294
Debt securities at amortised cost	1,023	1,317	1,483	1,690	1,690	1,690	1,690
Non trading derivatives	0	2	20	296	296	296	296
Tax receivable	0	2	2	1	1	1	1
Other assets	151	62	54	56	56	56	56
Financial assets	**11,859**	**13,646**	**16,270**	**15,576**	**16,313**	**17,091**	**17,909**
Assets held for sale	0	19	13	6	6	6	6
Total assets	**12,060**	**13,888**	**16,504**	**15,800**	**16,535**	**17,310**	**18,126**
Equity	1,200	1,208	1,250	1,259	1,305	1,358	1,412
Minorities & preference shares	0	0	0	0	0	0	0
Total Equity	**1,200**	**1,208**	**1,250**	**1,259**	**1,305**	**1,358**	**1,412**
Deposits from banks	70	815	1,608	337	337	337	337
Deposits from customers	10,690	11,747	13,285	13,816	14,507	15,233	15,994
Non trading derivatives	0	10	7	1	1	1	1
Tax liabilities	0	21	19	23	23	23	23
Debt issued	0	6	256	260	260	260	260
Provisions	6	4	6	8	5	3	3
Other liabilities	94	76	73	96	96	96	96
Liabilities	**10,861**	**12,680**	**15,254**	**14,541**	**15,229**	**15,952**	**16,714**
Liabilities held for sale	0	0	0	0	0	0	0
Total liabilities	**12,060**	**13,888**	**16,504**	**15,800**	**16,535**	**17,310**	**18,126**

Source: Triodos/Degroof Petercam estimates

Cash Flow (EUR m)	12/19	12/20	12/21	12/22	12/23e	12/24e	12/25e
Net profit	39	27	51	50	71	84	91
Depreciation	6	10	9	8	6	6	6
Amortisation	9	11	12	14	16	17	18
Impairment	1	5	3	-0	0	0	0
Change in provisions	-0	-3	2	2	-3	-3	0
Other operational CF	-5	33	7	10	5	5	5
Operational cash flow	**50**	**83**	**83**	**84**	**95**	**109**	**119**
Change in loans and deposits	239	826	1,203	-1,500	160	168	176
Change in other financial assets	-15	-264	-164	-193	0	0	0
CF from operating activities	**289**	**909**	**1,286**	**-1,416**	**255**	**277**	**295**
CAPEX	-25	-3	-2	-3	-2	-2	-2
Investments in intangibles	-13	-15	-14	-17	-17	-18	-19
Acquisitions	0	0	0	0	0	0	0
Divestments	0	1	2	7	0	0	0
Other investing CF	230	-12	-5	-0	0	0	0
CF from investing activities	**191**	**-29**	**-20**	**-13**	**-19**	**-20**	**-21**
Dividends	-5	0	-9	-45	-30	-36	-42
Minority	0	0	0	0	0	0	0
Share buybacks	-0	-20	-1	0	0	0	0
Equity financing	54	5	0	0	0	0	0
Other financing CF	0	6	248	12	0	0	0
CF from financing activities	**48**	**-9**	**238**	**-33**	**-30**	**-36**	**-42**
Net cash flow	**529**	**871**	**1,504**	**-1,462**	**206**	**221**	**232**

Figures per share (EUR)	12/19	12/20	12/21	12/22	12/23e	12/24e	12/25e
Adjusted EPS	**2.67**	**3.27**	**3.56**	**4.54**	**5.61**	**6.24**	**6.73**
Declared EPS	2.78	1.91	3.56	3.51	5.03	5.92	6.41
Dividend	**0.00**	**0.65**	**1.80**	**2.11**	**2.51**	**2.96**	**3.21**
Dividend pay-out ratio	0%	34%	51%	60%	50%	50%	50%
Book value	83.29	83.51	86.41	87.05	90.22	93.88	97.58
Shares (m)							
Number of shares at year-end	14.4	14.5	14.5	14.5	14.5	14.5	14.5
Average number of shares	14.0	14.3	14.3	14.2	14.2	14.2	14.2
Average number of shares diluted	14.0	14.3	14.3	14.2	14.2	14.2	14.2

Ratios	12/19	12/20	12/21	12/22	12/23e	12/24e	12/25e
Financial ratios							
Return on equity	3.3%	2.3%	4.1%	4.0%	5.6%	6.3%	6.6%
Adj. return on equity	3.2%	3.9%	4.1%	5.1%	6.2%	6.7%	6.9%
Leverage ratio	8.5%	8.8%	8.1%	6.9%	6.8%	6.7%	6.6%
CET-1 ratio	17.9%	18.7%	17.5%	17.3%	16.7%	16.5%	16.4%
Margin analysis							
Adj. PPP margin	18.5%	19.7%	20.2%	25.1%	27.6%	28.7%	29.0%
PPP margin	19.7%	19.6%	19.5%	20.0%	24.9%	27.3%	27.7%
Adj. PBT margin	17.3%	11.8%	20.3%	22.9%	25.6%	26.9%	27.2%
PBT margin	18.4%	11.6%	19.6%	17.9%	23.0%	25.5%	26.0%
Adj. net profit margin	12.8%	15.3%	14.9%	17.2%	19.3%	20.1%	20.4%
Tax rate	28.0%	23.3%	24.4%	25.6%	24.8%	25.0%	25.0%
Growth analysis							
Total income change y/y	9.7%	4.4%	12.1%	9.8%	10.3%	6.4%	6.3%
PPP change y/y	5.6%	3.9%	11.8%	12.7%	37.0%	16.7%	7.7%
PBT change y/y	6.8%	-34.0%	89.3%	-0.1%	41.7%	18.1%	8.3%
Adjusted net profit change y/y	-4.4%	25.1%	8.9%	27.1%	23.5%	11.3%	7.9%
Adjusted EPS change y/y	-11.6%	22.4%	8.9%	27.5%	23.5%	11.3%	7.9%
Dividend change y/y	-100.0%	NM	176.9%	17.2%	19.1%	17.8%	8.3%

Source: Triodos/Degroof Petercam estimates

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Report completion and updates

This report was first disseminated by Degroof Petercam on 3 April 2023 07:13 CET

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This report has been reviewed by the company prior to publication and has been subsequently amended.
The report has been reviewed by Fernand de Boer, Senior Equity Analyst.

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