Triodos Bank UK Limited Annual Report 2022

Triodos Bank

Annual Report for the year ended 31 December 2022

Triodos Bank UK Limited

Registered office

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Bristol BS1 5AS
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Website: www.triodos.co.uk

Triodos Bank UK Limited is a private company limited by shares, incorporated in the United Kingdom and registered in England & Wales with company number: 11379025. Triodos Bank UK Limited is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. Financial Services Registration Number: 817008.

Board of Directors

Gary Page	Chair, Independent Non-Executive Director	
Richard Burrett	Independent Non-Executive Director	
Karen Furlong	Independent Non-Executive Director	
Keith Bevan	Independent Non-Executive Director	From 1 July 2022
Pierre Aeby	Non-Executive Director	Until 31 March 2022
Wibout de Klijne	Non-Executive Director	From 1 April 2022
Alessandra Mongiardino	Non-Executive Director	From 1 January 2023
Bevis Watts	Executive Director	
Sian Williams	Executive Director	From 1 January 2023

Company secretary

Tania Deitch	Corporate Secretary	From 13 July 2022 until 13 March 2023

Management team

Bevis Watts	Chief Executive Officer	
Richard Ingle	Chief Financial Officer	Until 31 July 2022
Sarah Ball	Chief Financial Officer	From 1 August 2022
Sian Williams	Chief Risk Officer	
Judy Rose	Chief Operating Officer	
Gwyn Rhodes	Director of Business Banking	Until 26 January 2023
Phillip Bate	Acting Director of Business Banking	From 30 January 2023
Gareth Griffiths	Director of Retail Banking	Until 31 May 2022
Sharon Graves	Acting Head of Retail Banking	From 1 June 2022 Until 4 September 2022
Roger Hattam	Director of Retail Banking	From 5 September 2022
Zoe Sear	Director of Marketing & Communications	
Ann Evans	Director of Human Resources	Until 13 February 2022
Catherine Ridd	Director of Human Resources	From 14 February 2022
Stefan Hargrave	Head of Internal Audit	

Independent auditors

PricewaterhouseCoopers LLP
2 Glass Wharf
Temple Quay
Bristol BS2 0FR

Mission

Triodos Bank's mission is to help create a society that protects and promotes quality of life and human dignity for all. Since 1980, our sustainable financial products have enabled individuals and organisations to use their money in ways that benefit people and the environment.

Triodos Bank

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Strategic Report

Strategic Report

Triodos Bank is a global pioneer in sustainable banking, using the power of finance to support projects that benefit people and the planet. We believe that banking can be a powerful force for good: serving individuals and communities as well as building a more sustainable society. We support our customers to generate value in a transparent and sustainable way.

Triodos Bank has operated in the UK since 1995, however in 2019 Triodos Bank UK Limited, a private company limited by shares, was established due to the UK's departure from the European Union. Triodos Bank UK Limited (hereafter in this report 'the Bank' or 'Triodos Bank UK') is a wholly owned subsidiary of Triodos Bank N.V. (incorporated in the Netherlands) and is fully aligned to the mission and business strategy as part of Triodos Bank N.V. (hereafter in this report 'Triodos Bank').

Triodos Bank UK is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA).

Fair review of the business

Triodos Bank UK is a traditional retail deposit-funded lending operation, supporting primarily 'Small to Medium-sized Enterprises' whose objectives are aligned with those of the Bank. Recent growth has been organic, attracting borrowers and savers with ambitions aligned with the Bank's: to make money work for positive social, environmental and cultural change.

Triodos Bank UK adopts and fully aligns to the mission, purpose and values of Triodos Bank. The purpose of Triodos Bank is reflected through the strategy, policies and procedures which embed a positive corporate, risk management and conduct risk management culture. These values also support the Bank's commitment to ensuring the fair treatment of its customers and ensuring that the products and services provided continue to meet customer demands and needs.

The companies, institutions and projects to whom Triodos Bank UK lends 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.

Triodos Bank UK offers the following products and services:

- Savings products and current accounts for customers;
- Loan products to mission-aligned organisations;
- Investment products in the form of impact investment funds;
- Direct investment in the form of corporate bonds and direct capital investments in mission-aligned organisations and projects; and
- Corporate finance advice to organisations to structure appropriate capital and fund raising, including via a crowdfunding platform.

The current footprint of Triodos Bank UK relative to the size of the UK economy is small, but there is considerable demand for a more conscious and sustainable form of banking in the UK, which delivers benefit for Triodos Bank UK customers, society and the financial system.

Triodos Bank UK's balance sheet is funded by customer deposits and equity and has a loans to funds entrusted (deposits) ratio as at 31 December 2022 of 68%. Customer deposits, combined with capital, including the share capital provided by the parent company, support a healthy liquidity position and a Liquidity Coverage Ratio (LCR) as at 31 December 2022 of 443%. This aligns with the Triodos Bank business model to have self-supporting balance sheets across the corporate group over the medium term, with little or no reliance on wholesale funding.

Highlights from 2022

It is widely acknowledged that it was a year of turbulence and uncertainty globally and particularly in the UK, even after the difficult pandemic years that came before. In these tumultuous times, long-standing global and societal issues like climate change and inequality, can often feel like they are being side-lined. However, as we rebuild our economy, if we are to avoid future crises then we cannot simply follow the status quo. Triodos Bank UK's role continues to be about challenging the existing narrative and championing a new way to do finance that's good for people and planet.

We continue to offer personal current accounts, savings, impact investments, business lending, corporate finance advisory and more, all with the intention of putting money to work delivering positive impact – changing lives, protecting the environment and building stronger communities. Our position as the UK's leading sustainable bank was confirmed by winning 'Best Ethical Financial Provider' at the British Bank Awards 2022, being again named as 'Best Buy' for personal current accounts and savings by the Ethical Consumer magazine and re-certifying as a B Corporation with a high score of 131. B Corp Certification is a designation that demonstrates the business is meeting high standards of verified performance, accountability, and transparency on factors from employee benefits and charitable giving to supply chain practices and input materials. We were also rated Top 3 for customer experience out of all UK banks and building societies by Fairer Finance.

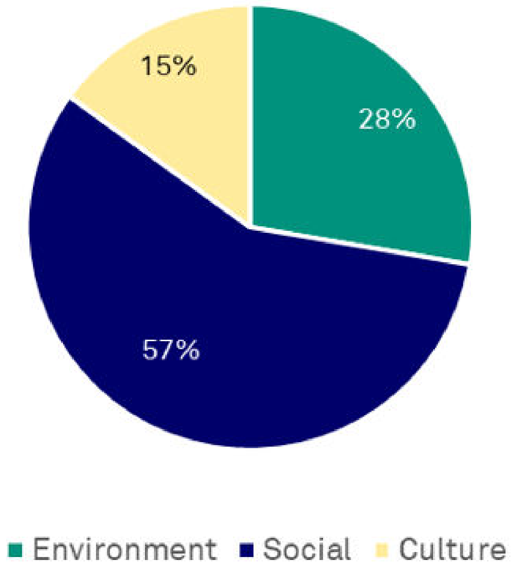
With a clear focus on making money work for positive social, environmental and cultural change in the real economy, we have a proven model for what successful sustainable banking looks like. Our lending supported areas such as affordable green homes and community renewable energy and education providers, small businesses and charities. In addition, we explored new impactful sectors, for example our first loan to a rewilding project will enable the creation of a new 460-acre nature reserve in Somerset.

The Triodos Bank UK Annual Meeting took place in virtual format hosted by Gillian Burke (presenter of BBC Springwatch and a customer of the Bank) and featured many inspiring customers. We are fortunate to have high-profile customers that are prepared to advocate for the Bank, including the likes of Chris Packham and clean air campaigner Rosamund Adoo-Kissi-Debrah. Our 'Refer A Friend' advocacy scheme generated referrals from our customers raising nearly £10,000 for our charity partners Friends of the Earth, RSPB and Soil Association in 2022 alone.

Development and performance of the business during the year

During the year Triodos Bank UK made a profit after tax of £9.2 million, which equates to a return on equity of 4.8%. This compares to profit after tax for 2021 of £7.8 million (4.3% return on equity). The key events in the year and the primary drivers of the financial performance are described in more detail below.

Loans and advances to customers
Gross new lending in the year totalled £131 million (2021: £183 million). Total loans and advances to customers contracted 1% in the year; from £1,132 million to £1,121 million mainly due to higher than expected early repayments in a rising interest rate environment and economic uncertainty. The year-end lending by value can be broken down per sector as follows:



Our gross new lending of £131m is an important indicator of the contribution Triodos Bank UK makes towards a more sustainable economy. All loans and investments made are designed to improve social and environmental sustainability and the quality of life for communities; thereby contributing to delivering Triodos Bank UK's mission.

To make sure that Triodos Bank UK only finances sustainable enterprise, potential borrowers are first assessed on the added value they create, ensuring selected projects meet our positive screening criteria and are above our minimum standards. The risk and return of a prospective loan are then assessed, and a decision made about whether it is a responsible banking option. The criteria and guidelines Triodos Bank UK use to assess companies can be viewed at www.triodos.co.uk/about-us.

Triodos Bank UK's focus remains on the existing sectors in which it has already developed considerable expertise and where it considers further growth, diversification and innovation to be possible.

<u>Environment (28% of lending value; 2021: 27%)</u>
This sector consists of renewable energy projects such as wind and solar power, hydro-electric, heat and cold storage, and energy saving projects. It also includes organic agriculture and projects across the entire agricultural chain, from farms, processors and wholesale companies to natural food shops. The decarbonisation of transport and recycling of resources is also included.

<u>Social (57% of lending value; 2021: 58%)</u>
This sector includes loans to traditional businesses or non-profit organisations, innovative enterprises, and service providers with clear social objectives, such as social housing, fair trade businesses, integration for people with disabilities or at risk of social exclusion and health care institutions.

<u>Culture (15% by lending value; 2021: 15%)</u>
This sector covers loans to organisations working in education, retreat centres, religious groups, cultural centres and organisations, and artists.

Customer accounts
Customer accounts are current accounts, and variable and fixed term savings accounts for individuals or businesses, the majority of which are small or medium sized. Triodos Bank UK's customer account balances grew 2% in the year from £1,608 million to £1,642 million.

Net interest income
Net interest income for the year was £45.4 million (2021: £36.2 million). The increase was driven by Triodos Bank UK's response to the Bank of England Base Rate (BBR) rises where rates earned on loans and liquidity balances were increased, offset by the increase on rates charged on funds entrusted balances. From the point of the first BBR rise from 0.1% in December 2021 to the December 2022 BBR rise to 3.50% Triodos Bank UK adjusted the non-contractual deposit rates payable to pass through on average 52% of the BBR rises to customers.

Net fee and commission income
Net fee and commission income for the year totalled £2.4 million (2021: £2.7 million). This is derived from lending, payment transactions, corporate finance, and Triodos Investment Management B.V. impact fund distribution activities.

Operating expenses
Total operating expenses for the year were £32.8 million (2021: £28.5 million), of which

£15.5 million (2021: £12.1 million) were co-worker costs and £8.9 million (2021: £7.6 million) were intercompany recharges from the parent company, Triodos Bank N.V. These recharges cover the costs of IT services and development and other general overheads.

Triodos Bank UK's cost income ratio for the year was 68.5% (2021: 72.8%).

Impairments
During the year, impairment charges for financial assets and off-balance sheet liabilities of £4.9 million (2021: £2.2 million) were recognised under the expected credit loss method required by International Financial Reporting Standard 9 (IFRS 9) reflecting credit deterioration through 2022 from UK economic developments. For more information on credit risk policies see the accounting policies section of the financial statements below and for more information on credit risk in the portfolio see Note 26.

Capital
Triodos Bank UK's regulatory capital consists of Common Equity Tier 1 (CET1) capital, which includes ordinary share capital, retained earnings and reserves after adjustment for intangible assets; and Tier 2 Bonds issued in December 2020. All ordinary share capital is held by the Bank's parent company, Triodos Bank N.V.

Triodos Bank UK's policy is to maintain a sound capital base to provide an adequate buffer in a severe stress scenario and thereby to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on the shareholder's returns is also recognised and Triodos Bank UK maintains a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a stronger capital position.

Triodos Bank UK's approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the capital resources requirement to available capital resources. Triodos Bank UK had a Total Capital Ratio (TCR) requirement from the regulator of 18.1% at the end of the period. Prior to the year end, the regulator communicated a reduction to 15.3% from January 2023 following the review of the latest Internal Capital Adequacy Assessment Process (ICAAP) but is expected to increase up to 16.3% by December 2023 due to an announced increase to the Countercyclical Capital Buffer (CCyB).

Triodos Bank UK manages its activities to comply with all externally imposed capital requirements and ended the year with a CET1 ratio of 21.6% (2021: 21.2%) and a total capital ratio of 22.2% (2021: 21.8%).

Liquidity
Triodos Bank UK's lending is funded entirely by customer deposits, equity, and the Tier 2 eligible bonds, resulting in a strong liquidity position. At year end, and at all times throughout the year, Triodos Bank UK was significantly in excess of all liquidity targets and requirements; its Liquidity Coverage Ratio (LCR) at year end was 443% (2021: 414%).

See Note 26 for more information.

Outlook
Triodos Bank UK expects to continue to grow its lending, customer accounts and other income streams with customers that are aligned to the Triodos Bank mission. Careful investment will enable Triodos Bank UK to grow its income streams, alongside careful management of its cost base, resulting in improved profitability.

Key performance indicators

The key metrics used by the Board and senior management to measure performance are shown below, along with their comparative values at and for the year ended 31 December 2021 and 31 December 2020:

Key performance indicator	2022	2021	2020
Loans and advances to customers	£1,121 million	£1,132 million	£1,070 million
Customer account balances	£1,642 million	£1,608 million	£1,413 million
Common equity tier 1 ratio	21.6%	21.2%	22.6%
Total capital ratio	22.2%	21.8%	23.4%
Leverage ratio	11.7%	9.31%	10.1%
Liquidity coverage ratio	443%	414%	414%
Operating expenses / total income	68.5%	72.8%	73.9%
Return on equity	4.8%	4.3%	3.2%
Number of co-workers[1]	278	231	208

[1] Group reporting definition that excludes interns, apprentices and seconded co-workers.

Customers

At year end, Triodos Bank UK had 87,896 customers: an increase of 4% during 2022 with this being a year of development changes across most products. For our Personal Current Account, we continue to see consistent net gains from the Current Account Switching Service (CASS).

There were 1,033 customer complaints logged in the year (2021: 581). Of these, 39% of complaints were upheld. Two thirds related to current accounts. Much of the increase reflects the growth in transactional accounts within our customer base and our cautious approach to the roll out of increasing industry standards regarding secure customer authentication and protecting customers from fraud which resulted in higher levels of card declines, extra security for payments and increasing authentication on our mobile banking application.

Actions to support and mitigate these issues have been undertaken, with supporting quality assurance activity in order to ensure fair customer outcomes. Complaints are reviewed monthly via a separate root cause forum, a monthly complaints forum and a quarterly customer forum with relevant issues identified for escalation. The volume of complaints in relation to product volumes are in line with our risk tolerances, monitored as part of conduct risk Key Performance Indicators (KPIs).

As a result of more than 500 complaints being recorded for the second half of the year, extra analysis is required by the FCA where more granular root cause reporting must be undertaken and the Bank's complaints report that is submitted to the Financial Ombudsman Service (FOS) will be published externally. 26 complaints were referred to the FOS in 2022, an increase of 53% on 2021, but only one of the cases resulted in having the decision overturned. This is only the second time we have had a decision overturned by the FOS and at a rate of 4% of referred complaints is significantly lower than the 37% overturn rate reported by the FOS for Banks (excluding PPI complaints).

Co-workers

The Bank's mission has human dignity and quality of life central to all that we do, and this is integral to how we support our co-workers to achieve success. Our people strategy is designed to support our mission, by creating an environment in which our diverse and inclusive community of co-workers can thrive as healthy and resilient people, delivering sustainable high performance and social, cultural, and environmental impact.

As the COVID-19 pandemic has receded during 2022, we have embraced flexible and hybrid working, adopting a principles-based approach with agreements decided at a team level about how to harness the benefits of both remote and office working, balancing business need with individual preference to enable all co-workers to be their best at work. Like many employers, we remain on a journey regarding new ways of working and continue to explore how best to maintain connection with each other and with the Bank's mission and purpose in a hybrid world.

Flexible working supports co-worker inclusion and wellbeing, and the Bank has taken additional steps this year to support co-worker wellbeing, recognising the impact that the economic environment and inflationary pressures have had on our co-workers. Financial wellbeing sessions were held in partnership with Great Western Credit Union including one to one support and in August 2022, a £1,000 "cost of living" payment was made to all co-workers receiving a salary of £31,500 or less. Our co-worker benefits also underwent a comprehensive review with improvements including increased annual leave entitlement, increased health cash plan provision, 100% increase in wellbeing allowance and an additional wellbeing day off per year.

At year end, Triodos Bank UK employed 278 people (261.2 FTE), with voluntary attrition at 18.33%. Overall, the gender ratio is 47% male, 53% female. At senior management level, which includes the Board of Directors down to the Senior Management Team (SMT), the gender ratio is 57% male, 43% female. From 1 January 2023, following the addition of Alessandra Mongiardino to the Board as a Non-Executive Director, senior management level gender ratio is 53% male, 47% female. Board diversity is covered within the Directors' Report below.

Equity, Diversity and Inclusion (EDI) continued to be an important focus during 2022 and creating a co-worker population representative of our customers and communities remained a priority. Triodos Bank UK benchmarks itself against local and national data, aiming to attract and recruit individuals from under-represented sectors of the communities in which we operate. Following its EDI strategy established in 2018, the Bank has gone from less than 10% of offers to minority ethnic candidates in 2019 to 27% offers to minority ethnic candidates in 2022, up from 22% in 2021. This is a higher level of minority ethnic representation than exists in Bristol (17%) where the UK Head Office is located. Further details about our EDI agenda are set out under Equity Diversity and Inclusion in the Principal Risks & Uncertainties section below.

Triodos Bank UK measures and monitors its gender pay gap. It was published externally in November 2022, although the bank was not legally obliged to do so. This 2021 data showed a 21.8% gender pay gap, driven primarily by a larger proportion of men in middle management roles. Triodos Bank UK ultimately wishes to achieve a zero pay-gap, and a road map was developed in 2021 to identify some key areas of focus to reduce it. 2022 data will be published in April 2023. Actions such as the use of inclusive language, flexible contracts and targeted advertisements are all ways in which to improve the attractiveness of Triodos to senior women and the Bank will also seek to understand any perceived barriers to progression by female co-workers.

Pay ratios (highest to median salaries) for Triodos Bank UK are published as part of the consolidated Triodos Bank Annual Report and in line with an International Remuneration Policy. Triodos Bank Group does not pay individual bonuses as we do not consider financial incentives an appropriate way to motivate and reward co-workers in a values-based bank.

Environment

The mission of Triodos Bank UK means that we finance enterprises that make a positive environmental difference as well as taking great care of our own environmental performance. All the lending of Triodos Bank UK is subject to lending criteria that minimise negative impacts and promote environmental benefits. As a corporate group, Triodos Bank measures the environmental impact of our operations and the impact of our portfolio.

Full details and a comprehensive description of our approach and methodology as well as reporting required under the UK Streamlined Energy and Carbon Reporting (SECR) Regulations for a 'large unquoted organisation' can be found within the GHG emissions, energy consumption and energy efficiency section of the Directors' Report.

Triodos Bank published its Net Zero Strategy in November 2021. This strategy sets out our aim to achieve Net Zero as early as possible and at the latest by 2035. This challenging but realistic target will require us to intensify our collaboration with clients, customers, and other stakeholders in order to reduce emissions, whilst also considering wider issues such as biodiversity and social inclusion.

Progress towards achieving Net Zero will be measured in line with the recommendations of the Taskforce for Climate Related Financial Disclosures (TCFD). The emissions of our SME loan portfolios and direct investments have been measured using the Partnership for Carbon Accounting Financials (PCAF) standards.

Climate

The Triodos Bank UK mission, purpose and values ensure that we attract and partner with businesses that add cultural value, are socially responsible and support a sustainable society. As a result, we have a lower than industry average exposure to the Financial Risks of Climate Change (FRCC). Despite this, we acknowledge that some of our customers will be exposed to future costs associated with (i) physical risks relating to weather events and longer-term shifts in the climate and (ii) transition risks arising from the process of adjustment towards a low-carbon economy. We are committed to meeting the PRA's requirements for identifying, reporting, and managing these risks high level riskas we move towards Net Zero.

The PRA's requirements for the management of the FRCC are set out in their Supervisory Statement 3/19. Triodos Bank UK delivered a programme of work during 2021 aimed at meeting these requirements within the regulatory deadline of December 2021. Further embedding of the necessary changes is in progress and we continue to evolve our approach in line with industry thinking. This is a multi-year commitment to partner with our customers to help them recognise, measure, and adjust to the negative effects of climate change, as well as ensuring the Bank's exposure to these risks is appropriately reported, monitored, and managed.

In line with the PRA's requirements, Triodos Bank UK has evolved its management of FRCC to incorporate changes in the following areas:

- *Governance:* The Bank's Board is responsible for overseeing our exposure to FRCC. This responsibility is discharged at a working level via the Senior Management Team collectively and via designated Senior Management Functions (SMF) responsibilities. The Bank's RMF has been updated to incorporate Climate Risk, including work that is on-going to support the development and embedding of Risk Appetite limits aimed at measuring physical and transition risks and our journey towards Net Zero. The collection of data for the development of these limits is evolving as new sources become available.

- *Strategy:* The Bank's overriding strategy of only lending to firms that fit with the Triodos Bank mission, purpose and values ensures that our exposure to FRCC is low compared to most other banks which is demonstrated through the Streamlined Energy and Carbon Reporting (SECR) within the Directors' Report. However, some risk is evident where we hold collateral in geographical areas that are (or will / may be) exposed to extreme weather events or where there are costs associated with transition to lower emissions. Two of our main sectors (Healthcare and Social Housing) contain most of our exposure to FRCC and our lending to each of these sectors is controlled via portfolio level Sector Concentration Limits. We are continuing to evolve our strategy for working with both existing and new customers in these sectors with the aim of achieving our target of Net Zero by 2035.

- *Risk Management:* We have partnered with an external provider to source data on the current and future flood risks associated with the collateral held against our loan book. Early indications are that our exposure to flood risk is currently very low with a small, predicted increase in the medium term (to 2050). We also plan to analyse the benefits of extending this data collection to cover the risks emanating from heat, drought, and coastal erosion. Credit policies governing loan origination have been amended to ensure that collateral underpinning new lending is assessed for flood risk as well as targeting acceptable Energy Performance Certificate (EPC) and Building Research Establishment Environmental Assessment Method (BREEAM) ratings to minimise future transition risks where possible. Our approach to the management of FRCC continues to evolve in support of our strategic objectives.

- *Metrics and Targets:* Climate related Risk Appetite metrics are being formulated to govern our evolving work and to inform the types of additional data needed to be collected and analysed relating to our SME loan portfolio in the short term. Medium term metrics aimed at controlling and reducing our exposure to FRCC are also under consideration. Additionally, we are measuring and reporting our Scope 1 and Scope 2 emissions (see the Directors' Report for more details).

Risk overview

Macro-economy
In 2022, the UK experienced continued macro-economic uncertainty as the impacts of both Brexit and the COVID-19 pandemic became more apparent. The Russian invasion of Ukraine, continued UK political change, rising inflation, and the cost-of-living crisis being key contributors. These events created material risks for the Bank to manage across the established RMF, the most significantly impacted risk types are credit risk and operational risk.

The Bank has had limited direct exposure to the Russia / Ukraine war to date. The impacts of rising interest rates and the cost-of-living crisis have been carefully monitored through the Bank's established governance and control environment. Enhanced monitoring has been put in place where required and any potential impacts are identified and mitigated where required.

The main residual uncertain impact from the inflation experienced during 2022 is expected to be on credit risk as it further increases the financial hardship for some from the multi-year crises experienced since 2020.

Financial and specifically credit risks from climate change have been assessed and the risk framework has been updated to capture the expected impacts.

Sector competition
Triodos Bank UK's chosen sectors have been a mix of some emerging (e.g. Electric Vehicle (EV) charging or Rewilding) or relatively niche markets (e.g. Community ownership and care farms) and some well-established sectors which other banks also lend to (e.g. Social housing, healthcare and agriculture). Increasing environmental awareness and action means mainstream banks and other financial institutions may increasingly embrace sustainability as a business opportunity and compete for lending opportunities in established sectors as has been the case in Renewable Energy, Organic Food and Agriculture since we pioneered financing these sectors. In respect of retail clients, Fintechs create new fields of competition and raise customer expectations which challenge our relationship approach. The increase in cybercrime is also forcing the Bank to increase its focus on systems to safeguard customers.

This all provides both opportunities and challenges for the Bank as competitors currently appear focused on positioning 'ethics' around a customer perspective (customer treatment) and environmental aspects given climate change concerns. The Triodos Bank UK approach remains distinct in terms of a holistic sustainability focus, encompassing social equality; treating customers in the same way we approach business in general, evidenced through, for example, highlighting there is no such thing as free banking and its cost should be distributed equitably (which is why we apply a charge to our personal current account).

Risk strategy
Triodos Bank UK's Risk Strategy aims to guide the construction and enable the delivery of the Business Plan in a sustainable, prudent and compliant way, meeting relevant regulatory and legal requirements, supported by effective and efficient risk management. This is supported by its Risk Management Framework (RMF).

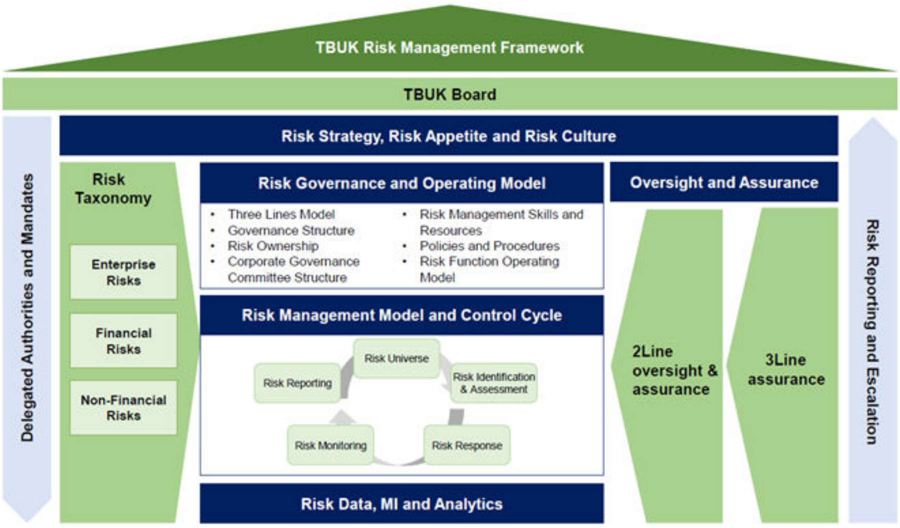
The RMF articulates the risk management strategy, governance, approach, and control framework that identifies, assesses, responds, monitors, and reports on risk exposures faced by the Bank. It is operationally owned by the Chief Risk Officer (CRO) and approved by the Board.

Triodos Bank UK's RMF seeks to align to the Triodos Bank Group Risk Management Framework. However, it also reflects the UK regulatory environment where necessary, as guided and approved by the Risk Committee. The Risk Committee performs regular reviews of the RMF and risk and control environment to strengthen further the established framework, principally through the ongoing maturity development of compliance-risk appreciation across the business.

The Board sets clear risk appetite statements, driven in conjunction with the strategic planning process, and both inputs support the RMF content. The CRO also undertakes an annual review of the RMF that seeks to confirm that it remains fit for purpose in the period in between.

An industry standard ‘Three Lines’ model is incorporated in the RMF and applied within Triodos Bank UK to provide clarity of responsibilities based on an appropriate segregation of duties across each line. Operating in such a way allows each function to understand the boundaries of its responsibilities and how they fit into the internal control and risk management system. Application of this model provides a structure for periodic Risk and Internal Audit assurance activity around the RMF.

The core components of Triodos Bank UK's RMF are summarised below within the figure below:



Risk profile and performance

Key risks have continued to be managed effectively, therby enabling the delivery of the Business Plan in a sustainable, prudent and compliant way.

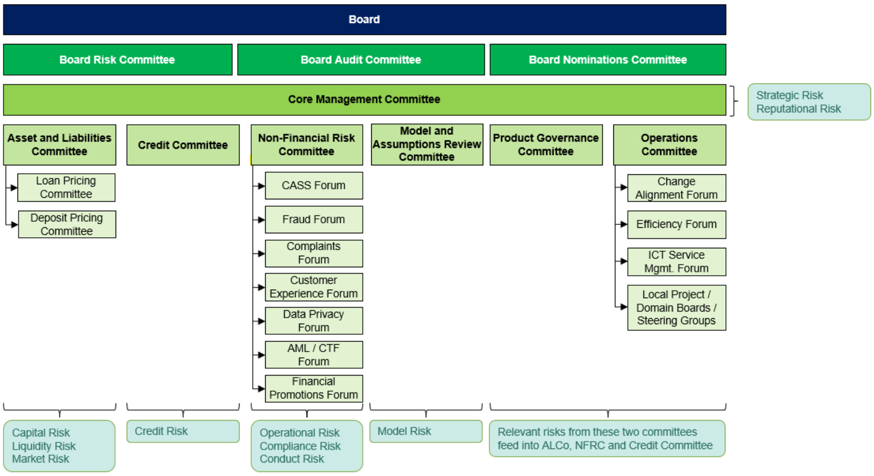
The capital and liquidity strength of Triodos Bank UK has remained robust throughout 2022, positioning the Bank well to achieve its strategic aims in the coming years.

Support for customers has been maintained throughout the recent years of different crises outlined above and the current challenges seen across the UK economy.

Although origination of new lending has been challenging through 2022, credit performance overall remains healthy, with the portfolio remaining well collateralised. There are emerging signs of stress in particular sectors but additional monitoring has been implemented to identify early indicators of affordability stress and to support both our business and retail customers proactively.

Risk governance

A formal governance structure is in place to deliver effective operational review of each risk type as shown below:



Primary risks

Triodos Bank UK maintains a risk taxonomy to support the structure for managing risks with the RMF. In line with risk taxonomy in the RMF above, strategic, reputational and capital risks are enterprise risks. Credit, liquidity and market risks are financial risks and operational, model, compliance and conduct risks are non-financial risks. Each are outlined in the table below:

Primary Risk	2022 Performance	Risk Mitigation/Review
Strategic Risk The risk of a lack of achievement of the institution's overall objectives due to internal and/or external causes. Incorporates: Selection, Execution, Modification and Governance Risks.	Strategic risk has increased through 2022. The key drivers for this have been the external environment (cost of living and inflationary impacts faced by our customers) and challenges on loan originations. Overall business performance has nevertheless been strong.	Related solvency metrics are assessed and managed within the Board-approved Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), and Recovery Planning requirements that incorporate appropriate stress testing to maintain the Bank's balance sheet strength in this regard. This provides focus on capital levels, liquidity levels and Profit & Loss (P&L) achievement.

Primary Risk	2022 Performance	Risk Mitigation/Review
Reputational Risk The risk arising from negative perception on the part of customers, counterparties, shareholders, investors, regulators, or other stakeholders that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. Incorporates: People-related, Process-related, and External world interaction Risks.	Reputational risk has increased slightly through 2022 but overall remains low. This has predominantly been driven by the Depository Receipt developments affecting the wider Group. More information on these developments are included within the significant events since year end section of the Directors' Report.	Aggregated risk metrics are monitored and are derived from a range of potential sources of Triodos Bank UK's reputational risk, e.g., complaints received and negative press coverage / social media sentiment / current net promoter score. To mitigate the risk, a range of actions are in place such as proactive communications with Depository Receipt holders, careful consideration of complaints received with prompt action taken in response and comprehensive monitoring of media coverage.
Capital Risk The risk of solvency failure due to insufficient capital reserves. Incorporates: Regulatory Capital, Capital Management and Financial Reporting Risks.	Capital risk has remained low throughout 2022. Triodos Bank UK remains well-capitalised and achieved a return on equity of 4.8%. There has been a continued focus on financial regulatory reporting risk, with additional processes, oversight and controls implemented through the year.	Triodos Bank UK maintains capital levels to ensure a prudent level of solvency and seeks to create a sustainable business model that generates stable income so that the Bank can organically accumulate capital in line with the Risk Weighted Assets (RWA) growth and deliver returns to shareholders in line with the Group's mission. The Treasury team maintains effective processes to manage and control capital on a day-to-day basis with oversight from the Risk team. Capital ratios relating to both the quantity and quality of capital are regularly reviewed as part of the Bank's Risk Appetite. The annual ICAAP stress tests the Bank's capital ratios across its business planning horizon. Assessment of the UK's proposed implementation of Basel 3.1 will be a key focus of 2023.

Primary Risk	2022 Performance	Risk Mitigation/Review
Credit Risk Credit risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. Incorporates: Obligor Risk, Counterparty Risk and Concentration Risk.	Credit risk has deteriorated through 2022 given the UK economic challenges. The portfolio overall is well collateralised and remains focused on three core sectors that are resilient in the current economic environment – renewables, social housing and healthcare.	Business lending is a core activity of the Bank and a key risk area, which in response has an experienced 2nd line Credit Risk team established to review proposals from 1st line relationship managers in accordance with the established Board-approved lending and sector policies. Triodos Bank UK has a conservative and diversified portfolio across the sectors aligned with the Bank's mission and desired impact which is broken down on page 10. The portfolio supports customers through the economic cycle and generates return on equity aligned with the Bank’s mission, business plans and impact.

Primary Risk	2022 Performance	Risk Mitigation/Review
Liquidity Risk Liquidity risk is the failure to be able to meet liabilities as they fall due. Incorporates: Liquidity Funding Risk and Liquidity Market Risk.	Liquidity risk has remained low throughout 2022. The Bank continues to benefit from a strong liquidity position due to the nature of its customer base and having no reliance on wholesale funding.	Liquidity risk is governed by the Overall Liquidity Adequacy Rule (OLAR). The Board provides liquidity risk oversight through the approved Internal Liquidity Adequacy Assessment Process (ILAAP) and regular review of liquidity ratios. These requirements incorporate appropriate stress testing to maintain the Bank's balance sheet strength. The Treasury team develops effective processes to manage and control liquidity and funding on a day-to-day basis with oversight from the Risk team. The Bank aims always to hold sufficient liquid assets (deposits with other institutions, and high-quality liquid assets such as Gilts) to cover client commitments and meet regulatory requirements. The Bank maintains a conservative liquidity profile with the quality, quantity, and stability of funding sources to survive a 90-day severe but plausible stress at all times. In addition, the Bank uses other key measures including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Liquidity risk management is supported by active funding planning, and the maintenance of liquidity contingency plans as part of the Recovery Plan.
Market Risk The risk of losses in on and off-balance sheet positions arising from movements in market prices and changes in interest rates, foreign exchange rates, and equity and commodity prices. Market risk is often driven by other forms of financial risk such as credit and market-liquidity risks. Incorporates: Interest Rate and Foreign Exchange Risks.	Market risk has remained low throughout 2022. The majority of Triodos Bank UK's risk arises from changes in interest rates as the Bank has minimal foreign exchange exposure.	Interest rate related risks are modelled and managed monthly in accordance with regulatory requirements, principally via Economic Value of Equity (EVE) and Net Interest Income (NII) limits, and maintains very limited other market risk exposure, with no proprietary trading and a naturally hedged loan portfolio.

Primary Risk	2022 Performance	Risk Mitigation/Review
Operational Risk The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk. Incorporates: Legal, Process, Product, People, Internal Fraud, Technology, Information Security & Cyber, Operational Resilience, Business Continuity, Data Management, Outsourcing, Change, and Physical Security & Safety Risks.	Operational risk has remained moderate throughout 2022, with actions in place to reduce this over time. Particular focus has been on: • enhancing the control environment; • managing resourcing (attrition levels and ensuring training & competence); • change management (extent of regulatory and internal change programs); • data (progressing maturity of data risk management); and • vendor management (achieving compliance with the UK regulatory Supervisory Statement 2/21).	The RMF sets out the systems, controls, and processes in place to manage Operational Risk, including risk & control assessments, risk event reporting and root cause analysis. There is continued evolution of risk & Control Self Assessments (RCSAs) across a range of customer journeys and support processes. Key control testing has been (and will continue to be) expanded with robust monitoring and follow-up in place to support execution and effectiveness. A new Group-wide operational risk management system (ServiceNow governance risk & control tool) commenced implementation in 2022 and this will continue through 2023. Triodos Bank UK also continues to further strengthen the established operational resilience framework as part of a multi-year programme.
Model Risk The potential for negative consequences arising out of the decisions made based on incorrect or misused model outputs and reports. It can result in financial loss, poor decision making, and reputation damage. The two main sources of model risk are fundamental errors in the model and incorrect or inappropriate use of the model.	Model risk has been introduced as a new primary risk (previously in Operational Risk) from Q1 2023. Model Risk Management has been enhanced through 2022 and will continue to be an area of focus in 2023.	Strong model risk management is recognised by the Bank as a key component of its RMF, which sets expectations for model risk management through a dedicated model risk management framework and associated policies.

Primary Risk	2022 Performance	Risk Mitigation/Review
Compliance Risk The risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities. Incorporates: Integrity (incorporating Conflict of Interest), Financial Crime Risk (includes Money Laundering & External Fraud) and Regulatory Compliance Risks.	Compliance risk has remained moderate throughout 2022, with actions in place to reduce this over time. Particular focus has been on enhancing on-going customer due diligence and managing financial crime risks (in particular given increasing levels of card fraud and sophistication of other fraud types, balanced with managing risks and alerts effectively without negatively impacting customer experience).	The RMF sets out the systems, controls, and processes in place to manage Compliance Risk, including risk & control assessments, risk event reporting and root cause analysis. The 2nd Line Compliance team supports regulatory compliance through a combination of advisory and monitoring activity. Monitoring activity includes both thematic and specific deep dive reviews to complement 1st Line Quality Assurance (QA) and monitoring activity.
Conduct Risk The risk that the firm or an individual's behaviour will result in poor customer outcomes. This may be because of product design, distribution and sales of products or product servicing. Incorporates: Culture, Product & Services and Customer Treatment & Protection Risks (including Sales & Post Sales Risks).	Conduct risk has remained moderate throughout 2022, with actions in place to reduce this over time. Particular focus has been on improving customer contact performance (in particular call handling) and responding to complaints fairly and promptly.	Key risk aspects monitored and actively managed include: • Working with its customers and service providers to ensure that our products are simple, fair and transparent. • Customer satisfaction research, with a program established to support driving further enhancements and improvements to customer service. • Complaints monitoring, with a broad range of other conduct risk metrics at Executive and Board Committees on a monthly basis. • Product governance maturity. • Particular consideration is given to the treatment of Vulnerable Customers. All of these aspects are being considered additionally as part of the Bank's preparation for Consumer Duty implementation in 2023.

Key regulatory initiatives (in addition to Climate Risk, covered above)

Operational Resilience
Operational Resilience remains a joint (PRA, FCA & BoE) regulatory focus with initial implementation of the regulatory requirements taking effect from 1 April 2022. Triodos Bank UK's Board has adopted the following definition of Operational Resilience as "The ability ...to prevent, adapt and respond to, recover and learn from, operational disruptions."

The Bank has an Operational Resilience Framework with eight Important Business Services (IBS) and has defined Impact Tolerances for each. All aspects of the Framework development met the 31 March 2022 deadline set by the FCA. The next three years will see continued enhanced resilience and embedding of the Framework to help mitigate and manage continuously evolving threats, such as cyber risk.

In line with the regulatory expectation, the Bank will be investing to enhance the dependencies that support the delivery of the IBS along with a rigorous programme of scenario testing of the Bank's ability to recover within the set Impact Tolerances in the event of a disruption and to ensure we are able to prevent intolerable harm to our customers and to the Bank's financial safety and soundness.

Consumer Duty
The FCA's Consumer Duty is a major UK regulatory initiative that will fundamentally improve how firms serve consumers. It sets higher and clearer standards of consumer protection across the financial services sector and will require firms to put their customers' needs first. This is a major regulatory cross-sector initiative that gives consumers a higher level of protection. The duty introduces a new overarching principle that requires firms to act to deliver good outcomes for retail customers, and a set of cross-cutting rules, which provide greater clarity on FCA expectations under the new principle.

Triodos Bank UK is focused on defining and monitoring good customer outcomes as part of implementing the new Consumer Duty requirements, in anticipation of the new rules coming into force. For new and existing products or services that are open to sale or renewal the rules will apply from 31 July 2023 and for closed products and services from 31 July 2024.

Equity, Diversity, and Inclusion
Regulatory focus in this area has continued to develop and, as referred to above in the co-worker section, Equity, Diversity, and Inclusion (EDI) remains a focus of Triodos Bank UK's people strategy, creating and embedding a diverse and inclusive co-worker community.

We deepened our work on EDI, publishing our gender pay gap and action plan, continuing our signatory status with the Women in Finance and Bristol Women in Business Charters, signing up to the Diversity Mark, joining Women in Banking & Finance for the South West & South Wales and exploring further partnerships that will support us becoming an even more inclusive organisation. We are pleased to have achieved our targets for female representation at Senior levels a year earlier than anticipated. With the support of the Triodos Inclusion Forum, we have been able to give focus to key areas of inclusion: Black History Month, mental health & stress awareness, menopause awareness, and International Men's Day.

Triodos Bank UK's EDI strategy will continue to evolve in 2023 in line with our mission and values, as well as UK regulatory expectations, with plans to support social mobility and create greater gender and minority ethnic representation across the Bank. Further information and updates can be found on our website.

Emerging risks
Triodos Bank UK is alert to a range of emerging risks as well as a continuation of the various risks identified above. These include technological innovation and digitalisation (including currencies), data, information security and Artificial Intelligence (AI) with the on-going need for strong and resilient systems, customer and service provision with evolving demographics and values, co-worker proposition and the ability to attract and retain a diverse and talented workforce, all with the backdrop of continuing geopolitical and economic volatility.

Triodos Bank UK also recognises the emerging risks within the global banking sector where three banks in the United States with significant exposure to the technology sector or cryptocurrency failed. Triodos Bank UK has undertaken an impact assessment and concludes that Triodos Bank UK does not face the same unique risks these banks were running but ongoing monitoring of the risks is being carried out.

Section 172 statement

Triodos Bank UK's Section 172 statement provides insight to how the Directors have considered their duty to promote the success of the company for the benefit of its shareholder while also having regard to the interests of other stakeholders and broader issues such as the longer-term impacts of decision making.

The mission of Triodos Bank UK has at its core quality of life, human dignity, and the environment. The Board acknowledge their role as leaders and stewards of culture at Triodos Bank UK, but they also recognise that culture is influenced by every facet of an organisation. Therefore, the values of Triodos Bank are built into all operations of the business, including the deliberations and decisions of the Board and the broader impact and influence that we have on people, community, and the environment.

Enhancements to governance and risk and control frameworks have been a theme with a particular focus on operational resilience and Consumer Duty. Change projects have also been a priority to support the ambition of becoming a more digital bank to provide our customers with high quality service and to offer more protection, and a more efficient bank, in order to provide co-workers with more streamlined ways of working.

A significant focus of the Board has been continuing to manage the impact of the COVID-19 pandemic on our hybrid and flexible working arrangements, but particularly the impact on co-workers and customers of the wider economic crisis that unfolded in 2022.

Shareholder
Triodos Bank N.V is the sole shareholder of Triodos Bank UK, and both share a mission to create positive social, environmental and cultural change. The Directors of Triodos Bank UK have established ways of working that promote collaboration and consultation with the shareholder, including sharing key Board papers and holding quarterly discussions between the Chair and shareholder. Close engagement with the shareholder supports the pursuit of a shared mission and aligned strategies and ensures that Triodos Bank UK can respond to the interests of its own stakeholders and a different regulatory context. In November 2022 the Triodos Bank UK Directors visited Triodos Bank's headquarters in Zeist to strengthen in person this collaborative approach.

Suppliers
The Board is committed to delivering sustainable procurement outcomes aligned to Triodos Bank principles, combining social, cultural and environmental elements whilst ensuring commercial value when procuring goods and services. Triodos Bank UK seeks long-term mutually beneficial relationships with our supply base, established via competitive, ethical and fair market practices with the needs of Triodos Bank customers and suppliers at the core. European Union law, UK Law and international best practice are complied with in all our commercial dealings.

Our policies outline our ambition to work in partnership with suppliers to align positive impact ambitions and promote the use and adoption of whole life cost, more sustainable products and production processes, collaborative contractual agreements and supply chains.

Triodos Bank UK worked closely with suppliers throughout 2022 to respond to the continuously evolving regulatory landscape in both the UK and EU, including PRA SS2/21 Supervisory Statement, Phase 1 of the FCA's Operational Resilience programme and EBA Guidelines on Outsourcing (GOA).

In 2023, Triodos Bank UK will continue to input into and respond to regulations within the third-party space, maturing the supplier management function further, investing in Phase 2 of the FCA's Operational Resilience programme. The Board will ensure that UK and EU legislation is embedded within Triodos Bank UK's governance, ways of working, monitoring and control of supplier relationships.

Co-workers
The Directors' understanding of the interests of co-workers continues to be achieved through reports on engagement surveys and discussions with co-workers, both formally through annual Q&A sessions, shared development and strategy sessions, and informally, by establishing and leading an open and approachable culture.

Monitoring co-worker well-being has continued to be a priority throughout 2022, as we continue to try and optimise our approach to hybrid working ("Be Your Best At Work") and given the challenges of the external economic environment. As noted above, in August 2022 the Board supported the award of a "cost of living" payment to all co-workers earning £31,500 or less. Having launched our continuous listening platform in January 2022, regular co-worker surveys have been held with feedback and intended actions being shared with the directors during the year.

The Board continued to oversee the implementation of the People Strategy launched in 2020 which prioritises equity, diversity and inclusion, talent attraction, retention and co-worker development, in addition to embedding values and behaviours aligned to the Triodos Bank mission and governance.

Regulators
The Board is committed to demonstrating that Triodos Bank UK is diligent not only in meeting regulatory requirements but also in maintaining a resilient business that has a keen focus on the interests of its customers. The Directors of Triodos Bank UK have relationships with the Bank's regulators based on openness and transparency.

Throughout 2022, as macro-economic uncertainty continued post-COVID 19, the Board held frequent meetings to maintain close oversight of the business to ensure the Bank was resilient and responsive to challenges. Information from these meetings was shared with the PRA to maintain regulator engagement and demonstrate that Triodos Bank UK was safeguarding and supporting our customers' interests. For example, the Bank has been active in monitoring potential impacts of the cost-of-living crisis, inflation, rising interest rates, the Russian invasion of Ukraine and the failures within the Banking sector in early 2023.

Future developments

Triodos Bank UK has the ambition to grow impact through growth in the lending portfolio, expansion of impact investment fund propositions and increased investment crowdfunding activity. The Bank will fund growth in business lending through continued expansion of the personal current account and savings propositions. Triodos Bank UK will seek to increase our positive impact, contributing to a fair return while maintaining an overall modest risk appetite.

External headwinds may influence the ability to grow volumes and profit, in particular the normalisation of higher interest rates and the continued growth in competitors perceived as 'green enough'. The Board will respond to these developments, seizing the opportunities present in the markets, sectors and regions in which the Bank is active. Fulfilling our mission while maintaining a sound level of risk and return remain key, the Bank will continue to work on ensuring regulatory compliance and effective risk management alongside improving cost efficiency through tactical and strategic operating model developments.

Together, these efforts are expected to lead to more impact, the realisation of profitable growth within a challenging interest environment and ensure Triodos Bank UK can meet increasing regulatory requirements. We are confident that the Bank will be able to fulfil its frontrunner role to 'Change Finance' and help support our customers to deliver the positive change the world's sustainability challenges demand.

The development of the 'polycrisis' post the COVID-19 pandemic continues to evolve and whilst economic developments remain uncertain, a high, by historic standards, level of provision is retained to protect the Bank against future potential credit losses. This provision level, from existing IFRS9 models, has extremely limited historical data sources and as such, in line with the industry, the net impact on the Bank's credit risk profile will only develop further clarity through 2023 as the characteristics of this stress become clearer. However, in the medium and long term, the Bank believes our customers are well positioned to be part of the economic recovery - more sustainable and socially inclusive - that is expected to emerge and to contribute a tangible impact to society as a whole.

Triodos Bank UK's capital and liquidity position is in line with internal target ratios and well above the regulatory minimum requirements, this includes accounting for the introduction of the Counter-Cyclical Buffer increase of a further 1% in 2023. The Bank is preparing for the future implementation of Basel 3.1 and the new minimum requirements for own funds and eligible liabilities (MREL) capital requirement (which results from the implementation of the guidelines on capital reserves set by the European Banking Authority (EBA) for banks in the Eurozone). These might result in additional funding and Tier 2 requirements.

Addressing the UK cost of living crisis and shaping the future financial sector will take many years of work from government, businesses and civil society. Despite a series of high-level commitments to making sweeping changes to how the financial industry is run and to make it fairer, more transparent and diverse, at the moment they are mostly not being realised in practice. Triodos Bank UK will play its part by continuing to finance change in the UK, but also advocating for change in the whole financial system.

Approval

Approved by the Board of Directors on 24 April 2023
and signed on its behalf by:

Gary Page

Chair

Bevis Watts

Chief Executive Officer

Directors' Report

Directors' Report

The Directors present their report and audited financial statements for the year ended 31 December 2022 for Triodos Bank UK Limited.

For comprehensive analysis on the operations and impact of Triodos Bank, including the UK, please refer to the consolidated group reporting in the Triodos Bank N.V. Annual Report (www.annual-report-triodos.com).

Directors

The Directors of Triodos Bank UK Limited during the year (unless otherwise disclosed) and at the date of signing the financial statements were:

	Role	Total Directorships (incl. Triodos Bank UK) Number
Gary Page	Independent Non-Executive Director, Chair of the Board	3
Richard Burrett	Independent Non-Executive Director, Chair of Audit Committee, Member of Risk Committee	3
Karen Furlong	Independent Non-Executive Director, Senior Independent Director, Member of Audit Committee	6
Keith Bevan	Independent Non-Executive Director, Chair of Risk Committee, Member of Audit Committee	3
Wibout de Klijne	Non-Executive Director	1
Alessandra Mongiardino[1]	Independent Non-Executive Director, Member of Risk Committee	1
Bevis Watts	Executive Director	8
Sian Williams[2]	Executive Director	1

[1] Appointed as a Non-Executive Director from 1 January 2023
[2] Appointed as an Executive Director from 1 January 2023

The Board aims to meet at least eight times per year. During 2022, there were eleven ordinary Board meetings, three separate Strategy Days, and five extraordinary or special meetings. In 2022, Board attendance was close to 100% for the planned meetings with only one Director missing two of the eleven planned meetings.

Until 31 August 2022, the work of the Board was supported by an Audit & Risk Committee, which aimed to meet at least four times per year. The members of the Audit & Risk Committee were Richard Burrett (Committee Chair), Pierre Aeby (until 31 March 2022) and Gary Page. Between 1 January 2022 and 31 August 2022, the Committee held three ordinary meetings and three extraordinary or special meetings to consider emerging issues. Its final meeting on 31 August was cancelled as a result of the division of its responsibilities between two new committees, detailed below. Attendance was close to 100% for the planned meetings with only one Director missing one of them.

In 2022, the Board of Triodos Bank UK separated the functions of the Audit & Risk Committee into two new committees: Risk Committee and Audit Committee, which were established on 1 September 2022.

The members of the Risk Committee are Keith Bevan (Chair), Gary Page, Richard Burrett and (from 1 January 2023) Alessandra Mongiardino. The committee aims to meet at least 4 times a year, and in 2022 held two ordinary meetings, and two special meetings. Attendance was close to 100% with only one Director missing one of the meetings.

The members of the Audit Committee are Richard Burrett (Chair), Karen Furlong and Keith Bevan. The committee aims to meet at least 4 times a year, and in 2022 held two ordinary meetings. Attendance was high with only one Director missing each meeting.

In addition, the Board of Triodos Bank UK agreed to establish a Nomination Committee meeting on 1 September 2022. The members of the Nomination Committee are Gary Page (Chair), Karen Furlong and (from 1 January 2023) Alessandra Mongiardino. The committee aims to meet at least 4 times a year, and in 2022 held three ordinary meetings. Attendance was 100%.

In 2022 the Triodos Bank UK Board decided to build a greater degree of executive membership to the Board, appointing Sian Williams, the Bank's CRO, as a second Executive Director from 1 January 2023. It is intended that this will be followed by the admission of the CFO to the Board as a third Executive Director in due course.

Due to the expansion of the Board, Board Members also agreed to establish the role of Senior Independent Director, and Karen Furlong was appointed to this role on 1 August 2022.

Directors' recruitment and diversity

The Triodos Bank UK Board Succession and Diversity Policy guides recruitment and diversity of Directors.

Recruitment strategies are designed around an assessment of skills available on the Board and the skills needed to deliver the Bank's strategic objectives. Recruitment of new Directors is managed directly by the Board with the support of the Corporate Secretary and internal HR department. All Directors have extensive experience in regulated firms, primarily in the banking industry.

The Board's approach to diversity is aligned to its commitment to a diverse and inclusive workplace and which reflects the communities in which it does business. The objective for Board composition is to include at least 30% female and 30% male membership. At the date of signing the financial statements, the Board includes three female Directors, representing 37.5% of membership. While it is challenging to achieve good diversity on a small Board, the Board is committed to ensure that future recruitment actively considers how to encourage and support a greater diversity of candidates.

Results and dividends

The profit for the year, after taxation, was £9.2 million (2021: £7.8 million). The Directors recommend the payment of a dividend of 1.63 pence per share (2021: no dividend). The dividend proposal is made according to Triodos Bank UK's Dividend Policy and is in line with the PRA guidance on distributions by banks.

Directors' indemnity

Triodos Bank has purchased and has maintained Directors' and Officers' liability insurance cover for the benefit of the Directors and Officers of Triodos Bank UK throughout the financial year and it is currently in force.

Triodos Bank UK also has qualifying third party indemnity provisions in its Articles of Association for the benefit of each of the Bank's Directors serving in 2022 and as at the date of approval of this report.

Political and charitable donations

Triodos Bank UK donated £33,706 to charitable organisations in 2022 (2021: £44,143). Triodos Bank UK has not made any donations to any registered UK political party.

Significant events since year end

Triodos Bank UK continue to mature our management of the Bank by growing and developing the Board. After year end, the Bank finalised two appointments to the Board, effective from 1 January 2023. The Executive Board of Triodos Bank approved the appointments of Alessandra Mongiardino as a fifth independent Non-Executive Director and Sian Williams whose role as Triodos Bank UK's Chief Risk Officer will now sit as an Executive Director alongside the CEO.

These two appointments, alongside the appointments of Wibout de Klijne as Non-Executive Director and Keith Bevan as a fourth independent non-Executive Director during 2022 are in line with the Bank's ambitions to strengthen the Bank's governance and increase the Board's size and areas of expertise.

The directors agreed payment of a 30% dividend (£2.8m) at the meeting of the UK Board in April 2023 (2021: £nil dividend).

Triodos Bank has had an ownership structure in which depository receipts ('DRs') of shares in Triodos Bank N.V. were offered to interested investors. A DR is economically the same as a share. Like any other provider of equity, a DR Holder also bears the economic risks associated with the underlying shares. The DRs were not traded on a stock exchange. Triodos Bank facilitated transactions in DRs on a discretionary basis. In doing so, it was bound by prudential regulations that set a limit on the amount available to buy back DRs, the so-called market making buffer, and hold these on its balance sheet for reselling at a later moment. In the past, such transactions were executed at the Net Asset Value (NAV) of the DRs. The facilitation of transactions in DRs by Triodos Bank worked well for a long time, however with the outbreak of the COVID-19 pandemic, the number of sell orders greatly exceeded the number of buy orders. Triodos Bank was forced to suspend trading in DRs in March 2020. After resuming trading on 13 October 2020, Triodos Bank was forced to suspend trading again on 5 January 2021.

Since then, Triodos Bank sought alternative solutions to restore tradability of the DRs and access to new capital. The Bank confirmed in December 2021 it will pursue a listing on a Multilateral Trading Facility (MTF) platform.

After the suspension of trading, the decision to pursue an MTF listing and the valuation of the DRs for taxation purposes (which was lower than the last communicated NAV), Triodos Bank received complaints and claims from certain DR Holders and was subject to negative media attention. Multiple civil proceedings have been initiated against Triodos Bank by DR Holders. These proceedings are currently pending in Spain, the Netherlands, Belgium and Germany. The majority of the ongoing civil proceedings have been filed in Spain by individual DR Holders. Until now, no complaints or proceedings have been lodged or started in the UK.

The outcome of these pending proceedings, and possible future proceedings, is uncertain. The uncertainties are likely to continue for some time. Adverse publicity, litigation or regulatory action could have an adverse effect on Triodos Bank's capital position and results, business, reputation and prospects. Large volumes of litigation could also lead to increased costs. However, Triodos Bank has not disclosed an estimate of the potential financial effect on its contingent liability arising from these matters where it is not practicable to do so becauuse it is too early or the outcome is too uncertain. More information can be found in the Triodos Bank N.V. Annual Report (www.annual-report-triodos.com).

In the Netherlands, Triodos Bank was involved in inquiry proceedings before the Enterprise Chamber of the Amsterdam Court of Appeal related to a request filed by the Stichting Certificaathouders Triodos Bank (SCTB) for an inquiry into the policy and affairs of Triodos Bank relating to decisions made regarding the DRs.

On 16 March 2023 the Enterprise Chamber ruled in line with Triodos Bank and rejected the request for an investigation. Triodos will continue to work closely with all stakeholders, including the DR holders, to realise the listing on an MTF and to restore tradability of the DRs.

During March 2023, three banks in the United States with significant exposure to the technology sector or cryptocurrency failed. Triodos Bank UK has undertaken an impact assessment and concludes that Triodos Bank UK does not face the same unique risks that these banks exposed themselves to.

At the date of this report, the Directors are not aware of any other matter or circumstance which has arisen which has significantly affected or may significantly affect the operations of the Bank, the results of those operations or the situation of the Bank in the financial year after 31 December 2022 not otherwise disclosed in this report.

Future developments

The ambition and plans for the future development of Triodos Bank UK are set out above in the Strategic Report.

Employee engagement and business relationships

Triodos Bank UK Board Directors encourage co-workers to attend Board meetings and present their work, both for developmental purposes and to ensure that they maintain a connection with co-workers throughout the organisation.

In addition to this, Board Members participated in the following co-worker events during 2022:

- Gary Page joined the weekly online co-worker Triodos Community Meeting to explain upcoming changes to the Board in July.
- Gary Page offered his personal reflections for an intranet blog post for International Men's Day.
- Gary Page, Karen Furlong, and Keith Bevan joined the Christmas Triodos Community Meeting in December offering an end of year 'thank you' and reflections on the year and what's to come.

In November 2022, the Board travelled to the Triodos headquarters in Zeist to engage further with the Group executive and governing teams, and to present to Triodos co-workers to provide them with an opportunity to understand the successes and challenges of the UK subsidiary, and to ask questions.

Opportunities for in-person engagement with all co-workers were limited in 2022 however townhall sessions are planned for 2023.

GHG emissions, energy consumption and energy efficiency

Triodos Bank UK is a founding member of the UK coalition of the Partnership for Carbon Accounting Financials (PCAF), a globally recognised standard for carbon accounting. Triodos Bank implemented and reported on PCAF methodology for the first time in 2018 and has disclosed the carbon accounting for 100% of its loans and funds' investments since 2019. The report on how the PCAF standard is applied to Triodos Bank's portfolio is available at www.annual-report-triodos.com

Triodos Bank UK also takes great care of its own environmental performance as a company. The tables below represent Triodos Bank UK's UK energy use, Green House Gas (GHG) emissions and intensity metrics over time as required by the UK Streamlined Energy and Carbon Reporting (SECR) Regulations for a 'large unquoted organisation.'

The data to calculate the final CO_2 footprint of Triodos Bank is collected by Local Environmental Managers (LEM) for each subsidiary and branch of Triodos Bank in the various countries where Triodos

Bank has its operations. LEMs input all data, including underlying evidence in a CO_2 Management Application of the Climate Neutral Group (CNG).

All submissions are checked by the Environmental Manager at Head Office to ensure the submission has been done correctly. After the completion of this phase, all data is consolidated by the Finance Division (using the four eyes principle). The final submission is audited by an external auditor by checking if all relevant data has been inputted accurately and approves the outcome.

CNG determines conversion factors to the calculation of the amount of GHG emissions caused by Triodos Bank UK on an annual basis. The conversion factor multiplied by the outcome of Triodos Bank UK results in Triodos Bank UK's total CO_2 footprint.

The CO_2 footprint breakdown in difference scopes is also in line with international standards like the Greenhouse Gas Protocol (GHG Protocol) and the Global Reporting Initiative (GRI).

This is the first year of mandatory reporting so Triodos Bank UK are reporting metrics for 2022 and 2021 where this will evolve to a 5-year reporting period over time.

In 2022, Triodos Bank UK focused on more effective utilisation of their Building Management (BM) system and determining ways to meet the demands of hybrid working. Some key areas of energy efficiency actions were as follows:

- Hybrid working causes low occupancy in office space on certain days therefore the BM system is used to determine Cooling Degree Days (CDD) to give an indication of the effect of outside air temperature on building energy consumption during a specified period. Additionally, the Heating Degree Days (HDD) index, which is a weather-based technical index designed to determine the need for the heating energy requirement of buildings has been used. The results from utilisation of these tools are the determination of an acceptable thermal building comfort zone which achieves a reduction in annual cooling and heating energy consumption.
- For electrical equipment such as monitors, and co-worker's home working equipment Triodos Bank UK are now using Eco View Optimiser. This recognises image content and reduces the backlight fully automatically without reducing the image quality, resulting in a 30% reduction on power consumption compared to previous monitors.
- Docking stations have now been reduced from using 140 watts per unit down to 90 watts per unit with an eco-standby functionality mode when not being used.
- When co-worker's home working equipment is returned and deemed in full working order, the kits are now being donated to schools rather than recycled which reduces CO_2 emissions that arise from the recycling process.

Understanding the links between occupancy, energy use and safety drives energy efficiency, reduces waste and CO_2 emissions. This will be continued into 2023 where an action is being undertaken to reduce printers by 60% to reduce orders of paper, ink cartridges, energy usage and confidential waste.

Environmental Statistics

	2022	2021
Energy Consumption (in buildings)		
Total electricity consumption in kWh	327,321	312,800
Electricity in kWh/fte	1,280	1,425
Total gas consumption in m^3	25,708	27,468
Gas in m^3/fte	101	125
Business travel		
By aircraft in km/fte	8	687
By car in km/fte	207	52
By public transport km/fte	484	84
Commuting[1]		
By car in km/fte	670	168
By public transport in km/fte	632	105
By bike or by foot in km/fte	278	84
Paper usage		
Total paper usage in kg/fte	5	27
Blank copy recycled paper in kg/fte	2	2
Blank copy recycled paper in kg/customer	0.01	0.06
Waste		
Waste in kg/fte	0.3	0.1
Buildings (absolute figures)		
Surface area in m^2	4,031	4,031
Volume in m^3	10,697	10,697

[1] For commuting, we excluded data from external staff for extrapolation to the total of commuting kilometres for co-workers

Emissions of CO_2 (equivalents)

In thousands of kg	2022	2021
Scope 1		
Gas consumption (heating)	0.0	0.0
Fossil fuelled company cars & lease cars	0.0	0.0
Scope 2		
Electricity	1.5	2.3
Electric company cars & leased cars[1]	0.0	0.0
Scope 3		
Privately owned cars, rental cars & taxis	41.3	8.1
Public transport	12.2	2.2
Flights	4.5	0.6
Paper	1.6	7.6
Waste	0.0	0.0
Total[2]	61.1	20.8
Minus: Compensation for CO_2 credits	(61.1)	(20.8)
CO_2 balance (neutral)	-	-
CO_2 compensation costs per tonne (GBP)	14.41	10.64

[1] As the source for electricity is not always clear, we assume grey electricity for charging
[2] For the calculation of the total emissions, the unrounded values of the items were used, which might give a different result than the sum of the rounded values.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that Triodos Bank UK has adequate resources to continue in business for the foreseeable future.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including but not limited to the political environment in the UK, future projections of profitability, cash flows and capital resources. The Directors have considered the impacts of the cost-of-living crisis, rapidly rising inflation and subsequent rising rates and their possible impacts on the Bank.

The principal risk to the Bank from rising inflation and interest rates is credit losses. The Directors have made provision for expected credits losses, and although further losses are possible given the evolving macroeconomic environment, these are considered unlikely to affect the Bank's going concern status as the Bank has maintained a strong capital and liquidity position.

In addition, Note 26 to the financial statements includes Triodos Bank UK's policies and processes for managing its capital, its financial risk management and its exposures to credit risk, liquidity risk and market risk.

Triodos Bank UK has adequate financial resources and the Directors believe that the Bank is well placed to manage its business risks successfully. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Statement of disclosure of information to auditors

The Directors who held office at the date of the approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director; to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. Their confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Pursuant to section 487 (2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the Directors or the members of the Company resolve to terminate their appointment. The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and, as at the date of these financial statements, the Directors are not aware of any resolution to terminate the appointment of the auditors.

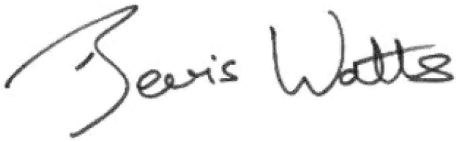
Approval

The Directors consider that the Annual Report, taken as a whole, is fair, balanced, and understandable, and provides the necessary information to assess the company's position and performance, business model and strategy.

Approved by the Board of Directors on 24 April 2023 and signed on its behalf by

Gary Page

Chair



Bevis Watts

Chief Executive Officer

Financial Statements 2022

Statement of comprehensive income for the year ended 31 December 2022

	Note	31-Dec-22 £'000	31-Dec-21 £'000
Interest income	1	53,932	39,075
Interest expense	2	(8,528)	(2,900)
Net interest income		**45,404**	**36,175**
Fee and commission income	3	4,387	4,221
Fee and commission expense	3	(1,985)	(1,520)
Net fee and commission income		**2,402**	**2,701**
Other operating income	4	54	232
Total income		**47,860**	**39,108**
Personnel expenses	5	(14,704)	(12,087)
Other administrative expenses	6	(18,093)	(16,384)
Operating expenses		**(32,797)**	**(28,471)**
Impairment loss on financial instruments	26	(4,862)	(2,159)
Profit on ordinary activities before tax		**10,201**	**8,478**
Tax on profit on ordinary activities	8	(997)	(637)
Profit and total comprehensive income		**9,204**	**7,841**

Accounting policies on pages 47 - 58 and Notes on pages 59 - 97 form an integral part of these financial statements.

Balance sheet as at 31 December 2022

	Note	31-Dec-22 £'000	31-Dec-21 £'000
Assets			
Cash and cash equivalents	9	359,906	374,820
Loans and advances to credit institutions	10	34,611	42,177
Loans and advances to customers	11	1,121,305	1,132,132
Debt securities	12	345,801	269,035
Intangible fixed assets	13	1,162	1,183
Property, plant and equipment	14	11,624	11,957
Right of use assets	15	1,049	1,180
Deferred tax asset	16	235	238
Other assets	17	1,139	1,742
Total assets		**1,876,832**	**1,834,464**
Liabilities			
Deposits from credit institutions	18	24,692	27,899
Customer accounts	19	1,641,905	1,607,602
Debt issued	20	5,733	5,736
Lease liabilities	15	1,080	1,205
Current tax	8	317	382
Other liabilities	21	6,674	3,886
Provisions	22	334	861
Total liabilities		**1,680,735**	**1,647,571**
Equity			
Called up share capital	23	172,000	172,000
Merger Reserve		55	55
Retained earnings		24,042	14,838
Total equity		**196,097**	**186,893**
Total equity and liabilities		**1,876,832**	**1,834,464**

Accompanying Notes on pages 59 - 97 form an integral part of these financial statements.

The financial statements of Triodos Bank UK Limited (registered number 11379025) on pages 41 - 97 were approved by the Board of Directors and authorised for issue on 24 April 2023. They were signed on its behalf by:

Gary Page

Chair

Bevis Watts

Chief Executive Officer

Statement of changes in equity for the year ended 31 December 2022

	Note	Share capital £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2021		**172,000**	**55**	**9,297**	**181,352**
Total profit and comprehensive income		-	-	7,841	7,841
Prior year dividend paid		-	-	(2,300)	(2,300)
At 31 December 2021		**172,000**	**55**	**14,838**	**186,893**
Total profit and comprehensive income		-	-	9,204	9,204
Dividend paid		-	-	-	-
At 31 December 2022		**172,000**	**55**	**24,042**	**196,097**

Accompanying Notes on pages 59 - 97 form an integral part of these financial statements.

Retained earnings represent the cumulative profits arising from the normal course of business.

The merger reserve was formed as a result of the transfer of the assets and liabilities of the UK branch of Triodos Bank N.V. to Triodos Bank UK Limited on 1 May 2019.

Cash flow statement for the year ended 31 December 2022

	Note	31-Dec-22 £'000	31-Dec-21 £'000
Cash flow from operating activities			
Profit before tax		10,201	8,478
Adjustments for:			
Depreciation and amortisation		1,022	980
Loss on fixed asset disposal		5	-
Debt securities premium and discount amortisation		82	1,509
Increase in ECL on financial instruments		4,262	2,268
(Decrease)/Increase in provisions		(527)	199
Interest on lease liabilities		36	28
Tax expense		(997)	(637)
Cash flow from business operations		**14,084**	**12,825**
Changes in net operating assets:			
Decrease/(Increase) in loans and advances to customers		6,563	(64,020)
Decrease/(Increase) in deferred tax asset		3	(77)
Decrease in other assets		604	730
Decrease in deposits from credit institutions		(3,207)	(6,243)
Increase in deposits from customers		34,303	194,863
(Decrease)/Increase in current tax liability		(66)	164
Increase in other liabilities		2,788	667
Cash flow from operating activities		**55,072**	**138,909**
Cash flow from investment activities			
Investment in intangible assets		(200)	(85)
Investment in property, plant and equipment		(342)	(254)
Investment in debt securities		(106,096)	(138,211)
Sale of debt securities		-	5,128
Maturity of debt securities		29,000	15,500
Decrease in interest receivable on debt securities		249	49
Cash flow from investment activities		**(77,389)**	**(117,873)**

	Note	31-Dec-22 £'000	31-Dec-21 £'000
Cash flow from financing activities			
Dividends paid		-	(2,300)
Payment of lease liabilities		(160)	(156)
(Decrease)/Increase in debt issued and borrowed funds		(4)	33
Cash flow from financing activities		**(164)**	**(2,423)**
Net cash flow		**(22,481)**	**18,613**
Cash and cash equivalents at the beginning of the year		416,998	398,385
Cash and cash equivalents at the end of the year		394,517	416,998
Represented by:			
Cash and cash equivalents	9	359,906	374,820
On demand deposits with credit institutions	10	33,412	40,979
Other loans and advances to credit institutions	10	1,199	1,199

Accompanying Notes on pages 59 - 97 form an integral part of these financial statements.

Accounting Policies

General
Triodos Bank UK Limited (Triodos Bank UK) is a private company limited by shares incorporated and domiciled in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The Bank's registered office is Deanery Road, Bristol, BS1 5AS, and it is a wholly owned subsidiary of Triodos Bank N.V., a company incorporated in the Netherlands.

The Bank's principal activity is to finance 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 principal accounting policies are summarised below and have been applied consistently throughout the year. Triodos Bank UK was not directly impacted by the London Interbank Offer Rate (LIBOR) reforms as none of Triodos Bank UK's loan agreements referenced LIBOR as a benchmark and as such none of Triodos Bank UK's current loan portfolio references the Sterling Overnight Index Average (SONIA) rate as its benchmark.

Basis of preparation
The Directors present the financial statements of Triodos Bank UK Limited for the year ended 31 December 2022. The financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006.

The financial statements are presented on the historical cost basis.

At the time of approving the financial statements, the directors have a reasonable expectation that the Bank has adequate resources to continue in operation for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

All financial information presented in the financial statements has been rounded to the nearest thousand pounds unless otherwise stated.

The following did not apply in the year: new and revised accounting pronouncements; changes to accounting standards applicable to Triodos Bank UK. The early adoption of new accounting standards is not anticipated in the following year.

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as a parent of a group. The Company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included in the full consolidation in the consolidated financial statements of its ultimate parent Triodos Bank N.V., a company incorporated in the Netherlands.

Foreign currency transactions
The functional and presentational currency of the Bank is pound sterling as it is the currency of the primary economic environment in which the Bank operates.

Transactions in foreign currencies are recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in Other income.

Non-monetary assets valued at historical cost in a foreign currency are converted at the exchange rate on the transaction date.

Revenue recognition
A. Net interest income
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.

The 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 in Stage 3 of the expected credit loss model, the interest income is calculated by applying the effective interest rate to the net amortised cost.

B. 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 International Financial Reporting Standard 15 (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. The below table explains the different fee income categories involved when income is recognised.

Type of service	Nature and timing of satisfaction of performance obligations	Income recognition
Payment transactions	Fees charged for processing payment transactions of customers. Fees are charged when the transaction is processed.	Income related to transactions is recognised at the point in time when the transaction takes place.
Lending	These comprise non-utilisation fees and other non-material fees. Performance obligation is satisfied for non-utilisation fees when the facility has been held available as contractually agreed.	Non-utilisation fees are recognised over time based on amounts contractually due for holding facilities available.
Fund Distribution	Fees taken for distribution of the funds of Triodos Investment Management B.V., a group company, in the UK. Fees are calculated based on the value of funds under management on a daily basis and paid monthly.	Fees are recognised at the point that they are paid.
Corporate Finance	These comprise fees for capital raising advisory and modelling work. For each of these fee categories, contracts may contain several performance obligations.	Values are allocated to each performance obligation at inception of the contract, and revenue is recognised on completion of each performance obligation.

Personnel expenses

Short-term co-worker benefits, such as salaries, paid absences, other benefits and social security costs are accounted for on an accruals basis over the period in which the co-workers provide the related services.

The Bank operates a defined contribution pension plan. The commitment to the participating co-workers consists of paying any outstanding contribution. Co-worker contributions are optional, and employer contributions amount to between 8% and 10%. These contributions are recorded as an expense under personnel expenses. Contributions that are due but have not yet been paid are recorded as liabilities.

Financial instruments

The 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 the 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. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises deposits from customers when funds are received.

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 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 the 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 cost 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 on the outstanding balance.

Assets designated at fair value through other comprehensive income
An equity instrument may be designated irrevocably at fair value through other comprehensive income. Other assets must meet both of the following criteria:
- the asset is held within a business model whose objective is both to hold assets to collect contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset are solely payments of principal and interest on the outstanding balance.

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 liabilities
All financial liabilities that are not subsequently measured at fair value are measured at amortised cost.

<u>Application</u>
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.

All of the Bank's financial instruments are measured at amortised cost less impairment allowance where applicable.

Impairment of financial assets

At each balance sheet date each financial asset and off-balance sheet liability is assessed for impairment. Loss allowances are calculated for all financial assets and off-balance sheet liabilities, regardless of whether there is objective evidence of impairment. These 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 which 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.

All corporate loans in the portfolio are periodically reviewed on an individual basis to assess creditworthiness. The frequency depends on the debtor's creditworthiness as assessed at the prior review, 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 doubtful debtors and will be managed intensively.

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 financial assets and off-balance sheet liabilities the scenarios are based on macro-economic conditions.

Significant increase in credit risk

When determining whether the risk of default on a financial asset or off-balance sheet liability has increased significantly since initial recognition, the 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 the Bank's historical experience and expert credit assessment.

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

- The remaining probability of default (PD) as at the reporting date; with
- The remaining 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).

The 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 developments in the sector; and
- a backstop of 30 days past due.

For corporate loans the Bank determines PD based on its internal credit rating system, which comprises 14 grades, each of which corresponds to a PD. The use of these grades is explained further in the Critical judgements and estimates accounting policy.

Corporate loans are assessed at inception and then periodically, and movements in 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, the Bank's focus on relationship management supports early identification of risk factors.

Definition of default

In line with its Default, Forbearance and Provisioning Policy and the rebuttable presumption under IFRS 9 that default occurs no later than when a payment is 90 days past due, the Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the 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 the Bank.

Financial assets are considered to be past due when any amount of principal, interest or fee has not been paid at the date it was due. Materiality is relative to the size of the exposure.

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, the 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 the Bank; and
- Based on both data developed internally and data obtained from external sources.

Inputs into the assessment of whether a financial asset 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. The Bank collects performance and default information about its credit risk exposures analysed by sector 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.

The 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

Financial assets are written off when the Bank concludes that there is no longer any realistic prospect of recovery of part or all of the financial asset. 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 written off when no further cash flows are expected.

Modified assets and liabilities

The Bank can make concessions or modifications to original terms of loans as a response to a 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 effective interest rate (EIR), the 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

The 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 to derecognise a loan to a customer, amongst others the 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; and
- 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 great than ten percent of the carrying value, the modification is also deemed substantial.

When the loan has been renegotiated or modified but not derecognised, the 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 otherwise enforcing collection of collateral, loan terms can be modified. The 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 the 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 must meet all of the following criteria:
- All of its facilities have to be performing;
- The probation period of 24 months 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.

Cash and cash equivalents
On the balance sheet, cash and cash equivalents comprise cash with central banks. Loans and advances to credit institutions with an original maturity of less than three months are additionally included in the cash flow statement.

Cash and cash equivalents are carried at amortised cost on the balance sheet.

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

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.

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.

Property, plant 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.

The estimated useful lives of the Bank's property, plant and equipment are:
- Property for own use: 40 years (or lease term if shorter)
- Plant and equipment: 3 to 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.

Leases
<u>As a lessee</u>
The Bank assesses whether a contract is or contains a lease, at inception of a contract. The 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, the 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 using the rate implicit in the lease. If this rate cannot be readily determined, the 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;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease; and
- Lease payments to be made under extension options, when it is reasonably certain that the option will be used.

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

The 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); or
- 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 date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the 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 of lease term or 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 the 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 impacts on profit or loss are the depreciation charges on the right of use assets and the interest charges on the lease liabilities.

<u>As a lessor</u>
The Bank enters into lease agreements as a lessor with respect to some of its office space.

Leases for which the 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. The 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 Bank applies IFRS 15 to allocate the consideration under the contract to each component.

Impairment of intangible assets, property, plant and equipment, and right of use assets
At each balance sheet date, the Bank assesses whether there is any indication that its intangible assets, property, plant and equipment or right of use assets 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.

Provisions and contingent liabilities
The 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.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable, or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

Tax

Income tax expense, 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 the Bank has a legally enforceable right to offset, and where they relate to income taxes levied by the same taxation authority.

Critical judgements and estimates

UK company law and UK-adopted international accounting standards require the Board, in preparing the financial statements, to select suitable accounting policies, apply them consistently and where necessary make judgements and estimates that are reasonable and prudent. The Bank's reported results are sensitive to the accounting policies, judgements and estimates that underlie the preparation of its financial statements.

Judgements and estimates 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 estimates that, in the opinion of the directors, have the most significant effect on the amounts recognised in the financial statements are discussed below, and mainly relate to loan impairment. See the Impairment of financial assets accounting policy for an explanation of the calculation of impairment of financial assets under IFRS 9.

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 loan, its economic forecasts including the probability of each of these, and its modelling of expected performance of each loan in each economic scenario. For loans and advances to customers all three elements require judgements or estimates that significantly impact the value of impairment losses.

Stage 3 impairments are assessed on an exposure-by-exposure basis using a probability weighted financial impact assessment. This is calculated across the range of potential resolutions for each individual defaulted exposure (such as Cure, Normal Sale or Forced Sale) and includes consideration of collateral valuation (based on the Collateral Valuation Policy and using external valuation, where necessary) adjusted by estimated applicable selling costs and categorised asset quality to derive expected sale proceeds.

A. Key judgement: Significant increase in credit risk

As explained in the Impairment of financial assets accounting policy, for loans and advances to customers the 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.

The 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 and senior management changes. • Data from credit reference agencies, press articles and changes in external credit ratings. • Quoted bond and Credit Default Swap (CDS) prices for the borrower where available. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	• Internally collected data on customer behaviour e.g., utilisation of overdraft facilities. • Affordability metrics. • External data from credit reference agencies, including industry-standard credit scores.	• Payment record – this includes overdue status as well as a range of variables about payment ratios. • Utilisation of the granted limit. • Requests for and granting of forbearance. • 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.

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

In addition to the above, due to the COVID-19 pandemic, during 2020 and 2021 several clients made use of general moratoria that were provided by the Bank without any additional conditions. 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 in credit risk.

B. Key estimate: economic forecast
The Bank formulates three economic scenarios for ECL calculations: a base case, which is the core scenario, and two less likely scenarios, one upside and one downside. The base case is aligned with information used by the 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 such as the Bank of England and the Office for Budget Responsibility, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key driver of credit risk is Gross Domestic Product (GDP) growth, with the interest rate level also having a small impact on one lending sector.

As described in the Key judgement: loan performance in different macro-economic conditions section below, the performance of each loan in Stages 1 and 2 is determined by the macro-economic conditions and its sector.

The economic scenarios used as at 31 December 2022 included the following GDP growth estimates and probability distribution for the years ending 31 December 2023 to 2025 and for the long-term. Taken together these are a key estimate.

	Probability	2023	2024	2025	Long-term
Base	40%	-0.78%	1.18%	1.38%	1.0%
Upside	30%	1.94%	1.17%	1.10%	1.0%
Downside	30%	-6.85%	1.34%	2.47%	1.0%

C. Key judgement: loan performance in different macro-economic conditions
Each loan is assigned to one of 19 sectors, for example Social Housing, Renewable energy, or Art & culture. A key judgement is made to determine per sector the correlation between the change in UK Gross Domestic Product (GDP) and the probability of default (PD) and net collateral value (NCV), which is High, Medium, Low or None. The table below shows the impact per correlation level.

GDP Correlation	Maximum impact; if GDP deviates by more than 2% from the long-term average	
	PD (factor)	NCV
High	5.6	15%
Medium	3.2	10%
Low	1.8	5%
None	No impact	No impact

The correlation between GDP and PD is used to translate the PD that each corporate loan is assigned at review, as explained in the Impairment of financial assets accounting policy, to a PD that is used in the ECL model. For example, if GDP is forecast to decline by 1% in a given scenario that would be a 2% deviation from the long-term forecast growth of 1%. For a loan in a sector with Medium GDP PD correlation this would therefore cause PD to increase by a factor of 3.2. Similarly, if the loan were in a sector with Low GDP NCV correlation this would cause NCV to decline by 5%, increasing the modelled loss given default.

Impacts for GDP deviations from the long-term historical average of less than 2% can be calculated by interpolation.

The table below shows the weighted average PD used in the ECL calculation per internal credit rating as at the balance sheet date. Note that these do not in all cases increase uniformly because the weighted average for each grade depends on the sector of the loans at that grade.

Grading	12-month weighted average PD	Grading	12-month weighted average PD
Grade 1	0.06%	Grade 8	8.43%
Grade 2	0.08%	Grade 9	14.34%
Grade 3	0.27%	Grade 10	24.89%
Grade 4	0.64%	Grade 11	38.96%
Grade 5	1.23%	Grade 12	58.27%
Grade 6	2.57%	Grade 13	85.30%
Grade 7	5.35%	Grade 14	In default

Predicted relationships between GDP and PD and NCV per sector are key judgements that have been developed based on analysis of historical data and calibrated by management judgement of the impact of the current stressed economic conditions.

D. Key estimate: effective interest rate

IFRS 9 requires Triodos Bank UK to apply the effective interest method in accounting for its financial instruments. The key impact of this is that Arrangement and Commitment fees earned as part of loan arrangements should not be recognised as they are received but should be spread across the life of the loan. They are recognised in line with the interest income rather than up front, creating deferred income.

There are two key estimates applied:
- Estimated early repayment rate
- Weighted average contractual maturity

Both are key estimates since they can make a material difference to the repayment profile of the loan so are reassessed on an annual basis. For 2022 the values applied were 6.68% (2021: 5.08%) and 14.0 years (2021: 12.4 years), respectively. The increase in early repayment rate is driven by increased levels of early repayment rates in 2021 and 2022 as a result of the rising interest rate environment. The increased early repayment rate reduces the weighted average life of the loan portfolio and accelerates the recognition of fees deferred on the balance sheet. The decision to use 6.68% and 14.0 years was approved by the Audit Committee in November 2022.

Notes to the Financial Statements

1. Interest income

An analysis of the company's revenue is as follows:

	2022 £'000	2021 £'000
Cash and cash equivalents	4,686	338
Loans and advances to credit institutions	18	(2)
Loans and advances to customers	46,055	36,928
Debt securities	3,173	1,811
	53,932	**39,075**

The interest income includes that derived from loans and related transactions, as well as related commissions, which by their nature are similar to interest payments.

Interest income can be broken down by geography as follows:

		2022		
	UK £'000	Ireland £'000	Other EU £'000	Total £'000
Cash and cash equivalents	4,686	-	-	4,686
Loans and advances to credit institutions	24	(6)	-	18
Loans and advances to customers	45,186	869	-	46,055
Debt securities	1,685	-	1,488	3,173
	51,581	**863**	**1,488**	**53,932**

		2021		
	UK £'000	Ireland £'000	Other EU £'000	Total £'000
Cash and cash equivalents	338	-	-	338
Loans and advances to credit institutions	-	(2)	-	(2)
Loans and advances to customers	36,098	830	-	36,928
Debt securities	1,211	-	600	1,811
	37,647	**828**	**600**	**39,075**

Income in Ireland is earned on a portfolio of loans and advances to customers with a value of £22.8 million at 31 December 2022 (2021: £27.0 million). This income stream is not affected by the UK's departure from the European Union.

2. Interest expense

	2022 £'000	2021 £'000
Deposits from credit institutions	96	104
Customer accounts	8,184	2,538
Lease liability	20	28
Bond interest	228	228
Other	-	2
	8,528	**2,900**

3. Net fee and commission income

	2022 £'000	2021 £'000
Payment transactions including personal current account fees	1,581	1,214
Lending	1,305	1,559
Guarantee fees	18	17
Fund distribution	763	905
Corporate finance fees	720	526
Total fee and commission income	**4,387**	**4,221**
Payment transactions including personal current account fees	1,597	1,273
Corporate finance fees	44	30
Lending	344	217
Total fee and commission expense	**1,985**	**1,520**

Lending and guarantee fees include £nil (2021: £20,000) from customers in the Republic of Ireland. All other fee and commission income is earned in the United Kingdom.

4. Other operating income

	2022 £'000	2021 £'000
Rental income from property leases	23	17
Exchange results for foreign currency transactions	50	(49)
Other	(19)	264
	54	**232**

5. Personnel expenses

	2022 £'000	2021 £'000
Wages and salaries	12,427	10,268
Social security costs	1,224	930
Other pension costs	1,053	889
	14,704	**12,087**

The Bank employs some co-workers who work for other group companies, and other group companies employ some co-workers who work for the Bank. These costs are recharged including a mark-up, as appropriate. Intercompany co-worker recharges represent the net of the income earned from charging intercompany entities for the time of the Bank's co-workers, less the cost of paying for co-workers recharged to the Bank.

Average number of co-workers during the period:

	2022 Number	2021 Number
Executive directors	1	1
Full-time	218	181
Part-time	59	49
	278	**231**

The pension scheme is a defined contribution scheme that has been placed with a life insurance company in the United Kingdom, with funds invested in socially responsible investment funds. The commitment to the participating co-workers consists of paying any outstanding contribution. Participation in the pension scheme is optional – co-workers are automatically enrolled but can choose to opt out. Regardless of co-worker contribution the Bank's contribution is 8% of salary, increasing to 10% after the first year of service. Co-workers may contribute any amount of their choosing.

The total cost charged to profit and loss of £1,053,000 (2021: £889,000) represents contributions payable by the Bank to the scheme at rates specified in the rules of the scheme. As at 31 December 2022 £126,000 of contributions due in respect of the current year that have not yet been paid over to the scheme were included in Other payables (2021: £104,000).

Directors' remuneration

The remuneration of the directors, who are the key management personnel of the Bank, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2022 £'000	2021 £'000
Short-term employee benefits	332	325
Post-employment benefits	19	18
	351	**343**

One director is accruing benefits under a money purchase pension scheme (2021: one).

Information about the highest paid director during the year ended 31 December 2022 is as follows:

	2022 £'000	2021 £'000
Short-term employee benefits	196	190
Post-employment benefits	19	18
	215	**208**

6. Other administrative expenses

	2022 £'000	2021 £'000
IT costs	6,141	5,445
Intercompany recharges	3,596	2,781
Marketing costs	577	1,004
Office costs	1,465	1,582
Accommodation expenses	1,336	1,273
Fees for advice and auditor	1,600	1,620
External administration costs	1,108	863
Financial Services Compensation Scheme Levy	87	78
Travel and lodging expenses	136	24
Other costs	2,047	1,714
	18,093	**16,384**

7. Auditors' fees

	2022 £'000	2021 £'000
Statutory audit	210	172
CASS audit	148	131
Other assurance work	28	27
	386	**330**

Prior period has been adjusted to split out the fees associated with Triods Bank UK's CASS audit and other assurance work as well as excluding Value Added Tax (VAT).

8. Tax on profit on ordinary activities

	2022 £'000	2021 £'000
Corporation tax:		
Current year	1,021	687
Adjustments in respect of prior years	(27)	4
	994	**691**
Deferred tax (see Note 16)		
Origination and reversal of temporary differences	3	(77)
	3	**(77)**
Other adjustment	-	**23**
Total tax expense	**997**	**637**

Reconciliation of effective tax
The tax on the Bank's profit before tax differs (2021: differs) from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

	2022 £'000	2021 £'000
Profit before tax on continuing operations	10,201	8,478
Statutory tax rate	19.0%	19.0%
Tax at the UK corporation tax rate	1,938	1,611
Tax effect of non-deductible expenses in determining taxable profit	126	119
- of which recognised in merger reserve	-	-
Tax effect of non-taxable income in determining taxable profit	(159)	(104)
Community investment tax relief	(884)	(939)
Adjustments in respect of prior years	(27)	4
Decrease in carrying value of deferred tax asset	3	(77)
Other adjustment	-	23
Total tax expense	**997**	**637**
Effective tax rate	**9.8%**	**7.5%**
Effective tax rate excluding CITR	**18.4%**	**18.6%**

The tax expense for the year is lower than would be implied by the current headline tax rate due to lending that qualifies for Community Investment Tax Relief (CITR). The CITR scheme encourages investment in disadvantaged communities by giving tax relief to investors who back businesses and other enterprises in less advantaged areas by investing in accredited Community Development Finance Institutions (CDFIs). The Bank has made such investments. The tax relief is worth up to 25% of the value of the investment in the CDFI. The relief is spread over five years, starting with the year in which the investment is made.

The Bank invests in CDFIs because it believes in the benefits they provide to the communities in which they operate. The tax relief it obtains enables the Bank to provide investment to the CDFIs at a low margin while also maintaining an appropriate return to the Bank on the investment. The tax relief obtained is provided strictly in accordance with UK tax law which has been made available to encourage this activity and careful consideration is taken to ensure the Bank does not achieve a return higher than would be expected if the tax relief had not been obtained.

The UK Government announced in the Budget on 3 March 2021 that the main rate of corporation tax will increase to 25% for the financial year beginning 1 April 2023. Throughout 2022, the rate of corporation tax remained at 19% and will remain at 19% until 31 March 2023.

Total tax borne

The table below sets out the amount of tax borne by the Bank in the year in respect of each of the most significant taxes.

	2022 £'000
Corporation tax	1,059
Irrecoverable VAT	3,092
Employer's NI	1,236
Business rates	272
Total tax borne	**5,659**

All figures represent amounts paid to HMRC except for irrecoverable VAT, which is the non-deductible VAT paid on invoices to suppliers.

The Bank's approach to tax reflects its values. It sees paying taxes not as a burden, but as a contribution to the society that the Bank operates in. Taxes are an important instrument to fund education, infrastructure and systems. As such, companies should pay taxes as an important part of their role as a responsible business.

9. Cash and cash equivalents

	31-Dec-22 £'000	31-Dec-21 £'000
Cash with the Bank of England	355,967	371,287
Mandatory reserve with the Bank of England	3,939	3,533
Balance sheet value as at 31 December	**359,906**	**374,820**

Cash at the Bank of England is held on demand, except for the mandatory reserve, which is encumbered.

10. Loans and advances to credit institutions

Amounts falling due within one year:

	31-Dec-22 £'000	31-Dec-21 £'000
On demand deposits with credit institutions	33,412	40,979
Other loans and advances to credit institutions	1,200	1,199
Expected Credit Loss	(1)	(1)
Balance sheet value as at 31 December	**34,611**	**42,177**

11. Loans and advances to customers

	31-Dec-22			31-Dec-21		
	Gross carrying amount	ECL allowance (Note 26)	Carrying amount	Gross carrying amount	ECL allowance (Note 26)	Carrying amount
	£'000	£'000	£'000	£'000	£'000	£'000
Corporate loans	1,128,063	(10,429)	1,117,634	1,134,146	(6,156)	1,127,990
Current accounts	3,745	(74)	3,671	4,226	(84)	4,142
Total	**1,131,808**	**(10,503)**	**1,121,305**	**1,138,372**	**(6,240)**	**1,132,132**

12. Debt Securities

	31-Dec-22	31-Dec-21
	£'000	£'000
Issued by public bodies	154,662	124,958
Issued by other issuers	191,142	144,081
Expected credit loss	(3)	(4)
Balance sheet value as at 31 December	**345,801**	**269,035**

All debt securities are listed.

The balance sheet value of debt securities excluding expected credit loss provision can be broken down as follows:

31 December 2022	**Term of maturity less than a year £'000**	**Term of maturity more than a year £'000**
Public bodies		
Central Government	60,341	94,322
Regional Government and Public Sector Entities	5	19,541
Total public bodies	**60,346**	**113,863**
Other issuers		
Credit Institutions	5,110	63,506
Corporate Debt Securities	48	9,349
Multilateral Development Banks	20,227	73,355
Total other issuers	**25,385**	**146,210**
Total	**85,731**	**260,073**

31 December 2021	Term of maturity less than a year £'000	Term of maturity more than a year £'000
Public bodies		
Central Government	19,429	105,592
Regional Government and Public Sector Entities	-	-
Total public bodies	**19,429**	**105,592**
Other issuers		
Credit Institutions	93	78,869
Corporate Debt Securities	125	9,386
Multilateral Development Banks	151	55,394
Total other issuers	**369**	**143,649**
Total	**19,798**	**249,241**

The movement in debt securities in the year is as follows:

	2022 £'000	2021 £'000
Balance sheet value as at 1 January	269,035	153,005
Purchases	110,000	138,210
Sales	-	(5,128)
Maturity	(29,000)	(15,500)
Net premium and discount amortisation	(3,986)	(1,509)
Interest receivable movement	(249)	(49)
Expected credit loss movement	1	6
Balance sheet value as at period end or year end	**345,801**	**269,035**

The value of matured debt securities in the year was £29 million against an expected maturity from the prior year of £19 million due to one bond having a condition where the maturity date could be extended for a further year at the bond issuer's discretion and was therefore assigned an expected maturity of 2023 in the prior year. The condition was not exercised, and the bond matured in 2022.

13. Intangible fixed assets

	Internally Developed Assets £'000	Computer software £'000	Total £'000
Cost			
At 1 January 2021	1,927	60	1,987
Additions	50	35	85
Disposals	-	-	-
At 31 December 2021	**1,977**	**95**	**2,072**
Additions from internal development	130	70	200
Disposals	-	(50)	(50)
At 31 December 2022	**2,107**	**115**	**2,222**
Accumulated amortisation			
At 1 January 2021	(642)	(33)	(675)
Amortisation charge for the year	(193)	(21)	(214)
At 31 December 2021	**(835)**	**(54)**	**(889)**
Amortisation charge for the year	(194)	(24)	(218)
Disposals	-	47	47
At 31 December 2022	**(1,029)**	**(31)**	**(1,060)**
Carrying amount			
At 31 December 2021	**1,142**	**41**	**1,183**
At 31 December 2022	**1,078**	**84**	**1,162**

Internally developed assets
The internally developed assets relate to development of the Bank's personal current account offering as well as the development of Triodos Bank UK's in-house investments platform which went live in December 2022.

These assets have an expected useful economic life of ten years. The remaining useful economic life of the assets as at 31 December 2022 is five and ten years for the personal current account offering and the in-house investments platform respectively.

Computer software
Computer software relates to software that has been purchased or internally developed. Computer software has a finite useful economic life of three years.

General

There are no restrictions on the title of intangible assets and no intangible assets have been pledged as security for liabilities.

Amortisation of intangible assets is included in Other administrative expenses in the Statement of Comprehensive Income.

No research and development expenditure has been incurred during the year (2021: £nil).

14. Property, plant and equipment

	Property for own use £'000	Plant and Equipment £'000	Total £'000
Cost			
At 1 January 2021	14,583	1,737	16,320
Additions	72	182	254
Disposals	-	(74)	(74)
At 31 December 2021	**14,655**	**1,845**	**16,500**
Additions	164	163	327
Disposals	-	(16)	(16)
At 31 December 2022	**14,819**	**1,992**	**16,811**
Accumulated depreciation			
At 1 January 2021	(2,589)	(1,404)	(3,993)
Depreciation charge for the year	(440)	(184)	(624)
Disposals	-	74	74
At 31 December 2021	**(3,029)**	**(1,514)**	**(4,543)**
Depreciation charge for the year	(461)	(197)	(658)
Disposals	-	14	14
At 31 December 2022	**(3,490)**	**(1,697)**	**(5,187)**
Net book value			
At 31 December 2021	**11,626**	**331**	**11,957**
At 31 December 2022	**11,329**	**295**	**11,624**

There are no restrictions on title on property, plant and equipment. Property, plant and equipment has not been pledged as security for liabilities.

15. Leases

The Bank has three land and building leases for its office space for which right of use assets and lease liabilities are recognised. The bank does not recognise right of use assets or lease liabilities for any other class of leases.

The property in Edinburgh is held on a lease of ten years from August 2014. The property in London is held on a lease of one year from March 2020 renewed annually. The Bank owns the property in Bristol, but the land on which it is built is held on a long leasehold from Bristol City Council for 150 years from September 2010. Information about these leases is shown in below.

Right of use assets

	2022 £'000	2021 £'000
Cost		
At 1 January	1,497	1,497
Additions	15	-
At 31 December	**1,512**	**1,497**
Accumulated depreciation and impairment		
At 1 January	(317)	(175)
Charge for the year	(146)	(142)
At 31 December	**(463)**	**(317)**
Net book value		
At 1 January	1,180	1,322
At 31 December	**1,049**	**1,180**

Lease liabilities

	2022 £'000	2021 £'000
Maturity analysis - contractual undiscounted cash flow		
Less than one year	161	157
One to five years	276	394
More than five years	949	983
Total undiscounted lease liabilities as at 31 December	**1,386**	**1,534**
Lease liabilities included in the balance sheet		
Current	141	134
Non-current	939	1,071
Balance sheet value as at 31 December	**1,080**	**1,205**

Amounts recognised in the income statement

	2022 £'000	2021 £'000
Interest on lease liabilities	20	28
Expenses of low value leases	7	7
	27	**35**

Amounts recognised in statement of cash flows
During the year £160,000 was recognised in the statement of cash flows as outflow for leases (2021: £156,000).

Other leases
The Bank also leases plant and machinery with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Bank has elected not to recognise right of use assets and lease liabilities for these leases.

Leases as lessor
The Bank leases out space at its property in Bristol. At 31 December the future minimum lease payments under non-cancellable leases were receivable as follows:

	31-Dec-22	31-Dec-21
	£'000	£'000
Less than one year	13	14
Between one and five years	52	-
More than five years	13	-
Balance sheet value as at 31 December	**78**	**14**

16. Deferred tax

The movements on the deferred tax accounts are as follows:

	Fixed assets	Effective interest rate accounting	Lease accounting	Expected credit losses	Total
	£'000	£'000	£'000	£'000	£'000
Asset/(Liability) at 1 January 2021	(91)	142	2	108	161
Current year deferred tax credit	20	51	(2)	8	77
Asset/(Liability) at 31 December 2021	**(71)**	**193**	**-**	**116**	**238**
Current year deferred tax charge	53	(47)	-	(9)	(3)
Asset/(Liability) at 31 December 2022	**(18)**	**146**	**-**	**107**	**235**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised, or the liability is settled, based on tax rates that have been enacted or substantively enacted as at the Balance Sheet date.

Included in the net deferred tax asset is £186,000 (2021: £203,000) due more than twelve months after the end of the reporting period.

17. Other assets

Amounts falling due within one year:

	31-Dec-22	31-Dec-21
	£'000	£'000
Other receivables	388	1,003
Other prepayments and accrued income	751	739
Balance sheet value as at 31 December	**1,139**	**1,742**

The Directors consider that the carrying amount of other assets approximates their fair value. The primary driver of the decrease is settlement in the year of amounts owed by Triodos Bank N.V.

18. Deposits from credit institutions

	31-Dec-22 £'000	31-Dec-21 £'000
Repayable on demand	10,438	12,536
With agreed maturity dates or periods of notice	14,254	15,363
Total	**24,692**	**27,899**

All amounts are payable to the Bank's parent, Triodos Bank N.V., which provides funding for the Bank's Euro lending. Operational balances between the Bank and Triodos Bank N.V. are included in Other assets and Other liabilities.

19. Customer accounts

	31-Dec-22 £'000	31-Dec-21 £'000
Savings	1,012,148	980,483
Other funds entrusted	629,757	627,119
Balance sheet value as at 31 December	**1,641,905**	**1,607,602**

Savings are defined as savings accounts (with or without notice) and fixed term deposits of natural persons and non-profit institutions.

Other funds entrusted are defined as current accounts of natural persons and non-profit institutions and all accounts of governments, financial institutions and non-financial corporations.

20. Debt issued

	31-Dec-22 £'000	31-Dec-21 £'000
Tier 2 bonds - nominal value	5,695	5,695
Tier 2 bonds - accrued interest	38	41
Balance sheet value as at 31 December	**5,733**	**5,736**

On 23 December 2020 the Bank issued unsecured bonds with a nominal value of £5.695 million, maturing in 2030. The bonds pay a fixed interest rate of 4% until 2025, at which point the Bank may elect to repay them in full, or the interest rate will reset to 3.9% above the Bank of England base rate for the remainder of the term.

21. Other liabilities

Amounts falling due within one year:

	31-Dec-22 £'000	31-Dec-21 £'000
Accruals and deferred income	1,011	1,403
Amounts owed to group undertakings	784	557
Other taxation and social security	646	500
Other payables	4,233	1,426
Balance sheet value as at 31 December	**6,674**	**3,886**

The directors consider that the carrying amount of other liabilities approximates their fair value.

22. Provisions

	31-Dec-22 £'000	31-Dec-21 £'000
Vitality leave	91	179
Regulatory change provision	-	380
Dilapidation	15	15
Expected credit loss on guarantees	8	1
Expected credit loss on loan commitments	220	286
Balance sheet value as at 31 December	**334**	**861**

The more significant provisions are as follows:

- The vitality leave provision is for the anticipated costs of paying salaries of co-workers whilst on vitality leave. This is two months of partially paid leave, for which co-workers become eligible upon completion of five years of service.
- The regulatory change provision was related to costs provided for to implement the required improvements to prudential and credit risk management as identified in the PRA 2021 Periodic Summary Meeting letter.
- The dilapidation provision is for anticipated costs of restoring the Edinburgh office at the end of the lease term.
- Expected credit loss on guarantees and expected credit loss on loan commitments are calculated in line with the requirements of IFRS 9.

The balance sheet value of provisions can be broken down as follows:

31 December 2022	**Term of maturity less than a year** **£'000**	**Term of maturity more than a year** **£'000**
Vitality leave	47	44
Dilapidation	-	15
Expected credit loss on guarantees	8	-
Expected credit loss on loan commitments	85	135
Total	**140**	**194**

31 December 2021	**Term of maturity less than a year** **£'000**	**Term of maturity more than a year** **£'000**
Vitality leave	87	93
Regulatory change provision	380	-
Dilapidation	-	15
Expected credit loss on guarantees	1	-
Expected credit loss on loan commitments	137	148
Total	**605**	**256**

The movements on provisions are as follows:

	Vitality leave provision	Subsidiarisation provision	Regulatory change provision	Dilapidation provision	Expected credit loss guarantees	Expected credit loss loan commitments	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 January 2021	182	8	-	15	1	456	662
Addition	-	-	380	-	-	-	380
Utilisation	(2)	(8)	-	-	-	-	(10)
Release	-	-	-	-	-	(170)	(170)
As at 31 December 2021	**180**	**-**	**380**	**15**	**1**	**286**	**862**
Addition	-	-	-	-	7	-	7
Utilisation		-	(380)	-	-	-	(380)
Release	(89)	-	-	-	-	(66)	(155)
As at 31 December 2022	**91**	**-**	**-**	**15**	**8**	**220**	**334**

23. Called up share capital

Allotted, called up and fully paid ordinary shares of £1 each.

	31-Dec-22	31-Dec-21
	£'000	£'000
Issued share capital	172,000	172,000
	172,000	**172,000**

All shares are ordinary share held by the parent, Triodos Bank N.V.

24. Related party transactions

Trading transactions

Balances and transactions between the Bank and its related parties other than key management personnel are disclosed below:

	Services provided		Services received	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Parent				
IT costs	-	-	5,339	4,771
Administration and co-worker costs	648	282	3,674	2,840
Loan interest	-	-	96	104
Group entities				
Joint promotion	-	-	-	-
Administration and co-worker costs	144	135	-	-
Other related parties				
Loan interest	27	17	-	-
Customer accounts interest and other charges	1	-	15	26
	820	**434**	**9,124**	**7,741**

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties		Amounts owed to related parties	
	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
	£'000	£'000	£'000	£'000
Parent	-	(557)	25,381	27,900
Group entities	7	59	-	-
Other related parties	178	207	225	205
	185	**(291)**	**25,606**	**28,105**

Parent company
The Bank's immediate and ultimate parent undertaking is Triodos Bank N.V., which provides various services to the Bank, including IT systems, technical expertise and management oversight. It also provides an intercompany borrowing facility to fund the Bank's lending in Euros. The Bank employs co-workers who perform work for the parent. All transactions were made on terms equivalent to those that prevail in arm's length transactions.

Group entities
The Bank employed one co-worker who performed work for Triodos Investment Management B.V., a group entity. The Bank was reimbursed in full for these salary costs and associated overhead costs. All transactions are made on terms equivalent to those that prevail in arm's length transactions.

Other related parties
Triodos Foundation is a charity registered in England and Wales (company no. 03128749), all of whose trustees are employees of the Bank or Triodos Bank N.V., including CEO Bevis Watts. It rents an office

floor from the Bank for £1 per annum, which it uses as an event space for local businesses and charities, including the Bank, to hire, and uses income from this to support its charitable activities. Triodos Foundation holds a deposit account with the Bank, the balance of which was £151,000 (2021: £160,000) at the year end. The value of transactions between Triodos Foundation and the Bank during the year was £14,000 (2021: £26,000).

Triodos Investments Limited is a private company registered in England and Wales (company no. 2822816), all of whose directors are employees of the Bank, including CEO Bevis Watts. It holds 100% of the ordinary share capital of Sun Roof Limited and provides a bank guarantee limited to £385,000 over all of the assets and undertakings of Sun Roof Limited present and future. Triodos Investments Limited holds a savings account and a current account with the Bank, the total balance of which was £11,000 (2021: £11,000) at the year end. The value of transactions between Triodos Investments Limited and the Bank during the year was £2,000 (2021: £nil).

Sun Roof Limited is a private company registered in England and Wales (company no. 07198329), two of whose directors are employees of the Bank. It produces electricity from photovoltaic systems and is a wholly owned subsidiary of Triodos Investments Limited. Sun Roof Limited has a loan with the Bank, the outstanding balance of which was £178,000 (2021: £207,000) at the year end. It also holds a deposit account with a balance of £11,000 (2021: £10,000) and a current account with a balance of £53,000 (2021: £24,000). The gross amount of loan repayments made by Sun Roof Limited to the Bank during the year was £42,000 (2021: £41,000).

Transactions with key management personnel
For the purpose of IAS 24 "Related Party Disclosures", key management comprises the directors of the Bank.

Please refer to Note 5 for information on directors' remuneration.

At the year end, customer accounts with an aggregate value of £158,000 (2021: £109,000) were attributable to the directors. Additionally, one director has a controlling interest in a property management company for their leasehold residence which holds a current account with Triodos Bank UK with a balance of £2,000 at the year end.

25. Off-balance sheet liabilities

Contingent liabilities
These comprise credit-substitute guarantees and non-credit-substitute guarantees.

Credit substitute guarantees are guarantees to customers for loans provided to these customers by other banks.

Non-credit substitute guarantees are guarantees to customers for all other obligations of these customers to third parties. For example:
- Obligations to purchase sustainable goods, such as wind turbines; and
- Obligations to decommission equipment or reinstate property (related to project finance provided by the Bank).

	31-Dec-22	31-Dec-21
	£'000	£'000
Credit substitute guarantees	1,501	1,500
Non-credit substitute guarantees	1,092	1,026
	2,593	**2,526**

Irrevocable facilities
These are irrevocable offers, which may lead to a loan.

	31-Dec-22	31-Dec-21
	£'000	£'000
Undrawn debit limits on current accounts	13,220	14,405
Accepted loans not yet paid out	111,276	140,089
Valid loan offers not yet accepted	-	360
	124,496	**154,854**

26. Financial risk management

This Note presents information about the Bank's exposure to financial risks and management of capital. For information on the Bank's capital management, see the Capital section in the Strategic Report. For information on the Bank's definition of default, see the Bank's Default, Forbearance and Provisioning Policy. For information on the Bank's financial risk management framework, see Principal Risks and Uncertainties in the Strategic Report. Financial risk is an umbrella term for multiple types of risk associated with financing the balance sheet. To manage this, financial risk is subdivided in three categories: credit risk, liquidity risk and market risk.

a. Credit risk
For the definition of credit risk and information on how credit risk is mitigated by the Bank, see Principal Risks and Uncertainties in the Strategic Report. For the definitions of Stage 1, Stage 2 and Stage 3, and how loans are allocated to each stage, see Impairment of financial assets accounting policy.

i. Credit quality analysis
The following tables set out information about the credit quality of financial assets, loan commitments and guarantee contracts. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31-Dec-22			
	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Loans and advances to credit institutions				
AA	2,024	-	-	2,024
A	31,927	-	-	31,927
BBB	661	-	-	661
Gross amount	**34,612**	**-**	**-**	**34,612**
Allowance for expected credit losses	(1)	-	-	(1)
Carrying amount	**34,611**	**-**	**-**	**34,611**
Loans and advances to customers				
Rating 1-9: Normal risk	665,906	338,192	-	1,004,098
Rating 10-13: Increased risk	-	42,478	-	42,478
Rating 14: Default	-	-	71,388	71,388
Not rated	7,431	6,413	-	13,844
Gross amount	**673,337**	**387,083**	**71,388**	**1,131,808**
Allowance for expected credit losses	(826)	(1,335)	(8,342)	(10,503)
Carrying amount	**672,511**	**385,748**	**63,046**	**1,121,305**
Debt securities				
AAA	143,372	-	-	143,372
AA	193,035	-	-	193,035
A	9,397	-	-	9,397
Gross amount	**345,804**	**-**	**-**	**345,804**
Loss allowance	(3)	-	-	(3)
Carrying amount	**345,801**	**-**	**-**	**345,801**
Loan commitments				
Gross amount	**84,223**	**40,273**	**-**	**124,496**
Loss allowance	(85)	(135)	-	(220)
Carrying amount (provision)	**(85)**	**(135)**	**-**	**(220)**

	31-Dec-22			
	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Financial guarantee contracts				
Gross amount	**2,593**	**-**	**-**	**2,593**
Loss allowance	(8)	-	-	(8)
Carrying amount (provision)	**(8)**	**-**	**-**	**(8)**

	31-Dec-21			
	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Loans and advances to credit institutions				
AA	19	-	-	19
A	41,584	-	-	41,584
BBB	575	-	-	575
Gross amount	**42,178**	**-**	**-**	**42,178**
Allowance for expected credit losses	(1)	-	-	(1)
Carrying amount	**42,177**	**-**	**-**	**42,177**
Loans and advances to customers				
Rating 1-9: Normal risk	671,857	376,097	-	1,047,954
Rating 10-13: Increased risk	-	25,204	-	25,204
Rating 14: Default	-	-	50,934	50,934
Not rated	11,640	2,640	-	14,280
Gross amount	**683,497**	**403,941**	**50,934**	**1,138,372**
Allowance for expected credit losses	(1,053)	(1,191)	(3,996)	(6,240)
Carrying amount	**682,444**	**402,750**	**46,938**	**1,132,132**
Debt securities				
AAA	124,627	-	-	124,627
AA	124,965	-	-	124,965
A	19,447	-	-	19,447
Gross amount	**269,039**	**-**	**-**	**269,039**

	31-Dec-21			
	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Loss allowance	(4)	-	-	(4)
Carrying amount	**269,035**	**-**	**-**	**269,035**
Loan commitments				
Gross amount	**142,049**	**12,805**	**-**	**154,854**
Loss allowance	(137)	(149)	-	(286)
Carrying amount (provision)	**(137)**	**(149)**	**-**	**(286)**
Financial guarantee contracts				
Gross amount	**2,526**	**-**	**-**	**2,526**
Loss allowance	(1)	-	-	(1)
Carrying amount (provision)	**(1)**	**-**	**-**	**(1)**

The following table sets out information about the overdue status of loans and advances to corporate and retail customers in Stages 1, 2 and 3.

	31-Dec-22				31-Dec-21			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances to customers								
Current	629,755	371,480	-	1,001,235	676,670	403,935	48,744	1,129,349
Overdue < 90 days	43,582	15,603	-	59,185	6,827	6	222	7,055
Overdue > 90 days	-	-	71,388	71,388	-	-	1,968	1,968
Gross amount	**673,337**	**387,083**	**71,388**	**1,131,808**	**683,497**	**403,941**	**50,934**	**1,138,372**
Allowance for expected credit losses	(826)	(1,335)	(8,342)	(10,503)	(1,053)	(1,191)	(3,996)	(6,240)
Carrying amount	**672,511**	**385,748**	**63,046**	**1,121,305**	**682,444**	**402,750**	**46,938**	**1,132,132**

From 2022, all stage 3 loans are classified as greater than 90 days past due in accordance with the Bank's definition of default.

ii. Collateral held and other credit enhancements

Loans and advances to corporate customers

Loans and advances to corporate customers account for £1,131.5 million of the £1,131.8 million gross carrying amount of loans and advances to customers (2021: £1,138.2 million of £1,138.4 million).

The Bank holds collateral against its credit exposures arising from loans and advances to corporate customers. 92.5% (2021: 93.2%) of exposures by value are subject to collateral requirements, with the principal types of collateral held being real estate or floating charges over corporate assets.

The general creditworthiness of a customer is the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security, and the Bank generally requests that borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Revaluation of collateral is considered for all loans at a minimum each year, and revaluation of loans greater than €3m is performed at a minimum every three years, as required by regulation for capital relief purposes. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

Where we have extended loans under the Coronavirus Business Interruption Lending Scheme (CBILS) or the Recovery Loans Scheme (RLS), we receive a guarantee of between 70% to 80% of that exposure from HM Government. These were the only government backed coronavirus schemes that we partook in.

At 31 December 2022 the net carrying amount of credit-impaired loans and advances to corporate customers amounted to £63.0 million (2021: £46.9 million) and the value of identifiable collateral (mainly real estate) held against those loans and advances amounted to £61.9 million (2021: £38.7 million). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against. Collateral values are net of “haircuts” compared to collateral valuations, to represent values that could be realised in liquidation.

Assets obtained by taking possession of collateral

The Bank has not taken into possession any collateral during the year (2021: none), nor is it holding any at the year-end (2021: none).

iii. Allowance for expected credit losses

The following tables show reconciliations from the opening to the closing balance of the allowance for expected credit losses by class of financial instrument.

	Stage 1
	£'000
Loans and advances to credit institutions	
Balance at 1 January 2021	1
Net remeasurement of loss allowance	-
New financial assets originated or purchased	1
Financial assets that have been derecognised	(1)
Balance at 31 December 2021	**1**
Net remeasurement of loss allowance	(1)
New financial assets originated or purchased	1
Financial assets that have been derecognised	-
Balance at 31 December 2022	**1**

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Loans and advances to customers				
Balance at 1 January 2021	1,220	1,520	1,225	3,965
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(89)	89	-	-
Transfer to Stage 3	-	(259)	259	-
Net remeasurement of loss allowance	(216)	(455)	2,512	1,841
New financial assets originated or purchased	163	304	-	467
Financial assets derecognised	(25)	(8)	-	(33)
Write-offs	-	-	-	-
Balance at 31 December 2021	**1,053**	**1,191**	**3,996**	**6,240**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(224)	309	(85)	-
Transfer to Stage 3	-	(1,371)	1,371	-
Net remeasurement of allowance for expected credit losses	(82)	984	3,786	4,688
New financial assets originated or purchased	98	245	-	343
Financial assets that have been derecognised	(19)	(23)	(70)	(112)
Write-offs	-	-	(656)	(656)
Balance at 31 December 2022	**826**	**1,335**	**8,342**	**10,503**

	Stage 1 £'000
Debt securities	
Balance at 1 January 2021	10
Net remeasurement of loss allowance	-
New financial assets originated or purchased	4
Financial assets that have been derecognised	(10)
Balance at 31 December 2021	**4**
Net remeasurement of loss allowance	1
New financial assets originated or purchased	-
Financial assets that have been derecognised	(2)
Balance at 31 December 2022	**3**

	Stage 1 £'000	Stage 2 £'000	Total £'000
Loan commitments			
Balance at 1 January 2021	205	251	456
Net remeasurement of loss allowance	(68)	(102)	(170)
Balance at 1 December 2021	**137**	**149**	**286**
Net remeasurement of loss allowance	(52)	(14)	(66)
Balance at 31 December 2022	**85**	**135**	**220**

	Stage 1 £'000
Financial guarantee contracts	
Balance at 1 January 2021	1
Net remeasurement of loss allowance	-
Balance at 31 December 2021	**1**
Net remeasurement of loss allowance	7
Balance at 31 December 2022	**8**

The following table reconciles between:

- Amounts shown in the tables above reconciling opening and closing balances of loss allowance per class of financial instrument; and
- The 'impairment loss on financial instruments' line item in the statement of comprehensive income.

	2022					
	Stage 1	Stage 2	Stage 3	Write Offs	Income statement adjustments	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances to credit institutions	-	-	-	-	-	-
Loans and advances to customers	(227)	144	4,346	656	2	4,921
Debt securities	(1)	-	-	-	-	(1)
Loan commitments	(52)	(13)	-	-	-	(65)
Financial guarantee contracts	7	-	-	-	-	7
Total	**(273)**	**131**	**4,346**	**656**	**2**	**4,862**

	2021				
	Stage 1	Stage 2	Stage 3	Income statement adjustments	Total
	£'000	£'000	£'000	£'000	£'000
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to customers	(78)	(160)	2,512	61	2,335
Debt securities	(6)	-	-	-	(6)
Loan commitments	(68)	(102)	-	-	(170)
Financial guarantee contracts	-	-	-	-	-
Total	**(152)**	**(262)**	**2,512**	**61**	**2,159**

Credit impaired financial assets

The following table shows the development in the net carrying amount of credit- impaired loans and advances to customers.

	£'000
Credit impaired loans and advances to customers at 1 January 2021	40,598
Additions	33,383
Write-offs	-
Releases	(27,043)
Credit impaired loans and advances to customers at 31 December 2021	**46,938**
Additions	49,876
Write-offs	(656)
Releases	(33,112)
Credit impaired loans and advances to customers at 31 December 2022	**63,046**

There are no financial assets that were written off in the year that are still subject to enforcement activity.

b. Liquidity risk
For the definition of liquidity risk and information on how liquidity risk is managed by the Bank, see the principal risks section in the Strategic Report.

<u>i. Maturity analysis for financial assets and financial liabilities</u>
The following tables set out the earliest possible contractual maturities of the Bank's undiscounted cash flows for financial liabilities and financial assets.

31 December 2022	Note	On demand £'000	Less than 3 months £'000	3 months - 1 year £'000	1 - 5 years £'000	More than 5 years £'000	Total nominal amount £'000
Financial assets							
Cash and cash equivalents	9	359,906	-	-	-	-	359,906
Loans and advances to credit institutions	10	33,412	1,199	-	-	-	34,611
Loans and advances to customers	11	5,096	19,047	86,780	314,506	714,845	1,140,274
Debt securities	12	-	50,026	35,111	226,252	29,907	341,296
		398,414	**70,272**	**121,891**	**540,758**	**744,752**	**1,876,087**
Financial liabilities							
Deposits from credit institutions	18	10,438	591	1,521	7,900	4,242	24,692
Customer accounts	19	1,368,784	222,228	46,935	3,958	-	1,641,905
Debt issued	20	-	-	38	-	5,695	5,733
Lease liabilities	15	-	40	121	276	949	1,386
		1,379,222	**222,859**	**48,615**	**12,134**	**10,886**	**1,673,716**
Off balance sheet liabilities							
Contingent liabilities	25	1,214	1,379	-	-	-	2,593
Irrevocable facilities	25	124,496	-	-	-	-	124,496
		125,710	**1,379**	**-**	**-**	**-**	**127,089**
Net inflow/(outflow)		**(1,106,518)**	**(153,966)**	**73,276**	**528,624**	**733,866**	**75,282**

31 December 2021		On demand £'000	Less than 3 months £'000	3 months - 1 year £'000	1 - 5 years £'000	More than 5 years £'000	Total nominal amount £'000
Financial assets							
Cash and cash equivalents	9	374,820	-	-	-	-	374,820
Loans and advances to credit institutions	10	40,978	1,199	-	-	-	42,177
Loans and advances to customers	11	5,229	16,848	67,923	329,818	727,302	1,147,120
Debt securities	12	-	9,483	10,308	202,285	38,468	260,544
		421,027	**27,530**	**78,231**	**532,103**	**765,770**	**1,824,661**
Financial liabilities							
Deposits from credit institutions	18	12,536	458	1,452	7,098	6,355	27,899
Customer accounts	19	1,312,452	229,460	61,056	4,634	-	1,607,602
Debt issued		-	-	41	-	5,695	5,736
Lease liabilities	15	-	39	118	394	983	1,534
		1,324,988	**229,957**	**62,667**	**12,126**	**13,033**	**1,642,771**
Off balance sheet liabilities							
Contingent liabilities	25	1,214	1,312	-	-	-	2,526
Irrevocable facilities	25	154,854	-	-	-	-	154,854
		156,068	**1,312**	**-**	**-**	**-**	**157,380**
Net inflow/(outflow)		**(1,060,028)**	**(203,739)**	**15,564**	**519,977**	**752,736**	**24,510**

The amounts in the table above have been compiled as follows.

Type of financial instrument	Basis on which amounts are compiled
Contingent liabilities and irrevocable facilities	Contractual maturity date of the off-balance sheet facility. Contingent liabilities relate to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees to customers for loans provided to these customers by other banks. Non-credit substitute guarantees are guarantees to customers for all other obligations of these customers to third parties. Many of these guarantees are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. Irrevocable facilities mainly constitute accepted loans not yet paid out. Many of these facilities are for a fixed duration and bear interest at a floating rate.
All other financial assets and financial liabilities	Undiscounted cash flows, which include estimated interest payments

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- Demand deposits from customers are expected to remain stable or increase; and

- Unrecognised loan commitments are not all expected to be drawn down immediately.

ii. Liquid asset buffer

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and loans to credit institutions with original maturity less than 90 days. The Bank also holds unencumbered debt securities, which can be readily sold to meet liquidity requirements and are also eligible for use as collateral within the Bank of England Sterling Monetary Framework.

These amounts together are referred to as the "liquid asset buffer". The following table sets out the carrying amounts of the components of the Bank's liquid asset buffer at 31 December:

	2022	2021
	£'000	£'000
Cash and cash equivalents	359,906	374,820
Loans and advances to credit institutions	34,611	42,177
Unencumbered debt securities issued by UK government	154,662	125,021
Unencumbered debt securities issued by others	191,142	144,019
Total liquidity reserves	**740,321**	**686,037**

iii. Financial assets pledged as collateral

The Bank has no assets pledged as collateral.

c. Market risk

For the definition of Market Risk and information on how market risk is managed by the Bank, see the principal risks section in the Strategic Report.

i. Exposure to interest rate risk

The following table analyses the Bank's interest rate exposure on financial assets and liabilities. Assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates.

31 December 2022	Note	Carrying amount £'000	Overnight to 3 months £'000	3 months - 1 year £'000	1 - 5 years £'000	More than 5 years £'000
Cash and cash equivalents	9	359,906	359,906	-	-	-
Loans and advances to credit institutions	10	34,611	34,611	-	-	-
Loans and advances to customers	11	1,121,305	587,594	40,571	234,040	259,100
Debt securities	12	345,801	50,007	35,318	224,807	35,669
		1,861,623	**1,032,118**	**75,889**	**458,847**	**294,769**
Deposits from credit institutions	18	24,692	11,029	1,521	7,900	4,242
Customer accounts	19	1,641,905	1,591,012	46,935	3,958	-
Debt issued	20	5,733	-	38	5,695	-
		1,672,330	**1,602,041**	**48,494**	**17,553**	**4,242**
Net assets/(liabilities)		**189,293**	**(569,923)**	**27,395**	**441,294**	**290,527**

31 December 2021	Note	Carrying amount	Overnight to 3 months	3 months - 1 year	1 - 5 years	More than 5 years
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	9	374,820	374,820	-	-	-
Loans and advances to credit institutions	10	42,177	42,177	-	-	-
Loans and advances to customers	11	1,132,132	647,027	13,234	182,956	288,915
Debt securities	12	269,035	9,139	10,038	202,957	46,901
		1,818,164	**1,073,163**	**23,272**	**385,913**	**335,816**
Deposits from credit institutions	18	27,899	12,993	1,452	7,098	6,356
Customer accounts	19	1,607,602	1,541,912	61,056	4,634	-
Debt securities	20	5,736	-	41	5,695	-
		1,641,237	**1,554,905**	**62,549**	**17,427**	**6,356**
Net assets/(liabilities)		**176,927**	**(481,742)**	**(39,277)**	**368,486**	**329,460**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a quarterly basis include a 200 basis point (bp) parallel fall or rise in all yield curves worldwide.

The following is an analysis of the Bank's sensitivity to an increase or decrease in market interest rates, using parallel shocks to the yield curve. Floors based on regulatory requirements and expert judgement are applied to the market rates, and the maturity of customer accounts is based on expected customer behaviour rather than contractual terms. In accordance with Triodos Bank UK's 2022 ICAAP, internal risk appetite limit for IRRBB was set at maximum loss of 5% of total capital and tracked using the quarterly regulatory return.

	2022		2021	
	200bp parallel increase	200bp parallel decrease	200bp parallel increase	200bp parallel decrease
Sensitivity of projected net interest income				
At end of period or end of year	4.3%	-4.1%	2.8%	-1.4%
Average for the year	4.1%	-3.0%	0.9%	-1.4%
Maximum for the year	4.6%	-2.0%	2.8%	-0.9%
Minimum for the year	3.1%	-4.1%	-0.3%	-1.9%
Sensitivity of reported equity to interest rate movements				
At end of period or end of year	0.9%	-0.5%	0.7%	0.2%
Average for the year	-0.3%	1.0%	-1.6%	3.0%
Maximum for the year	0.9%	2.9%	0.7%	5.4%
Minimum for the year	-1.8%	-0.5%	-3.7%	0.2%

Interest rate movements affect reported equity due to the impact of increases or decreases in net interest income reported in profit or loss on retained earnings.

ii. Exposure to currency risks
Total foreign exchange exposures are managed to remain well below 2% of actual own funds. As at the reporting date, there were no significant foreign currency exposures.

27. Fair value of financial instruments

A. Valuation models
The Bank holds all assets and liabilities at amortised cost. It therefore does not hold any assets or liabilities at fair value.

For disclosure purposes, the Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:
- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank determines the fair value of its financial instruments using the following bases:
- The fair value of listed debt securities is the market value.

- The fair value of loans and advances to credit institutions, lease liabilities, deposits from banks, deposits from customers and debt issued has been determined by calculating the net present value of expected interest and redemption cashflows, taking into account market interest rates as at the end of the year.
- The fair value of loans and advances to customers has been determined by calculating the net present value of the interest and redemption cashflows, taking into account expected prepayment behaviour. The net present value is calculated by using market data, i.e., zero coupon rates, as at the end of the year, which are adjusted with a spread specific to the Bank. The spread is based on the expected margin the Bank expects to make over the market base rates in the coming years on new loans and advances to customers. Some loans and advances to customers include floors on the interest rates.
- The fair value of the other assets and liabilities is assumed to be equal to the balance sheet value.

B. Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
	£'000	£'000	£'000	£'000	£'000
At 31 December 2022					
Assets					
Loans and advances to credit institutions	-	-	34,611	34,611	34,611
Loans and advances to customers	-	-	1,087,679	1,087,679	1,121,305
Debt securities	322,131	-	-	322,131	345,801
Liabilities					
Deposits from credit institutions	-	-	22,874	22,874	24,692
Customer accounts	-	-	1,520,271	1,520,271	1,641,905
Debt issued	-	-	5,466	5,466	5,733

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
	£'000	£'000	£'000	£'000	£'000
At 31 December 2021					
Assets					
Loans and advances to credit institutions	-	-	42,177	42,177	42,177
Loans and advances to customers	-	-	1,147,290	1,147,290	1,132,132
Debt securities	266,351	-	-	266,351	269,035
Liabilities					
Deposits from credit institutions	-	-	28,591	28,591	27,899
Customer accounts	-	-	1,591,226	1,591,226	1,607,602
Debt issued	-	-	5,977	5,977	5,736

The fair value of cash and cash equivalents is equal to the total carrying amount as these are on demand balances and therefore not included in the table above.

28. Related undertaking

Triodos Nominees Limited is a private company registered in England and Wales (company no. 06059752) with its registered office at Triodos Bank, Deanery Road, Bristol, BS1 5AS, both of whose directors are employees of Triodos Bank UK, including CEO Bevis Watts. The company has no assets and liabilities and its sole purpose is to segregate client's assets from those of the Bank so they are protected in the unlikely event of insolvency. This is in accordance with the FCA's Clients Assets Sourcebook (CASS) requirements. The full 100% shareholding of 1 ordinary share was transferred from Triodos Investments Limited to Triodos Bank UK Limited to establish a more appropriate legal structure for the protection of the clients' assets. Its financial statements are prepared in accordance with the micro-entity provisions.

29. Ultimate controlling party

The Bank's immediate and ultimate parent undertaking is Triodos Bank N.V., registered in the Netherlands. The smallest and largest group for which consolidated financial statements are prepared is Triodos Bank N.V. The consolidated financial statements of the ultimate parent company can be obtained from Triodos Bank N.V., Hoofdstraat 10, Driebergen-Rijsenburg, PO Box 55, 3700 AB Zeist, Netherlands, or from www.triodos.com.

Triodos Bank N.V. is the Bank's ultimate controlling party.

30. Post balance sheet events

The Directors have considered events that have occurred between 31 December 2022 and the date of approval of these financial statements. The Directors recommend the payment of a dividend of 1.63 pence per share as disclosed in the Directors' Report.

The directors do not consider that any other events that have occurred since 31 December 2022 require a change to or additional disclosure in the financial statements.

Independent Auditors' Report to the members of Triodos Bank UK Limited

Independent auditors' report to the members of Triodos Bank UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Triodos Bank UK Limited's financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheet as at 31 December 2022; the Statement of comprehensive income; the Cash flow statement; and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 7 of the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview
Audit scope
- The company is based wholly in the United Kingdom, and does not have any branches or service centres. We note that the Company has a subsidiary, Triodos Nominees Limited, however this is not consolidated since an exemption has been taken as the entity has no assets or liabilities. The company relies upon

certain key group functions at Triodos Bank N.V., including Information Technology General Controls and loan loss impairment processes and controls. We therefore audited the company as a standalone entity, while instructing PricewaterhouseCoopers Accountants N.V. to perform work on our behalf related to those group functions.

<u>Key audit matters</u>
- Assumptions used in the valuation of loan loss impairment under IFRS 9.

<u>Materiality</u>
- Overall materiality: £1,850,000 (2021: £1,779,002) based on 1% of Common Equity Tier 1 ('CET 1').
- Performance materiality: £1,387,500 (2021: £1,334,252).

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Assumptions used in the valuation of loan loss impairment under IFRS 9 In accordance with the requirements of IFRS 9 ‘Financial Instruments’, the company determines loan impairments in Stage 1 by recognition of loss allowances measured at an amount equal to the 12-month expected credit losses, in Stage 2 by recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for underperforming financial assets, and in Stage 3 by recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for credit impaired financial assets. The company has built an Expected Credit Loss (‘ECL’) model for the Stage 1 and Stage 2 loan impairments. With respect to Stage 3 an assessment is performed on a loan-by-loan basis. A number of key assumptions are used to derive the ECL from the model, including probability of default (‘PD’), loss-given default (LGD) and exposure at default (‘EAD’). Three global macroeconomic scenarios (including a base, upside and downside scenario) are incorporated into the model and the probability of the scenarios is weighted in order to determine the ECL. The company determines the Stage 3 loan impairment allowance by taking into account expected future cash flows, including value and recoverability of the corresponding collateral. The significance of the number of areas involving estimates and judgements taken by management increases the risk of material misstatement. The significant risk is considered to be as follows: • Appropriate selection and integration of forward-looking economic assumptions. The significant risk is relevant to all of the economic scenarios together with their associated weighting and the GDP growth assumptions; • The appropriateness of staging thresholds to determine whether a significant increase in credit risk has occurred; • Post model adjustments (if applicable) recognised by management to reflect model weaknesses or emerging risks (not yet reflected in modelled data); and • In relation to the Stage 3 ECL model, appropriate selection of assumptions in relation to inputs to the model, including collateral valuation, expected outcome scenarios (such as forced sale, voluntary sale etc.) and the probability weightings associated with each scenario, expected timing of future cash flows and other factors such as costs to sell. This is therefore considered to be a key audit matter in our audit. *Relevant references in the Annual Report: Note 26 - Financial risk management.*	Our audit procedures included understanding and evaluating the control environment and determining that controls reliance will be placed. We performed testing of the overall governance of the credit and impairment process and the testing of design and operating effectiveness of the key controls directly related to: • The parameters and data applied in the impairment models (eg. exposures, cash flows, market values of collateral etc.); and • The review and approval by management on the outcomes of the individual impairments and the impairment model. In respect of the allowance for those loans in Stage 1 or Stage 2, we have performed the following substantive testing to support our conclusions, with the assistance of credit risk modelling specialists: • Assessment of reasonableness and consistency of the applied model methodology (including forward-looking economic assumptions) in line with IFRS and market practice; • Evaluated the macro-economic scenarios and macro-economic variables applied by reconciling these to the minutes of the Asset and Liability Committee and challenging these by reference to observable market data; and • Assessed the model validation report and completed a reperformance of a sample of certain model validation procedures performed by Triodos Bank N.V. on behalf of the company, focusing on tests such as backtesting procedures on key model parameters. In respect of the allowance for those loans in Stage 3, we have performed the following risk-based procedures to support our conclusions: • Considered specific scenarios to each sampled loan (including cure, consensual sale of security and forced sale of security) and the weighting assigned to each multiple economic scenario by management, to assess whether the judgements applied in the calculation of the ECL were appropriate; • For a sample of loans, agreed the valuation of the corresponding collateral to underlying appraisal reports and/or other information to help support our assessment of the appropriateness of inputs to the ECL model. In respect of the disclosures relevant to IFRS 9 ‘Financial Instruments’, we have assessed the adequacy of the disclosures, including those on estimation uncertainty and judgements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We considered reliance on the company's parent, Triodos Bank N.V., including (but not limited to) for IT support services and IFRS 9 loan loss impairment modelling. As a result, we have instructed PricewaterhouseCoopers Accountants N.V. to complete certain aspects of work in these areas on our behalf, but with our oversight.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the financial statements and support the disclosures made within the Strategic Report and the Directors' Report.

We challenged the completeness and consistency of management's climate risk assessment through review of management's climate risk disclosure alongside Board-approved climate-related plans and board minutes. This included assessing whether the time horizons management have used take account of all relevant aspects of climate change such as transition risks, and the entity's website for details of climate related impacts.

Management have made commitments to achieve net zero by 2035. The company published its Net Zero Strategy in November 2021, and in the Environment section of the Strategic Report. This commitment does not directly impact financial reporting.

We also considered the consistency of the disclosures in relation to climate change (including around greenhouse gas emissions, energy consumption and energy efficiency) within the Annual Report with the financial statements and our knowledge obtained from our audit.

Our procedures did not identify any material impacts in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2022.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£1,850,000 (2021: £1,779,002).
How we determined it	1% of Common Equity Tier 1 ('CET 1')
Rationale for benchmark applied	We consider that CET 1 is the most appropriate benchmark to use for the company, as a wholly-owned subsidiary of a group, and whose strategy is not solely one of profit maximisation. In addition, CET 1, as the primary funding source of the company, is the key measure considered by those charged with governance, as well as the company's regulators, when assessing the performance of the business. This basis is consistent with last year.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £1,387,500 (2021: £1,334,252) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £185,000 (2021: £88,950) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions related to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:
- Evaluation of management's going concern assessment;
- Evaluation of budgeting, liquidity and capital stress testing performed by management and consideration of whether the stresses applied are appropriate for assessing going concern;
- Evaluation of the company's forecast financial performance, liquidity and capital positions over the going concern period including an evaluation of the impact of the macro-economic events on the financial outlook of the company; and
- Enquiries with management regarding any breaches of covenants, or other significant sources of funding.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to relevant Financial Conduct Authority ('FCA') and Prudential Regulation Authority ('PRA') rules and guidance, and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential for manual journal entries being recorded in order to manipulate financial performance, and applying management bias in the determination of accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Enquiries of management and those charged with governance, including review of meeting minutes in so far as they relate to the financial statements, and consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of correspondence with the regulators, including the FCA and PRA;
- Incorporating an element of unpredictability into the nature, timing and/or extent of our testing;
- Challenging assumptions and judgements made by management in their significant accounting estimates, particularly in relation to loan loss impairment; and
- Applying risk-based criteria to all manual journal entries posted in the audit period.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 7 December 2018 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2019 to 31 December 2022.

Daniel Pearce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
24 April 2023