

Triodos Bank minimum standards for direct lending and investments

Triodos Bank has a very deliberate, positive approach to how it uses the money its customers save and invest with it. As such, it only finances organisations that help to build a sustainable future for individuals, the community and the environment.

Our lending criteria are a core part of our banking business, connecting savings deposited with us to loans to sustainable enterprises with a clear and direct positive social, environmental or cultural impact. In addition, Triodos Bank also offers investment services that fit its mission and vision through Triodos Investment Management and Private Banking. Clients can invest in listed companies worldwide that demonstrate above average social and environmental standards, compared to their peers.

Triodos Bank applies these minimum standards to make clear who it will not finance, and why, for both its direct lending and investment services. These standards are particularly relevant for customers who want to invest their money as sustainably as possible in stock-market listed companies, through an investment in a Triodos Sustainable Fund or as a client of Triodos Private Banking.

As a starting point for defining these minimum standards, Triodos Bank has identified seven themes that it considers most relevant for society. These themes include the responsible use of our cultural heritage, animal welfare, ecosystems, human rights, natural resources, social structures and human health.

The minimum standards are dynamic. Changes may be prompted by legislation, public debate, best practice standards or company behaviour. Triodos Bank also engages with various interest groups, organisations and experts. Together this dialogue may result in changes to our minimum standards.

In general, a company is only eligible for investment by Triodos Sustainable Funds and Triodos Private Banking when it meets the minimum standards. However, an exception may be made if a company has committed itself to meeting these standards in the short term. This commitment must be established in a publicly available, formal strategy with clear targets and timelines. If and when it happens, the acceptance of such a company in the investment universe will be carefully explained.

Triodos Bank applies three types of minimum requirements:

Product related

Enterprises are excluded from financing if they make, sell or provide one of the products or services listed below. As a threshold for exclusion 5% of turnover or 5% of the world market turnover of a product is used. In addition, we immediately exclude companies from financing if they realise any sales through involvement in any of the following four activities: the production of the world's most hazardous substances, nuclear energy, oil from oil sands and weapons. For these products a strict threshold is also applied for indirect involvement. Please refer to the overview of the requirements below.

Process related

Enterprises are excluded from financing if they are frequently and significantly involved in controversial activities and do not take steps to change such behaviour. Besides an involvement in the controversial activities listed below, any active contribution to the realisation of highly controversial projects also constitutes grounds for exclusion unless there are sufficient guarantees that the company uses its influence to limit any negative impact of the project as much as possible. These projects usually consist of the construction of large dams, oil and gas pipelines and mine construction projects. These projects often entail additional process related exclusionary criteria, such as violation of human rights, environmental damage and corruption. Please refer to the overview of the requirements below.

Precautionary principle

Enterprises that operate in sectors with an increased sustainability risk are excluded from financing unless they proactively try to prevent controversies. Examples are businesses involved in mining or oil and gas extraction, but also the manufacture of food or household products. The precautionary principle follows the development of best practices of enterprises and focuses on policies, programmes, targets, data and transformational initiatives. The best practices illustrate the engagement of the businesses with the issue and allow for a continuous update of the minimum standards. In addition to what is mentioned below, the precautionary principle applies

to the following products and activities: gambling, pornography, factory farming, animal testing, genetic engineering, violation of labour and human rights, corruption and environmental damage.

Sometimes products, services or business processes do not fall under one of the criteria described above, but do constitute a significant obstacle for sustainable development. In such cases an enterprise may also be excluded. If an explicit minimum requirement is available for such products, services or processes it is included in the following list.

Below is a list of the product and process related activities that exclude an enterprise from financing.

Product Related

Animal Testing

Enterprises that sell non-medical products that have been tested on animals or carry out animal testing for non-medical purposes without being legally obliged to. Animal testing for medical purposes is allowed, provided that strict policies are in place to minimize animal suffering and the number of animals used.

Coal

Companies that produce or retail energy from coal power plants.

Factory Farming

Enterprises that produce, process or sell animal food products without applying minimum standards for factory farming in the breeding of livestock and without offering alternatives. In addition, companies that retail animal food products are excluded when they don't encourage and promote animal friendlier products. Companies that provide specific products or services to intensive livestock farms, and animal transport companies and slaughterhouses servicing them are also excluded.

Fur industry

Enterprises that catch or keep animals for their skin/fur. Enterprises that provide specific services to the fur industry and enterprises that sell fur products.

Gambling

Enterprises that develop, produce or sell gambling products. Companies that provide financial services related to gambling.

Genetic Engineering

Companies that make products using genetically modified organisms, unless the product has clear social or environmental benefits and strict safety measures are in place. Companies that develop or commercialise transgenic food crops. Genetically modified animals may only be used for treating life threatening diseases when no alternatives are available. Companies that process genetically modified organisms, unless they proactively reduce and/or avoid their use. Companies that sell products containing genetically modified ingredients and materials, unless they offer alternative products.

Hazardous substances

Companies that produce or sell substances that form a threat to humans and to the environment, such as pesticides. In addition, companies are excluded from financing if they are indirectly involved in the production or marketing of the most dangerous, internationally acknowledged substances through the ownership of shareholdings in other companies worth more than EUR 100 million or 1% of their equity investments.

Nuclear Power

Companies that produce or sell nuclear power, nuclear power stations or specific components for nuclear power production. This also includes enterprises involved in transporting or storing spent nuclear fuel. An exception is made for low carbon electric utility companies that are dependent on buying energy from an unknown source through an energy exchange with the purpose of securing the energy supply to clients in peak times, up to a maximum of 5% of total electricity sold.

In addition companies are excluded from financing if they are indirectly involved in nuclear power related activities through the ownership of shareholdings in other companies worth more than EUR 100 million or 1% of their equity investments.

Oil from oil sands

Companies that extract or sell oil from oil sands. In addition companies are excluded from financing if they are indirectly involved in the extraction of oil from oil sands through the ownership of shareholdings in other companies worth more than EUR 100 million or 1% of their equity investments.

Pornography

Companies that produce or design pornographic products.

Tobacco

Companies that produce tobacco products and companies that sell such products under their own label.

Weapons

Companies that produce or sell weapons, specifically designed components for weapons and weapons-related services. These include conventional weapons and non-conventional weapons such as nuclear, chemical and biological weapons and complete weapons systems.

The threshold for indirect involvement in weapons is EUR 100 million. This threshold applies to shareholdings in companies involved in weapons in general and to holdings in bonds and loans to producers and distributors of controversial weapons. Furthermore, a threshold of 2.5% applies for a bank's own financial involvement in weapons in general. Further, banks are expected to apply zero tolerance to shareholdings, bonds and loans related to companies that are involved in anti-personnel landmines and cluster bombs. An exception is made for passively

managed funds that are directly related to indices, for third party funds and for execution-only custody activities.

Process Related

Violation of labour and human rights

Companies that seriously and frequently violate fundamental labour rights. Also companies that, as a result of the combination of activities and countries they operate in, are likely to be involved but don't show awareness. Fundamental labour rights include the prevention of child labour, discrimination, forced labour, freedom of association, the right to collective bargaining, a safe and healthy workplace, fair wages and working hours. Our parameters are the fundamental conventions of the International Labour Organisation and the OECD guidelines. Also excluded are enterprises that directly and significantly contribute to or benefit from structural and gross human rights violations by governments or other parties.

Corruption

Companies that have been subject to frequent condemnations for corruption, bribery or money laundering.

Environmental Damage

Even without breaking any laws or regulations, companies may damage the environment and ecosystems. We examine whether an enterprise pays attention to biodiversity and the issues of climate change and deforestation. For example, companies that use palm oil, fishery products or forestry products are assessed for awareness of the unsustainable aspects of these products as well as the measures taken to prevent involvement. Companies that produce biomass energy from controversial feedstock are excluded. Companies that cause frequent and serious damage to the environment may be excluded from financing even if no legal proceedings have been brought against them (for instance in countries where laws and regulations are insufficiently developed).

Corporate Governance

This criterion covers companies where serious accounting irregularities have occurred as well as companies with unethical remuneration policies. If a company's remuneration policy raises significant ethical concerns or is incompatible with local or international standards, the company may be excluded from financing.

Violation of laws, codes of conduct or conventions

Companies that frequently and seriously violate laws, codes of conduct or conventions, unless there is proof of a structural change within the company leading to fundamental behavioural changes.

The following criteria are considered:

Violation of international codes and conventions: this includes violations of international environmental conventions and relevant codes of conduct. In a

number of sectors, businesses are expected to observe sector-specific codes, for instance: the guidelines of the World Commission on Dams; certificates proving the origin of wood (e.g. FSC), fish (MSC), palm oil (Roundtable on Sustainable Palm Oil) and diamonds (according to the Kimberley Process); the WHO code for marketing of breast milk substitutes and the more universal guidelines of the World Bank.

Violation of laws: this includes violations of rules for product liability, national environmental standards and directions, labour legislation, marketing legislation and laws against cartel formation.

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