Triodos Bank

Annual Report 2020

Other information

Profit appropriation

The appropriation of profit as set in the articles of association is presented under note 18 Equity on page 160.

The appropriation of profit in the Articles of Association is as follows:

Part of the profit as reported in the adopted profit and loss account shall be used by the Executive Board to form or add to the reserves to the extent that this is deemed desirable. The remaining profit shall be distributed to the shareholders, unless the General Meeting decides otherwise.

Banking entities

In addition to its head office in The Netherlands, Triodos Bank has banking entities in The Netherlands, Belgium, Spain, Germany and a subsidiary in the United Kingdom.

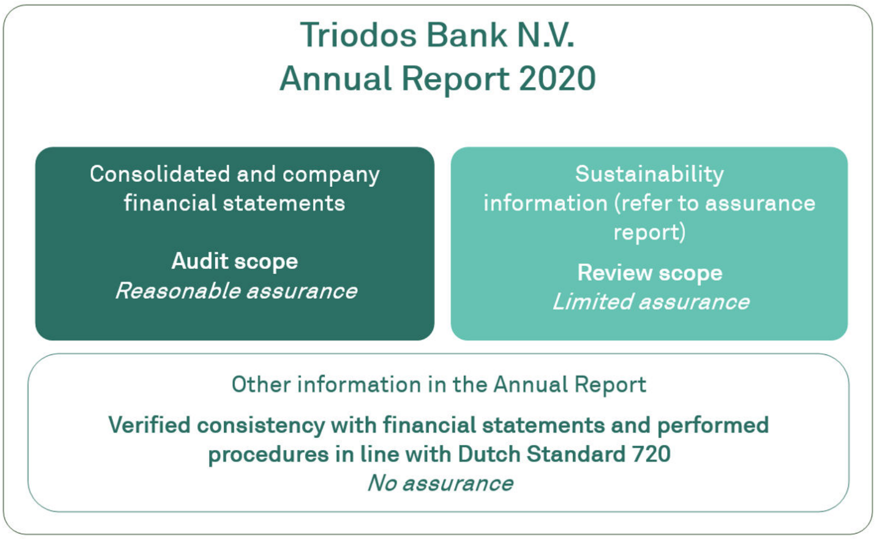
Combined independent auditor's and assurance report

General

The purpose of Triodos Bank N.V. ('the Bank'), as disclosed in the annual report on page 10, is to connect depositors and investors with socially responsible businesses to build a movement for a sustainable, socially inclusive society, built on the conscious use of money. This purpose makes that customers and other stakeholders are interested in more than just the financial performance of the Bank.

Our assurance procedures consisted of an audit of the annual accounts ('financial statements') of Triodos Bank N.V. and limited assurance procedures (review procedures) over the sustainability information in the Bank's annual report.

Our scope can be summarised as follows:



Independent auditor's report

To: the general meeting and the supervisory board of Triodos Bank N.V.

Report on the financial statements 2020

Our opinion

In our opinion:
- the consolidated financial statements of Triodos Bank N.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at 31 December 2020, and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;

- the parent company financial statements of Triodos Bank N.V. ('the Bank') give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2020 of Triodos Bank N.V., Zeist. The financial statements include the consolidated financial statements of the Group and the parent company financial statements.

The consolidated financial statements comprise:
- the consolidated balance sheet as at 31 December 2020;
- the following statements for 2020: the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement; and
- the notes, comprising significant accounting policies and other explanatory information.

The parent company financial statements comprise:
- the parent company balance sheet as at 31 December 2020;
- the parent company profit and loss account for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the parent company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Triodos Bank N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

Overview and context

The Group is comprised of several components (refer to the consolidation principles on page 117 of the annual report for an overview of the companies included in the consolidation) and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group.

We note that the Group adopted EU-IFRS as of 1 January 2018 and the impact of the transition from Dutch generally accepted accounting principles (Dutch GAAP) to EU-IFRS was disclosed in the pro forma consolidated financial statements for the years ended 31 December 2019 and 31 December 2018 and audited by us. These pro forma financial statements did not replace the 2019 financial statements as presented in the 2019 annual report. The financial statements for the year ended 31 December 2020 are therefore the first statutory financial statements in accordance with EU-IFRS.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the executive board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the section 'Critical judgements and estimates' of the financial statements, the Group describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Of the estimates and judgements mentioned in this section, we considered the allowance for expected credit losses on loans and advances to customers and the fair value measurement of level 2 and level 3 financial instruments as key audit matters as set out in the section 'Key audit matters' of this report.

Other areas of focus, that were not considered as key audit matters, were reliability and continuity of IT systems and compliance with laws and regulation.

We ensured that the audit teams at both group and component level included the appropriate skills and competences, which are needed for the audit of a bank. We therefore included specialists in the areas of amongst others IT, taxation and accounting, as well as experts in the areas of valuation and credit modelling in our team.

Impact of COVID-19 on our 2020 audit approach

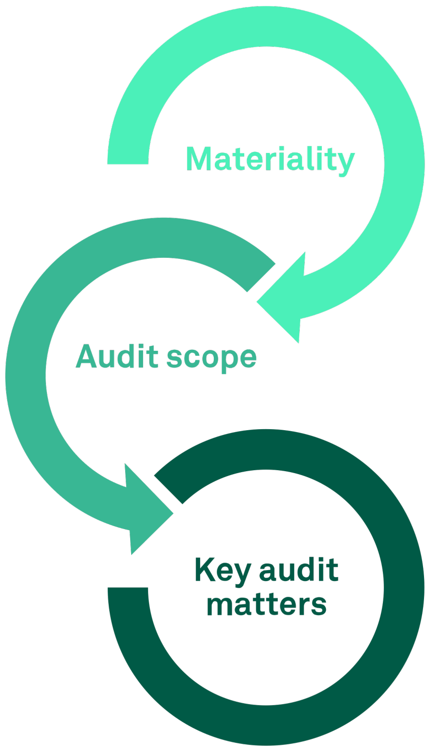
As explained in the executive board report on pages 12 to 13 of the annual report, the COVID-19 outbreak impacted, amongst others, the business operations of Triodos Bank and its credit customers and caused suspension of the trade in depository receipts. The COVID-19 outbreak caused challenges in performing our audit as well. In response to that, we have considered the impact of COVID-19 on our audit approach and in the execution of our audit. Inquiries and meetings with management were done via video conferencing. Teams and team members were reminded of the importance of staying alert to the quality of evidence and to perform sufficient and appropriate tests over the audit evidence obtained to be satisfied that the Group's records are complete, accurate and authentic. The following highlights the areas of focus in our audit that were primarily impacted by COVID-19:

- the impact on our Group audit. Under normal circumstances, we would have performed local site visits to the component teams to review a selection of working papers and attend closing meetings with local management. With travel restrictions in place, we have considered alternative procedures in our review and evaluation of the component auditors, such as organising video conference meetings with local management and component teams and remote review of selected working papers of the work performed by component auditors. Furthermore, active dialogues, clear communication and effective use of technology have allowed us to direct and supervise the performance of our component teams. Also refer to the section 'The scope of our Group audit';
- the impact on the Group's control environment due to remote working. We have carried out video conferencing meetings with screen-sharing as part of procedures in evaluating the Group's controls design, implementation and operational effectiveness. We also have paid specific attention to the reliability and continuity of IT systems;
- the impact on the Group's fraud risks exposure and operational incidents.
- the impact on the Group's capital and liquidity position; and

- the Group's allowance for expected credit losses on loans. Uncertainty of the current environment and the continuously changing nature of the impact of the COVID-19 pandemic has added further complexity and challenges when auditing accounting estimates. Our procedures included assessment of these accounting implications and the relevant disclosures in the financial statements in accordance with the financial reporting framework applied by the Bank. Reference is made to the section 'Key audit matters'.

The outline of our audit approach

The outline of our audit approach was as follows:



Materiality
- Overall materiality: €3.0 million.

Audit scope
- We conducted audit work on Triodos Bank N.V.'s head office activities (hereafter: head office), three of its branches, Triodos Bank UK Ltd. and Triodos Investment Management B.V.
- With travel restrictions in place due to the COVID-19 pandemic, we attended the closing meetings of head office, the three branches, Triodos Bank UK Ltd. and Triodos Investment Management B.V. via video conferencing. In addition, we remotely reviewed selected working papers of our component auditors.
- Audit coverage: 95% of consolidated total income, 92% of consolidated total assets and 94% of consolidated profit before tax

Key audit matters
- Allowance for expected credit losses on loans and advances to customers
- Fair value measurement of level 2 and level 3 financial instruments

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€3.0 million (2019: €2.6 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 0.25% of equity (prior year: 5% of profit before tax).
Rationale for benchmark applied	Based on our stakeholders analysis we concluded that equity rather than profit before tax is a more meaningful benchmark to represent the interests of the stakeholders for the statutory audit. Equity is an important input in the capital ratio, is more reflective of the growth in operations and links better to the Bank's objective to be a resilient financial institution in order to fulfil its purpose to connect depositors and investors with socially responsible businesses to build a movement for a sustainable, socially inclusive society, built on the conscious use of money. To ensure, in switching benchmarks, we determine an appropriate level of materiality, we assessed this benchmark against other benchmarks such as: total income, profit before tax and total assets. We consider € 3.0 million to be the appropriate overall materiality level.
Component materiality	To each component in our audit scope, we, based on our judgement, allocated materiality that is less than our overall group materiality. The range of materiality allocated across components was between €0.8 million and €2.9 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €150 thousand (2019: €130 thousand) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. For balance sheet only reclassifications, we agreed with the Group's supervisory board to report on misstatements above €6.9 million (2019: €6 million).

The scope of our group audit

Triodos Bank N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Triodos Bank N.V.

We tailored the scope of our audit to ensure that we, in aggregate, provide sufficient coverage of the financial statements for us to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by each component auditor.

The group audit primarily focussed on the significant components: head office, three branches (in the Netherlands, Belgium and Spain), Triodos Bank UK Ltd. and Triodos Investment Management B.V. We subjected these six components to audits of their financial information, as those components are individually financially significant to the Group.

The German branch was not in full audit scope as opposed to prior years, because this branch is not considered to be a significant component based on its financial impact to the Group as a whole.

In total, in performing these procedures, we achieved the following coverage on the financial statement line items:

Total income	95%
Total assets	92%
Profit before tax	94%

None of the remaining components represented more than 6% of total group income or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

The group engagement team performed the audit work for the head office. For components Triodos Investment Management B.V. and the Dutch branch, we used component auditors from the Netherlands. For the other branches and Triodos Bank UK Ltd., we used component auditors who are familiar with the local laws and regulations to perform the audit work.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient and appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

We issued instructions to the component audit teams in our audit scope. These instructions included amongst others our risk analysis, materiality and scope of the work. We explained to the component audit teams the structure of the Group, the main developments that are relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach.

Through video conference meetings, we were in active dialogue with all component audit teams throughout the year. During these calls, we discussed the instructions, the significant accounting and audit issues identified by the component auditors, their reports, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements. In addition, we remotely reviewed a selection of working papers of our component auditors. During the virtual closing meetings with local management and the component auditors, we discussed the strategy and financial performance of the local businesses, as well as the audit plan and execution, significant risks and other relevant audit topics and findings.

The group engagement team performed the audit work on the group consolidation, financial statement disclosures and a number of complex items at the head office. These included derivative financial instruments, hedge accounting, impairment of loans to customers (stage 1 and 2) and fair value disclosures.

Banks in general depend heavily on an effective and efficient information technology ('IT') environment. We engaged our IT specialists to assist us in assessing, for the purpose and to the extent relevant for our audit, the information technology general controls ('ITGCs') within the Group. This includes the policies and procedures used by the Group to ensure IT operates as intended and provides reliable data for financial reporting purposes. Furthermore, our IT specialists supported us in our key report testing and application controls testing.

We tailored our approach towards the fact that the Group operates an in-house developed IT system as well as off-the-shelf IT systems throughout the Group.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Our focus on the risk of fraud and non-compliance with laws and regulations

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the executive board with the oversight of the supervisory board. We refer to section 'Risk and compliance' of the executive Board report and the section 'Risk management' of the financial statements, where the executive board included their risk assessment and risk control measures. We also refer to the supervisory board report, where the supervisory board reflects on this assessment. Below we explain our procedures with respect to fraud and non-compliance with laws and regulations.

Fraud

The objectives of our audit with respect to fraud are:
- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls, performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias. Finally, we incorporated elements of unpredictability in our audit.

We refer to the key audit matters 'allowance for expected credit losses of loans and advances to customers' and 'fair value of level 2 and level 3 financial instruments', that are examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

Non-compliance with laws and regulations

The objectives of our audit with respect to non-compliance with laws and regulations are:
- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

We performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable for the Group. We performed audit procedures on laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, such as the financial reporting framework and tax and pension laws and regulations.

In addition, we identified laws and regulations that do not have a direct effect on the financial statements, but where compliance may be fundamental to the operating aspect of the business, to the Bank's ability to continue its business or to avoid material penalties (e.g. Anti-money laundering and anti-terrorist financing act (Wwft)). We inquired with management and/or those in charge with governance as to whether the Bank is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities. We refer to the formal instruction imposed by the Dutch Central Bank in 2019 to remedy shortcomings in the compliance with provisions of the anti-money laundering and counter-terrorist financing laws and the financial supervision laws, as disclosed on page 78 and 214 of the annual report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we describe the key audit matters and include a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context.

Our key audit matters are 'allowance for expected credit losses of loans and advances to customers' and 'fair value of level 2 and level 3 financial instruments'. These relate to the Group's primary business process and objectives, and did not change significantly compared to prior year, except that it now includes the requirements of EU-IFRS (as opposed to Dutch GAAP in prior year) and the (estimated) effects of the COVID-19 pandemic. In addition, as of 1 January 2020, the Group changed from designating individual hedged items and hedging instruments into fair value hedge relationships, to portfolio designation, or macro fair value hedge accounting. The hedging instruments (interest rate swaps) are measured at fair value through profit and loss. An offsetting fair value hedge adjustment is recognised on the hedged items (loans and advances to customers). This is part of the fair value of level 2 and level 3 financial instruments key audit matter.

Key audit matter

Allowance for expected credit losses of loans and advances to customers

Refer to paragraphs 'Critical judgements and estimates' and 'Financial instruments', of the accounting policies section, note 3 'Loans and advances to customers' and paragraph 'Credit risk' as part of 'Financial risk' in the Risk management section.

As at 31 December 2020, the gross loans and advances to customers amount to €9,208 million (2019: € 8,243 million) and the total impairment amounts to € 50.97 million (2019: € 33.78 million).

In accordance with the requirements of IFRS 9 'Financial instruments', the Bank applies a three-stage expected credit loss impairment model:
- stage 1: assets that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month expected credit losses (ECLs) are recognised;
- stage 2: for assets that have experienced a significant increase in credit risk since initial recognition, but that do not have objective evidence of impairment, lifetime ECLs are recognised; and
- stage 3: for assets that have objective evidence of impairment at the reporting date, lifetime ECLs are recognised.

The Bank developed two different models for business loans and mortgage loans, based on the differences in characteristics. For business loans, the lifetime ECL in stage 3 is determined on a loan-by-loan basis. As at 31 December 2020, the business loans represented a gross carrying amount of €6.0 billion (allowance for ECL of €46.5 million), the mortgage loans represented a gross carrying amount of €2.7 billion (allowance for ECL of €1.7 million) and current account and credit cards represented a gross carrying amount of €0.1 billion (allowance for ECL of €2.8 million). Based on our risk assessment and amounts involved we mainly focused on the ECL for business loans in this key audit matter.

Our audit work and observations

Control design and operating effectiveness

Our audit procedures over the allowance for expected credit losses for loans and advances to customers started with gaining an understanding of the Bank's internal controls over the credit risk management and impairment processes. We evaluated the governance framework over the development, validation, calibration and implementation of the ECL models. We assessed the validation and back-testing procedures performed by the Bank. We evaluated the design and tested the operating effectiveness of the Group's key controls in the following areas:
- the loan origination and administration process;
- the internal credit rating system;
- the methodology in measuring and determining significant increase in credit risk; and
- the review and approval process that management has in place for timely, accurate and complete determination of stage 3 loan-by-loan ECL allowances.

We determined that we could rely on these controls for the purpose of our audit.

Assessment of model-based ECL (stage 1 and 2)

With support of our internal credit modelling experts, we performed the following procedures on the model-based ECL as at 31 December 2020:
- evaluation of the reasonableness of the applied model methodology (including the assumptions regarding PD, LGD and EAD, applied criteria for significant increase in credit risk, assumptions for the measurement of ECL, and the number and relative weightings of forward-looking scenarios) in line with EU-IFRS and market practice;
- evaluation of the applied definition of default and assessing the conceptual soundness of the approach;

Model methodology and inputs (stage 1 and 2)

In the models the Bank utilises amongst others probability of default (PD), loss given default (LGD) and exposure at default (EAD). For the definition of these variables, refer to note ‘Impairment of financial assets’ on page 120 of the financial statements. The critical data elements as input for these models are retrieved from the core banking source systems. Next to these elements, three global macro-economic scenarios (base, upside and downside) are incorporated into the models and the probability of the scenarios is weighted in order to determine the expected credit losses. When data limitations or other inherent model limitations are identified, expert judgement is applied to the model inputs.

Stage 3 ECL allowance

For each individually impaired business loan the Group determines an impairment allowance based on management’s most likely scenarios taking into account assumptions and data like timely identification of impairment triggers, expected future cash flows, discount rates and the value and recoverability of the corresponding collateral. The recorded ECL is the probability weighted average of the different identified scenarios.

Judgements and estimation uncertainty

The judgements and estimation uncertainty in the allowance for expected credit losses for loans and advances to customers are primarily linked to the following aspects:

- determining criteria for significant increase in credit risk;
- establishing the number and relative weightings of (forward-looking) scenarios;
- evaluation of the macro-economic scenarios and macroeconomic variables applied by challenging these with observable market data;
- testing the input data and data lineage in respect of the critical data elements through testing of IT dependencies and a reconciliation of a sample of input data to the source systems;
- challenging management on the reasonableness of their provided explanations and evidence supporting the key model parameters by benchmarking them to other market participants; and
- partial re-performance of the model assessment procedures performed by the model developers focusing on the more significant tests such as back-testing procedures on PD.

We challenged management on the implications of COVID-19 on the ECL models by performing the following:

- enquiries with group and local management, central and local credit risk managers, asset & liability management and modelling department, and group and local finance and control departments;
- we verified whether changes were needed and whether appropriate changes were made to models, underlying assumptions and/or staging policy following the implications of COVID-19;
- we reconciled the applied macro-economic scenarios with the latest publications of external parties (i.e. CPB and DNB); and
- we assessed the sensitivity analysis performed by management related to, amongst others, the applied macro-economic forecasts.

Based on the above we assessed the methodology and inputs of the stage 1 and 2 ECL allowance to be in line with market and industry practice.

- predicting relationships between macro-economic variables and credit risk and credit losses for each industry;
- the determination of the future cash flows based on the appropriate use of key parameters (such as forward-looking information) and the valuation of the recoverable collateral; and
- the uncertainties related to the incorporation of the implications of COVID-19 in the ECL models (macro-economic scenarios and predictions, model performance, etc.).

The complexity of the models, the assessment of the (un)suitability of the models in the COVID-19 environment, the significance of the assumptions applied and judgements made by management and the overlay adjustments applied to data inputs (due to inherent limitations and COVID-19 adjustments), increases the risks of material misstatement. Therefore, we consider this a key audit matter in our audit.

Assessment of loan by loan ECL allowance (stage 3)

We examined the methodology applied by the Group in determining loan-by-loan ECL allowances. Based on a risk assessment, we tested a sample of loans included in the specific loan loss provision to verify the judgemental elements such as:
- the reason for classification in stage 3 (impairment trigger);
- the nature and accuracy of the expected future cash flows based on the source from which the cash flows arise;
- the accuracy of the applied discount rate given the applicable latest interest rate and expected timing of the future cash flows; and
- the valuation of the corresponding collateral based on appraisal reports and other external information.

Furthermore, we assessed the watch list, past due listings and loans with low credit ratings and compared these to the loans actually provided for in the specific loan loss provision to determine whether the loans were adequately classified as performing or non-performing.

In the selection of our risk-based sample and procedures over completeness of the stage 3 ECL allowance we specifically considered the implications of COVID-19 for certain industries deemed to be at higher-risk (e.g. recreation, art & culture and retail non-food).

Based on the above we assessed the methodology and inputs in determining the stage 3 ECL allowance to be in line with market and industry practice.

Furthermore, we assessed the adequacy of the disclosures, including disclosures on estimation uncertainty and judgements, and observed that the disclosures comply with the disclosure requirements included in EU-IFRS.

Fair value of financial instruments

Refer to paragraphs 'Financial Instruments', 'Derivatives' and 'Investment securities' of the accounting policies section, note 3 'Loans and advances to customers' (fair value hedge accounting), note 5 'Investment securities', note 10 'Non-trading derivatives, and paragraphs 'Fair value of financial instruments' and 'Non-trading derivatives and hedge accounting' as part of 'Financial Risk' in the Risk management section.

As at 31 December 2020, the items carried at fair value in the financial statements concern:

- Investment securities amounting to €31.2 million (2019: €24.3 million);
- Derivatives amounting to €1.8 million (2019: €8.7 million) on the asset side and €10.5 million (2019: €15.1 million) on the liability side of the balance sheet; and
- Fair value hedge accounting adjustment recorded under loans and advances to customers amounting to €5.3 million (2019: €2.4 million).

Loans and advances to customers and debt securities at amortised cost are valued at amortised cost. The fair values, disclosed in the risk management section on page 260 of the financial statements, amount to €9.4 billion and €1.3 billion respectively.

In the determination of the fair value of financial instruments, the fair value hierarchy is applied:

- level 1: valuations based on quoted prices (unadjusted) in active markets for identical instruments;
- level 2: valuations based on other than quoted market prices within level 1 that are observable either directly or indirectly;
- level 3: valuations based on unobservable inputs for the asset.

The areas that involved significant audit effort and judgement relate to the level 2 and level 3 investments, since these are valued using model valuations instead of quoted prices in an active market.

Our audit procedures included an assessment of the overall governance of the treasury and investment process of the Group and the testing of design and operational effectiveness of the key controls with respect to financial instrument deal capturing and source data management. We determined that we could rely on these controls for the purpose of our audit.

For a sample of the investment securities we performed the following substantive procedures:

- testing the mathematical accuracy of the valuation performed by management;
- reconciling the applied share price at year-end to supporting documentation and assessed the appropriateness of the share price applied; and
- assessing the classification as participating interest based on the level of influence.

We found that the estimates made by management were in line with market practice.

For our substantive audit procedures with respect to derivatives, the fair value hedge accounting adjustment and the fair value disclosures of loans and debt securities at amortised cost we used our valuation specialists and experts to assist us in testing the outcome of management's valuations of these financial instruments by:

- evaluating the appropriateness of the valuation models used considering market practices;
- comparing on a sample basis the observable input data against externally available market data and evaluating the reasonableness of the unobservable inputs applied; and
- independently re-performing management's valuation using our own valuation tools for the full portfolio of derivatives, debt securities, the mortgage loan portfolio and a sample of embedded derivatives.

We found no material differences in the re-performance of the valuation of the financial instruments nor in the testing of the input data. With respect to our independent valuation procedures performed, we found that the estimates made by management were within an acceptable range considered in the context of the estimation uncertainty in the fair valuation of these financial instruments.

Of the investment securities, an amount of €8.6 million falls within level 1, € 18.1 million within level 2 and €4.5 million within level 3 of the fair value hierarchy.

The Group's derivatives fall within level 2 of the fair value hierarchy. Of the debt securities, an amount of €1,221.1 million falls within level 1 and € 119.2 million within level 2 of the fair value hierarchy. No level 3 debt securities are held as at 31 December 2020.

The fair value of loans and advances to customers and the fair value hedge accounting adjustment all fall within level 3 of the fair value hierarchy.

The fair value of level 2 and level 3 financial instruments is determined using valuation techniques (such as discounted cash flow models) and the use of assumptions and estimates. The judgement applied by management mainly relates to:
- the price used for the level 2 and level 3 investment securities and debt securities;
- the discount rates used in the valuation of the (embedded) derivatives; and
- prepayment rate and spread applied in the valuation of loans and advances to customers.

Given the level of judgement and the related estimation uncertainty around fair valuation with respect to level 2 and level 3 valuations in combination with the size of the portfolios, we consider the fair value valuation of level 2 and level 3 financial instruments as a key audit matter.

Furthermore, we assessed the adequacy of the disclosures, including disclosures on estimation uncertainty and judgements, and observed that the disclosures comply with the disclosure requirements included in EU-IFRS.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- key figures;
- governance structure
- Triodos Bank group structure 2020;
- our purpose: the conscious use of money;
- executive board report;
- supervisory board report;
- corporate governance;
- remuneration report 2020;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- report by the Foundation for the Administration of Triodos Bank Shares (SAAT);
- about this report;
- appendices;
- addresses; and
- production.

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The executive board is responsible for the preparation of the other information, including the executive board report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Triodos Bank N.V. by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 22 May 2015 for a total period of four years. We were re-appointed as auditors for another period of four years on 20 March 2019 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 17 May 2019, representing a total period of uninterrupted engagement appointment of five years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Bank and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 'Independent auditor's fees' to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the executive board and the supervisory board for the financial statements

The executive board is responsible for:
- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the executive board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Group's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going-concern basis of accounting unless the executive board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Group's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Group's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Assurance report of the independent auditor

To: the general meeting and the supervisory board of Triodos Bank N.V.

Assurance report on the sustainability information 2020

Our conclusion

Based on our procedures performed nothing has come to our attention that causes us to believe that the sustainability information included in the annual report 2020 of Triodos Bank N.V. does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year ended 31 December 2020

in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied supplemental reporting criteria as included in the section ‘reporting criteria’.

What we have reviewed

We have reviewed the sustainability information included in the annual report for the year ended 31 December 2020 as included in the following sections in the annual report (hereafter: “the sustainability information”):

- Key figures
- Our purpose: the conscious use of money
- Executive board report sections:
  - Our stakeholders and material topics
  - Strategic objectives
  - Impact and financial results
  - Understanding impact
  - Co-worker report
  - Environmental report
- About this report
- Appendix: Triodos Bank business model: creating value
- Appendix: Global Alliance for Banking on Values scorecard - Quantitative evidence of our impact
- Appendix: Co-worker and environmental statistics

The sustainability information comprises a representation of the policy and business operations of the Bank with regard to corporate social responsibility and the thereto related business operations, events and achievements for the year ended 31 December 2020.

The basis for our conclusion

We have performed our review in accordance with Dutch law, which includes the Dutch Standard 3810N ‘Assuranceopdrachten inzake maatschappelijke verslagen’ ('Assurance engagements on corporate social responsibility reports'). This review is aimed at obtaining a limited level of assurance.

Our responsibilities under this standard are further described in the section ‘Our responsibilities for the review of the sustainability information’ of this assurance report.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Independence and quality control

We are independent of the Bank in accordance with the ‘Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten’ (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other for the engagement relevant independence requirements in the Netherlands. Furthermore, we have complied with the ‘Verordening gedrags- en beroepsregels accountants’ (VGBA – Dutch Code of Ethics).

We apply the ‘Nadere voorschriften kwaliteitssystemen’ (NVKS – Regulations for quality systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

Reporting criteria

The sustainability information needs to be read and understood in conjunction with the reporting criteria. The executive board of the Bank is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria, as disclosed in chapter ‘About this report’ of the annual report 2020. The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Limitations to the scope of our review

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments. Inherently, the actual results are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and the achievability of prospective information in the sustainability information.

The links to external sources or websites in the sustainability information are not part of the sustainability information reviewed by us. We do not provide assurance over information outside of the annual report.

Responsibilities for the sustainability information and the review

Responsibilities of the executive board and supervisory board

The executive board of the Bank is responsible for the preparation of reliable and adequate sustainability information in accordance with the reporting criteria as included in section ‘reporting criteria’, including the identification of stakeholders and the definition of material matters. The choices made by the executive board regarding the scope of the sustainability information and the reporting policy are summarised in chapter ‘About this report’ of the annual report 2020. The executive board is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The executive board is also responsible for such internal control as the executive board determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or errors.

The supervisory board is responsible for overseeing the Bank’s reporting process on the sustainability information.

Our responsibilities for the review of the sustainability information

Our responsibility is to plan and perform the review engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence to provide a basis for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included amongst others:

- Performing an analysis of the external environment and obtaining insight into relevant social themes and issues and the characteristics of the Bank.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the the executive board.
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review.
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatement, whether due to fraud or errors.
- Designing and performing further assurance procedures aimed at determining the plausibility of sustainability information responsive to this risk analysis.
- These procedures consisted amongst others of:
  - Interviewing management (and/or relevant staff) at corporate (and business/division/cluster/local) level responsible for the sustainability strategy, policy and results;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information.
  - Obtaining assurance evidence that the sustainability information reconciles with underlying records of the Bank;
  - Reviewing, on a limited test basis, relevant internal and external documentation;
  - Performing an analytical review of the data and trends
- Reconciling the relevant financial information with the financial statements.
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our review.
- Evaluating the presentation, structure and content of the sustainability information.
- To consider whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the supervisory board on the planned scope and timing of the engagement and on the significant findings that result from our engagement.

Rotterdam, 17 March 2021

PricewaterhouseCoopers Accountants N.V.

M.D. Jansen RA

Appendix to our auditor's report on the financial statements 2020 of Triodos Bank N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.
- Concluding on the appropriateness of the executive board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.