

Vereniging van Effectenbezitters
trading as European Investors - VEB
Attn: Mr Gerben Everts
Amaliastraat 7
2514 AC The Hague

By e-mail jschmets@veb.net

Driebergen-Rijsenburg, 27 June 2022

Response to VEB letter dated 4 May 2022 (your reference: 2022 0007).

Dear Mr Everts,

We refer to your letter of 4 May on behalf of European Investors-VEB ('**VEB**') to the Executive Board (EB) and Supervisory Board (SB) of Triodos Bank N.V. ('**Triodos Bank**'). In this letter, VEB made a number of (additional) critical comments on Triodos Bank's policy and performance.

In response to this letter, Triodos Bank suggested organising a meeting with VEB to discuss the contents of this letter. Our aim was to meet with you before the AGM on 20 May, but our proposal to do so was not answered before then. It was good to hear that VEB is open to this conversation. As you know, Triodos Bank attaches great importance to maintaining a dialogue with all stakeholders about their questions and concerns regarding the depository receipts for shares in the capital of Triodos Bank ('**Depository Receipts**'). In the first place this concerns the *community* of investors in depository receipts ('**Depository Receipt Holders**') and of course VEB. We therefore appreciate VEB's willingness to enter into this discussion with us and we hope that it can be held in the same open and constructive atmosphere as was the case in previous discussions between Triodos Bank and VEB.

As promised, in preparation for that discussion, we would send you a written response to your letter dated 4 May. This response is set out below.

Provision of information on Triodos Bank's decision to focus on the realisation of an MFT listing for Depository Receipts

In its letter, VEB zooms in on Triodos Bank's decision taken in December 2021 to focus on obtaining a listing for Depository Receipts on a *multilateral trading facility* (MTF) and the related decision to abandon the system of tradability of Depository Receipts via Triodos Bank at *net asset value* (NAV) that existed until then. VEB has called on Triodos Bank to provide more

information about the process it went through to reach this decision.

Triodos Bank explained in detail the reasons behind the decision and the decision-making process that had been followed to take all the steps to arrive at an MTF listing for Depository Receipts as an alternative to the trading system that had existed up to that point. In addition, both before and after the decision was taken, several meetings were held with Depository Receipt Holders to gain insight into their position and to provide explanations and clarifications. This concerns both the formal meetings such as Triodos Bank's shareholder meetings and meetings of Depository Receipt Holders of Stichting Administratiekantoor Aandelen Triodos Bank ('SAAT'), as well as the many information meetings Triodos Bank and SAAT held with groups of Depository Receipt Holders in the five different countries in the autumn of 2021 and the spring of 2022. Triodos Bank refers to its earlier letter to VEB dated 25 March 2022 which briefly describes the process Triodos Bank had gone through to reach this decision.

Triodos Bank and SAAT made extensive efforts in all these meetings to answer questions from Depository Receipt Holders comprehensively and to the best of their abilities, and questions for which there was no time left during the meeting in question were answered in writing afterwards. Triodos Bank also provided extensive and detailed information to Depository Receipt Holders around these meetings via its websites.

In view of the above, Triodos Bank disputes the objection raised by the VEB that Triodos Bank was not sufficiently transparent about the developments in the process that Triodos Bank went through between January 2021 and December 2021 to decide, after the second suspension of the facilitating of trading in Depository Receipts via Triodos Bank, how Depository Receipts could be traded in the future. The interests of Depository Receipt Holders have been extensively considered and taken into account in the weighing of interests. Triodos Bank also provided a detailed explanation of the fact that it had to decide to suspend the trading of Depository Receipts through Triodos Bank in March 2020 and January 2021.

Assessing the sustainability of the old trading system

In its letter, VEB focuses on the question at what point Triodos Bank internally decided that the NAV-based trading system in place until December 2021 would be abandoned. We understand that VEB's question focuses on whether this decision was taken at the right time and whether Triodos Bank communicated with Depository Receipt Holders at the right time.

The final decision to aim for an MTF listing for Depository Receipts and thus to abandon the trading system that had existed up to that point was taken by the EB on 20 December 2021 and approved by the SB. Triodos Bank announced these decisions in an extensive press release dated 21 December 2021. These decisions were not taken at an earlier point in time.

Continuing the existing trading system was still one of the scenarios that Triodos Bank presented at the EGM of 28 September 2021, although Triodos Bank also indicated that the existing system of facilitating transactions in Depository Receipts was reaching the limits of growth and tradability.

From the explanations that Triodos Bank has already provided, it is clear that Triodos Bank did not make an overnight decision to abandon the previously existing trading system. This can be explained by the fact that the previous trading system had already existed for decades and had

also functioned well for years. As regards the latter point, Triodos Bank refers again to the overview of the use of the 'Space for Purchase of Depository Receipts' that Triodos Bank published on its website on 10 February 2022.¹ This overview shows that the buffer, which since 2017 had been limited to a fixed amount to be approved by DNB due to changes in European laws and regulations, has hardly been used for years now. Thus, there was indeed an adequate balance between buying and selling of Depository Receipts for a long time.

The overview of buffer use also shows that the situation in March 2020, when the Covid-19 pandemic first hit in full force in the countries in which Triodos Bank operates, was unprecedented. To that extent, the Covid-19 pandemic and the behaviour of investors during the pandemic clearly seems to be the driver of the imbalance between the buying and selling of Depository Receipts. VEB's reproach that Triodos Bank reopened trading in October 2020 (more on this later) without waiting for the pandemic to end is misplaced. In March 2020, a situation of uncertainty arose, so this included the impact that Covid-19 could potentially have on Triodos Bank's economy and business. In the summer of 2020, the preparation of the half-yearly figures showed that, as yet, there was no dominant negative impact on Triodos Bank's business. Moreover, financial markets had stabilised to some extent and the overall Covid-19 situation also seemed to be looking better. Resumption was also in the interest of Depository Receipt Holders. Triodos Bank believed in the given circumstances at the time of facilitating the resumption of trading in October 2020 that trading patterns could develop differently than they did just before the first suspension in March 2020, but of course realised that there was a chance that this might not be the case.

Even after the renewed suspension in January 2021, Triodos Bank's Executive Board was unable to conclude that the existing trading system should no longer be maintained. Triodos Bank gradually came to this understanding after - following on from the announcement it made in a press release dated 5 January 2021 - undertaking a thorough process, partly with the help of external advisors, to analyse the issues that arose, to identify possible scenarios, and to deliberate and decide at relevant levels on final choices to be made between those scenarios.

This process required time, not least because Triodos Bank also took ample time to inform Depository Receipt Holders at various points in the process and to hear their opinions, questions, wishes and concerns through meetings.

Finally, precisely because the trading system in place at the time had functioned satisfactorily for so many years and had also safeguarded Triodos Bank's mission and identity, the bar for its final abandonment was set high internally in the sense that intensive consideration and contemplation were required in the process in order for the EB and SB to make final choices.

Against this background, it is understandable why the decision to permanently abandon the trading system that had existed up to that point was only finally taken by Triodos Bank's EB and SB in December 2021.

Triodos Bank's business performance

The VEB alludes to an alleged 'unsustainable financing model' of Triodos Bank. It also argues that Triodos Bank's funding base, cost structure and business model would have prevented the

¹ <https://www.triodos.com/binaries/content/assets/shared/saat-assets/saat/220210-historic-overview-dr-trading-buffer-2007-2021-en.pdf>

imbalance between buying and selling orders of Depository Receipts from recovering under the old trading system. VEB seems argue here that the stagnation of the trade in Depository Receipts under the old system (with pricing at NAV) is essentially due to the business performance of Triodos Bank. VEB even accuses Triodos Bank of mismanagement in the field of business economics. To support this claim, VEB points to Triodos Bank's *cost-income ratio* and its return on equity.

We do not recognise at all the VEB's suggestion that Triodos Bank is guilty of mismanagement in terms of business economics. Triodos Bank's business is strong and healthy. Both its solvency and liquidity are strong and it has been able to absorb the structural growth in costs (about which more later) to a large extent by structural cost savings elsewhere in the company and by structural revenue increases. Triodos Bank manages to make a real and measurable impact through its business activities in many areas. Since its formation, Triodos Bank - unlike many other banks - has not only focused on risk and return, but also on impact. Triodos Bank's business model differs from other banks in this respect. Triodos Bank continues to be a leader in responsible and sustainable banking. Triodos Bank invests in energy-saving projects, finances forestry and nature development projects and works hard to reduce its own environmental footprint. It has announced ambitious targets to make an even greater impact; for example, it aims to be climate neutral in its banking and investment activities by 2035. Another example of a new, progressive initiative that Triodos Bank has taken in the field of sustainable banking is the 'biobased mortgage', in which it recently started to offer mortgages whose interest rates are linked to the choice of materials for the home. In terms of social impact, Triodos Bank provides significant finance (21% of its portfolio) for healthcare, social projects, social housing and *financial inclusion*. There are undeniably activities in the financial world that generate greater financial returns, but the ones Triodos Bank focuses on in line with its beliefs and objectives are all about creating social impact.

Finally, Triodos Bank also points to the successful issue of a Green Bond of EUR 250 million, which further strengthened its capital position and increased its earning capacity, which is explicitly also in the interest of the Depository Receipt Holders. Triodos Bank's recently reaffirmed BBB rating from Fitch also underlines its sound financial position. In its recent rating analysis, Fitch also noted the following:

*'The ratings of Triodos reflect its established niche franchise and business model in the sustainable- banking segment and a sound record of execution on its strategy. The ratings also consider Triodos's solid capitalisation, which compares well with similarly rated peers', and the bank's small capital base in absolute terms in the context of continued strong balance-sheet growth. The bank's adequate asset quality and healthy funding and liquidity profile support the ratings.'*²

It is true that Triodos Bank's *cost-income ratio* and *return on equity* have been constant points of attention for Triodos Bank in recent years. In September 2021, Triodos Bank also set tighter objectives on these points (maximum 75% *cost-income ratio* and 4-6% *return on equity* in 2025) and concrete measures to achieve these objectives were recently announced in a press release dated 17 May 2022. The *return on equity* achieved in 2021, at 4.1%, is already within the formulated target. Triodos Bank has been focusing on these ratios for some time. Measures

² <https://www.fitchratings.com/research/banks/fitch-affirms-triodos-bank-at-bbb-outlook-stable-04-02-2022>

have also been taken at various points in time in the past to improve Triodos Bank's financial performance on these points. Triodos Bank also notes that the *return on equity*, as VEB itself states, in the years before Covid-19 actually came out within the range communicated at the time by Triodos Bank.

Triodos Bank acknowledges that the cost level of its activities in the years since 2016 has remained on the high side, but contrary to VEB's opinion, this is not due to ineffective management or an inefficient organisation. It is a fact that all banks in the Netherlands have had to deal with structurally higher costs in this period, partly because of additional capital requirements and the need to tighten up procedures to combat money laundering (and scale up the manpower within the organisation required for this), and also because of the persistently low (negative) interest rate in the eurozone and the growing savings deposits that have been entrusted to the bank despite this, which has also resulted in increased costs for the Deposit Guarantee Scheme. It is therefore understandable that Triodos Bank had to adjust the level of its ambitions regarding the *cost-income ratio* in this period. Triodos Bank has always been transparent about these developments to Depository Receipt Holders. Furthermore, in the past, the then EB, under the supervision of the then SB, had explored opportunities at various points in time and also taken concrete measures aimed at structurally reducing Triodos Bank's cost level and increasing its income. The current EB is also taking action to optimise the cost level, including improving efficiency and deciding on a reorganisation.

It should be borne in mind that Triodos Bank has always been transparent about the development of its prudential performance in general and about what could be improved in particular. Depository receipt holders and investors who were considering an investment in Depository Receipts could use this information to form their own opinion of Triodos Bank's performance.

Finally, Triodos Bank cannot agree with the VEB's observation that Depository Receipts involve a 'very risky investment' whereas investors would perceive them to have in fact a low risk profile. Investing always involves risks, as in the case of the Depository Receipts described, inter alia, in the prospectuses issued from time to time with respect to those Depository Receipts. In these prospectuses, Triodos Bank provided information about the operation and characteristics of Depository Receipts, including how trading in Depository Receipts was facilitated, and about the risks involved in investing in Depository Receipts. The fact is that it is up to the individual investors to make a risk assessment, based on the information made available, regarding an investment in Depository Receipts and to include this in their investment profile and further portfolio composition. Triodos Bank cannot and does not wish to interfere with this assessment to be made by the individual investor.

The expected valuation of Depository Receipts in a free pricing mechanism

VEB argued that, because of its - in VEB's opinion - underperforming business performance, Triodos Bank should have known earlier that in a trading mechanism based on free pricing, Depository Receipts would be valued lower than NAV and that Triodos Bank should have warned Depository Receipt Holders about this risk earlier. Triodos Bank does not accept this position.

In VEB's reasoning, the transition to a system with free pricing for trading in depository receipts was something inevitable in the sense that it was not a question of whether it would happen, but

only a question of when it would happen. We do not recognise this situation. Precisely because the old trading system had worked properly for such a long time and Depository Receipt Holders were also satisfied with the way in which that system worked, there was no reason for Triodos Bank's EB and SB to introduce an alternative trading system based on free pricing. Such noises did not come from Depository Receipt Holders either, not even in the days when shares in listed banks were still trading at a premium above NAV.

As noted above, on 20 December 2021, the EB, with the approval of the SB, decided that Triodos Bank would focus on preparing an MTF listing for Depository Receipts. The EB and SB were aware that, at the time, the expectation was that the valuation of Depository Receipts based on variable pricing through an MTF could lead to a price that was considerably lower than NAV. This consideration is also reflected in Triodos Bank's press release of 21 December 2021.

No breaches of duty of care by Triodos Bank around resumption of trading (October 2020-January 2021)

The VEB asserts that Triodos Bank violated aspects of conduct related to the mandatory controlled and ethical business operations in the course of the events surrounding the resumption of trading of Depository Receipts via Triodos Bank based on NAV in October 2020 and that Triodos Bank violated its duty of care towards Depository Receipt Holders who purchased Depository Receipts in the period between October 2020 and January 2021. VEB packages these statements up in a more general allegation that Triodos Bank has acted in breach of its legal and regulatory obligations.³ Triodos Bank disputes these allegations.

First of all, a point of demarcation. VEB does not - and rightly so - comment on the fact that Triodos Bank decided in March 2020 to suspend the facilitating of trading. VEB is critical of the period of open trading that ultimately ran from early October 2020 to early January 2021, but it does not appear to be critical of Triodos Bank's decision to suspend trading again in January 2021. Incidentally, VEB incorrectly states that between January 2021 and December 2021 there were 'some short and limited trade openings'. However, these related only to the period between October 2020 and January 2021.

Then something about the general framework of the duties of care that Triodos Bank owes to Depository Receipt Holders. As the VEB itself recognises, the purchase and sale transactions between Triodos Bank and Depository Receipt Holders were carried out under the old trading system on an *'execution only'* basis. In principle, the scope of a bank's duty of care in an *execution-only context* is limited. Triodos Bank's involvement in these transactions was limited to the execution of orders given by Depository Receipt Holders. This is also described in Triodos Bank's General Terms and Conditions for Securities Services. In addition, the question of what a special duty of care obliges in a specific case depends on the circumstances of the case, including the knowledge and experience of the customer concerned. This requires an individual assessment. It cannot be generically argued that Triodos Bank breached its duty of care by failing to adequately research knowledge/experience, provide sufficient information/warnings, or offer an inappropriate product.

Contrary to what the VEB seems to assume, Triodos Bank did perform an adequacy test on

³ VEB also alleges that Triodos Bank has acted in breach of the norms in its articles of association. However, the letter does not contain any reference to any provision in the articles of association that Triodos Bank is alleged to have breached.

retail investors who purchased Depository Receipts in the period October 2020-January 2021, not only for new investors in Depository Receipts, but also for existing Depository Receipt holders who wanted to purchase additional Depository Receipts.

As regards the provision of information to Depository Receipt Holders during this period, Triodos Bank notes the following. In the renewed prospectus published in October 2020, investors were explicitly informed that Triodos Bank was not obliged to facilitate transactions in Depository Receipts at NAV.

Article 2 of the *'Principles for facilitating transactions in depository receipts of shares'* also explicitly mention this fact. Article 9 of these Principles also warns that Triodos Bank may decide to suspend trading again, including a non-exhaustive list of factors that could be relevant in that context. It was therefore clear to investors who invested on this basis that trading could be suspended at any time for an extended period and that Triodos Bank was not obliged to repurchase Depository Receipts at NAV in a more general sense either.

The prospectus also provided information on the essential characteristics of Depository Receipts and the risks associated with them. Because Depository Receipts are derivatives of shares and therefore subject to the same economic benefits and risks, there was (and is) a general risk that a Depository Receipt holder may lose part of his/her investment. This risk was also described in the Dutch language summary of the prospectus and was also tested in the adequacy tests conducted by Triodos Bank during this period. The same applies to information on the facilitating of transactions in Depository Receipts.

VEB argues that it must have been clear to Triodos Bank at the time of the resumption of trading that there was and could no longer be a sustainable and balanced restart of its then trading system. We do not share this assumption. Based on the facts and circumstances known at the time, Triodos Bank considered it responsible to resume trading Depository Receipts through Triodos based on the trading system in place at the time. Triodos Bank had taken certain accompanying measures, as described in the earlier letter to VEB dated 25 March 2022. This concerned in particular an increase to the statutory maximum of the 'Space for Purchase' that Triodos Bank had managed to secure in combination with certain restrictions on order possibilities that were intended to keep trading volumes manageable. Contrary to VEB's assertion, the proposed gating mechanism did not cast doubt on the ultimate feasibility of the chosen route. The aim of gating was no more than to support the ability to repair trading patterns and regain balance. This cannot be any reason to cast any doubts on Triodos Bank.

It has been disappointing, not only for Depository Receipt Holders, but also for Triodos Bank, that trading patterns after the resumption of trading were such that a healthy balance between buying and selling transactions was ultimately not achieved. For Triodos Bank, the second suspension of trading not only meant that its Depository Receipt Holders could no longer trade in their Depository Receipts, but also that Triodos Bank itself was for the time being cut off from the possibility of meeting its own capital requirements for the desired expansion of its business activities by issuing Depository Receipts. However, the fact that the decision to resume trading in October 2020 did not ultimately turn out as Triodos Bank had hoped does not mean that it could not have reasonably reached that decision on the basis of the facts and circumstances known at the time.

In its letter, VEB pays much attention to a promotional campaign undertaken by Triodos Bank in the autumn of 2020, during the opening period. VEB creates the impression that Triodos Bank, by offering discounts on the purchase price of Depository Receipts (in combination with the non-charging of transaction fees), artificially tried to stimulate demand for Depository Receipts, knowing that trading would be suspended a short time later. The reality, however, was different. As noted in the letter of 25 March 2022, Triodos Bank has in the past regularly organised promotions around the offering of Depository Receipts. The non-charging of transaction fees was also an element of these earlier promotions, and offering a (small) discount on the purchase price was not without precedent. The discount was so modest (less than 2.5% on the purchase price) that it is unlikely to have played a significant role in the purchasing decisions of Depository Receipt Holders. The discount on the purchase price was also only offered to existing Depository Receipt Holders; investors who did not yet have Depository Receipts could not benefit from this offer.

As noted above, Triodos Bank believed in the given circumstances at the time of resumption of the facilitating of trading in October 2020 that trading patterns might develop differently than they did just before the first suspension in March 2020. At that time, there was also no decision to the effect that Triodos Bank would focus on realising a listing of Depository Receipts on an MTF or that it would otherwise move towards an alternative trading mechanism for Depository Receipts based on free pricing.

The future MTF listing

Finally, VEB makes some critical remarks about the prospects of the MTF listing for Triodos Bank's Depository Receipts. VEB expresses its doubts about the execution certainty of this route, in particular because of the need for sufficient demand for the purchase of depository receipts.

Triodos Bank believes that it offers an interesting and unique proposition for investors in Depository Receipts. As evidenced by the quote from Fitch's rating analysis, Triodos Bank has an attractive position as a niche player and can make a positive social impact in certain segments and markets precisely from that niche position. The historic choices the bank has made in terms of sectors and activities it finances have resulted in a future-proof balance sheet that, compared to other players in the financial sector, contributes positively to the *sustainable finance* objectives for a climate-resilient economy. The recently announced financial and organisational measures, including the tightened return targets, are expected to have an additional positive effect on the investment considerations of new investors.

At the same time, Triodos Bank recognises that the process of actually listing Depository Receipts on an MTF is complex and time-consuming and that circumstances may arise that necessitate interim adjustments in the planning and execution of that process. Triodos Bank is preparing for the new requirements that come with a company with listed Depository Receipts.

Triodos Bank would therefore greatly appreciate the opportunity to enter into further discussions with VEB on having a listing on an MTF and the way forward. Triodos Bank obviously wants to position itself as well as possible towards potentially interested parties in order to make the MTF

listing a success. Triodos Bank would like to make use of VEB's knowledge and experience in this area, particularly from the perspective of retail investors. Triodos Bank hopes that VEB will be open to sharing its experiences with Triodos Bank and to entering into an active dialogue with it.

To conclude

Triodos Bank would like to express its appreciation for the fact that VEB has shown its willingness to enter into a dialogue with Triodos Bank in response to its most recent letter. As mentioned above, Triodos Bank hopes that the focus of this discussion can be on the future of Triodos Bank as an MTF-listed company and everything that that entails. As for the critical comments made by VEB regarding the recent past, Triodos Bank considers these to be unfounded. Triodos Bank therefore hopes that VEB and Triodos Bank can move beyond this stage in their mutual contacts.

We are looking forward to the follow-up and the discussion that is currently being planned between VEB and Triodos Bank.

Yours sincerely,

Jeroen Rijpkema
CEO Triodos Bank

Mike Nawas
Chair of Triodos Bank Supervisory Board