Triodos Bank

Annual Report 2020

Notes to the consolidated financial statements

General

Corporate information

Triodos Bank, having its legal address in Nieuweroordweg 1 in Zeist, The Netherlands, is a public limited liability company (N.V.) under Dutch law (Chamber of Commerce 30062415). Triodos Bank finances companies, institutions and projects that add cultural value and benefit people and the environment, with the support of depositors and investors who want to encourage socially responsible business and a sustainable society.

The consolidated financial statements for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 17 March 2021.

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union. These consolidated financial statements relate to the fourtieth financial year of Triodos Bank N.V.

The principal accounting policies are summarised below and have been applied consistently throughout the year, unless stated otherwise.

The pandemic has great impact on people, companies and the economy at large, including Triodos Bank. The expected impact for Triodos Bank relates to credit risk and has a downward effect on profitability. Measures to mitigate the operational risks are in place. Triodos Bank has a resilient capital base. Our capital and liquidity ratios currently remain well above the minimum required levels and are expected to stay above the minimum. Although the continuing impact of COVID-19 on result, liquidity and capital position remain unpredictable, based on the current knowledge and scenario analysis made there is currently no material uncertainty with respect to the financial condition of the company. Based on the aforementioned these financial statements have been prepared on the basis of the going concern assumption.

Accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities at fair value through profit or loss (FVPL) all of which have been measured at fair value, and investments securities of which the participating interests are at fair value through other comprehensive income and the participating debt is mandatorily measured at fair value through profit or loss. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Functional and presentation currency

These consolidated financial statements are presented in Euro, which is Triodos Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

New and amended standards and interpretations

The following changes to IFRS are effective after 1 January 2020 and relevant for Triodos Bank:

- Interbank offered rate (IBOR) reform and its effects on financial reporting—Phase 1; and
- Amendments to IAS 1 and IAS 8: 'Definition of Material; and
- Amendments to References to the Conceptual Framework in IFRS Standards.

These changes have no impact on the financial statements.

IBOR reform and its effects on financial reporting—Phase 1

In response to the IBOR reform undertaken by many international organizations, the IASB is considering the financial reporting implications of the reforms.

In September 2019, the IASB issued Phase 1 amendments related to some of its requirements for hedge accounting in IFRS 9 and IAS 39, as well as the related standard on disclosures, IFRS 7 Financial Instruments: Disclosures. The amendments modify some specific hedge accounting requirements, including the ‘highly probable’ requirement, prospective assessments, and eligibility of risk components. The Phase 1 amendments are mandatory and effective from 1 January 2020, with early adoption permitted.

Triodos Bank has adopted the Phase 1 amendments as of 1 January 2020. There was no material impact upon adoption of the Phase 1 amendments.

Upcoming changes to IFRS relevant for Triodos Bank

The following changes to IFRS are effective after 1 January 2021 and relevant for Triodos Bank:
- IBOR reform and its effects on financial reporting—Phase 2; and
- Amendments to IAS 1 ‘Presentation of Financial Statements’: Classification of Liabilities as Current or Non-current (issued on 23 January 2020, effective 1 January 2023).

IBOR reform - Phase 2

Phase 2 of the IBOR reform project focuses on financial reporting implications after the date of IBOR reform, particularly regarding the modification of financial instruments. In August 2020 the IASB issued amendments on IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 as part of Phase 2 of the IBOR reform, which are effective for annual periods beginning on or after 1 January 2021. There is no material impact expected with the adoption of the IBOR reform - Phase 2 amendments.

Change in accounting principles

Fair value hedge accounting

At the beginning of the year 2020 Triodos Bank made changes in its risk management strategy towards interest rate risk and we have updated our hedge strategy accordingly. As of 1 January 2020 Triodos Bank applies the EU carve-out under IAS 39 . This means that going forward, Triodos Bank 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 and hedged items remain unchanged. The existing hedge relationships have been terminated and as of 2020 these have been designated in a hedge relationship on a portfolio basis.

Under macro fair value hedge accounting, we continue to apply fair value hedge accounting. This means that the hedging instruments (interest rate swaps) are measured at fair value through profit and loss and an offsetting fair value hedge adjustment is recognised on the hedged items (business loans). As both hedge accounting models are fair value hedges, no change in result or balance sheet value is recorded due to this change. Additionally, the sources of ineffectiveness remain the same.

Hedge relationships designated under this policy are expected to be highly effective. However, some amount of ineffectiveness is expected due to:
- Discounting of assets with curve of the payment frequency where the swaps are discounted using the OIS curve
- Fair value changes in the floating leg of the swaps due to discounting using the OIS curve

The differences between micro and macro hedge accounting are the designation of the relationship and the effectiveness testing.

DESIGNATION

Triodos Bank designated interest rate swaps in qualifying hedging relationships. On initial designation of the hedge, Triodos Bank formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

Under macro hedge accounting the designation of the hedge relationship is changed. Full macro hedge documentation has been set up in order to support the designation. The current interest rate swap portfolio is designated as hedging instrument and the business loan portfolio of the Netherlands branch has been designation as hedged items. The period for which Triodos Bank designates these hedges is one month. From an operational point of view, Triodos Bank de-designates the previous hedge relationships and replaces them with new hedge relationships on a monthly basis.

EFFECTIVENESS TESTING

Under micro hedge accounting, Triodos Bank prospectively assessed effectiveness at the start of the reporting period by testing the critical terms. Retrospectively a dollar offset test was performed by calculating the fair value of the hedged items and hedging instruments with the curves applicable as at that date (month end). Any ineffectiveness in the hedge relationship was recognised in profit or loss.

At the time of designation of the hedge relationship for macro hedge accounting, a prospective test of the hedge relationship is performed to evidence the existence of an economic relationship. Fair value of hedged items and hedging instruments is calculated as at the designation date. In addition, the fair values are recalculated by applying at +/-50bps shift on the 6M EURIBOR zero-curve and the OIS zero-curve. If the change in fair value of hedged item and hedging instrument is within 80-125% of each other, the hedge relationship can be expected to be highly effective.

The retrospective test is periodically performed by calculating the fair value of the hedged items and hedging instruments with the curves applicable as at that date (month end). The hedge relationship is considered to be highly effective if the delta in fair value between hedging instrument and hedged item as per designation date and as per period end date is in the 80% - 125% bandwidth, which is the so-called dollar offset method.

When ineffectiveness is outside of the bandwidth, the hedge relationship for the tested month is discontinued. This means that the fair value changes of the hedging instruments continue to be recorded through profit and loss, but no offsetting fair value adjustment is booked on the hedged items.

Critical judgements and estimates

The preparation of the consolidated financial statements requires Triodos Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the financial year. Triodos Bank uses estimates, assumptions and judgements which can have a significant impact on the amounts recognised in the financial statements in applying these accounting policies. These estimates and assumptions are based on the most recent information available, and the actual amounts may differ in the future. The principal estimates and assumptions relate to impairments on financial instruments measured at amortised cost and fair value through other comprehensive income, fair values of financial assets and financial liabilities, vitality leave provision, employee benefit provisions, incremental borrowing rate leases, impairment Triodos Bank Head Offices, and residual value Reehorst.

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods.

The judgements and assumptions involved in the accounting policies that are considered by the Board of Directors to be the most important to these financial statements are discussed below.

Impairment of financial assets

This chapter should be read in conjunction with the impairment accounting principles for financial instruments, including in the corresponding paragraph below.

Triodos Bank records an allowance for expected credit loss for all loans and other financial assets not held at fair value through profit and loss, together with loan commitments and financial guarantee contracts.

The measurement of credit impairment under the expected credit loss model depends on management's assessment of whether a significant increase in credit risk has occurred for each financial asset, its economic forecasts including the probability of each of these, and its modelling of expected performance of each financial asset and its associated collateral in each economic scenario. Significant increase in credit risk requires critical judgement, whereas the economic forecasts and the expected performance are significant estimates that are reflected in the probabilty of default and the loss given default.

Significant increase in credit risk

As explained in the accounting policy on financial instruments section impairment of financial assets below, Triodos Bank's approach to determining whether a significant increase in credit risk has occurred is, in large part, based on its internal credit rating system. See the aformentioned paragraph in Financial instruments (see page 119) for further details on the determination of significant increase in credit risk.

During 2020 several clients made use of general moratoria that have been provided by Triodos Bank without any conditions. The use of these measures have helped clients in these uncertain times. Making use of general moratoria without conditions, is in itself not a trigger for significant increase in credit risk, but it could indicate a significant increase of credit risk. Triodos Bank assessed the usage of these moratoria in the different sectors within the portfolio and moved the clients of six sectors with a high dependency on these measures into Stage 2 in full.

This determination of what downgrade in internal credit rating constitutes a significant increase in credit risk is a significant judgement.

Economic forecasts

Triodos Bank formulates three economic recovery scenarios: a base case, which is the base scenario, and two less likely scenarios, one upside and one downside. The base case is aligned with information used by Triodos Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

Any impact of future outlook is calculated with the use of macro-economic scenarios. In developing these macro-economic scenarios Triodos Bank uses significant judgement. Triodos Bank has incorporated the current economic environment, including its expected future outlook into the macro-economic scenarios. This is done by using external market information and adding internal specific information. In these macro-economic scenario's, Triodos Bank has taken into account that some sectors are expected to be more impacted by the COVID-19 pandemic than others. Under normal circumstances the macro-economic scenarios are updated on a yearly basis.

The economic scenarios used as at 31 December 2020 included the following GDP growth for the years ending 31 December 2021 to 2023 and for the long-term. This is a critical estimate.

	Weight	2021	2022	2023
Recovery scenario 1	55%	4.5%	3.9%	2.0%
Recovery scenario 2	15%	6.2%	5.0%	2.5%
Recovery scenario 3	30%	3.9%	5.0%	1.5%

The weighting of the scenarios has changed in 2020, changes in the economic forecasts also triggered reconsideration of the weighting. The 2019 weightings were recovery 1 (60%), recovery scenario 2 (15%) and recovery scenario 3 (25%).

Triodos Bank performed a sensitivity analysis related to the macero economic forecasts, focussing on the key driver, GDP growth. The sensitivity analysis had the following outcome:

in thousands of EUR	Impact on ECL
GDP Growth +1%	-929
GDP Growth -1%	404

Loan performance in different macro-economic conditions

The performance of each loan in Stages 1 and 2 in the different macro-economic scenarios is determined by its sector. The table shows by sector the correlation between the macro-economic indicator and the PD of the client. As mentioned above the dependency of clients on general moratoria impacted the significant increase in credit risk classification for clients in several sectors. The global pandemic has also impacted the considerations on the correlation, resulting in increasing the correlations from low to medium or medium to high. The correlation used for the year end ECL calculation is provided in the below table.

Sector	Branches				
	The Netherlands	Belgium	United Kingdom	Spain	Germany
Organic farming	Low	Low	Medium	Low	Low
Organic food	Low	Low	Low	Low	Low
Renewable energy	None	None	Low	None	None
Sustainable property	Medium	Medium	Medium	Medium	Medium
Environmental technology	Low	Low	Low	Low	Low
Retail non-food	High	High	High	High	High
Production	Medium	Medium	Medium	Medium	Medium
Professional services	High	Low	Low	Low	Low
Recreation	High	High	High	High	High
Social housing	None	None	None	None	None
Education	Low	Low	Medium	Low	Low
Child care	Low	Low	Low	Low	Low
Health care	Low	Low	Low	Low	Low
Art and culture	Medium	Medium	High	Medium	Medium
Philosophy of life	Medium	Medium	Medium	Medium	Medium
Social projects	Low	Low	Low	Low	Low
Fair trade	Medium	Medium	Medium	Medium	Medium
Development cooperation	Low	Low	Low	Low	Low
Other	None	High	High	None	High

Impacted variable	Macroeconomic variable (delta)	Measurement unit of impact	Low	Medium	High
PD	GDP growth (-1%) or Market rate (+2%)	Number of notches	+1 notch	+2 notch	+3 notch

For example, if GDP correlation is low and the GDP growth is -1% rating of loans in that sector are impacted by 1 notch. Impact of notches can be seen in section financial instruments in the table where PD percentages are shown.

Predicted relationships between GDP and default and loss rates on various portfolios of financial assets are critical estimates that have been developed based on management judgement and analysis of historical data.

Fair values of financial assets and financial liabilities

Triodos Bank determines the fair values of those financial instruments measured at FVOCI and FVTPL periodically. Additionally, teh dair values of all financial instruments are disclosed. For more details on the measurement of fair values refer to Fair value of financial instruments (see page 257),

Vitality leave provision

Triodos Bank offers its employees employed by its Dutch legal entities and its UK subsidiary (Triodos Bank UK Limited) a long term benefit referred to as vitality leave.

Under the vitality leave program, employees who have worked for Triodos Bank for at least 7 full calendar years are eligible to take 2 months of vitality leave in addition to their annual vacation days. During the vitality leave employees receive reduced salaries, 70% of their usual monthly salary in the first month and 40% of their usual monthly salary in the second month.

In accordance with IAS 19 Employee Benefits Triodos Bank calculates a provision for the vitality leave as it is a long term benefit. There are multiple estimates and judgements included in this provision calculation, for example about the number of employees eligible for the leave, the probability of eligible employees taking the leave, retention rate of employees and salary increases.

Defined benefit plans

Defined benefit plans were present for Belgium during 2020. In Belgium, legislation prescribes a minimum yield 1.75% and requires the employer to compensate for this yield, in case the Insurer does not meet the minimum legal requirements. This minimum yield requirement results in an actuarial provision as recorded for the Belgian Branch.

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, staff turnover rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an ‘AA’ rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates . Staff turnover is based upon historic data and are reviewed annually.

Incremental borrowing rate leases

Triodos Bank can't readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that Triodos Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what Triodos Bank 'would have to pay', which requires estimation when no observable rates are available. Triodos Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as Triodos Bank's stand-alone credit rating).

Impairment Triodos Bank Head Offices

The Executive Board of Triodos Bank decided in December 2020 to sell the buildings located at the Nieuweroordweg 1 and Utrechtseweg 60 in Zeist and related to Triodos Head Office. See note 7 for further details and the basis for the estimate of carrying value to calculate the impairment.

Residual value Reehorst

In December 2019 Triodos Bank Netherlands and Investment Management moved in to the newly developed office the Reehorst. The innovative design is based on principles of the circulair economy and biomimicry. The design and production of materials are based on the structure derived from nature. The building is remountable and modular, build with sustainable and reusable materials.

Within common accounting policies the residual value of owned offices is set at zero, because this is standard and information on residual value is lacking. As this building is circulair and set up to have value in the future, Triodos Bank has investigated the residual value. This was captured in a report from a third party circulair demolishing company, in which the value of several reuseable components has been calulated. The value is achieved if the components are remounted as a whole in a new building, considering costs for removing. Based on this report Triodos Bank currently estimated the residual value of the Reehorst at EUR 3 million.

The residual value gets its value from the market in which components from the building can be reused. At this moment in time this market is in development and new building initiatives using reuseable materials as a starting point are few. Developments on these fronts and other changes (e.g. CO2-tax) can impact the residual value of the Reehorst in the future.

Comparison with previous years

Triodos Bank changed the accounting principles from Dutch GAAP to IFRS as approved by the EU as of 1 January 2018. The impact of this change is disclosed in the Pro forma IFRS consolidated financial statements of Triodos Bank NV as at 31 December 2019, in the chapter Effect of IFRS adoption on the consolidated balance sheet. The IFRS valuation principles and method of determining the result have been consistently applied over 2018, 2019 and 2020 unless it is stated that there was a change in accounting policy.

After the 2019 implementation of IFRS, Triodos Bank has refined its accounting policy in respect to the modification of financial assets. For comparability, the refinements are applied retrospectively in the 2019 comparative figures. The refinement has the following impact on the comparative figures:

Balance sheet	Original balance	Refinement adjustment	Adjusted balance
Loans and advances to customers	8,205,862	3,151	8,209,013
Deferred Tax Assets	17,040	-942	16,098
Retained earnings	204,459	1,127	205,586
Result for the period	37,923	1,082	39,005
Profit and loss accounts			
Interest income calculated using the effective interest method	213,506	-131	213,375
Impairment losses on financial instruments	5,353	-1,671	3,682
Taxation on operating result	-14,628	-458	-15,086
Net profit	**37,923**	**1,082**	**39,005**

Consolidation Principles

The consolidated financial statements include the financial data of Triodos Bank and its subsidiaries. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of subsidiaries are fully consolidated in the consolidated financial statements from the date that control commences until the date that control ceases.

In preparing the consolidated financial statements, inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

List of consolidated entities of Triodos Bank N.V.

Equity participations:

- Kantoor Buitenzorg B.V. in Zeist, participating interest 100%, group company, fully consolidated. This entity was liquidated in 2019;
- Kantoor Nieuweroord B.V. in Zeist, participating interest 100%, group company, fully consolidated. This entity was liquidated in 2019;
- Stichting Triodos Beleggersgiro in Zeist, group company, fully consolidated;
- Legal Owner Triodos Funds B.V. in Zeist, participating interest 100%, group company, fully consolidated;
- Triodos Finance B.V. in Zeist, participating interest 100%, group company, fully consolidated. This entity is in liquidation;
- Triodos IMMA BVBA in Brussel, participating interest 100%, group company, fully consolidated;
- Triodos Investment Management B.V. in Zeist, participating interest 100%, group company, fully consolidated;
- Triodos Investment Advisory Services B.V. in Zeist, participating interest 100%, group company, fully consolidated. This entity was liquidated in 2020;
- Triodos Nieuwbouw B.V. in Zeist, participating interest 100%, group company, fully consolidated. This entity was liquidated in 2019;
- Triodos Bank UK Ltd in Bristol, participating interest 100%, group company, fully consolidated.

Other controlled entities:
- Sinopel 2019 B.V. in Amsterdam established June 6, 2019, fully consolidated.

Securitisation

In 2019, Triodos executed its first retained residential mortgage backed securitisation (RMBS) transaction called Sinopel 2019 B.V. ("Sinopel").

A securitisation is a transaction where a pool of assets is sold to a special purpose vehicle. The special purpose vehicle issues notes with different tranches to finance the purchase price of the assets. With Sinopel Triodos Bank structured a retained RMBS whereby Triodos Bank is the sole buyer of the issued notes and has as such not transferred any credit risk. Through the retained RMBS, Triodos Bank strengthens its financial resilience and gains additional access to (central bank) liquidity by pledging the notes as collateral with the Dutch Central Bank. The Sinopel RMBS is collateralised by Dutch residential mortgages loans. The structure is fully compliant with the new Simple Transparent Standardised EU regulation. For notes issued by Sinopel 2019 B.V., the following ECAIs were involved: DBRS Ratings Limited and S&P Global Ratings Europe. As there is no risk transfer with the Sinopel transaction, the securitisation exposures (notes) are not risk weighted separately. The securitised assets (mortgage loans) are taken into account as if they were not securitised. Triodos Bank consolidates Sinopel in its annual accounts.

Apart from the Sinopel transaction Triodos Bank is not active as originator, investor or sponsor of securitisation exposures. As a result, Triodos Bank does not hold any re-securitisation positions and does not provide securitisation related services to any other SPV.

The notes of the securitisation are pledged as collateral. The carrying amount of the financial assets pledged as collateral is EUR 638.7 million (2019: 683.8 million).

Transactions in foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising from translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in Other Comprehensive Income (OCI):
- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see hedge of net investment in a foreign operation); and
- qualifying cash flow hedges to the extent that the hedge is effective.

Business operations abroad

The assets and liabilities of foreign operations are translated into euro at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to Non Controlling Interest (NCI).

Hedging of the net investment in business operations abroad

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. The effective portion of the change in fair value of the hedging instrument is computed with reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is fully or partially reclassified to profit or loss as a reclassification adjustment on disposal or partial disposal of the foreign operation, respectively.

Financial instruments

Triodos Bank recognises financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers initially on the trade date, i.e., the date on which Triodos Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. Triodos Bank recognises deposits from customers when funds are transferred to the Bank.

On initial recognition, financial instruments are measured at fair value. Subsequently they are classified in one of the following categories. Financial liabilities cannot be reclassified. Financial assets are only reclassified where there has been a change in the business model.

Designated as at fair value through profit or loss

A financial instrument may be designated as at fair value through profit or loss (hereafter 'FVTPL') only if such designation:

- eliminates or significantly reduces a measurement or recognition inconsistency;
- applies to a group of financial assets, financial liabilities or both, that Triodos Bank manages and evaluates on a fair value basis; or
- relates to a financial liability that contains an embedded derivative which is not evidently closely related to the host contract.

Financial assets that are designated on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss, and are subsequently measured at fair value. Gains and losses are recognised in profit or loss as they arise.

Amortised costs financial assets

A financial instrument may be measured at amortised cost if:

- the asset is held within a business model whose objective is solely to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the outstanding balance.

Triodos Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective, being the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the original expectations, Triodos Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing the newly originated or newly purchased financial assets going forward. Triodos Bank solely reclassifies financial assets when and only when its business model for managing assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

As a second step of the classification process is the assessment of the contractual terms of the financial asset to identify whether they meet the SPPI test. ‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, Triodos Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Equity instruments at fair value through other comprehensive income

Upon initial recognition, Triodos Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at fair value through other comprehensive income (hereafter 'FVOCI') when they meet the definition of definition of Equity and are not held for trading. This classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when Triodos Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Fair value through profit or loss

A financial liability is measured at fair value if it arises from: a financial guarantee contract; a commitment to lend at below market rates; an obligation arising from the failed sale of an asset; or a contingent consideration for a business acquisition. Fair value through profit or loss is the default classification for a financial asset.

Amortised cost financial liabilities

All financial liabilities that are not subsequently measured at fair value are measured at amortised cost, with interest accounted for using the effective interest rate method.

Application

To determine the appropriate method for subsequent measurement, an assessment is made of the business model of each portfolio of financial instruments. Business models are assessed at portfolio level, being the level at which they are managed. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives of the portfolio, its risk management and the ability to monitor sales of assets from a portfolio. The criteria for classifying cash flows as solely principal and interest are assessed against the contractual terms of a facility, with attention to leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest.

Impairment of financial assets

Allowances for expected credit losses (ECL) are calculated for all financial assets at amortised cost or FVOCI, regardless of whether they are in default.

Triodos Bank calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation of the EIR. A cash shortfall is the difference between the cash flows that are due to the entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

The allowance for expected credit losses is the outcome of the formula: PD x LGD x EAD.

Assets are classified into the following categories in line with IFRS 9:

- Stage 1: Assets that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month expected credit loss (ECL) is recognised and interest revenue is calculated on the gross carrying amount of the asset. 12-month ECLs are the expected credit losses that result from default events that are expected within 12 months after the reporting date.
- 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 interest income is still calculated on the gross carrying amount of the asset. Lifetime ECLs are the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- Stage 3: For assets that have objective evidence of impairment at the reporting date, lifetime ECLs are recognised and interest income is calculated on the net carrying amount.
- Purchased or originated credit impaired (POCI): For assets that have objective evidence of impairment at purchase or origination, lifetime ECLs are recognised and interest income is calculated using the credit adjusted effective interest rate on the net carrying amount.

Expected credit losses are a probability weighted estimate of credit losses, considering various scenarios. For doubtful debtors scenarios are specific to the circumstances of the debtor, whereas for all other debtors the scenarios are based on macro-economic conditions.

Triodos Bank has different approaches in determining the ECL. For corporate loans ECL for stages 1 and 2 Triodos Bank uses a model for calculating ECL, same goes for financial guarantees and loan commitments issued. For Stage 3 on business lending individual assessments are done. ECL for stages 1 to 3 for mortgage loans is calculated with the use of a model. The ECL on debt securities at amortised cost, loans and advances to banks are also calculated through a model, differing from the corporate loan and mortgage loan models. Refer to the sections Critical judgements and estimates (see page 112) and Credit risk (see page 216) for further information.

Significant increase in credit risk

When a financial instrument has a significant increase in credit risk since initial recogition, Triodos Bank transfers the instrument from Stage 1 to Stage 2.
In determining whether the risk of default on a financial instrument has increased significantly since initial recognition, Triodos Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Triodos Bank's historical experience and expert credit assessment and including forward-looking information, resulting in a credit risk grade, with an internal rating for larger corporate clients.

Triodos Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying judgement of experienced credit risk professionals. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate Exposures	Retail exposures	All exposures
– Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.	– Internally collected data on customer behaviour – e.g. utilisation of overdraft facilities.	– Payment record – this includes overdue status as well as a range of variables about payment ratios. Overdue payments can increase credit risk grade, with days past due over 90 days resulting in default status.
– Data from credit reference agencies, press articles, changes in external credit ratings.	– Affordability metrics.	– Utilisation of the granted limit.
– Quoted bond and credit default swap (CDS) prices for the borrower where available.	– External data from credit reference agencies, including industry-standard credit scores.	– Requests for and granting of forbearance.
– Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.		– Existing and forecast changes in business, financial and economic conditions.

The internal credit rating system comprises 14 ratings as explained in the impairment of financial assets accounting policy:

- Loans with initial ratings 1-3 are considered to exhibit a significant increase in credit risk if they are downgraded by four grades;
- Loans with initial ratings 4-7 are considered to exhibit a significant increase in credit risk if they are downgraded by three grades;
- Loans with initial ratings 8-9 are considered to exhibit a significant increase in credit risk if they are downgraded by two grades;
- Loans with initial ratings 10-12 are considered to exhibit a significant increase in credit risk if they are downgraded by one grade; and
- Loans with ratings of 14 are considered to be in default. Therefore a downgrade of a loan with rating 13 would put it in default.

Within the credit risk policy clients with total business loans above EUR 250 thousand are rated on an individual basis at least annually. Clients with retail mortgage loans and or total business loans below EUR 250 thousand have no rating appointed. The frequency depends on the debtor's creditworthiness, the degree of market exposure and the market in which the debtor operates. The credit committee discusses and, if necessary, takes action with respect to overdue payments from debtors. If there is any doubt regarding the continuity of the debtor's core operations and/or a debtor fails to settle agreed interest and repayment instalments for a prolonged period, this debtor falls under the category of defaulted and will be managed intensively.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Triodos Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators, for example placement of a loan on a watchlist; and
- a backstop of 30 days past due.

Triodos Bank determines probability of default based on its internal credit rating system for its larger corporate client, which comprises 14 grades. The table below includes the weighted average PD used in the ECL calculation per internal credit rating as determined at the end of current year.

Grading	12-month weighted-average PD
Grade 1	0.04%
Grade 2	0.09%
Grade 3	0.22%
Grade 4	0.54%
Grade 5	1.37%
Grade 6	2.39%
Grade 7	4.65%
Grade 8	8.68%
Grade 9	13.46%
Grade 10	23.18%
Grade 11	50.08%
Grade 12	53.61%
Grade 13	69.26%
Grade 14	In default

Loans are assessed at inception and subsequently periodically reassessed. Movements in the internal credit rating provide the basis to determine whether a significant increase in credit risk has occurred. The credit quality of all counterparties is reviewed and rated at least annually. In addition, Triodos Bank's focus on relationship management supports early identification of risk factors.

Definition of default

Triodos Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to Triodos Bank in full, without recourse by Triodos Bank to actions such as realising security (if any is held); or
- The borrower is more than 90 days past due on any material credit obligation to Triodos Bank.

Overdrafts are considered as being past due when:

- The customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, Triodos Bank considers indicators that are:
- Qualitative: e.g. breaches of covenant;
- Quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to Triodos Bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Triodos Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

Triodos Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Write-offs

Impaired loans are written off when Triodos Bank concludes that there is no longer any realistic prospect of recovery of part or all of the loan. For loans that are individually assessed for impairment, the timing of write-off is determined on a case-by-case basis. Such loans are reviewed regularly and write-off will be prompted by bankruptcy, insolvency, renegotiation and similar events. For all other financial instruments write-offs, if any, are also determined on a case-by-case basis.

Derecognition of financial assets and liabilities

FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. Triodos Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

Triodos Bank has transferred the financial asset if, and only if, either:
- Triodos Bank has transferred its contractual rights to receive cash flows from the financial asset

Or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement Pass-through arrangements are transactions whereby Triodos Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
- Triodos Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- Triodos Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- Triodos Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, Triodos Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- Triodos Bank has transferred substantially all the risks and rewards of the asset

Or

- Triodos Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset. Control is transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of continuing involvement, in which case, the associated liability is also recognised. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that have been retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that could be required to pay.

FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Modified assets and liabilities

Triodos Bank can make concessions or modifications to original terms of loans as a response to the borrower's request or financial difficulties.

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, Triodos Bank records a modification gain or loss. A modification is considered to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial asset of, or greater than, ten percent. Modified loans that had a prepayment clause with no or insignificant prepayment fee in their original terms, and modified loans for which the contractual prepayment fee was paid upon modification are considered to be prepaid and are therefore derecognised.

DERECOGNITION DUE TO SUBSTANTIAL MODIFICATION OF TERMS AND CONDITIONS

Triodos Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be credit impaired at recognition date triggering POCI classification.

When assessing whether or not to derecognise a loan to a customer, amongst others, Triodos Bank considers the following qualitative factors:

- Change in currency of the loan
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion
- Restructuring

If the difference between the net present value of the modified cash flows using the original effective interest rate and the carrying value is equal to or greater than ten percent of the carrying value, the modification is also deemed substantial.

When the loan has been renegotiated or modified but not derecognised, Triodos Bank also reassesses whether there has been a significant increase in credit risk, including classification as Stage 3.

FORBEARANCE

When the borrower is in financial difficulty, rather than taking possession or to otherwise enforce collection of collateral, terms of the loan(s) can be modified. Triodos Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and Triodos Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period, and;
- The customer does not have any contracts that are more than 30 days past due.

Hedge Accounting

Triodos Bank designates certain derivatives held for risk management as well as certain non derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, Triodos Bank formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. Triodos Bank makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the effective range.

Triodos Bank uses derivatives (principally interest rate swaps) for economic hedging purposes in the management of its asset and liability portfolios. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that risk exposure.

In addition to economic hedging, Triodos Bank also applies hedge accounting. The hedge accounting types are discussed below.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate. If the hedged item is derecognised any remaining adjustment to the carrying amount is recognised as part of the derecognition gain/loss.

Fair value hedges

Triodos Bank applies macro fair value hedge accounting to the hedges that are in place to hedge the interest rate risk of its longer term fixed-rate financial assets since 1 January 2020. See Change in accounting principles for further details. Under this hedging strategy the hedging instruments are in an economic hedge relationship with a portfolio of loans to cover interest rate risks.

Net investment hedge of a foreign operation

Triodos Bank hedges its net investment in Triodos Bank UK Limited, its subsidiary in England. The hedged risk is the foreign currency exposure arising from the net investment. Triodos Bank designates the hedged risk as the risk of the GB pound spot changes against the Euro, in order to reduce fluctuations in the value of the net investment in its subsidiaries due to movements in the GBP exchange rate. Triodos Bank makes use of foreign exchange forward contracts to hedge this risk. The derivatives are recorded at fair value on the balance sheet.

The fair value movements of these contracts are determined by the changes in spot foreign exchange rate, changes in the forward foreign exchange rate and the basis spread. The basis spread is identified as the transaction price of the foreign exchange forward contract, being the difference between the spot and forward rate in the contract. This is recorded on a systematic basis through profit or loss. Triodos Bank elects to use the cost of hedging method for the forward foreign exchange rate change and records these in a separate component within equity. The spot rate changes is, together with the changes in the hedge risk, recognized in the translation reserve.

Derivatives

Derivative financial instruments, consisting of foreign currency forward contracts and interest rate swaps, are initially recognized at fair value, with subsequent fair value movements at each balance sheet date in profit and loss. Triodos Bank uses interest rate swaps and foreign exchange forwards as derivatives. Interest rate swaps fair values are determined by discounted cash flow analysis against prevailing market interest rates. Foreign exchange forwards fair values are determined by the movement of the foreign exchange rate. Changes in the fair value are included in the profit and loss account, as result on financial transactions.

Derivatives embedded in contracts shall be separated from the host contract and accounted for separately at fair value if all the below criteria are met:

- The host contract is not a financial asset in scope of IFRS 9;
- The hybrid contract is not measured at fair value through profit and loss;
- The embedded derivative would meet the definition of a stand alone derivative;
- The embedded derivative is not closely related to the host contract.

Cash and cash equivalents

On the balance sheet, cash and cash equivalents comprise cash with central banks and cash in ATM machines. Cash and cash equivalents are carried at amortised cost on the balance sheet.

Loans and advances to banks

Loans and advances to banks are financial instruments initially measured at fair value plus incremental direct transaction costs, and subsequently at amortised cost less impairment allowance, using the effective interest method in accordance with the Financial Instruments paragraph in these accounting principles.

Loans and advances to customers

Loans and advances to customers are financial instruments initially measured at fair value plus incremental direct transaction costs, and subsequently at amortised cost less impairment allowance, using the effective interest method in accordance with the Financial Instruments paragraph in these accounting principles.

Debt securities at amortised cost

All debt securities at amortised cost are held in the investment portfolio. These are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method in accordance with the Financial Instruments paragraph in these accounting principles.

Investment securities

Investment securities include participating interests in other financial institutions either in equity or debt form. The participating interests in equity form are measured at FVOCI. The participating interest in debt form are measured at FVTPL. Triodos Bank classifies a participating interest as debt.

For securities that are listed on an active stock exchange, the fair value will be deemed to be equal to the most recently published stock exchange price. If the security is not listed on an active stock exchange or where there is no regular price quotation, the fair value will be determined to the best of one's ability using all available data, including an annual report audited by an external independent auditor, interim financial information from the institution and any other relevant data provided to Triodos Bank. Unrealised and realised changes in the value of investment securities at FVOCI are recognised in the other comprehensive income and will not be recycled to profit or loss. Unrealised and realised changes in the value of investment securities at FVPL are recognised in the profit or loss.

Intangible fixed assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the asset's estimated economic life using methods that best reflect the pattern of economic benefits. These estimated useful economic lives are:
- Internally developed assets: 5 to 10 years
- Computer software: 3 to 5 years
- Management contracts: 20 years

Direct costs relating to internally developed assets are capitalised once technical feasibility and economic viability have been established. These costs include co-worker costs and the costs of materials and services. Capitalisation of costs ceases when the asset is capable of operating as intended.

Research costs are recognised in the income statement.

During and after development, accumulated costs are reviewed for impairment against the benefits that the asset is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred.

The development costs for the banking system will be amortised over the estimated useful life from the moment the system is used, to a maximum of 10 years.

Management contracts paid by Triodos Bank when acquiring the participating interest in Triodos Investment Management BV will be written off over a period of 20 years till October 2026. The remaining depreciation period is six years as of the end of 2020.

Computer software that has been purchased will be written off over its useful life. This period will not exceed five years.

Property and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to profit or loss on a straight-line basis so as to write-off the depreciable amount of each item of property, plant and equipment over its estimated useful life. The depreciable amount is the cost of an asset less its residual value. Land for own use is not depreciated.

The estimated useful lives of Triodos Bank's property and equipment are:
- Property and leasehold property: 40 years (or lease term if shorter)
- Machinery: 3 to 5 years
- Furniture and fixtures: 5 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

Property under development is valued at the lower of the expenditure and the expected realised value upon completion. The expenditure consists of payments made to third parties. The difference between the proceeds on disposal of equipment and net carrying value is recognised in the profit and loss account under Other income.

Impairments expected on the balance sheet date are recorded in the profit and loss accounts. With regard to the determination as to whether a tangible fixed asset is subject to an impairment, please refer to note 7.

Investment Property

Investment property is initially measured at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Depreciation is determined in accordance with the accounting principles as stated in Property and equipment.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Leases

As a lessee

Triodos Bank assesses whether a contract is or contains a lease, at inception of a contract. Triodos Bank recognises a right of use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, Triodos Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Triodos Bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.
- Lease payments to be made under reasonably certain extension options.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Triodos Bank remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change due to a change in a floating interest rate, in which case a revised discount rate is used);
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever Triodos Bank incurs an obligation for costs to restore a leased asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Triodos Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The periodic impact in the profit or loss accounts are the depreciation charges on the right of use assets and the interest charges on the lease liability.

As a lessor

Triodos Bank enters into lease agreements as a lessor with respect to some of its office space.

Leases for which Triodos Bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Triodos Bank does not act as a lessor for any finance leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Impairment of intangible assets, property and equipment, right of use assets, and investment properties

At each balance sheet date, Triodos Bank assesses whether there is any indication that its intangible assets, property, plant and equipment, right of use assets, or investment properties are impaired. If any such indication exists, it estimates the recoverable amount of the asset and the impairment loss if any.

If an asset does not generate cash flows that are independent from those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell and its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been taken into account in estimating future cash flows. If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss.

If it is established that an impairment that was recognised in the past no longer exists or has reduced, the increased carrying amount of the asset concerned is set no higher than the carrying amount that would have been determined if no impairment value adjustment for the asset concerned had been reported. An impairment of goodwill cannot be reversed.

Other assets

Other assets are recognised initially at fair value and subsequently measured at amortised cost. For trade receivables an impairment provision is calculated in accordance with the simplified method detailed in IFRS 9 Financial Instruments.

Non-current assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

Non-current assets classified as held for sale are initially measured as the lower of;
- carrying amount; and
- fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Provisions and contingent liabilities

Triodos Bank recognises a provision when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Tax

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in profit or loss or equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that the asset will be recovered. Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Deferred tax assets and liabilities are offset where Triodos Bank has a legally enforceable right to offset, and where they relate to income taxes levied by the same taxation authority.

Deposits from banks and customers

Deposits from banks and customers are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Triodos Bank designates liabilities at FVTPL in accordance with the Financial Instruments paragraph in these accounting principles.

Other liabilities

On initial recognition other liabilities are recognised at fair value. After initial recognition other liabilities are recognised at the amortised cost price, being the amount received, taking into account premiums or discounts, less transaction costs. This usually is the nominal value.

Purchases of depository receipts for own shares

The purchasing and reissuing of depository receipts for own shares is charged or credited respectively to the Other reserves. Any balance remaining after the re-issuing of all own depository receipts purchased shall be placed at the disposal of the Annual General Meeting.

The Dutch Central Bank, as supervisor, grants permission on the request of Triodos Bank on a yearly basis the maximum amount of own depository receipts that may be acquired for market making purposes. For 2020 that maximum amount was determined at EUR 36.0 million (2019: EUR 28.3 million).

A decision to purchase own depository receipts may be made if the supply of existing depository receipts exceeds the demand for new depository receipts. For this, authority has been given to management by the Annual General Meeting.

Revaluation reserve

If revaluations have been recognised in the revaluation reserve after the deduction of relevant (deferred) tax liabilities, the gross result of the realised revaluations is recognised in the income statement. The corresponding release of the (deferred) tax liabilities is charged to the operating result as tax on the result.

Contingent liabilities and irrevocable facilities

Triodos Bank issues guarantees to clients which can be split in credit substitute and non-credit substitute guarantees. Credit substitute guarantees are similar to the financial guarantees identified under IFRS 9.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance.

The premium received is recognised in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

Irrevocable facilities are undrawn debit limits on current accounts and credit cards, accepted loans not yet paid out, valid loan offers not yet accepted and other facilities.

For undrawn loan commitments (accepted loans not yet paid out and valid loan offers net yet accepted), similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the consolidated balance sheet.

Revenue recognition

Net interest income recognition

Interest income or expense on financial instruments is determined using the effective interest rate method. The effective interest rate allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount.

Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Triodos Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the effective interest rate to the gross carrying amount. When a financial asset becomes credit impaired and is therefore regarded as 'Stage 3', the interest income is calculated by applying the effective interest rate to the net amortised cost.

Fee and commission income

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer, in line with the requirements of IFRS 15. The arrangements are always contractual and the cost of providing the service is incurred as each service is performed. The price is usually fixed and always determinable. In note 24 Net fee and commission income the different fee and commission income categories are explained, including when income is recognised.

Investment income

Investment income includes the net result on investments in equity instruments designated at fair value through other comprehensive income. This income includes dividend income.

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in investment income based on the underlying classification of the equity investment.

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

Net income from other financial instruments at FVTPL

Net income from other financial instruments at FVTPL includes the ineffective parts of applied hedge accounting, transactions results on foreign exchange forwards and net result on investments in debt instruments designated at fair value through profit and loss. The latter includes interest and dividend income.

Personal expenses

Pension schemes

Triodos Bank has a number of pension schemes. Premiums are paid based on contractual and voluntary basis to insurance companies on a defined contribution basis. Premiums are recognised as employee cost when they are due. Prepaid contributions are recognised as deferred assets if these lead to a refund or reduction of future payments. Contributions that are due but have not yet been paid are presented as liabilities. For more information please go to note 27.

The Belgian Branch has a minimum yield requirement to their pension scheme which results in an actuarial provision which is determined on each reporting date. Changes to the actuarial provision are charged to the profit or loss. The increase in the provision due to the passage of time is recognised as interest expense.

Short-term employee cost

Salaries, wages and social security contributions are charged to the income statement based on the terms of employment, where they are due to employees and the tax authorities respectively.

Taxation on operating result

Taxes are calculated on the pre-tax result on the basis of the applicable profit tax rates taking account of the losses available for set-off from previous financial years (to the extent that they have not already been included in the deferred tax assets) . Exempted profit items, deductible items, additions and differences between the balance sheet value and the fiscal value of particular assets and liabilities are taken into account.

Deferred tax items arising from differences between the balance sheet value and the fiscal value are valued at nominal value insofar these may be recovered through future profits (temporary differences).

Deferred tax assets arising from operating losses are reviewed at each reporting date. To the extent that future taxable profits do not exceed the tax losses recognised, an impairment loss is recognised.

Earnings per share

Earnings per share is calculated on the basis of the weighted average number of shares outstanding.

In calculating the weighted average number of shares outstanding:

- Own shares held by Triodos Bank are deducted from the total number of shares in issue;
- The computation is based on monthly averages.

Cash flow statement

The cashflow statement sets out the movement in Triodos Bank's funds, broken down into operating activities, investment activities and financing activities. The funds consist of cash and the on demand deposits with banks. The cashflow statement is produced using the indirect method and gives details of the source of cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, including banking activities, investment activities and financing activities. Movements in loans and receivables and interbank deposits are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as property and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Cash flows arise from foreign currency transactions are translated into euros using the exchange rates at the date of the cash flows.

Segment reporting

The segments (branches and subsidiaries) are reported in a manner consistent with the internal reporting provided to the Executive Board. This board is responsible for allocating resources and assessing performance. All transactions between segments are eliminated as intercompany revenues and expenses in Group Functions. Segment assets, liabilities, income and results are measured based on our accounting policies. Segment assets, liabilities, income and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Transactions between segments are conducted at arm's length. The geographical analyses are based on the location of the office from which the transactions are originated.

Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also entities which can control Triodos Bank are considered to be a related party. In addition, statutory directors and close relatives are regarded as related parties. Transactions with related parties are disclosed in the note 31. The nature, extent and other information is disclosed if this is necessary in order to provide the required insight.

Segregation of capital

Triodos Bank NV holds by its related parties Stichting Triodos Beleggersgiro and Triodos Nominees Ltd on behalf of their customers segregated from the assets and liabilities of the bank the following securities:

Amounts in thousands of euros	**2020**	**2019**
Triodos Fair Share Fund	313,125	363,220
Triodos Groenfonds NV	533,700	465,394
Triodos Sicav I	885,520	775,372
Triodos Sicav II	18,041	21,342
Triodos Vastgoedfonds NV	–	1,517
Triodos Impact Strategies NV	21,750	21,216
Triodos Impact Strategies II NV	64,325	54,952
Total as at 31 December	**1,836,461**	**1,703,013**

Triodos Impact Strategies N.V. holds on behalf of its sub-fund Triodos Multi Impact Fund as at 31 December 2020 EUR 6,513 thousand (2019: 6,151 thousand) of securities Triodos Fair Share Fund and EUR 3,956 thousand (2019: 4,476 thousand) of securities Triodos Groenfonds N.V.. These securities are included in the above mentioned values of securities in Triodos Fair Share Fund and Triodos Groenfonds N.V.