

Triodos  Bank

Annual Report 2020

Notes to the consolidated income statement

Income

21 Interest income calculated using the effective interest method

	2020	2019
Loans	202,201	196,632
Banks	2,442	1,864
Interest-bearing securities	12,043	13,182
Other investments	91	85
Negative interest expense other	3,964	1,612
Total interest income calculated using the effective interest method	220,741	213,375

The interest income includes revenues derived from loans and related transactions, as well as related commissions, which by their nature are similar to interest payments. The interest-bearing securities item does not include transaction results (2019: nil).

22 Interest expense

	2020	2019
Deposits from customers	-10,506	-16,743
Subordinated liabilities	-9	-
Deposits from banks	-782	-587
Negative interest income banks	-7,599	-7,770
Other	-2,719	-2,787
Negative interest income other	-973	-485
Total interest expense	-22,588	-28,372
Net interest income	198,153	185,003

23 Investment income

	2020	2019
Dividend from investment securities	449	679
Investment income	449	679

24 Net fee and commission income

Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services. The table also includes a reconciliation of the disaggregated fee and commission income with the Group's reportable segments.

The fees and commission presented in this note include income of € 13.6 million (2019: € 14.7 million) relating to financial assets and financial liabilities not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

Asset management fees include fees earned by Triodos Bank on trust and fiduciary activities in which the Triodos Bank holds or invests assets on behalf of its customers.

Triodos Bank doesn't have any contract assets or liabilities outstanding on balance sheet date.

<i>For the year ended 31 December</i>	Reportable							
	Bank Netherlands		Bank Belgium		Bank United Kingdom		Bank Spain	
	2020	2019	2020	2019	2020	2019	2020	2019
Transaction fee securities	2,159	1,936	-	-	-	-	51	75
Payment transactions	26,789	20,833	90	77	153	194	3,201	4,145
Lending	4,132	4,021	3,750	4,013	1,552	1,915	2,676	4,030
Asset Management	4,663	4,736	2,061	2,158	-	-	-	-
Management fees	-	-	2,347	1,406	525	478	215	178
Other commission income	-	-	-	-	1,345	1,066	3,723	3,380
Total fee and commission income from contracts with customers	37,743	31,526	8,248	7,654	3,575	3,653	9,866	11,808
Financial guarantee contracts and loan commitments	77	171	-	-	-	-	358	365
Total fee and commission income	37,820	31,697	8,248	7,654	3,575	3,653	10,224	12,173
Commission to agents	-	-	-121	-144	-	-	-2	-2
Asset Management	-614	-721	-	-	-	-	-	-
Other commission expense	-	-	-428	-328	-56	-382	-1,691	-1,872
Total Fee and commission expense	-614	-721	-549	-472	-56	-382	-1,693	-1,874
Net fee and commission income	37,206	30,976	7,699	7,182	3,519	3,271	8,531	10,299

Business segments									
Bank Germany		Total banking activities		Investment Management		Other		Total	
2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
-	-	2,210	2,011	-	-	-	-	2,210	2,011
1,681	1,123	31,914	26,372	-	-	-	-	31,914	26,372
917	66	13,027	14,045	-	-	-	-	13,027	14,045
-	-	6,724	6,894	-	-	-	-	6,724	6,894
-	-	3,087	2,062	49,464	54,046	1,387	1,583	53,938	57,691
710	515	5,778	4,961	-	-	2	19	5,780	4,980
3,308	1,704	62,740	56,345	49,464	54,046	1,389	1,602	113,593	111,993
163	174	598	710	-	-	-	-	598	710
3,471	1,878	63,338	57,055	49,464	54,046	1,389	1,602	114,191	112,703
-	-	-123	-146	-	-	-	-	-123	-146
-	-	-614	-721	-3,907	-2,865	-	-	-4,521	-3,586
-1,192	-1,099	-3,367	-3,681	-55	50	-	-	-3,422	-3,631
-1,192	-1,099	-4,104	-4,548	-3,962	-2,815	-	-	-8,066	-7,363
2,279	779	59,234	52,507	45,502	51,231	1,389	1,602	106,125	105,340

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. Triodos Bank recognises revenue when it transfers control over a service to a customer. The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
Transaction fee securities	Fee charged to customers for processing security transactions. Fee is charged when the transaction is settled.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Payment transactions	Fee charged for processing payment transactions of customers. Fee is charged when the transaction is processed.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Lending	Fee charged as part of the lending process, not an integral part of the effective interest rate. These fees are charged either at the start of the loan or during the lifetime.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset Management	Asset management fees include fees earned by Triodos Bank on trust and fiduciary activities in which the Triodos Bank holds or invests assets on behalf of its customers. Payment is due on at least quarterly basis.	Revenue from account service and servicing fees is recognised over time as the services are provided, at the latest on the moment of payment.
Management fees	Asset management fees include fees earned by Triodos Investment Management on asset management activities for clients or Triodos Investment Funds. Payment is due on at least quarterly basis.	Revenue from account service and servicing fees is recognised over time as the services are provided, at the latest on the moment of payment.
Other	These are other fees charged to clients. Payment is mostly due when transactions are settled.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

25 Net result from other financial instruments at FVTPL

	2020	2019
Net result on investment debt mandatorily at fair value through profit and loss:	-361	430
Net result from other financial instruments at FVTPL	-361	430

26 Other income

	2020	2019
Exchange results for foreign currency transactions	35	-138
Transaction results on currency forward contracts	56	108
Realized results assets not in use *	-	239
Income assets not in use *	181	246
Hedge accounting ineffectiveness	111	-15
Other income	350	300
Other income	733	740

* Assets not in use relates to acquired collateral on written off loans.

The other income relates to fees for other services performed and results from asset disposals.

Expenses

27 Personnel and other administrative expenses

	2020	2019
Personnel expenses		
• salary expenses	89,097	83,414
• pension expenses	11,893	11,146
• social security expenses	15,362	16,281
• temporary co-workers	18,610	18,619
• other staff costs	7,655	10,255
• capitalised co-worker costs	-7,981	-5,828
Personnel expenses	134,636	133,887
Other administrative expenses:		
• office costs	5,686	5,844
• IT costs	16,965	16,125
• external administration costs	11,028	9,846
• travel and lodging expenses	1,180	3,407
• fees for advice and independent auditor	10,133	10,363
• advertising charges	6,435	7,449
• accommodation expenses	5,525	6,063
• regulatory expenses	16,649	14,391
• other expenses	8,471	6,432
Other administrative expenses	82,072	79,920
	216,708	213,807
Average number FTE's during the year	1,408.7	1,345.6

Pension expenses

	2020	2019
Pension expenses, defined contribution schemes	11,893	11,146
Pension expenses, defined benefit pension schemes	-	-
	11,893	11,146

The pension expenses for the defined contribution schemes and the defined benefit pension schemes are based on the contributions owed for the financial year.

Pension scheme per country

Triodos Bank's pension scheme in The Netherlands is a defined contribution scheme. The commitment to the participating co-workers consists of paying the outstanding contribution to a maximum of the gross annual salary of EUR 110,111.

In The Netherlands, co-workers of related parties also participate in the pension scheme. The total pension commitment and the resulting expenses are reported here in note 27. Part of the expenses are charged to the respective related parties, based on their share of the total salaries of the participating co-workers.

The Triodos Bank pension schemes in the United Kingdom, Spain and Germany are defined contribution schemes that have been placed with life insurance companies in those countries. The commitment to the participating co-workers consists of paying any outstanding contribution. Participation in the pension scheme is obligatory for co-workers in Belgium, Spain and the United Kingdom. In Belgium the pension scheme is considered a defined benefit scheme for which co-workers' contribution is 2% of salary and the employer's contribution is 6%. In Spain, the pension contribution is 1.5% of salary, paid in full by the employer. In the United Kingdom, the co-workers' contributions are optional with those who opt to do so contributing between 1% and 20% of their salary, and the employer's contribution amounts to 8% or 10% of salary depending on length of service.

In Germany, participation in the pension scheme is voluntary. The co-workers' contribution is 3.33% of the salary and the employer's contribution is 6.67%. In Germany 98% of the co-workers participate in the pension scheme.

Independent auditor's fees

The table below specifies the fees of the PricewaterhouseCoopers Accountants N.V. ('PwC Accountants NV') audit firm that relates to services concerning the financial year.

The column Other PwC network specifies the fees that were invoiced by PwC units with the exception of PwC Accountants NV.

2020	PwC	Other	Total
	Accountants NV	PwC network	PwC network
Audit of the financial statements	1,568	592	2,160
Other audit-related engagements	229	274	503
Tax-related advisory services	-	-	-
Other non-audit services	-	-	-
Total	1,797	866	2,663
2019	PwC	Other	Total
	Accountants NV	PwC network	PwC network
Audit of the financial statements	1,149	582	1,731
Other audit-related engagements	144	8	152
Tax-related advisory services	-	-	-
Other non-audit services	-	-	-
Total	1,293	590	1,883

The increase of the audit fees mainly relates to the start of the subsidiary Triodos Bank UK Ltd and the preparation for the implementation of the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Our independent auditor, PwC Accountants NV, has rendered, for the period to which our statutory audit 2020 relates, in addition to the audit of the statutory financial statements the following services to the company and its controlled entities.

Other audit services required by law or regulatory requirements:

- Statutory audits of controlled entities
- Audit of Pro forma IFRS consolidated Financial Statements 2019
- Audit of the regulatory returns to be submitted to the Dutch Central Bank and the National Bank of Belgium
- Assurance engagement on cost price models to be submitted to the AFM
- Assurance engagement on segregation of assets to be submitted to the AFM
- Assurance engagement on TLTRO reporting to be submitted to the ECB
- Client Money and Custody Asset (CASS) Assurance Report
- Agreed upon procedures on interest rate risk to the Dutch Central Bank
- ISAE type II on DGS reporting to the Dutch Central Bank

Other audit services:

- Assurance engagement on the sustainability report
- ISAE type II engagement relating to Triodos Investment BV
- Assurance engagement on credit claims to the Dutch Central Bank
- Assurance engagement on credit claims to the Spanish Central Bank -
- Consent letter prospectus
- Review engagement on the interim condensed consolidated financial statements as of and for the six month period ended 30 June 2020

Regulatory expenses

The regulatory expenses can be broken down as follows:

	2020	2019
Bank tax	3,273	3,043
Depository Guarantee Scheme	12,196	10,488
Single resolution fund	1,180	860
	16,649	14,391

28 Depreciation, amortisation and value adjustments of property and equipment, and intangible assets

	2020	2019
Amortisation of intangible fixed assets	10,646	9,391
Impairment of intangible fixed assets	-	928
Amortisation & impairment charge for the year	10,646	10,319
Depreciation of property and equipment	12,812	10,119
Impairment of property and equipment	5,244	174
Depreciation & impairment charge for the year	18,056	10,293

Depreciation has been reduced by the part that is charged on to related parties.

29 Impairment losses on financial instruments

	2020	2019
Allowance for expected credit loss	23,915	3,324
Modification result	7	34
Correction on addition to provision doubtful debts regarding interest that has been invoiced but not received	-	-28
Other impairments financial instruments	291	352
Impairment losses on financial instruments for the year	24,213	3,682

30 Taxation on operating result

	2020	2019
Taxation to be paid	10,583	13,021
Origination and reversal of temporary differences	-3,101	1,675
Changes in tax rates	791	390
Deferred taxation	-2,310	2,065
Total taxation expense	8,273	15,086

	2020	2019
Corporate tax receivable	1,764	-
	2020	2019
Corporate tax payable	5,283	4,629
Other tax payable	11,257	10,186
Current tax payable	16,540	14,815

Amounts recognised in OCI

	2020			2019		
	Before tax	Tax (- expense) benefit	Net of tax	Before tax	Tax (- expense) benefit	Net of tax
<i>Items that will not be reclassified to profit or loss</i>						
Revaluation gains/(losses) on equity instruments designated at fair value through other comprehensive income	-4,821	1,161	-3,660	174	-123	51
<i>Items that are or may be reclassified subsequently to profit or loss</i>						
Foreign operations – foreign currency translation differences	-1,209	-	-1,209	120	-	120
Total amounts recognised in OCI	-6,030	1,161	-4,869	294	-123	171

The other comprehensive income for Triodos Bank consists of revaluations of equity instruments at fair value through OCI and foreign currency translation differences. Investment securities are the related balance sheet account for the revaluations, for which any realised result will not subsequently be taken into the profit or loss. The foreign currency translation difference relates to the UK subsidiary for the part not subject to the net investment hedge. Tax on both of these items can be subject to the participation exemption under Dutch Tax Law.

Reconciliation of effective tax rate

	2020	2019
Result before taxation	35,476	54,091
Statutory tax rate	25.0%	25.0%
Statutory tax amount	8,869	13,523
Income Non Taxable	-401	-284
Tax Deduction Not Expensed	-	-45
Expenses Non Deductible	1,146	1,831
Impact tax rate differences - stat rate foreign jurisdictions	-656	358
Restatement of deferred taxation items as the result of amended tax rates	791	390
Incentives for gifts, community investment and innovation	-1,084	-550
Other reconciling items	-392	-137
Effective tax amount	8,273	15,086
Effective tax rate	23.3%	27.9%

Triodos Bank is subject to income taxes in the Netherlands and several other jurisdictions which levy corporate income tax at different rates.

The effective tax rate ('ETR') amounted to 23.3% (2019: 27.9%) and differs from the theoretical rate that would arise using only the Dutch corporate tax rate (25%). Other than mentioned differences and changes in applicable local corporate income tax rates, the difference can partly be attributed to the non-taxable release of a provision regarding the closure of the credit intermediation office in France ad EUR 1.7 million in 2020.

Following the decision not to establish a banking branch in France, a provision was recognized of EUR 3.4 million in 2019. This provision was treated as a non-tax deductible expense under local tax legislation and therefore resulted in a higher ETR. The subsequent release of a part of the provision of EUR 1.7 million in 2020, following lower expenditure than originally anticipated, results in non-taxable income and therefore a lower ETR in 2020.

Movement in deferred tax balances

2020	Balance at 31 December					
	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Property and equipment, and intangible assets	-4,657	-203	-	-4,860	1,093	5,953
Investment securities at FVOCI	-573	77	1,161	665	76	-589
Effective interest method application	5,121	-578	-	4,543	2,901	-1,642
Allowance for expected credit losses	1,002	2,226	-	3,228	2,703	-524
Employee benefits	139	42	-	181	-	-181
Lease liability	208	-80	-	128	77	-51
Loan modifications	85	-38	-	47	46	-1
Tax losses carried forward	6,318	-200	-	6,118	7,488	1,372
Other	-584	1,064	-	480	480	-
Tax assets (liabilities)	7,059	2,310	1,161	10,530	14,864	4,337

2019	Balance at 31 December					
	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Property and equipment, and intangible assets	-3,740	-917	-	-4,657	1,699	6,356
Investment securities at FVOCI	-428	-21	-124	-573	194	767
Effective interest method application	5,644	-523	-	5,121	5,295	174
Allowance for expected credit losses	1,060	-58	-	1,002	1,002	-
Employee benefits - Vitality leave	99	40	-	139	139	-
Lease liability	90	118	-	208	208	-
Loan modifications	119	-34	-	85	85	-
Tax losses carried forward	6,897	-579	-	6,318	7,802	1,485
Other	-493	-91	-	-584	-326	283
Tax assets (liabilities)	9,248	-2,065	-124	7,059	16,098	9,065

Deferred tax balances

	2020		2019	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current balance	1,300	-219	1,431	1,092
Non-current balance	13,564	4,556	14,667	7,973
Total	14,864	4,337	16,098	9,065

The deferred tax asset relates for an amount of EUR 6.8 million (2019: EUR 7.3 million) to tax losses incurred by the German branch for which it is expected that these will be fully recovered against future profits. Compensation is expected in the coming years. Under the German corporate income tax code tax losses have no expiration date. The remaining deferred tax asset relates to temporary differences because of differences between accounting rules and tax rules.

The deferred tax liability relates for an amount of EUR 1.4 million (2019: 1.5 million) to a taxable temporary difference following the tax losses incurred by the German branch over the period 2009 – 2011 amounting to EUR 6.8 million which have been offset against taxable income in the Triodos Dutch corporate income tax return over the same period. The Dutch corporate income tax act 1969 allowed income tax deduction on losses incurred by foreign branches of a Dutch resident taxpayer in so far that these tax losses could not be recovered in the country of residence till 2011. This Dutch income tax deduction is subsequently reversed when the branch recovers profitability and the incurred tax losses are offset in the local income tax return, resulting in a taxable temporary difference. Under the German corporate income tax code tax losses have no expiration date.

Fiscal unity

Triodos Bank, as a parent company, forms a tax unity for corporate income tax purposes with Triodos Investment Management as subsidiary. The method chosen for the taxation set-off between Triodos Bank and its subsidiary is that of proceeding as if the legal entities were independently liable to pay tax. In fact, the legal entities are jointly and severally liable for the tax liabilities of the companies belonging to the fiscal unity.

31 Related Parties

Triodos Bank enters into various transactions with related parties, as part of the normal course of business,

Related parties of Triodos Bank include, among others, its subsidiaries, associates and key management personnel. Transactions between related parties include rendering or receiving of services, deposits, transfers under finance arrangements and provisions of guarantees or collateral. All transactions with related parties took place at arm's length.

There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Overview of related parties transactions

	Other related parties	Associates and joint ventures
Commission income	49,295	
Commission expenses	3,695	
Deposits	149,439	
Interest income	400	
Loan facilities and loan commitments (off balance)	100,000	
Loans	6,135	1,000

Transactions with related parties

The commission income and commission expenses are related to fund management activities. The deposits and interest income are transactions following from regular banking activities, which are offered to the related parties at competitive rates. These transactions are interest free and unsecured and are to be settled in cash.

Loans

The loan granted to associates is a subordinated loan provided to Merkur Bank. The maturity date of this loan is 30th of April 2026, to be settled in cash. The interest rate charged is 5%.

The loans granted to other related parties are provided to Hivos-Triodos Fund Foundation. The 6.135K consists of two loans that both mature on the 1st of January 2022, to be settled in cash. The interest rates on the loans are 2.63% and 3% respectively.

Loan commitments and facilities off balance

The loan commitments and facilities are off balance sheet credit facilities of TBNL that can be drawn upon by the other related parties.

These facilities are secured by means of collateral in the form of fund assets that cover the facility provided in full.

Key management personnel compensation

Transactions with key management personnel are transactions with related parties. The members of the Executive Board, supervisory board and the board of SAAT are considered to be key management personnel and their compensation is therefore included in the tables below.

The remuneration paid to the members of the Executive Board is as follows:

	2020	2019
Fixed salary expenses	1,091	803
Pension expenses	90	73
Pension allowance for salary above € 100.000	136	115
Private use company car	4	4
Social security expenses	48	41
Severance payment ¹⁾	320	263
	1,689	1,299

¹⁾In consultation with the Supervisory Board, Peter Blom announced to step down from his position as a Member of the Executive Board of Triodos Bank N.V. at the AGM 2021. A severance payment of 100% of his yearly salary was granted. This is in line with applicable regulations and will be paid out in 2021. Also in consultation with the Supervisory Board, Pierre Aeby stepped down from his position as a Member of the Executive Board of Triodos Bank N.V. on 18 May 2019. A severance payment of 100% of his yearly salary was granted. This was also in line with applicable regulations. The severance payment was paid out in 2020.

Other emoluments of the Executive Board:

	2020	2019
Total other emoluments	38	-

The other emoluments relate to costs associated with relocation to the Netherlands.

Remuneration paid to the Supervisory Board:

	2020	2019
Total compensation	172,000	149,681

Remuneration paid to the Board of SAAT

	2020	2019
Total compensation	40,750	62,834

Loans and advances to key management personnel

The table below provides the loans that have been granted to the members of the Executive Board.

	2020 Amount outstanding	2020 Average interest rate	2020 Repayments	2019 Amount outstanding	2019 Average interest rate	2019 Repayments
Jellie Banga	421	1.7%	12	433	1.7%	31

No other loans, advances or guarantees have been granted to members of the Executive Board, Supervisory Board members or members of Board of SAAT. For reasons of principle, no share option scheme is offered to members of the Executive Board, Supervisory Board members or members of Board of SAAT.

32 Subsequent events

The end of 2020 was marked by an increasing number of Covid-19 infections across Europe leading to additional measures taken in the affected countries. The economic consequences for vulnerable individuals and firms resulted in additional governmental support. Triodos Bank monitors the potential and social implications for the countries and sectors where it is active. Mitigating actions have been taken and will be adapted as necessary as we keep on supporting our customers. The uncertainties and sensitivity that accompanies the pandemic is captured in the allowance for expected credit losses as calculated by Triodos Bank. The reflection of this ongoing event has therefore been captured in the financial valuations as per 31 December.

Triodos Bank has temporarily stopped offering depository receipts as from 5 January 2021. A trade pattern has emerged where the number of sell orders outweighs the number of buy orders for Depository Receipts. This trend emerges despite the financial health of the bank, as our capital and liquidity ratios remain well above regulatory minimum levels. The ongoing uncertainty around the Corona crisis and its longer-term economic effects have not disappeared, on the contrary, further lockdown and other restrictions are seen globally. Relevant measures are investigated to achieve balanced trading. The details of possible new measures are considered relevant information for making an informed investment decision.

Peter Blom, our CEO, has decided to step down from his role, having worked at Triodos Bank for forty years. He will leave Triodos Bank at the end of this year's Annual General Meeting, on 21 May 2021.

Jellie Banga decided to step down from her role as Vice-Chair of the Executive Board and the Chief Operating Officer effective May 1, 2021. In reviewing the scope of Jellie's role, Triodos Bank has decided to split her role into a COO role – focusing on the operating side of the bank – and a Chief Commercial Officer (CCO) role - focusing on the commercial side of the bank. This will bring the total number of Executive Board members to five.

Fitch Ratings (Fitch) announced on 16 February 2021 it has assigned Triodos Bank a Long-Term Issuer Default rating at 'BBB' with a stable outlook and a Viability Rating at 'bbb'. Fitch's rating analysis was done at the request of Triodos Bank. The rating gives Triodos Bank a better position on the financial markets should the need arise. It will improve access to institutional debt funding and potentially reduce the cost of funding. Therefore, it supports the bank's financial health. The Stable Outlook reflects Fitch's view that Triodos Bank's ratings have sufficient headroom at their current level to absorb significant shocks under various scenarios to Fitch's baseline economic forecast.