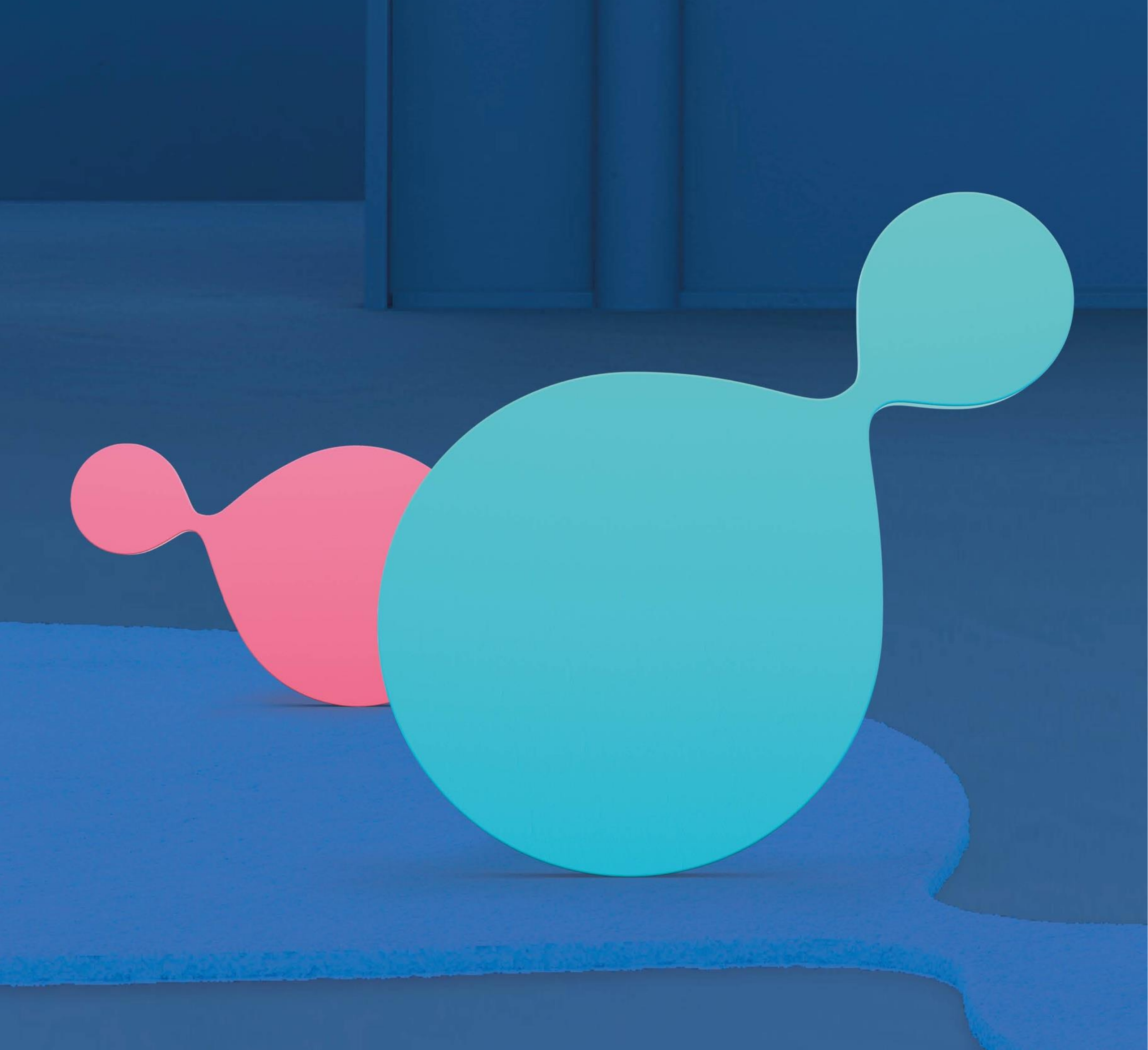
Annual Report 2021
Aegon Bank N.V.

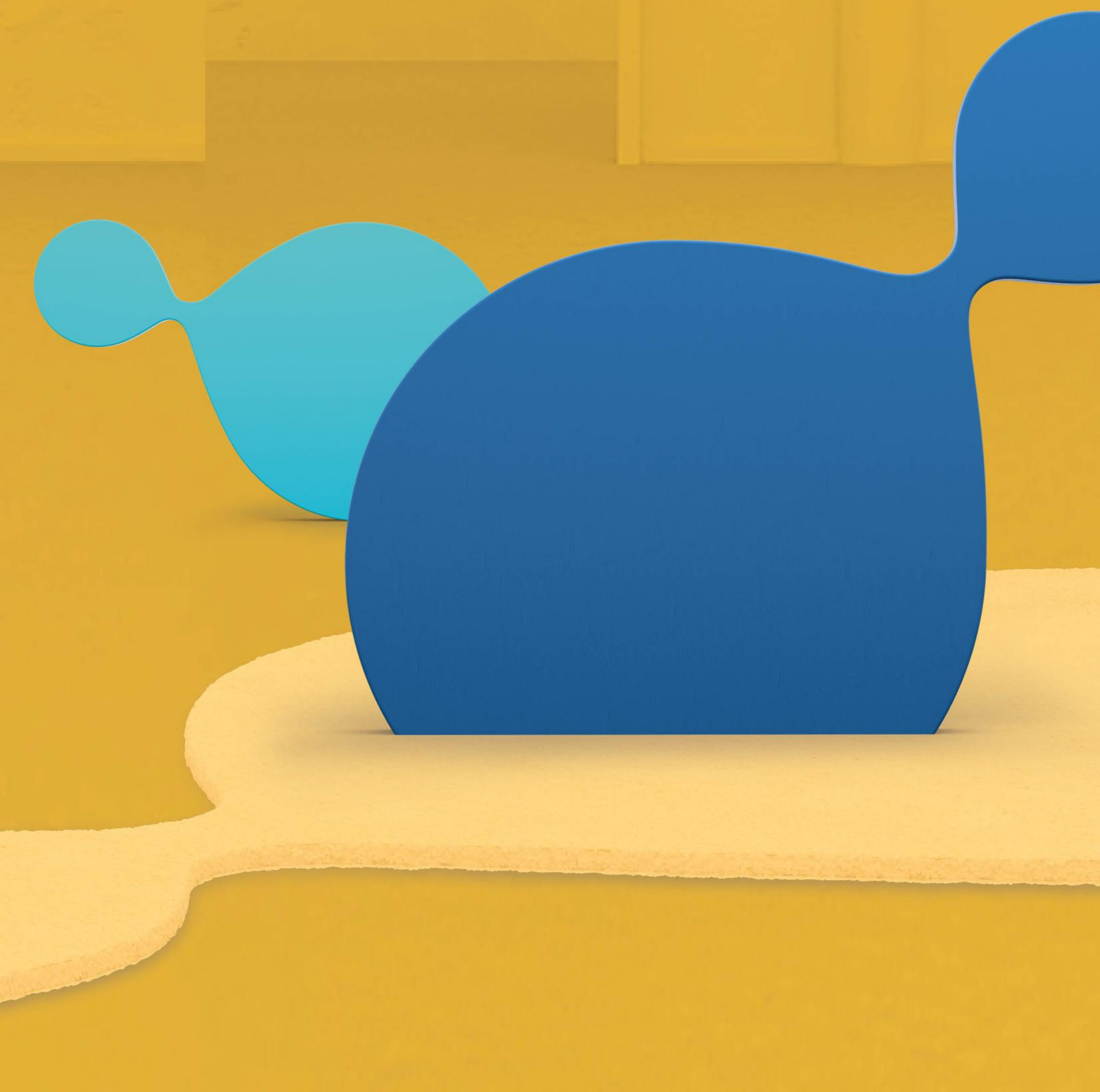


AEGON | knab

Contents

Report of the Management Board	**3**
Report of the Supervisory board	**25**
Consolidated statement of financial position	**29**
Consolidated income statement	**30**
Consolidated statement of comprehensive income	**31**
Consolidated statement of changes in equity	**32**
Consolidated cash flow statement	**33**
Notes to the consolidated financial statements	**35**
Statement of financial position	**122**
Income statement	**123**
Notes to the financial statements	**124**
Other information	**134**

Report of the Management Board



1. General information

Aegon Bank N.V. operates mainly under the Knab brand and will hereinafter be referred to as "Knab" or "the bank", and is a public limited liability company organized and existing under Dutch law, registered with the Chamber of Commerce in Amsterdam under number 30100799, with its address at Thomas R. Malthusstraat 1-3, NL-1066 JR Amsterdam, The Netherlands. Aegon Bank N.V. is a wholly owned subsidiary of Aegon Nederland N.V. (hereafter "Aegon Netherlands"), based in The Hague, The Netherlands. Aegon Netherlands is a subsidiary of Aegon Europe Holding B.V. and its ultimate parent is Aegon N.V. (together with its subsidiaries, "Aegon Group")

1.1 Purpose and mission statement

Knab's purpose is to ensure that:

"Our customers feel at ease when it comes to their finances, every day"

Our target customers are entrepreneurs and their families, who are:
- Self-employed
- Small business owners
- Entrepreneurial retail customers

To achieve our purpose, we have three main propositions for our customers:

Convenience today
- The daily use value stream is at the core of Knab, providing entrepreneurs with proactive insight into their daily finances, which is crucial for good money management and a first step toward feeling at ease when it comes to their finances.

Solutions for tomorrow
- We help our customers to protect themselves against everyday risks and business risks via different types of insurance products.
- We are building a business lending product that will help our business customers grow their business.
- In the future, we hope to be able to offer our own mortgage product to all our customers.

Financial freedom in the future
- Customers (employees, self-employed and owners of small enterprises) are increasingly dealing with a pension gap.
- Knab will help entrepreneurs and entrepreneurial people ensure their financial freedom in the future by offering individual retirement solutions that are transparent and easy to obtain, with great Knab services, to deliver a relevant customer experience

Our overall proposition is built around Knab's core capability: digital with a human touch. While we are an online bank, it is in our DNA to offer our customers a personal and friendly experience, irrespective of the channel used. This is illustrated by the way we work and communicate with our customers: fair, fun and relevant. In order to ensure and further strengthen our human touch going forward, we will continue to develop our data and digital enabling competencies. This means doing the right things in the best possible way in the interests of our customers.

The fundamental Knab values that contribute to our purpose are:

We are human and do things with great love:
- We look at what a customer or colleague needs to feel good.
- Our customer service department is the beating heart of Knab.
- This is where the most valuable interaction with our customers takes place.
- We'd rather set up a quick video call with a colleague than e-mail back and forth endlessly.
- Our customers chat with employees, not robots.

We are open and always tell the truth:
- We think along with our entrepreneurial customers.
- Employees with good ideas are given the opportunity to implement them.
- We make informed decisions that perhaps not everyone expects: intelligent risks.
- Knab was founded to do things differently, so that's what we do.

We are positive and go above and beyond:
- We tell our customers how things are, even when we make mistakes
- We share our financial knowledge and experience with anyone who needs it
- We listen to our customers' views and ask open questions so that we understand what our customers are concerned with.

- No small print or unexpected costs – at Knab, customers know what to expect.

We are entrepreneurial and take intelligent risks:
- We allow ourselves to be guided by what we can achieve, not by what might go wrong.
- We are not satisfied with a half-full glass; we always go the extra mile.
- "Will this make the customer happy?" We ask ourselves this question in everything we do.
- We are proud of Knab!

Besides our value proposition, we have defined three strategic pillars on our way toward adopting a sustainable business model.

Strengthening the existing business
- Finalize regulatory tracks.
- Further embed risk awareness in our culture.
- Strengthen IT and the data foundations.

Creating greater efficiency
- Increase execution power by focusing on differentiating customer engagement and outsourcing non-differentiating activities
- Optimize the asset and capital strategy.
- Scale up operations to reduce the cost per customer, for example through digitization.

Focus on valuable customers
- Enrich our payment service relationships.
- Provide mortgages and business loans to improve access to assets.
- Introduce digital individual wealth accumulation and retirement services.

To achieve this, we focus on five main medium-term KPIs:
- Customer relational NPS (r-NPS) of +40
- Annual net fee paying customer growth of 40,000.
- Cost-to-income ratio of 60%.
- Return on capital of 9%.
- Better employee NPS scores.

To make sure that we achieve these medium-term KPIs, we define objectives and key results. We set objectives that link back to our strategy, and add quarterly, quantitative key results. This allows us to bring focus and direction. We conduct monthly performance dialogues to discuss progress on these key results.

1.2 Main activities, products, services, and internal organizational structure

Aegon Bank N.V. operates mainly under the Knab brand. In 2021, the migration and integration of the former Aegon Bank brand into the Knab brand was completed. Both labels were still active during 2021, but going forward Knab will be Aegon Bank N.V.'s main brand in the market.

The bank rationalized its product portfolio in 2021. Aegon Sparen and Knab Basis products were discontinued. Due to low market interest rates, Knab could not offer these savings products to its customers in a profitable manner. Customers were offered the opportunity to transfer their funds to another bank or to a fee-based Knab account. Driven by tax changes, the Aegon Levensloop Sparen product was also discontinued.

Knab label
Introduced in 2012 and operating under Aegon Bank N.V.'s banking license, Knab was one of the first fully online/digital banks in the Netherlands. Although it operates under Aegon Bank N.V.'s license, consumers perceive Knab as an autonomous bank with its own branding, marketing, and culture. As an online bank, Knab offers payment accounts, savings accounts and a basic investment product. Knab aims to be the most customer-oriented financial platform in the Netherlands, by keeping customers up to date on their personal financial situation and enabling them to achieve their financial goals. Going forward, all new banking products will be offered by the bank under the Knab label.

Aegon label
All customers with remaining Aegon Bank labeled products are still being served. However, sales to new customers under the Aegon Bank label have been discontinued.

1.3 Business developments

Our customers are becoming increasingly responsible for their own financial situation. That is why we aim to be the most customer-oriented provider of services to help entrepreneurial-minded people to manage their money matters, for now and in the future. These are primarily self-employed customers, small business owners, and retail customers. With us, customers can arrange their money matters purposefully, simply and effortlessly. Our customers come to us for meaningful, understandable and easy-to-use products and services for their daily money matters (such as payments and bookkeeping) and wealth accumulation for later in life, such as (bank) savings and investments. Our customers appreciate our customer-focused, fair and human approach. In order to better help our customers, we operate high-quality, automated and controlled processes. We apply technology smartly. This is how we are building a financially stable, future-proof profitable and compliant bank. Key topics discussed during the 2021 Management Board meetings were Knab's quarterly results and annual report, its strategy, key business risks, IT, regulatory developments, sustainability, human resources, and the ongoing COVID-19 developments.

Managing the impact of COVID-19

COVID-19 has continued to cause significant disruption to society, impacting our customers, employees, suppliers, and operations. The health and wellbeing of our customers and employees is our foremost concern. From an operational perspective, we are proud of the way in which our employees have maintained high standards of customer service, having been in an almost fully working-from-home situation since March 13, 2020.

Knab’s management is continuously monitoring markets and the economic turbulence caused by the COVID-19 outbreak, and its impact on the bank. The most significant risk for the bank is credit risk.

In 2020, the COVID-19 crisis, credit risk mainly materialized through impairments of unsecured SME and consumer loans. In 2021, we saw strong recovery of previously impaired loans as a result of borrowers migrating to government-guaranteed lending (early pre-payment of pre-COVID loans), furlough/part-time schemes and tax breaks. Due to these developments, Knab recognized net recoveries of EUR 62 million related to the IFRS 9 loan loss provisions in 2021 (2020: EUR 35.1 million net impairment). Also see chapter 2 of this management board report.

Credit risk has been managed through a number of actions. For new SME lending, access to government-guaranteed lending was secured. The pricing for unsecured lending was increased, resulting in lower volumes, and portfolio de-risking was applied by focusing on higher-rated unsecured retail loans. Please also refer to paragraph 4.4.3 ‘Credit risk management’.

Innovation

In 2021, Knab was the first bank in the Netherlands to introduce crowdsurance, a peer-to-peer financial safety net for entrepreneurs. It offers an alternative to traditional disability insurance, which is often too expensive for small businesses. In 2021, we also launched liability and accident insurance products for business customers.

In June 2021, Knab introduced Apple Pay. Both business and private customers can now pay online and offline on their smartphones. We are leading the way for business customers: most other banks do not permit them to use Apple Pay yet.

Finally, Knab introduced a new savings product for business customers through which they can automatically save a certain percentage of all incoming amounts for their VAT payments.

Customer growth and NPS

Despite the pandemic, Knab continued to grow in 2021. The growth in savings was driven by deposits made by existing customers, and the addition of new customers. The Knab fee-paying customer base grew to a total of 301,146 (+37,381) customers, consisting of 99,086 retail customers and 202,060 business customers. Growth was primarily achieved through the increase of new business account holders (+28,032), while retail also showed steady growth (+9,349).

The Aegon Bank label had a total of 114,078 customers at the end of 2021. The overall number of customers fell significantly by 116,732, mainly due to the bank’s decision to stop offering products to these customers.

Knab’s Net Promotor Score (NPS) remained at a high level. For 2021, the r-NPS showed an average r-NPS of 20.3 for our retail customers and 36.4 for our business customers. The relational NPS for both business and retail customers showed a strong improvement compared with 2020, when r-NPS scores were negatively impacted by a program to further enhance Knab’s KYC controlsIn 2021, Knab won the “Opiness award” (top-rated companies within the banking industry) and the “Most popular online Dutch bank” award.

Composition of the Management Board and gender diversity

The Statutory Board appointed under the Articles of Association consists of:

- CEO (Nadine Klokke)
- CFO (Mike de Boer)
- CRO (Ebbe Negenman)

They are accompanied on the Management Board by the:

- Daily Use Value Stream Lead (Maartje Cremers, as of April 1, 2022 subject to approval DNB)
- Financial Freedom Value Stream Lead (Krista den Uijl)
- Lending Value Stream Lead (Joost Brouwer, as of April 1, 2022 subject to approval DNB)
- Chief Technology Officer (CTO) (Han Gerrits)

In May 2021, Han Gerrits joined the bank as CTO and will continue to expand and renew our technology. After he became CTO, he stepped down as a member of the Supervisory Board.

Don van Arem resigned as Daily Use Value Stream Lead on March 1, 2022. He was succeeded by Maartje Cremers.

On April 1, 2022, Joost Brouwer took on the new role of Lending Value Stream Lead.

Promoting gender diversity on the Statutory Board and Supervisory Board is an important objective for Knab. Recruitment and selection are based on expertise, skills, and relevant experience. The Supervisory Board takes gender diversity into consideration in the light of its goal to ensure a balanced composition of the Statutory Board. The Statutory Board's current composition meets the 'balanced composition' requirement under Dutch law (at least 30% of the seats to be filled by women and at least 30% by men).

Project ONE and further transformation of the organization

With the Knab operations reaching a substantial size, it was decided in 2019 to integrate the Aegon Bank label and Knab label to combine the strengths of the two brands into one digital bank. Project ONE involved integrating Knab and Aegon Bank and carving out a more autonomous and self-supporting position within Aegon Netherlands as a specialized subsidiary. The core back-end systems of Knab and Aegon Bank were integrated in 2021. The sale of Aegon Bank savings products was discontinued in order to focus on developing Knab propositions tailored to our target segments, i.e. self-employed persons and small business owners as well as retail customers, with fully digital and app-based servicing. Due to low market interest rates, Aegon was unable to offer these savings products to its customers in a profitable manner. The remaining Aegon Bank portfolio will continue to be serviced by Knab. The integration will be finalized in 2022 with the migration to a single CRM and customer servicing system.

Asset & capital strategy

In 2021, Knab revised its Asset and Capital Strategy and reviewed its growth opportunities, dividend plans, and target asset mix for the medium-term. This resulted in an updated strategic plan that allows for further customer growth under the Knab label, taking account of the expected asset sourcing and dividend payments to our shareholder.

As part of this revised strategy, Knab paid a EUR 45 million dividend in December 2021, enabling a more efficient use of capital in the short term. In addition, it launched a number of initiatives to improve its access to loan origination. These initiatives will support Knab's strategic growth by further optimizing the risk and return on its balance sheet.

Developments in Wholesale funding

In June 2021, Knab successfully issued its inaugural 15-year EUR 500 million Soft Bullet Covered Bond. This new Covered Bond Program allows further diversification of the debt investor base and enhanced flexibility with respect to bond tenors.

Knab's credit agency ratings

As part of its drive to further reduce costs, Aegon N.V. requested Fitch in 2020 to withdraw all its ratings for Aegon N.V., including all its affiliated entities and all debt instruments and debt programs of these entities, with the exception of the SAECURE securitizations. The request also covered the withdrawal of the Fitch ratings for Knab and the Covered Bonds issued under its program. On December 1, 2020, Fitch confirmed that it had canceled the ratings as requested. Knab has the following credit ratings:

Credit ratings	S&P	Fitch
Knab (Aegon Bank N.V.)	A, stable oulook	Not rated
SBCB Programme	AAA	Not rated
CPTCB Programme	AAA	Not rated
Senior Non Preferred	A	Not rated
SAECURE 19 (Class A Notes)	AAA	AAA

Settlement of security leasing claims

On June 4, 2021, Aegon Bank and Leaseproces B.V. announced that they had finalized their agreement to settle the 'Vliegwiel' and 'Sprintplan' claims for customers represented by Leaseproces. On September 13, 2021, the parties announced that more than 90% of customers had agreed to the settlement, meaning that the last remaining threshold was met. By the end of February 2022, 99.7% of Vliegwiel customers and 94.5% of Sprintplan customers had agreed to the proposed settlement. The vast majority of the claims was paid in the fourth quarter of 2021, with a small amount remaining at year-end. Full performance of the agreement is expected in the second quarter of 2022. Please refer to note 3.6 in this Report and note 24.4 in the consolidated financial statements.

1.4 Regulation and supervision

The Dutch financial services sector is subject to supervision under the Financial Supervision Act (*Wet op het financieel toezicht* or *Wft*). The aim of the Wft is to embed a cross-sector functional approach within the Dutch supervisory system. The supervision of financial institutions pursuant to the Wft rests with the Dutch Central Bank ('DNB') and the Financial Markets Authority ('AFM').

DNB is responsible for prudential supervision, while the AFM supervises the conduct of business by financial institutions and the conduct of business on the financial markets. The aim of DNB's prudential supervision is to ensure the solidity of financial institutions and to contribute to the stability of the financial sector. With regard to banks, DNB performs its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank ('ECB').

In 2019, DNB carried out an on-site inspection of the risk management practices related to Aegon Bank N.V.'s investments in loans originated via third-party lending platforms. The inspection led to an instruction ("*aanwijzing*") by DNB for Aegon Bank N.V. to improve its credit risk framework, including policies and procedures for those loans. To deliver the required improvements, Aegon Bank N.V. developed a 1.5-year roadmap, including a set of defined milestones. In spite of the challenges caused by COVID-19, Knab completed the improvements within the set time frame. The improvements to Knab's credit risk framework include policies and procedures for loans originated via third-party lending platforms. DNB published the instruction on its website on March 7, 2022. Following the completion of the road map, Aegon Bank N.V. continues to assess – and where possible improve – its risk management practices, and discusses these regularly with its supervisor in the ordinary course of business.

The AFM's conduct of business supervision focuses on ensuring orderly and transparent financial market processes, integrity in the relationships between market parties, and due care in the provision of services to customers.

The Dutch Data Protection Authority (Dutch DPA) supervises the processing of personal data to ensure compliance with privacy and data protection laws. Its tasks and powers are set out in the EU's General Data Protection Regulation (GDPR), supplemented by the Dutch GDPR Implementation Act.

1.5 Remuneration policy

Knab's remuneration policy has been designed in line with applicable national and international regulations, including the Aegon Group Global Remuneration Framework (AGGRF) drawn up by Aegon N.V., the Act on Remuneration Policies for Financial Institutions ('*Wet beloningsbeleid financiële ondernemingen'* or 'Wbfo') as included in the Dutch Financial Supervision Act, and the remuneration policy under Solvency II. Knab's remuneration policy is also in line with the Dutch Central Bank's Regulation on Sound Remuneration Policies ('*Regeling beheerst beloningsbeleid'*, and remuneration requirements under the Capital Requirements Directive IV (CRD IV). In addition, the policy is in line with various remuneration guidelines, technical requirements and standards issued by the European Banking Authority and applicable to banks within the European Economic Area (EEA), as endorsed by the European Commission (EC). For the purposes of applicable national and international regulations, Knab is regarded as a local or 'less significant financial institution'.

Remuneration and scope

Remuneration may include both financial and non-financial compensation provided by Knab either directly or indirectly. Financial compensation consists of, among other things, cash, shares, employer-paid contributions and pension schemes. Non-financial compensation covers, among other things, the use of a company car and the private use of a mobile phone and computer. Other non-financial employee benefits may involve the work environment, HR performance management cycle, training opportunities, and career development.

Variable compensation

On January 1, 2020, Knab abolished variable pay entirely. No variable compensation has been granted to members of the Management Board or other Knab employees since 2020. Former members of Knab's Management Board who had been granted variable compensation in the past received deferred shares that vested in 2021. Because of the rule that variable compensation in the form of shares should be deferred evenly over 3 years following the year of upfront payment, the annual vesting of shares will last until 2023. An ex-post risk assessment may identify reasons for lowering these amounts or not paying any variable remuneration at all. The vested shares of Identified Staff (granted before the abolishment of variable compensation) are subject to a 1-year holding period, except for shares withheld to cover payment of any taxes due in connection with the vesting of the shares.

Implementation of remuneration policy

Knab's Supervisory Board discussed and approved the remuneration policy as part of its regular meetings. It also approved the selection of Identified Staff (IS), a number of Knab employees who qualify as Identified Staff according to criteria laid down in the European Banking Authority Regulatory Technical Standards (EBA RTS). Identified Staff are subject to specific rules on the payment of variable remuneration. The Supervisory Board's remit is to monitor the existence of a sound remuneration policy and to ensure that the remuneration policy is generally consistent with the sound and prudent management of Knab in the long-term interests of its shareholder.

The Supervisory Board acts in accordance with the principles laid down in the Regulation on Sound Remuneration Policies under the Financial Supervision Act 2011, the Banking Code, and Aegon N.V.'s Global Remuneration Framework. In 2021, none of the employees received a remuneration in excess of EUR 1 million. This has to be reported under the Dutch Act on Remuneration Policies for Financial Institutions.

For further information on the remuneration of the Statutory Board, please refer to note 20.3 in the consolidated financial statements.

Governance

In accordance with Knab's remuneration policy, the Supervisory Board has the following duties and responsibilities: (i) approve the general principles of the remuneration policy, (ii) periodically assess the general principles of the remuneration policy, (iii) responsibility for the Management Board's remuneration policy, (iv) review the remuneration of Identified Staff, (v) instruct the Management Board to implement the remuneration policy, and (vi) instruct the Remuneration Steering Group and/or Internal Audit to assess the implementation of the policy and procedures covered.

2. Financial information

2.1. Developments during the year

Operating result reflects the profit from underlying business operations and excludes items relating to accounting mismatches that are dependent on market volatility or relating to events that are considered outside the normal course of business. Non-operating Result comprises earnings dependent on market volatility or relating to events that are considered outside the normal course of business.

In 2021, the net result amounted to EUR 81.6 million compared to a net loss of EUR 31.5 million in 2020. The improvement was mainly driven by a release from the impairment provision in 2021, compared with a significant impairment charge in 2020 due to COVID-19. The improvements in impairments were driven by strong redemption levels in the underlying portfolios and improved forward-looking macroeconomic expectations coupled with lower-than-expected defaults observed in 2021.

Amounts in EUR thousands	**2021**	**2020**
Operating income	196.238	190.705
Operating expenses	-156.035	-162.581
Operating result [1]	**40.203**	**28.124**
Fair value items	21.979	43.816
Realized gains/(losses) on investments	4.317	683
Net impairment	62.044	-35.121
Other income /(charges)	-16.422	-73.262
Non-operating Result/(losses) [1]	**71.917**	**-63.885**
Result before tax	**112.120**	**-35.761**
Income tax	-30.519	4.308
Net result	**81.601**	**-31.453**
Return on equity[2]	4.2%	4.0%
Cost-to-income ratio[3]	79.5%	85.3%

General

The bank reported a decrease in savings of EUR 1.0 billion, driven by the migration of Aegon Bank customers to Knab and the migration of Knab Basis (non-fee paying) customers to Knab Plus (fee-paying), resulting in a EUR 1.7 billion outflow. This outflow was partly offset by the net inflow of savings of EUR 0.7 billion. This growth was driven by deposits from existing customers and the addition of 30,324 new customers.

Borrowings increased by EUR 0.4 billion due to the issuance of Knab's EUR 0.5 billion inaugural soft bullet covered bond (SB) in May 2021. This was partly offset by a repayment of EUR 0.1 million under the European Central Bank's Long-Term Refinancing Operation (LTRO) program.

The unsecured loan portfolio shrank by EUR 0.3 billion, mainly due to strong redemption levels across the portfolios. During 2021, Knab mainly invested in the Coronavirus Business Interruption Loan Scheme (CBILS) set up – and guaranteed – by the UK government. At year-end, the exposure to CBILS amounted to EUR 0.3 billion. The mortgage portfolio increased by EUR 0.3 billion offset by a decrease of EUR 0.3 billion relating to the effects of hedge accounting due to the increase in market interest rates in 2021, leading to a stable amount for mortgage loans on balance.

[1]. Knab believes that this non-IFRS-EU measures provides meaningful supplemental information about the operating results of Knab's business.
[2] Return on equity is calculated as the annualized operating result after tax (applying a nominal tax rate), divided by average IFRS equity excluding the revaluation reserve. There is no IFRS financial measure that is directly comparable to return on equity. Knab believes that return on equity provides meaningful information about the performance of its business.
[3]. The cost-to-income ratio is calculated as operating expenses divided by operating income as defined in the operating result before tax measure. There is no IFRS financial measure that is directly comparable to the cost-to-income ratio. Knab believes that this ratio provides meaningful information about the performance of its business.

Operating result

Although Knab reported a decrease in balance sheet size of EUR 1.0 billion, its operating result increased by EUR 12.1 million compared to 2020.
Fee margin increased by EUR 3.9 million due to the organic growth in fee-paying Knab clients. Net interest income improved slightly by EUR 1.7 million attributable mainly to an increase in interest income from growth in the mortgage portfolio. This was partly offset by a decrease in the unsecured portfolio.

Interest expense fell by EUR 2.3 million, driven mainly by the decrease in savings and favorable decrease in interest charges in wholesale funding since the issuance of the Soft Bullet Covered bond. The decrease was partly offset by an increase in interest paid on derivatives.

Expenses

Total operating expenses decreased by EUR 6.5 million to EUR 156.0 million, primarily due to the effects of project ONE, which led to a EUR 7.8 million decrease in operating expenses.

Operating expenses include regulatory fees in relation to the Deposit Guarantee Scheme and the Single Resolution Fund. In 2021, these fees amounted to EUR 18.2 million (2020: EUR 14.0 million).

Overall, the cost-to-income ratio improved from 85.3% to 79.5%.

Fair value items

Profit on fair value items fell by EUR 21.8 million, mainly driven by the hedge ineffectiveness of our hedge accounting program. Although hedge accounting is applied, an ineffective portion remains in profit and loss due to the basis risk to which Knab is exposed.

Net impairments

Knab recorded a net impairment gain of EUR 62 million (2020: impairment loss of EUR 35.1 million). The deteriorated macro-economic outlook, resulting from the impact of the COVID-19 crisis in 2020, was the largest driver of the significant increase in provisions. The portfolio showed strong redemption levels in 2021. Also, forward-looking macroeconomic expectations improved, which led to a sharp improvement in net impairment gains.

Operating result before tax reflects management's best estimate of the investment return on consumer loans and SME loan investments (net of expected impairments). Of the total IFRS 9 net impairment gain of EUR 24.7 million (2020: impairment loss of EUR 92.8), an impairment charge of EUR 37.2 million was reported under operating result (2020: EUR 57.7 million).

Other income/charges

Total other charges in 2021 fell by EUR 56.8 million to EUR 16.4 million, driven by lower expenses for Knab's regulatory projects of EUR 13.0 million (2020: EUR 25.7 million) and a release from the provision for legal claims amounting to EUR 1.9 million (2020: addition of EUR 44.9 million). The prior-year number comprised restructuring costs of EUR 2.0 million for two reorganizations implemented in 2020.

Income tax

A 2022 change in Dutch corporate income tax rates had a negative impact of EUR 2.4 million, which was processed through deferred taxes in 2021 (2020: negative impact of EUR 4.6 million).

2.2. Regulatory requirements

At year-end, Knab reported the following regulatory ratios:

	2021	2020
Common Equity Tier 1 ratio	20.7%	21.0%
Total Capital Ratio	21.0%	21.2%
LCR	202%	164%
NSFR	142%	141%
Leverage ratio	4.5%	4.1%
Asset Encumbrance ratio	20.0%	18.3%

Capital

In 2021, the company's total IFRS capital increased by EUR 26.5 million driven by its net profit of EUR 81.6 million, offset by a EUR 45.0 million dividend payment and a EUR 9.6 million decrease in the revaluation reserve due to increased interest rates at year-end.

At the same time, the Total Capital Ratio fell by 0.2%, driven by an increase in total risk exposure (TREA) of EUR 164 million to EUR 3.5 billion. The increase in TREA mainly resulted from an increase in exposure to corporate bonds and an increase in the average risk weights for mortgage loans, partly offset by a lower exposure to unsecured loans and an increase in Tier 1 capital (+ EUR 28 million).

The Common Equity Tier 1 ratio decreased from 21.0% to 20.7%, whereas the Total Capital Requirement remained unchanged at 12.0% during 2021.

Leverage Ratio

The Leverage Ratio is a regulatory capital adequacy measure under CRD IV/CRR. Leverage is defined as the relative size of an institution's assets and off-balance sheet liabilities as compared to the institution's own funds. It is calculated as an institution's capital divided by its total non-risk weighted exposures, expressed as a percentage. Knab met the internal minimum requirement of 4% for 2021 and the external minimum requirements. At December 31, 2021, the leverage ratio was 4.5% (2020: 4.1%), mainly driven by higher Tier 1 capital and lower leverage exposure, chiefly driven by the lower saving accounts.

Funding and liquidity

The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are monitored against minimum internal limits.

LCR

The Liquidity Coverage Ratio is the requirement that banks must have enough (extremely) high-quality liquid assets in their liquidity buffer to cover the difference between the expected cash outflows and expected capped cash inflows over a 30-day stress period. The numerator of the LCR represents the liquidity buffer, i.e. the amount of adjusted liquid assets that a credit institution holds. The denominator of the LCR represents the net liquidity outflows over a 30-calendar day stress period, which is the sum of liquidity outflows reduced by the sum of capped liquidity inflows.

The aim of the LCR is to ensure that a bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The LCR increased from 164% to 202%, due to lower outflows than expected at the end of year, partly offset by less liquid assets. The LCR ratio remained above the external and internal limits.

NSFR

The Net Stable Funding Ratio (NSFR) is the requirement that banks must have enough stable funding to support their assets and activities. The NSFR, based on a 1-year horizon, is calculated by dividing the available amount of stable funding by the required amount of stable funding. The NSFR increased by 1% to 142%.

AER

An asset is treated by Knab as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn. The Asset Encumbrance Ratio (AER) is related to liquidity risk, because elevated encumbrance means that there are fewer assets available for liquidation or capable of being pledged when needed. In 2021, the AER increased by 1.7% to 20.0%. The encumbered assets showed a modest increase driven mainly by the decrease in the Bank's balance sheet.

3. Main risks and uncertainties

3.1. General

As a financial institution offering banking services, Knab is exposed to a variety of risks. From a financial perspective, Knab is primarily exposed to credit risk, interest rate risk, liquidity risk, and other market risk. Knab is also exposed to non-financial risks (operational and compliance risks) and strategic risks.

Risk framework

Knab's Enterprise Risk Management Framework (hereafter ERM Framework) provides the core structure for assessing, controlling and managing all the risks to which Knab is exposed, including strategic risks that could have an impact on the achievement of its strategy and objectives. The ERM Framework is therefore essential to safeguard Knab's (financial) strength.

The ERM Framework is a comprehensive framework. Not only does it define the principles on how risk management should be integrated into the bank's daily business activities, but it also sets the guiding principles on how risk management is part of its strategic planning process. The framework ensures the identification, measurement and control of risks across all organizational levels. It also provides the identification framework for emerging risks and is therefore a dynamic system. The framework provides for the measurement and reporting of risks, and stresses the importance of general risk awareness, attitude and behavior on the part of employees, management, and leadership.

The ERM Framework is only effective when there is a sound and consistent risk culture throughout the whole organization. Knab therefore follows the guiding principles for an outstanding risk culture, as part of its purpose-led and value-driven organizational culture.

Risk governance

Being entrepreneurial, one of Knab's core values, implies that risks are unavoidable. Just like our customers we know that understanding the risks is the foundation of doing business. We will never accept risks coming from "not knowing what we're doing". We will only take risks that are fully understood and within our risk appetite as set by the Management Board.

A strong risk management function, integrated into the daily management of the business and the strategic planning, gives the bank a strategic competitive advantage. It helps the bank to protect its reputation, lower the cost of capital, reduce costs, and minimize the risk of investigation, prosecution and penalties, because the bank does the right things the right way. By effectively managing its risks, the bank enhances its competitive position by building trust.

The risk & compliance function is responsible for:

- implementing the ERM Framework;
- identifying, monitoring, analyzing, measuring, managing and reporting on risks;
- forming a holistic view on risks on an individual and consolidated basis;
- challenging and supporting the implementation measures taken by the business to ensure that the processes and controls in place are properly designed and operating effectively;
- monitoring compliance with legal requirements and internal policies;
- providing advice on compliance to the Management Board and Supervisory Board, and other relevant staff; and
- establishing policies and processes to manage risks and ensure compliance.

Its risk strategy ensures that the bank maintains a solvency and liquidity position such that Knab can fulfil its obligations to its clients even when highly adverse scenarios unfold or material risk events occur. It is our strategy to be competitive in target markets, have reliable access to affordable funding, and provide stability to bondholders and shareholders. Risk management supports the strategy by ensuring a common framework and comparable measures for Knab's management body (Supervisory Board and Management Board) and senior management to communicate, understand, and assess the types and level of risks that they are willing to accept. Knab's risk appetite limits must fit in with its risk-taking capacity. This process is iterative and ensures that the strategy does not lead to excessive risk-taking and is aligned with Knab's risk appetite.

Risk culture

Operating in a rapid-paced and fast-changing environment, Knab believes that its corporate culture is the foundation for achieving its strategy. A strong corporate culture ensures that all employees share the same core values, enabling Knab to strike the right balance between being in control, innovate, identify risks, and assess their impact. Knab has an open, informal and result-oriented culture, which is valuable to our way of communicating: bottom-up as well as top-down. This ensures better decision-making and behavior across the company, which is also in the best interests of our customers. Its values describe the beliefs that Knab stands for:

- Human: We are human and do things with great love.
- Open: We are open and always tell the truth.
- Positive: We are positive and go above and beyond.
- Entrepreneurial: We are entrepreneurial and take intelligent risks.

Being entrepreneurial implies that specific risks are unavoidable and are part of doing business. Understanding these risks is the foundation of doing business. At Knab, we realize that the essence of risk management is that we know what we are doing. We will never accept risks coming from "not knowing what we're doing". At Knab, we only take risks that we understand, and then only within our risk appetite as set by the Supervisory Board and Management Board. Being entrepreneurial means taking risks intelligently. The tone at the top sets the example. The progress of embedding risk awareness deeply within our culture is measured by quarterly employee surveys and an annual independent employee survey. In addition to this, retrospectives are also a normal element of our way of working. The CRO personally takes the banker's oath form to all employees for them to sign, and several training programs are in place, for example regarding compliance, operational risk and the GDPR.

3.2. Strategic risks

Knab's strategic risks relate to the possibility of events occurring that affect the achievement of its strategy and business objectives.

Strategic risk assessment activities are integrated with strategy-setting and vice versa. Emerging risks are identified and discussed at Management Board level and in the risk committees. Actions are defined if deemed necessary and followed up to resolution, based on both qualitative and quantitative information. Strategic risks are monitored according to five categories: customer, innovation, organization, reputation, and sustainability.

Sustainability

Sustainability is defined as a strategic risk category. Knab can play a vital role in the financial supply and demand for self-employed and SME customers. In addition, Knab will also take appropriate action when business activities may have significant social and environmental impacts that are irreversible or unprecedented.

Knab uses Environment, Social and Governance (ESG) factors to identify both threats and opportunities for its business model. This way of working ensures that the bank's sustainability ambition (see Chapter 5 for more details) is aligned with its strategy, purpose and values. Knab focuses on the social factors of the ESG spectrum because this is in line with the bank's origin story. Knab was built on the conviction that the financial world must do things differently and so we provide access to finance and easy-to-use daily banking and wealth propositions for a secure financial future.

In 2021, Knab established a governance program to deal with sustainability and ESG-related topics. We also formulated an ambition and strategy direction, which has been communicated across all Value Streams and supporting functions. Workshops were held to identify initial ESG risks within strategic, market, credit, liquidity and operational risks. Our product approval and review process (PARP) has been updated accordingly to assess ESG factors and categorize investments according to the Sustainable Finance Disclosure Regulation (SFDR).

In 2022, Knab's sustainability strategy will be developed further and ESG risk management will be integrated into existing bank processes. We expect that an increasing number of data points and further guidance on how to appropriately measure climate-related and environmental risks will become available over time. In addition, we note that harmonization efforts are increasing, witness the discussions held by the Trustees of the IASB, EFRAG, and other guidance-issuing bodies.

Climate-related & environmental risks

The main climate-related risks to the investments on our balance sheet can be identified. The following three categories are explained below in relation to climate risk identification:

1. Dutch mortgage loans;
2. debt securities; and
3. unsecured consumer and SME loans.

These three categories account for approximately 90% of the assets on Knab's balance sheet.

Knab will be indirectly exposed to climate-related risk if climate risk-related matters impact the collateral value of Dutch mortgages. A decrease in collateral value will increase Knab's capital requirements and impairment provision related to credit risk. In other words, climate risk-related events may result in higher credit risk. To identify and quantify climate risk, Knab has run scenario analyses as part of its annual SREP process for both physical and transitional risk. We have performed stress testing and explored NFGS scenarios to be included in periodic runs including reporting.

Knab holds a portfolio of tradeable debt securities, which are listed fixed-income securities. Direct climate risk is applicable to corporate credits and is mitigated by Aegon Netherlands' Responsible Investment Policy. For all other asset categories (ABSs and CLOs), climate risk is highly diverse.

Knab invests in unsecured consumer and SME loans through several third-party lending platforms. Considering the nature of these loans and the counterparties, limited climate-related risks have been identified for Knab.

On the liability side of the balance sheet, climate-related risks for savings products mainly concern reputational risks resulting from customers' increased focus on CO2 emission targets.

In early 2021, the Dutch Central Bank (DNB) shared its expectations about climate-related and environmental risk management and disclosures. Knab shared an overview with DNB in relation to our implementation plans and timelines for integrating ESG risk management into our strategy and operations. A further follow-up is expected in 2022. For more information on sustainability, please refer to chapter 5 of this Management Board report.

3.3. Financial risks

For Knab, financial risk includes credit risk, interest rate risk in the banking book (IRRBB), liquidity risk and market risk, such as foreign exchange risk. Credit risks are discussed by the Credit Risk Committee (CRC) and the other financial risks by the Asset & Liability Committee (ALCO) on a monthly basis.

Of these risk categories, credit risk is the most substantial source of financial risk for Knab. Knab's credit risk relates to its debt securities and retail assets such as residential mortgages, consumer loans, and retail SME loans. Knab monitors its credit risk exposures for opportunities, targets, warnings and limits in accordance with its risk appetite. Stress testing is performed regularly and when credit risk parameters are stressed because of either physical risks or a deterioration in value due to policy changes or the energy transition.

Regarding IRRBB management, Knab aims for a neutral interest rate position, and applies a straightforward hedging strategy using interest rate swaps. Knab uses derivatives for hedging purposes only, i.e. for its interest rate risk and foreign currency exposures. Knab does not use any credit default swaps to hedge credit risk exposures. Hedge accounting is applied to minimize the IFRS P&L impact of using derivatives.

Because Knab is a retail bank, its liquidity risk originates mostly from retail savings on the liability side of its balance sheet. Knab's liquidity risk exposure is measured through internal stress testing, which is carried out to determine whether Knab would be able to survive a period of major liquidity stress. These stress tests consider the available and required liquidity and how Knab is impacted in times of market and bank-specific stress events.

3.4. Non-financial risks

Knab's non-financial risk exposure covers risks related to compliance and operational processes. Non-financial risks are discussed by the Non-Financial Risk Committee (NFRC) on a monthly basis.

Compliance risks

Knab's compliance risks relate to current or potential risks to its earnings and capital arising from violations of or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards.

The Compliance function's mission is to encourage a risk-aware culture in which decisions are made with integrity and in the best interests of our customers. Compliance monitors Knab's compliance with laws and regulations, internal policies, and core values. The Compliance function's objective is to manage all compliance risks, more specifically by:

- Preventing violations of and non-compliance with laws and regulations, business principles, and rules of conduct, and establishing good business practices for every aspect of the organization (governance, strategy, people, processes, policies, culture and communication);

- Establishing and maintaining effective compliance and integrity risk management (including effective conflict of interest management) and control systems, including identifying, monitoring and reporting compliance and integrity risks.
- Promoting integrity across Knab's business and among employees, including creating awareness that internal policies and standards must be complied with and internal and external disciplinary action, legal action or sanctions may be imposed in the event of misconduct or unacceptable behavior.

Know Your Customer (KYC) continues to be a top priority for Knab. In 2021, Knab's KYC optimization and enhancement program (the 'KYC Project') came to an end. By finalizing the KYC Project, a robust KYC framework has been put in place, addressing the observations set out in the initial assessment of the KYC Framework in March 2019. The focus remains on the proper embedding within and handing over to the business and continuous assessments. Lessons learned will be applied to optimize and further improve the KYC Framework in order to reach a higher maturity level.

Fraud risk

Knab has key focus on fighting fraud. Knab performs a yearly Systematic Integrity Risk Analysis (SIRA) to assess it vulnerabilities to, amongst others, fraud. The risk that Knab is exposed to internal fraud is mitigated because attention is paid to screening and educating employees. Pre- and in-employment procedures ensure the integrity of our employees. Controls such as internal training and awareness are in place. The code of conduct is signed by each employee and periodically brought to attention. This resulted in a limited number of incidents that have had an minimal impact. Additionally, as part of the KYC enhancement project that KNAB performed and successfully finalized, improved controls an monitoring measures have been implemented have been taken with regard to fight external fraud and protect our clients.

Operational risks

Knab defines operational risk as the risk of losses arising from inadequate or failing internal processes and controls, people and systems, or external events. Currently, our main focus is on process risk, HR risk, and IT risk.

Knab aims to increase its process maturity to a higher level, for example by reducing the risks related to manual process activities. We have made further investments to lower our exposure to process risks. All high-risk process documentation was assessed, updated and plotted in our Business Process Management (BPM) system in 2021. The focus in 2022 will be on the continued documentation of medium risks and other processes in the BPM platform and on raising awareness around operational risk, including process risk.

During the year, Knab was faced with increased HR risk, due to COVID-19 and the war for talent. As a relatively small bank, Knab is exposed to the risk of a single point of knowledge (SPOK) and the potential loss of corporate knowledge when people leave the company. Knab has launched a process to strengthen its HR and recruitment capabilities. In 2022, a further assessment will be performed to identify areas and positions with elevated SPOK risk so that mitigating measures can be implemented.

IT risk remains elevated because of the complexity of the existing IT infrastructure and the fact that extended support of key systems will terminate at the end of 2022. Knab's IT department is working hard to replace the core banking system and re-design the IT architecture towards a forward-leaning and highly configurable technology stack. In addition, the bank's Security department is integrating all security measures into a single platform so as to ensure correlation, faster response times, and an instant overview of IT system properties when required. Finally, Knab's Security and Privacy departments are defining a roadmap to obtain ISO 27001 (security) and ISO 27701 (privacy) certifications in order to keep abreast of industry best practices.

For a relatively small organization such as Knab, with many outsourced activities, outsourcing risk remains a focus of attention. A range of mitigating measures are currently in place.

3.5. Three Lines of Defense

The CRO has primary responsibility within the Management Board for adopting, implementing and monitoring the overall risk policy. The overall policy on risk appetite and risk tolerance was confirmed by the Management Board and approved by the Supervisory Board.

The Supervisory Board supervises the risk policy adopted by the Management Board. It assesses, at a strategic level, whether capital allocation and liquidity requirements are in line with the approved risk appetite. In this matter, the Supervisory Board is advised by the Risk & Audit Committee. The Supervisory Board's assessment looks at whether Knab's commercial activities are generally appropriate within the context of its risk appetite.

Knab uses a 'three lines of defense' model.

First line of defense – the business teams

The first line is basically the business itself. It is the responsibility of the business to manage all risks arising from doing business and to ensure that business activities are in compliance with external and internal requirements.

To ensure customers' best interests, Knab does not simply put propositions on the market. Every new and updated proposition follows an approval process. During this process, Knab carefully balances the risks inherent in the proposal and weighs them up against its duty of care to the customer and against financial sustainability and suitability as required by Knab's purpose, strategy and objectives. A proposition will not be executed or brought to market until the approval process is successfully completed. In addition to the approval process, Knab performs a quality assessment of those propositions that have been implemented. The main goal of this review process is to continuously ensure customers' interests. The approval and review processes both determine whether a proposition meets Knab's current standards. They incorporate statutory requirements and consider whether the proposition is cost-efficient, useful, secure and easy to understand by the target group, and whether it fits in with Knab's purpose, strategy and objectives.

Second line of defense – Risk & Compliance

The Risk & Compliance department is organized as the second line of defense. Having an independent position, its role is to monitor and challenge. Knab has organized the Risk & Compliance function centrally and independently from Aegon Nederland. There are regular consultations with the CRO, CFO and CEO (Statutory Board) to ensure that the Management Board (Statutory Board plus the CTO and the Daily Use and Financial Freedom Value Stream Leads) is aware of any material risks that Knab may be facing over time, in order for these to be managed properly. The Management Board is responsible for taking all the decisions that are of material significance for Knab's risk profile, capital allocation, and liquidity requirement.

Collaboration with the first line is key and so its activities include advising on and raising awareness of risks, and ensuring that customers' needs and interests are factored into our products and services.

Third line of defense – Internal Audit

Internal Audit Nederland (IAN) is the independent third line of defense, a centralized department at the level of Aegon Nederland, supported by an Audit Charter for Knab. The Audit Charter sets out the role, responsibilities, mandate and scope of IAN's activities. IAN is positioned independently from executive management and the first and second lines of defense. By adopting a systematic risk-based approach for evaluating and improving corporate governance, risk management and internal controls, IAN helps management achieve their strategic objectives.

IAN carries out its role in accordance with the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Internal Auditors' International Standards (International Professional Practices Framework (IPPF), and the definition of Internal Auditing of the Institute of Internal Auditors (IIA), and in accordance with Aegon's policies and procedures.

IAN has regular contact and consultations with the Supervisory Board's Risk & Audit Committee and the external independent auditor to discuss the risk analyses and audit plan. IAN also engages in frequent contact with the Dutch Central Bank to discuss risk analyses, findings, and the audit plan.

3.6. Pending litigation, portfolio and product-related issues

Aegon Bank N.V. is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. Current and former customers, both institutional and groups representing customers, may initiate litigation. Also, certain groups may encourage others to bring lawsuits in respect of products. Aegon Bank N.V. has litigation policies in place to deal with claims, defending when a claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Bank N.V. will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers have been treated fairly, and to respond to matters raised by policyholders and their representatives. There is a risk that Aegon Bank N.V. will not be able to resolve some or all such matters in the manner that it expects. Regulators may impose fines or other monetary penalties, or require changes to the way in which Aegon Bank N.V. conducts its business. Aegon Bank N.V. has defended and intends to continue defending itself vigorously when it believes that a claim is without merit.

Lawsuits have been brought against providers of securities leasing products (‘aandelenlease producten’). Although sales of securities leasing products ended more than a decade ago, litigation relating to these products has resurfaced. In December 2020, Aegon Bank N.V. reached an agreement in principle on a settlement with Leaseproces B.V. for claims regarding “Vliegwiel” and “Sprintplan” customers represented by Leaseproces. On June 4, 2021, Aegon Bank N.V. and Leaseproces B.V. announced that they had finalized their agreement to settle these claims. On September 13, 2021, the parties announced that more than 90% of customers had agreed to the settlement, meaning that the last remaining threshold was met. Most claims were paid during 4Q 2021, with a small amount remaining at year-end. By the end of the response period, 99.7% of “Vliegwiel” customers and 94.5% of “Sprintplan” customers had agreed to the proposed settlement. Full performance of the agreement is expected in 2Q 2022. Please refer to note 3.5 in this Board Report and note 24.4 in the consolidated financial statements. There are still some individual claims pending before the courts and the Dutch Institute for Financial Disputes (Kifid).

4. Corporate Governance

The Dutch Banking Code, which primarily focuses on reducing risks, efficient auditing and capping board pay in the banking sector, came into effect on January 1, 2010, and was updated in 2015. The Code was drawn up by the Netherlands Bankers' Association (NVB). Aegon Bank endorses the Banking Code and has devoted a great deal of attention to its implementation since 2010. Although it is not subject to the Dutch Corporate Governance Code, Aegon Bank N.V. has expressed its intention to adopt its best practice provisions and, where possible, implement them across the organization.

Supervisory Board

Composition and expertise

The Supervisory Board is evenly balanced in terms of its competencies and expertise and is independent, with two out of its three members not being employed by Aegon. A profile has been drawn up, detailing the expertise requirements for Supervisory Board members.

Duties and working methods

Details of the Supervisory Board are set out in the Supervisory Board Charter. In addition to the duties set out in the Articles of Association, this Charter includes the best practice provisions from the Dutch Banking Code and Dutch Corporate Governance Code. In 2021, the members of the Supervisory Board and Management Board took part in the Continuing Education program. This program covers national and international developments in the financial sector, corporate governance in general and in the financial sector in particular, ICAAP and ILAAP, the duty of care to customers, putting customers' interests first, integrity, risk management, and financial reporting and audits. The continuing education program for Supervisory Board members focuses on the following subjects: (i) ethics, 'moresprudence' (which is a combination of moral standards and prudency), moral courage and customer interests; (ii) cybersecurity; (iii) managing values, behavior and culture in the financial sector; (iv) integrated risk management, including simulations; (v) scenario analysis workshop; (vi) workshop on governance, managerial dilemmas and boardroom dynamics; (vii) in-depth look at financial frameworks and trends in supervision; and (viii) detailed financial reporting. The annual self-assessment performed by the Supervisory Board took place in December 2021.

The Supervisory Board has set up and selected a Risk and Audit Committee. The committee prepares decisions for the Supervisory Board on subjects in their delegated areas. The Supervisory Board remains responsible for those decisions.

Statutory Board appointed under the Articles of Association

Composition and expertise

Knab's Statutory Board appointed under the Articles of Association consists of the CEO (Chairman), CFO (Financial Director) and CRO (Risk Director). With their wide-ranging experience and skills, they together constitute a well-balanced and expert board.

Duties and working methods

The Statutory Board's duties and working methods are set out in detail in the Statutory Board Charter. In addition to the duties set out in the Articles of Association, the Charter includes additional provisions based on 20 of the 29 best practice provisions in the Dutch Banking Code and Dutch Corporate Governance Code. Knab and Aegon Nederland N.V. seek to put the interests of their customers first. Knab feels responsible for raising and developing people's financial awareness and providing easy-to-understand solutions as part of a genuine dialogue, so as to enable customers to make well-informed choices in terms of their financial future. 'Customer passion' is one of its core values.

Oath or pledge in the financial sector

The members of the Statutory Board and Supervisory Board have taken an oath or made a pledge that they will act in the interests of the bank's customers to the best of their ability.

5. Sustainability

5.1. General

Knab wants to play an important role as a financial services provider in society and help accelerate the achievement of the global sustainable development goals (SDGs). Knab encourages its customers and business partners to act responsibly in terms of business activities that have a significant (irreversible or unprecedented) impact on social and environmental factors.

Knab is a purpose-led and value-driven organization whose purpose is to ensure that "*customers feel at ease when it comes to their finances. Every day.* "

Knab puts its customers first. This is a deliberate choice. We focus on entrepreneurial people within three target groups: the self-employed, small enterprise owners and retail. For these groups, Knab can make a difference.

Sustainable development goals

The sustainable development goals are a collection of 17 goals that serve as the blueprint for achieving a better and more sustainable future for all. The SDGs lie at the heart of the 2030 Agenda for Sustainable Development that was adopted by all United Nations Member States in 2015.

Knab has used the UN SDG framework to help translate the bank's purpose into a sustainability strategy. Knab has identified three SDGs that are the most relevant for its business and purpose. This does not rule out making contributions to the other SDGs.

Sustainability strategy

Knab's sustainability ambition is fully aligned with its strategy, purpose and values. Its sustainability objective is to:

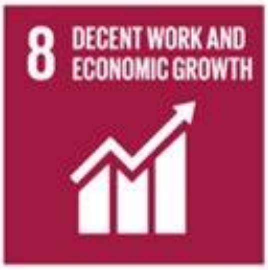
"Make the world a better place"

Knab wants to make the world a better place for people today and future generations. We do this by focusing on social factors across the ESG spectrum. This is in line with the bank's origin story. Knab was built on the conviction that the financial world must do things differently. Knab provides access to finance and easy-to-use daily banking and wealth propositions for a secure financial future.

Knab's sustainability ambition is explained in greater detail in the next paragraphs in relation to the three SDGs that we have decided to focus on.

5.2. SDG 8: Decent work and economic growth

We contribute to equal access to and use of financial services for our customer target groups: entrepreneurial retail customers, the self-employed and small business owners.



Access to affordable business insurance

Research has shown that 72% of Dutch self-employed people (SEP) have no disability insurance. This is mostly due to the high costs associated with this type of insurance. Moreover, entrepreneurs are looking for more contemporary solutions. Knab has therefore introduced Knab Crowdsurance, an alternative to short-term disability insurance, with significant lower cost compared to traditional policies.

In addition, 52% of Dutch SEPs have no business/professional liability insurance. The business insurance market is old-fashioned, non-transparent and too complex for SEPs. Knab believes that this conventional market no longer fits the bill for the needs of today's entrepreneurs. Knab has made business insurance a great deal more accessible by making it faster, more flexible and personalized. Also, applying for an insurance policy can be done fully online and claims can be submitted via the Knab app.

Knab's customers can now take out insurance in a matter of minutes, after going through a simple journey that starts with the 'Insurance' tab in the Knab app. Guided through the Knab-branded Alicia environment, they are presented with the available products, which are flexible and meet their needs.
We offer Knab users business liability insurance, professional liability insurance, accident insurance, and income protection.

Knab online library

Knab has its own public online library with over a thousand articles that were read about three million times in 2021. It includes informative, accessible articles on a variety of

topics such as entrepreneurship, investing, saving, pension and mortgages. Readers rated these articles with an average of 4.2 (out of 5) stars during the year.
The 'Knab Bieb' is also the place where we regularly publish customer research articles. Studies that were regularly picked up in 2021 by national and regional media because of their social relevance. For example, 49% of our customers turned out not to be aware of the tax-friendly averaging scheme. We calculated that, as a result, Dutch people would leave 163 million euros with the tax authorities in 2021. Various national media picked up on this, and about 60,000 people then checked via our averaging tool whether they were also eligible for a refund.

Knab also frequently organizes events, both online and offline, about a range of financial topics. These events are hosted for customers and others, retail and business. Popular themes include tax brackets and rates, the government's budget plans ('Prinsjesdag'), and expert master classes.

Tools & alerts

In addition to its averaging tool, Knab has more publicly accessible tools that customers and others can use. This varies from a tool to see whether you can lower your mortgage interest rate to a tool for entrepreneurs to determine their ideal hourly rate. During the year, Knab also launched an accounting kit for start-up entrepreneurs which they can use to properly set up their bookkeeping system from the very outset.

All these tools are not just marketing tools to introduce non-customers to Knab's services. Above all, they are valuable products that enable people to make smart financial choices.

Knab also offers tools that are available exclusively to its customers, such as a 'VAT savings' tool introduced in 2021. It enables entrepreneurs to automatically put their incoming VAT into a savings account. In addition, using the Smart Balance Management facility, customers can automatically transfer surplus funds out of their current account or clear any overdraft from their savings account.

5.3. SDG 10: Reduced inequalities

At Knab we promote the social and economic inclusion of all.

Teaching the young about money

At Knab we believe it is important that everyone is financially healthy. Young people, older people, men and women, from every background. That is why we support several initiatives.

During the Dutch Money Week, Knab employees give lessons at primary schools to raise children's financial awareness about insurance and other financial topics. During Volunteering Friday, Knab promotes volunteering work. These activities are all organized within local communities.

Buzz Women

Millions of women worldwide live in poverty. In many cases, this is the result of low income, high levels of debt, not having any assets and a structural lack of social and economic opportunities. Buzz Women helps women improve their living conditions.

They do this in a practical way, by bringing education literally within reach. Buzz Women visits villages in rural areas in India and Africa on a daily basis. Women are given the opportunity (often for the first time in their lives) to train in entrepreneurship and financial awareness. In this way, they gain an understanding of their financial situation and learn how to earn and save more and spend less.

Knab will support Buzz Women with their mission to encourage and help women develop their entrepreneurial skills and self-confidence and to finally overcome poverty on their own by creating a digital library. This global knowledge platform will be co-created with local residents in India, Gambia, and the Netherlands.

Silver Starters

Knab supports the Silver Starters program. Silver Starters is a personal learning program where people aged 50 and over can learn the basics of entrepreneurship. They are coached and supported to turn their ideas into their own business via online learning and personal coaching by experts. Aside from helping people discover whether being an entrepreneur is really what they want, the aim is to provide them with the necessary skills to set up their own business. Topics covered during the program include customer needs and wishes, revenue models, marketing, and prototyping.

Our culture

Our people are what makes us Knab. They help our customers via our app, over the phone, or through our online chat platform, or share their knowledge in other ways. You will see them everywhere: when you log in to our website, in videos on social media, and in our celebrated year-end message. And there is a reason for that. Knab is an online bank run by real people – professionals who bring their talent, ideas, creativity, humor, team spirit and drive to their work, day after day. They do this across different departments, where they optimize processes, manage cash flows, protect systems, develop useful new tools, and assist our customers. Knab's professionals have a strong sense of responsibility. They are proud to work for a bank that does things differently, one that puts customers first and is constantly looking for ways to help them understand their finances even better. Together, they make a pleasant working environment, where the focus is on equality and being passionate about your work, the organization and financial services, where no one is too old to learn, and where feedback is always welcome. Knab employees are happy to receive compliments and take complaints very seriously. They are real people, and that is how we deliver a human service.

5.4. SDG 13: Climate action

Knab believes in a concerted approach to tackle the climate-related and environmental problems the world is facing. Through its parent companies, Aegon Nederland and Aegon N.V., Knab has committed itself to several initiatives designed to combat environmental and climate change. Knab is an active member of Aegon Nederland's Responsible Investment Committee, which monitors Aegon Asset Management's investment portfolio and Aegon Hypotheken's mortgage portfolio. In 2021, Aegon Netherlands defined targets for reducing the carbon footprint of all its investments, including Knab's.

Responsible business/investment policy

At Knab, we recognize our responsibility to ensure that our investments do not negatively impact society or the planet. We apply this ethos to our own proprietary investments and use our influence to encourage similar standards in the customer investment accounts we manage. By taking an active approach to responsible investment, we seek to minimize risks to our business and explore ways to serve the interests of our customers and society at large. Knab endorses Aegon's Responsible Investment Policy, recognizing a broad range of recurring sustainability and ESG topics, from climate change to health and corporate governance. This Responsible Investment Policy is updated on a regular basis to reflect new insights and our continuing strive to increase impact. In November 2021, our parent company, Aegon Nederland, took an important step towards achieving our commitment to transition our investment portfolio to net-zero greenhouse gas emissions by 2050. . Progressive insights from Aegon Asset Management, which handles our bond portfolios, through engaging with companies we invest in, and research performed, is the basis for narrowing down the scope of companies we want to invest in. An example is our announcement and removal of investments in companies which derive a portion of their revenues from coal, or tar and oil sands.

Carbon footprint investments

At Knab, we believe it is important to measure our impact on the environment so that we can take positive steps to reduce it. We are focusing our efforts on measuring and reducing the greenhouse gas emissions (and CO2 emissions in particular) associated with our investments.

During the year, we continued to make progress in terms of measuring the CO2 emissions of our investments. As a bank, Knab holds significant investments. We believe it is important to measure and disclose the emissions that are indirectly associated with our investments. By measuring the greenhouse gas emissions associated with our investments, we hope to provide insights into the environmental impact of the various companies we help to finance.

Despite all the progress made in recent years, we are not yet able to measure the CO2 emissions for all our investments. We aim to increase the proportion of investments whose CO2 emissions can be measured in the coming years, as both industry measurement standards and our own capabilities continue to develop. Where needed and possible, we will also re-measure and re-state historical financial information to allow a more accurate comparison of changes in CO2 emissions from one period to another.

Working with Aegon Asset Management and Aegon Hypotheken, Knab has made improvements to the way in which it measures the carbon footprint of the investments on its balance sheet. To measure the CO2 emissions associated with our investments, we use the Partnership for Carbon Accounting Financials (PCAF) recommendations. The analysis below covers around 90% of our balance-sheet assets as at 31 December 2021 (compared to 86% at 31 December 2020).

Asset class (unaudited)	Value (EURm)	Carbon footprint (tCO_2e)	Coverage (% of asset class)	Relative intensity (tCO_2e/EURm)	Weighted-average carbon intensity (tCO_2e/EURm revenue)
Cash	990	0	100%	0	0
Sovereign bonds	664	70.200	40%	266	220
Corporate credits	936	84.000	55%	162	320
Mortgages	11.961	191.000	96%	17	-
Unmeasured assets	1.599	Not yet measured			
Total	**16.150**	**345.200**	**82%**	**26**	

Mortgages are by far Aegon Bank's largest asset class, consisting solely of residential Dutch mortgages. An energy efficiency label was available for 96% (2020: 96%) of the collateral. The carbon footprint of Aegon Bank's residential mortgage portfolio has been calculated on the basis of the energy label information available from the Netherlands Enterprise Agency (Rijksdienst voor Ondernemend Nederland) and average residential energy consumption. As at 31 December 2021, the total footprint for mortgages was estimated to be 191,000 tCO2e (2020: 195,800 tCO2e), with an approximate average energy rating label of C (2020: C). In line with industry practice and based on PCAF agreed measures, we have adjusted the footprint of the portfolio for the financed share of the invested amount (LtV). The overall energy label distribution for residential mortgages was as follows:

Energy Label	A	B	C	D	E	F	G
2021	20%	15%	30%	10%	8%	9%	10%
2020	18%	14%	30%	10%	8%	9%	10%
2019	16%	15%	30%	10%	9%	10%	11%

6. Outlook

6.1. Developments

In 2021, Knab was the first bank in the Netherlands to introduce crowdsurance. We also introduced Apple Pay and our VAT Savings product. In 2022, we will continue to focus on the needs of our customers by introducing new features and by listening to our customers. In 2022, we introduced Google pay and our Lending Value Stream that is building a business lending product. In order to be the most customer-oriented financial platform in the Netherlands, we need to listen to our customers, keep them up to date on their personal financial situation, and enable them to achieve their financial goals. Our mission is to provide Convenience today, Solutions for tomorrow and Financial freedom in the future. We do this on a daily basis through our customer service desk, but the Management Board also invites customers to their monthly board meetings.

2021 has also been a year in which a great deal of effort has gone into completing our interest rate risk and credit risk roadmaps. Although we are proud of the efforts made by our teams and satisfied with the results, we are also aware that these areas require our continued attention. Know Your Customer also continued to be a top priority for Knab. We completed our KYC optimization and enhancement program. Completion of this project now allows Knab to unlock more sales funnels and generate increased growth. We are also proud to be able to pay out a dividend for the first time since many years. During 2022, we will continue to build a financially stable, future-proof, profitable and compliant bank.

In 2022, we will continue to monitor market developments, specifically in relation to COVID-19, and how this may impact Knab.

The financial sector has been undergoing major change over the last few years, due in part to economic developments, but also because of demands from customers, legislators and regulators. This trend is expected to continue in 2022. Our proposition will remain centered around Knab's core capability: digital with a human touch.

Finally, economic conditions and financial market developments are driving an increased focus on cost efficiency in our markets. All these trends require Knab to deliver enhanced performance for all our stakeholders at lower cost.

6.2. Post-reporting date events and expectations

On February 24, 2022, Russia invaded Ukraine, which caused a humanitarian crisis and is also impacting global financial markets and causing economic turbulence. At the date of this report the depth and length of this invasion is unknown, and the situation is changing rapidly from day to day. Knab is closely monitoring the financial markets and economic turbulence that has arisen as a consequence of the situation and the related international sanctions, and its impact on Knab. The most significant risks Knab faces are related to financial markets, particularly from volatility in credit, equity and interest rates. The notes to Knab's financial statements include elaborate descriptions and related financial market sensitivities. Knab is actively managing its risks and capital position to maintain a robust balance sheet, as Knab navigates through the uncertainty created by the current geopolitical situation. Knab is on high alert status to help ensure the safety and well-being of its staff, as well as its capability to support its customers, while maintaining our financial and operational resilience. Knab has no investments in Russia and Ukraine.

Amsterdam, April 14, 2022

Statutory Board
Nadine Klokke
Mike de Boer
Ebbe Negenman

Report of the Supervisory Board

Report of the Supervisory Board

Duties

It is the responsibility of the Supervisory Board to supervise the general affairs of Knab. The Supervisory Board also supervises the conduct of, and the policies pursued by the Management Board, and acts as a sparring partner for the Management Board. The Supervisory Board supervises the way in which the Management Board implements the bank's long-term value creation strategy, also within the context of Aegon Group's strategy. In order to do so, the Supervisory Board regularly discusses the strategy and its implementation, operating performance, customer metrics, risk management and compliance, asset and liability management, and reporting.

Meetings

The Supervisory Board convened thirteen times in 2021. During its regular quarterly meetings, the Supervisory Board discussed recurring topics such as managing the impact of COVID-19, strategy, capital and funding (including ICAAP and ILAAP), risk and compliance, audit, finance, modelling, remuneration, KYC, governance, consumer loan platforms, credit risk, security and fraud, the DNB's instruction, technology, data and innovation. An update on major projects was provided at each meeting. These projects concerned matters relating to, for example, risk management, KYC, and IFRS9. The Supervisory Board monitored these important and complex projects closely. Beyond the regular meetings, additional Supervisory Board meetings were held regarding regulatory topics, the annual report, dividend, succession planning, IRRBB, and the Supervisory Board's self-assessment. In addition, frequent bilateral meetings took place between Supervisory Board members and Management Board members.

The 100% attendance rate by the individual Supervisory Board members underscores the commitment of the Supervisory Board as a collective not only to fulfill their supervisory role, but also to make sure that they are available to support the Management Board with advice during what due to the ongoing impact of the pandemic, have continued to be very testing times for the bank, its customers, its people and all its other stakeholders.

Risk & Audit Committee

The Risk & Audit Committee (RAC) comprises Gabrielle Reijnen (chair), Paul de Kroon and Wim van de Kraats. Its mandate is to do the preparatory work for supervising the Management Board in terms of the implementation, maintenance and operation of Knab's risk management systems and risk appetite, finance, and audits. The Risk & Audit Committee also monitors compliance with laws and regulations and the procedures for preparing and adopting the financial statements. The RAC met four times in 2021.

Remuneration

Knab is a licensed financial services provider. The Supervisory Board ensures that the remuneration policy is in line with the principles laid down in the Regulation on Sound Remuneration Policies under the Dutch Financial Supervision Act 2011, the Dutch Banking Code, Aegon N.V.'s Global Remuneration Framework, and Aegon Netherlands' Remuneration Policy.

License to operate

Due to its growth, Knab has increasingly become a significant player within the Dutch and European banking systems. We believe that our responsibility for building and maintaining trust in the banking sector must grow at the same pace. We are very much aware that our risk management and risk governance systems will need to develop accordingly so as to be sufficiently in control of new and expanded processes and activities. There is therefore a strong sense of urgency within both the Supervisory Board and the Management Board to further strengthen Aegon Bank's risk control system in order for it to be compliant with applicable laws and regulations. The Supervisory Board is closely involved in monitoring the steps taken by the Management Board regarding the implementation of various "in control" projects, both current and newly initiated, and strengthening the risk management organization and culture. The Supervisory Board is pleased with the progress made on the various topics.

Composition of the Supervisory Board

The current members of the Supervisory Board are Paul de Kroon, Gabrielle Reijnen, and Wim van de Kraats. Han Gerrits, who was a member of the Supervisory Board, left the Supervisory Board to join the Management Board during the year as the CTO. Willem Horstmann left the Supervisory Board at the conclusion of his term at the end of 2021. We are grateful for the insights and important contributions made by Willem Horstmann and Han Gerrits. Paul de Kroon is the Supervisory Board's current chairman. Gabrielle Reijnen is chair of the RAC. Wim van de Kraats was appointed as a new member in November 2021 as successor to Willem Horstmann. All Supervisory Board members have been appointed for four-year terms. Paul de Kroon will resign from the Supervisory Board at the end of June 2022. The search process for a new chairman of the Supervisory Board has been put in motion.

Paul de Kroon and Gabrielle Reijnen are external Supervisory Board members, as required by the Dutch Corporate Governance Code. Wim van de Kraats is head of operational and model risk management at Aegon Group.

Self-assessment

The Supervisory Board's annual self-assessment took place under the supervision of KPMG in December 2021. The subjects reviewed included its own performance, completion of the actions defined during the annual self-assessment performed the previous year, the commitment of the individual Board members, the culture within the Supervisory Board and its relationship with the Management Board and the various stakeholders, the chairman's performance, governance, strategy, technology and innovation, and growth and commercial opportunities for the bank within Aegon Netherlands' and Aegon Group's strategy. The Supervisory Board is of the opinion that its current set-up reflects a balanced mix of relevant experience, independence, and an inclusive culture.

In 2021, the Supervisory Board also took part in a continuous education program. This program covered a variety of subjects set out in the Management Board report. The continuous education program was also assessed and found to be useful.

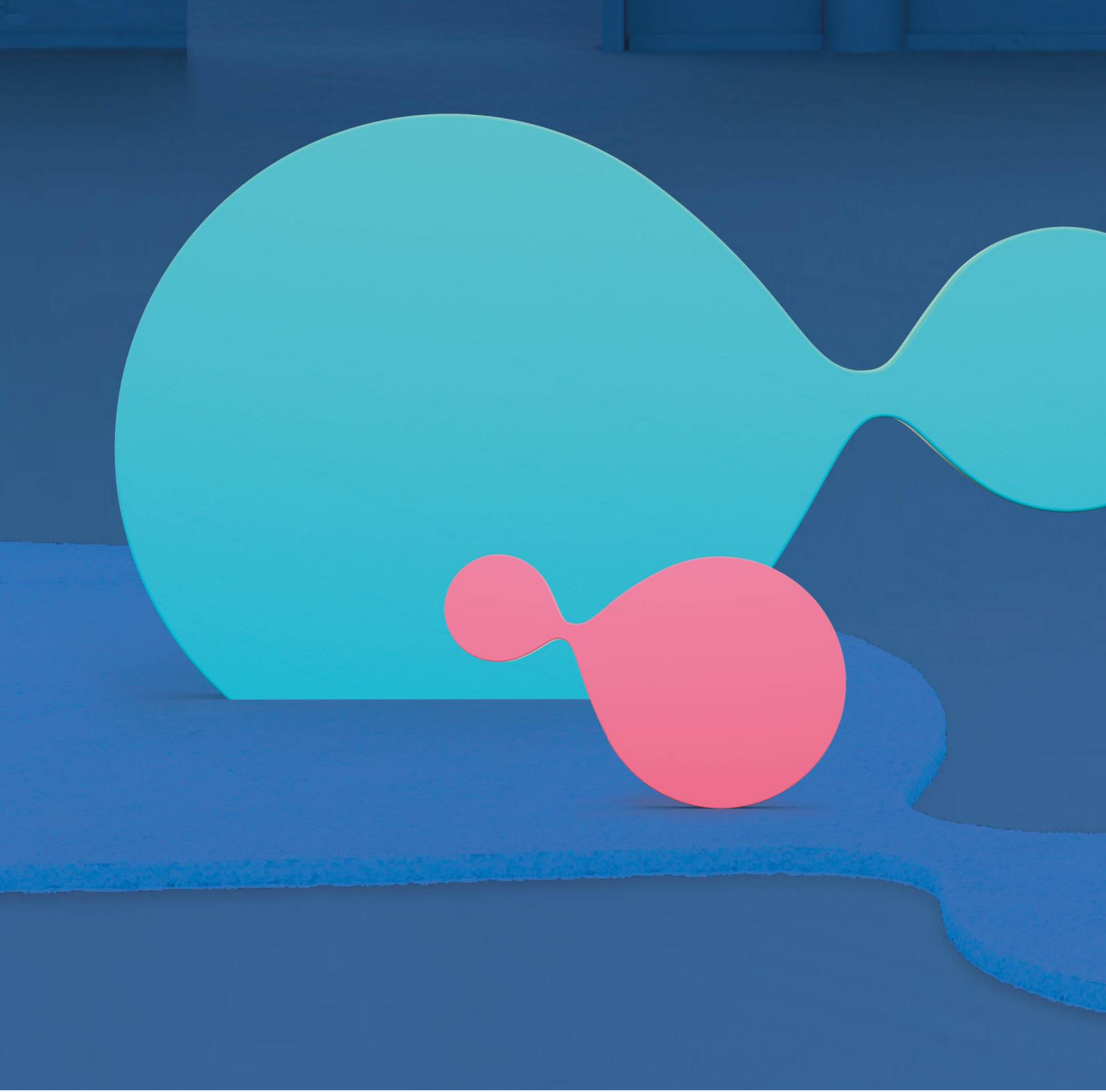
Appreciation for our staff

The continued impact of COVID-19 throughout 2021 and the Russian invasion of Ukraine more recently show that we live in extraordinary times. Under the stewardship of the Management Board, our employees have worked relentlessly to serve Knab's customers and other stakeholders professionally irrespective the circumstances, never forgetting the core value of being human first and foremost. The team's commitment to deliver results as reflected in this annual report and the parallel strategic focus on the long-term value proposition towards its customers and communities will be a key driver for the bank long term's success. As Supervisory Board we take pride being able to serve such an inspiring team.

Amsterdam, April 14, 2022

Paul de Kroon
Gabrielle Reijnen
Wim van de Kraats

Aegon Bank N.V.'s Consolidated Financial Statements 2021



Consolidated statement of financial position

for the year ended December 31, 2021

Amounts in EUR thousands	Note	31-12-2021	31-12-2020
Assets			
Cash	5	859.629	1.548.307
Amounts due from banks	6	130.030	102.119
Mortgage loans and other loans	7	13.042.215	13.725.887
Financial assets measured at fair value through other comprehensive income	8	1.772.421	1.456.140
Derivatives	9	211.860	189.093
Other assets and receivables	10	133.976	115.704
Total assets		**16.150.130**	**17.137.249**
Equity and liabilities			
Savings deposits	11	11.586.074	12.539.843
Borrowings	12	2.988.586	2.612.894
Derivatives	9	477.076	788.993
Net deferred tax liabilities	13	80.744	84.810
Provisions	14	10.248	49.054
Other liabilities and accruals	15	272.167	352.936
Total liabilities		**15.414.895**	**16.428.529**
Equity	16	735.235	708.719
Total equity and liabilities		**16.150.130**	**17.137.249**

Consolidated income statement

for the year ended December 31, 2021

Amounts in EUR thousands	Note	2021	2020
Income			
Interest income calculated using the effective interest method	17.1	371.099	387.611
Interest expense calculated using the effective interest method	17.2	-73.997	-83.771
Other interest expenses	17.2	-79.228	-71.801
Net interest income		**217.874**	**232.038**
Fee and commission income	18.1	26.310	22.360
Fee and commission expense	18.2	-1.933	-1.844
Net fee and commission income		**24.377**	**20.516**
Result on financial transactions	19	17.563	40.325
Impairment losses	21	24.764	-92.797
Total income		**284.579**	**200.083**
Expenses			
Employee expenses	20.1	53.716	54.125
Other operating expenses	20.2	118.742	181.719
Total expenses		**172.458**	**235.844**
Income / (loss) before tax		**112.120**	**-35.761**
Income tax	22	-30.519	4.308
Net income / (loss)		**81.601**	**-31.453**
Net income / (loss) attributable to the parent company		**81.601**	**-31.453**

Consolidated statement of comprehensive income

for the year ended December 31, 2021

	2021	2020
Amounts in EUR thousands		
Net income	**81.601**	**-31.453**
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Gains / (losses) on financial assets measured at FVOCI	-9.627	3.885
Gains / (losses) transferred to the income statement on disposal of financial assets measured at FVOCI	-3.172	-550
Aggregate tax effect of items recognized in other comprehensive income / (loss)	3.188	-1.111
Other comprehensive income for the year	**-9.611**	**2.224**
Total comprehensive income	**71.990**	**-29.229**
Total comprehensive income attributable to the parent company	**71.990**	**-29.229**

Aegon Bank N.V. had no financial assets measured at FVOCI without recycling of fair value changes to profit and loss as at December 31, 2021. Total comprehensive income is fully attributable to Aegon Nederland N.V., the parent company of Aegon Bank N.V.

Consolidated statement of changes in equity

for the year ended December 31, 2021

Amounts in EUR thousands

2021	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**476.751**	**173.447**	**11.584**	**9.500**	**708.719**
Net income / (loss) recognized in the income statement	-	-	81.601	-	-	81.601
Other comprehensive income / (loss)	-	-	-	-9.611	-	-9.611
Total comprehensive income / (loss)	**-**	**-**	**81.601**	**-9.611**	**-**	**71.990**
Dividends paid on participations	-	-	-475	-	-	-475
Dividends paid on common shares	-	-	-45.000	-	-	-45.000
At December 31	**37.437**	**476.751**	**209.574**	**1.973**	**9.500**	**735.235**

2020	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**476.751**	**205.375**	**9.360**	**9.500**	**738.423**
Net income / (loss) recognized in the income statement	-	-	-31.453	-	-	-31.453
Other comprehensive income / (loss)	-	-	-	2.224	-	2.224
Total comprehensive income / (loss)	**-**	**-**	**-31.453**	**2.224**	**-**	**-29.229**
Dividends paid on participations	-	-	-475	-	-	-475
Dividends paid on common shares	-	-	-	-	-	-
At December 31	**37.437**	**476.751**	**173.447**	**11.584**	**9.500**	**708.719**

Consolidated cash flow statement

for the year ended December 31, 2021

Amounts in EUR thousands	Note	2021	2020
Income / (loss) before tax		**112.120**	**-35.761**
Adjustments for:			
- Result on financial transactions	19	-17.563	-40.325
- Amortization and depreciation	17.1	81.347	81.910
- Impairment losses / (reversals)	21	-24.764	92.797
- Additions to / (releases from) provisions	14	1.633	38.549
- Tax (paid) / received	22	-3.592	-17.001
Changes in:			
- Savings deposits	11	-953.768	1.004.029
- Other assets and receivables	10	-18.272	-47.061
- Other liabilities and accruals	15	-108.585	99.161
Purchase of mortgage loans and other loans	7	-1.824.430	-3.010.615
Sale and redemption of mortgage loans and other loans	7	2.150.399	1.973.643
Purchase of derivatives	9	170	185
Sale of derivatives	9	-40.475	16.985
Purchase of financial assets measured at FVOCI	8	-702.425	-809.503
Sale and redemption of financial assets measured at FVOCI	8	358.117	408.029
Net cash flows from / (used in) operating activities		**-990.087**	**-244.979**

	Note	2021	2020
Issuance of Covered Bond	12	493.485	508.100
Redemption of Covered Bond	12	-	-750.000
Dividends paid on participations	16	-475	-475
LTRO allotment/ (repayment)	12	-105.000	105.000
Increase/ (decrease) in group loans relating to collateral	12	-13.690	13.690
Dividend payment		-45.000	-
Net cash flows from financing activities		**329.320**	**-123.685**
Net increase / (decrease) in cash and cash equivalents		**-660.766**	**-368.664**
Cash and cash equivalents at beginning of year		**1.650.425**	**2.019.089**
Cash and cash equivalents at end of year		**989.659**	**1.650.425**
Cash	5	859.629	1.548.307
Amounts due from banks	6	130.030	102.119
Total		**989.659**	**1.650.425**

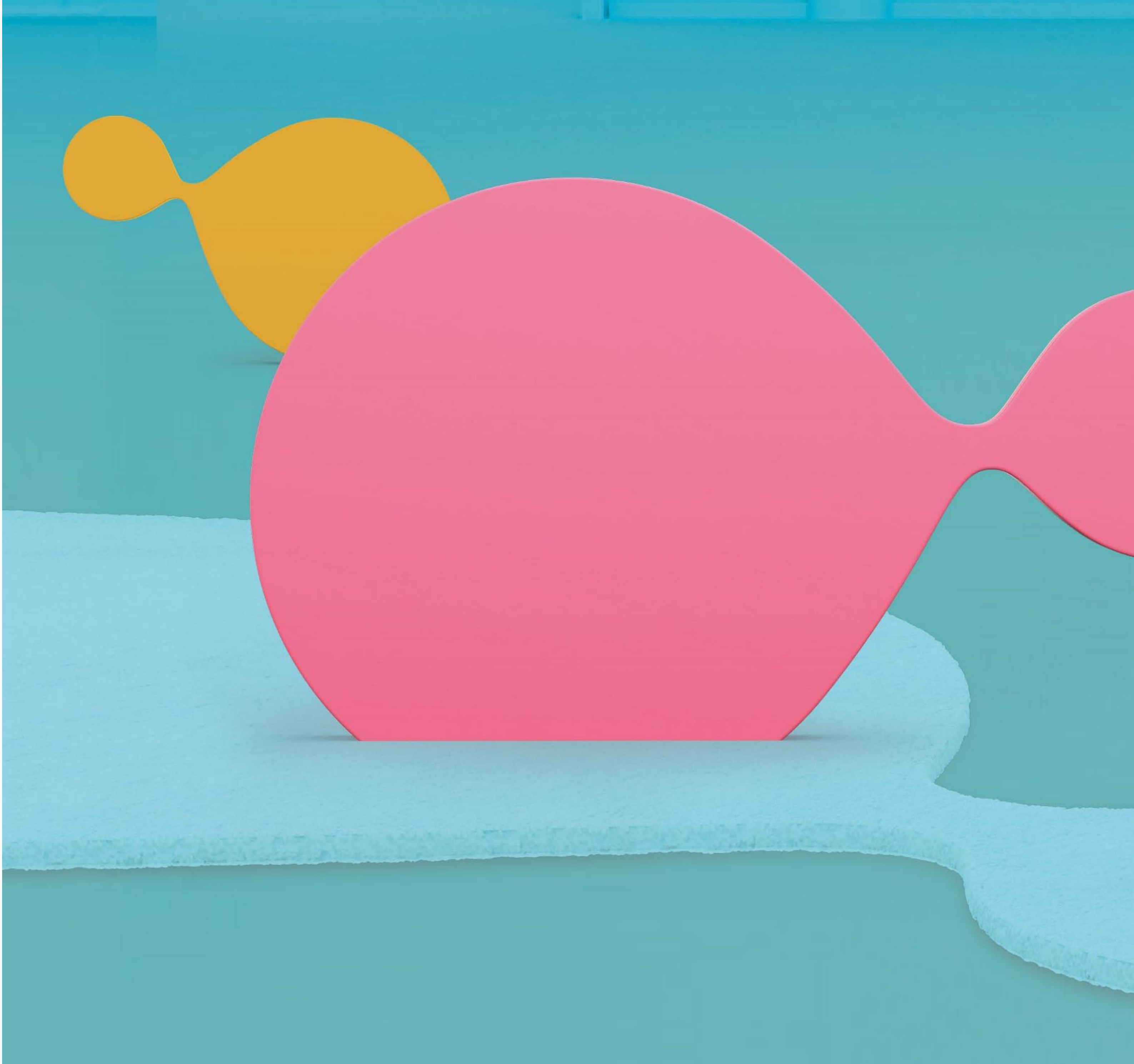
The cash flow statement has been prepared according to the indirect method. Net cash flows from operating activities include the increase / (decrease) in cash and cash equivalents related to:

Amounts in EUR thousands	2021	2020
Interest received	**452.446**	**469.520**
Interest income calculated using the effective interest method	452.446	469.520
Other interest income	-	-
Interest paid	**153.225**	**155.572**
Interest expenses calculated using the effective interest method	73.997	83.771
Other interest expenses	79.228	71.801

Reconciliation of liabilities arising from financing activities

In 2021, net cash flows from financing activities related to liabilities included the increase in long-term borrowings due to the issuance of the Soft Bullet Covered Bond in June 2021. During 2020, net cash flows from financing activities related to liabilities included the decrease in long-term borrowings due to the repayment of Covered Bond I in December 2020, partly offset by the issuance of Covered Bond V in November 2020. In 2021, Aegon Bank N.V. paid a dividend of EUR 45.0 million (2020 no dividend). This movement is an equity movement, as explained in note 16 'Equity'. The carrying value of all balance sheet items related to financing activities is measured at amortized cost and so there are no effects from fair value movements or any other movements.

Notes to the consolidated financial statements



1. General information

Aegon Bank N.V. ('Knab') is a public limited liability company organized and existing under Dutch law, registered with the Chamber of Commerce in Amsterdam under number 30100799.
Its registered address is at Thomas R. Malthusstraat 1-3, 1066 JR Amsterdam. Aegon Bank N.V. is a wholly owned subsidiary of Aegon Nederland N.V. ('Aegon Nederland'), established in The Hague. Aegon Bank N.V.'s ultimate holding company is Aegon N.V. established in The Hague.

Aegon Bank N.V. has one operational segment that mainly operates under the Knab brand. Aegon Bank N.V. and its group companies specialize in developing, selling and servicing savings and investment products to help our customers accumulate wealth and to make savings and investing more tangible, relevant and easy – all the things our customers need for a carefree financial future.

Aegon Bank N.V. aims to achieve its vision and ambition through two labels: Aegon Bank and Knab. In 2021, Aegon completed the migration and integration of the Aegon Bank brand to the Knab brand. Knab is a fully online digital bank that went live in 2012. By integrating the two operations and rationalizing their product offerings, we can reduce costs, make our operations more efficient, and ensure uniform governance. Knab continues to service Aegon Netherlands' variety of pension offerings through its banking products such as savings accounts and investments, but under the Knab brand. In 2020, Banking was classified as a Strategic Asset and forms the gateway to individual retirement solutions.

Knab customer growth is geared towards fee-paying customers and products. Increasing our efforts to deliver products and offer functionalities (e.g. Google pay, VAT savings) in a higher customer demand environment will be key to retaining and acquiring new customers.

2. Significant accounting policies

2.1. Presentation

2.1.1. Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements have been prepared in accordance with the historical cost convention, as adjusted for financial assets measured at fair value through other comprehensive income (FVOCI), the impact of hedge accounting applied and derivatives. Information on the standards and interpretations that were adopted in 2021 is provided below. The consolidated financial statements have been prepared in euros and all values are rounded to the nearest thousand except where otherwise indicated. Rounding differences may therefore exist. All ratios and variances are calculated using the underlying amount rather than the rounded amount.

Aegon Bank N.V.'s financial statements were approved by the Management Board and by the Supervisory Board on 14 April 2022. The financial statements will be put for adoption to the General Meeting of Shareholders. The shareholders meeting may decide not to adopt the financial statements but may not amend these during the meeting.

2.1.2. Continuity

Knab's financial statements have been prepared on a going concern basis, that is to say on the reasonable assumption that Knab is and will continue to be able to continue its normal course of business in the foreseeable future. Relevant facts and circumstances (also considering COVID-19) relating to the consolidated financial position as at December 31, 2021, were assessed in order to justify the going concern assumption. The main areas assessed were financial performance, capital adequacy, financial position, and flexibility, liquidity and solvency. On the basis of that assessment, management concluded that the going concern assumption for Knab is appropriate in preparing the consolidated financial statements.

2.1.3. Adoption of new EU-IFRS accounting standards

New standards and amendments to existing standards become effective at the date specified by EU-IFRS, however companies are allowed to opt for an earlier adoption
date. In 2021, the following amendments to existing standards issued by the IASB became mandatory:

Accounting standard/ amendment/ interpretation	IASB effective date	Endorsed by EU	Impact on the entity
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	January 1, 2020	Yes	Low

Interest rate benchmark reform

In 2019, Knab elected to early adopt the 'Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)'. In accordance with the transitional provisions, the Phase 1 amendments were adopted retrospectively with regard to hedging relationships that existed on January 1, 2019 or were designated thereafter. The amendments provide temporary relief from applying specific hedge accounting requirements, thereby ensuring that uncertainty over the outcome of the Interest Rate Benchmark Reform (IBOR reform) does not result in early termination of hedge accounting, notably because the retrospective effectiveness may fall outside of the required range due to the IBOR reform. Please refer to note 24 Derivatives for the required disclosures of the uncertainty arising from the IBOR reform for hedging relationships for which Knab applied the reliefs. 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' became effective in 2021.

The Phase 2 amendments provide temporary reliefs which address issues that might affect financial reporting during the IBOR reform, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments had no material impact on the Group's financial position or consolidated financial statements. Knab will continue to monitor IBOR reform developments and intends to use the Phase 2 reliefs as and when applicable.

2.1.4. Future adoption of new EU-IFRS accounting standards

The following standards and amendments to existing standards, published prior to January 1, 2022, were not early adopted by Knab, but will be applied in future years:

Accounting standard/ amendment/ interpretation	IASB effective date	Endorsed by EU	Early adopted by the entity	Impact on the entity
Annual Improvements to IFRS Standards 2018–2020 Classification of Liabilities as Current or Non-current Amendments to IAS 1)	January 1, 2022	yes	No	Low
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 1, 2023	Not yet	No	Low
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	January 1, 2023	Not yet	No	Low
Definition of Accounting Estimates (Amendments to IAS 8)	January 1, 2023	Not yet	No	Low
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	January 1, 2023	Not yet	No	Low

2.2. Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are the fair value of assets and liabilities and the determination of impairment allowances. Although the estimates are based on careful assessment by management of current events and actions, actual results may differ from these estimates. See note 3 for more information.

2.3. Basis of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of Knab and its subsidiaries. Subsidiaries (including structured entities) are entities over which Knab has control. Knab controls an entity when Knab is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to influence those returns through its power over the entity.

The assessment of control is based on the substance of the relationship between Knab and the entity, such as any substantive existing or potential voting rights. For a right to be substantive, the holder must have the practical ability to exercise that right.

The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with Knab's accounting principles, as consistent with IFRS. Transactions between Knab subsidiaries are eliminated. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

Subsidiaries are deconsolidated when control ceases to exist. Any difference between the net proceeds plus the fair value of any retained interest and the carrying amount of the subsidiary including non-controlling interests is recognized in the income statement.

2.4. Foreign exchange translation

Knab's financial statements are presented in euros, which is its functional currency. Transactions in foreign currencies are initially recorded in the functional currency using the exchange rates prevailing at the date of the transaction. Knab has investments in group entities whose functional currency is not the euro.

At the reporting date, monetary assets and monetary liabilities in foreign currencies are translated into the functional currency using the closing exchange rates prevailing on that date. Non-monetary items carried at cost are translated using the exchange rates prevailing on the date of the transaction, while assets carried at fair value are translated using the exchange rates at the time of fair value determination.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in other comprehensive income as a result of a qualifying cash flow. Exchange differences on non-monetary items carried at fair value are recognized in other comprehensive income or the income statement, consistent with other gains and losses on these items.

Non-monetary items carried at fair value are recognized in other comprehensive income or the income statement, consistent with other gains and losses on these items.

2.5. Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when Knab has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.6. Cash

Cash comprises cash and balances with the Dutch Central Bank (DNB) which are immediately payable on demand. These are short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known cash amounts, are subject to insignificant risks of changes in value, and are held for the purpose of meeting short-term cash requirements. This item is initially recognized at fair value and subsequently measured at amortized cost.

2.7. Amounts due from banks

Amounts due from banks comprise credit balances in current accounts and receivables due from banks. These are short-term, highly liquid investments which are readily convertible into known cash amounts, are subject to insignificant risks of changes in value, and are held for the purpose of meeting short-term cash requirements. This item is initially recognized at fair value and subsequently measured at amortized cost.

2.8. Financial assets

2.8.1. Initial recognition and measurement

Financial assets and liabilities are recognized on the trade date when Knab becomes a party to the contractual provisions of the instrument, and are classified for accounting purposes depending on their characteristics and the purpose for which they were purchased.

At initial recognition, Knab measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not measured at fair value through profit or loss (FVPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs for a financial asset or financial liability measured at FVPL are directly recognized in the income statement. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), as described in note 3.5, which results in an accounting loss being recognized in the income statement when an asset is newly originated.

When the fair value of a financial asset or financial liability differs from the transaction price on initial recognition, Knab recognizes the difference as follows. When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input), or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss. In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

2.8.2. Classification and subsequent measurement

Knab classifies its financial assets into the following measurement categories:

- Amortized cost (AC).
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVPL)

Amortized cost and effective interest rate

Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate method is a method of calculating amortized cost and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the debt instrument or, where appropriate, a shorter period, applied to the gross carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Interest income
Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that are credit-impaired ('Stage 3'), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e., net of the expected credit loss provision).

The classification requirements for debt and equity instruments are described below.

Debt instruments
Debt instruments are instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- Knab's business model for managing the asset; and
- The asset's cash flow characteristics.

Based on these factors, Knab classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in 'Interest income calculated using the effective interest method'.
- Fair value through other comprehensive income ('FVOCI'): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses or reversals, interest revenue and foreign exchange gains and losses on the instrument's amortized cost, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI into profit or loss and recognized in 'Result on financial transactions'. Interest income from these financial assets is included in 'Interest income calculated using the effective interest method' using the effective interest rate method.
- Fair value through profit or loss ('FVPL'): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Result on financial transactions' in the period in which it arises. Interest income from these financial assets is included in 'Other interest income'.

Business model
The business models describe how Knab manages its assets in order to generate cash flows, depending on whether Knab's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these apply (for example financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business models and measured at FVPL. Factors considered by Knab in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance was evaluated and reported to key management personnel, how risks were assessed and managed and how managers were rewarded.

Solely payment of principal and interest ('SPPI')
Where the business model is to hold assets to collect contractual cash flows or to collect both the contractual cash flows and cash flows from the sale of the assets, Knab assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In performing this test, Knab considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., the interest only covers consideration for the time value of money, credit risk, other basic lending risks, and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Knab reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Impairment

Knab assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. Knab recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In line with IFRS 9 and regulatory requirements, Knab has used the low credit risk exemption for debt securities, cash, amounts due from banks and other receivables. Securities that have a credit rating equivalent to 'investment grade' (rating 'BBB' or higher) are considered as having low credit risk. As such, external and internal credit ratings, respectively, are used for these assets to assess whether a significant increase in credit risk has occurred. Note 4.4.3 provides more detail on how the expected credit loss allowance is measured.

Modification of loans

Knab may occasionally renegotiate or otherwise modify the contractual cash flows of loans. In such cases, Knab will assess whether or not the new terms are substantially different from the original terms. It will do so by considering, amongst others, the following factors:

- If the borrower is in financial difficulty, whether the modification will merely reduce the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced.
- Any significant extension of the loan term when the borrower is not in financial difficulty.
- Any significant change in the interest rate.
- The introduction of any collateral or other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, Knab will derecognize the original financial asset and recognize a 'new' asset at fair value and recalculate a new effective interest rate for the asset. The date of renegotiation will then be considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, Knab will also assess whether the new financial asset recognized is deemed to be credit-impaired on initial recognition, especially if the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount will also be recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification will not result in derecognition, and Knab will recalculate the gross carrying amount based on the revised cash flows of the financial asset and recognize a modification gain or loss in profit or loss. The new gross carrying amount will be recalculated by discounting the modified cash flows at the original effective interest rate.

The impact of any modifications of financial assets on the expected credit loss calculation is discussed in note 4.4.10.

2.8.3. Derecognition other than on a modification

A financial asset is derecognized when the contractual rights to the asset's cash flows expire or when Knab retains the right to receive cash flows from the asset or has an obligation to pay received cash flows in full to a third party without delay and either has transferred the asset and substantially all the risks and rewards of ownership or has neither transferred nor retained all the risks and rewards but has transferred control of the asset.

Financial assets of which Knab has neither transferred nor retained substantially all the risks and rewards are recognized to the extent of Knab's continuing involvement. If significantly all risks are retained, the assets are not derecognized.

On derecognition, the difference between the disposal proceeds and the carrying amount is recognized in the income statement as a realized gain or loss. Any cumulative unrealized gain or loss previously recognized in the revaluation reserve in shareholders' equity is also recognized in the income statement.

2.8.4. Collateral

With the exception of cash collateral, assets received as collateral are not recognized separately as an asset until the financial asset they secure defaults. When cash collateral is recognized, a liability is recorded for the same amount.

2.9. Financial liabilities

2.9.1. Classification and subsequent measurement

Financial liabilities are classified for accounting purposes depending on their characteristics and subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. The latter classification is applied to derivatives. Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, are recognized as a financial liability and carried at the amount received for the transfer. In subsequent periods, Knab recognizes any expenditure incurred on the financial liability, financial guarantee contracts and loan commitments.

2.9.2. Derecognition

Financial liabilities are derecognized when they are extinguished (i.e,. when the obligation specified in the contract has been discharged or, cancelled or has expired).

The exchange between Knab and its original lenders of debt instruments with substantially different terms, and substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and changes in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

2.10. Derivatives and hedging strategy

2.10.1. Definition

Derivatives are financial instruments the value of which changes in response to an underlying variable, which require little or no net initial investment and are settled at a future date.

Assets and liabilities may include derivative-like terms and conditions. Effective 1 January 1, 2018, under IFRS 9 these embedded derivatives are bifurcated only when the host contract is not an asset within the scope of IFRS 9. Bifurcated derivatives are accounted for separately from the host contract at FVPL. When the host contract is an asset within the scope of IFRS 9, the embedded derivative is not bifurcated and the contractual cash flows are assessed in their entirety.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

2.10.2. Measurement

All derivatives recognized in the statement of financial position are carried at fair value. The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, to the extent possible. Fair value changes are recognized in the income statement.

2.10.3. Hedge accounting

As part of its asset liability management, Knab enters into economic hedges to limit its interest rate risk exposure. These transactions are assessed to determine whether hedge accounting can and should be applied.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used, and how hedge effectiveness will be assessed. A derivative has to be effective and achieve the objective of offsetting either changes in fair value or cash flows for the risk that is being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparing critical terms of the derivative to those of the hedged item. Quantitative methods include comparing the changes in the fair value or discounted cash flow of the hedging instrument to those of the hedged item. A hedging relationship is considered effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item. Knab has elected to continue to apply the hedge accounting requirements of IAS 39 for macro fair value hedges (EU 'carve out') on adoption of IFRS 9.

Knab currently applies hedge accounting for fair value hedges.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss, as are the fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the hedged item is amortized through profit or loss over the remaining term of the original hedge or recognized directly when the hedged item is derecognized.

Knab applies fair value hedge accounting to portfolio hedges of interest rate risk (fair value macro hedging) under the EU's IFRS 'carve out'. The EU's macro hedging 'carve out' enables a group of derivatives (or parts thereof) to be viewed in combination and jointly designated as a hedging instrument and removes some of the limitations on fair value hedge accounting. Under the EU 'carve out', ineffectiveness in fair value hedge accounting only arises when the revised projection of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. Knab applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' to mortgage loans. Changes in the fair value of the derivatives are recognized in the income statement, as are the fair value adjustments to the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

At the inception of the hedging relationship, Knab documents the relationship between hedging instruments and hedged items, its risk management objective, and the methods selected to assess hedge effectiveness. Knab also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of the hedged items.

Knab holds a portfolio of long-term fixed-rate mortgages and is therefore exposed to changes in fair value due to movements in market interest rates. Knab manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and so other risks, such as credit risk, are managed but not hedged by Knab. This hedging strategy is applied to the portion of exposure that is not naturally offset against matching positions held by Knab. Changes in fair value of the long-term fixed-rate mortgages arising from changes in interest rate are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark interest rate with changes in the fair value of the interest rate swaps.

Knab establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are:

- differences between the expected and actual volume of prepayments, as Knab hedges to the expected repayment date taking into account

expected prepayments based on past experience;
- differences in discounting between the hedged item and the hedging instrument, as cash collateralized interest rate swaps are discounted using Overnight Indexed Swaps (OIS) discount curves, which are not applied to the fixed-rate mortgages; and
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

Knab manages the interest rate risk arising from fixed-rate mortgages and fixed rate borrowings by entering into interest rate swaps on a monthly basis. The exposure from this portfolio frequently changes due to new loans being originated, contractual repayments and early prepayments made by customers in each period. As a result, Knab pursues a dynamic hedging strategy (sometimes referred to as a 'macro' or 'portfolio' hedge) to hedge its exposure profile by terminating and entering into new swap agreements at each month-end. Knab uses the portfolio fair value hedge of interest rate risk to recognize fair value changes related to changes in interest rate risk in the mortgage portfolio, and so to reduce the profit or loss volatility that would otherwise arise from changes in fair value of the interest rate swaps alone. For more detailed information on Knab's hedge accounting and strategies see note 9 'Derivatives'.

2.11. Tax assets and liabilities

Tax assets and liabilities are amounts payable to and receivable from Aegon N.V., because Aegon N.V. is the head of the tax group.

2.11.1. Current tax assets and liabilities

Tax assets and liabilities for current and prior periods are measured at the amount expected to be received from or paid to the taxation authorities, applying the tax rates that have been enacted or substantively enacted by the reporting date.

Knab is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax group as if it were an autonomous taxpayer. Knab is jointly and severally liable for all tax liabilities of the entire tax group. Current taxes are settled in current account with the parent company.

2.11.2. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A deferred tax asset is recognized for tax loss carry forwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred tax assets and liabilities are reviewed for each reporting period and measured at tax rates that are expected to apply when the asset is realized or the liability is settled. Since there is no absolute assurance that these assets will ultimately be realized, management reviews Knab's deferred tax positions periodically to determine if it is probable that the assets will be realized. Periodic reviews include, amongst other things, the nature and amount of the taxable income and deductible expenses, the expected timing of when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies which it can utilize to increase the likelihood that the tax assets will be realized. These opportunities are also considered in the periodic reviews. The carrying amount is not discounted and reflects Knab's expectations as to the manner of recovery or settlement.

Deferred tax assets and liabilities are recognized in relation to the underlying transaction either in the income statement, other comprehensive income or directly in equity.

2.12. Other assets and receivables

Other assets and receivables include trade and other receivables and prepaid expenses. Other assets and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.13. Savings deposits

Savings deposits are initially recognized at fair value and subsequently measured at amortized cost. Accrued interest is recognized in the consolidated statement of financial position under 'Other liabilities and accruals'. Savings deposits are derecognized when extinguished.

2.14. Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. They are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are derecognized when the obligation specified in the contract has been discharged or cancelled or has expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

2.15. Provisions

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that they will result in an outflow of economic benefits and the amount can be reliably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date, considering all its inherent risks and uncertainties, and the time value of money. Estimating the amount of a loss requires management judgment in terms of selecting a proper calculation model and the specific assumptions related to the particular exposure. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

2.16. Other liabilities and accruals

Other liabilities and accruals are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method. A liability is derecognized when the financial obligation has been discharged or cancelled. Unless stated otherwise, deferred interest and other accruals are recognized at (amortized) cost.

2.17. Equity

Share capital is stated at par value. The share premium reserve, where applicable, relates to capital contributions which have occurred since incorporation without new shares being issued.

The revaluation reserves comprise unrealized gains and losses on financial assets measured at FVOCI, net of tax. The revaluation reserves also include the loss allowance recognized for financial assets measured at FVOCI. Upon the sale of financial assets measured at FVOCI, the realized result is recognized through the income statement.

Dividends and other distributions to holders of equity instruments are recognized directly in equity. A liability for non-cumulative dividends payable is not recognized until the dividends have been declared and approved.

Because of their specific characteristics, Knab client participations issued by Knab qualify as tier 1 capital under applicable banking regulations. Due to the nature of the participation, the instrument also qualifies as equity under IFRS. In line with its treatment as equity, the corresponding interest charges and discounts on the fee are treated as dividends in the consolidated statement of changes in equity. The dividends are shown on a net basis. This includes the deducted dividend tax on the discount and interest.

2.18. Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

2.19. Interest income and expense (and related fees)

Interest income generated by interest-bearing financial assets, including mortgages, loans and bonds, is recognized when the right to receive interest arises. Interest income is calculated according to the effective interest rate method. Interest charges include interest expenses on loans and other borrowings. Interest expenses on loans and other borrowings carried at amortized cost are recognized in the income statement using the effective interest method. Fee and commission income that forms an integral part of the effective return on a financial asset or liability is recognized as an adjustment to the effective interest rate of the financial instrument.

2.20. Fee and commission income and expense

Fee and commission income mainly comprises fees paid by third parties for services performed. Management fees and commission income from asset management, investment funds and sales activities are recognized as revenue in the period when the services were delivered or the sales were made.

2.21. Result on financial transactions

Results on financial transactions include:

Realized gains and losses on financial investments
Gains and losses on financial investments include realized gains and losses on financial assets, other than those classified as at fair value through profit or loss.

Net fair value change of derivatives
All changes in fair value of derivatives are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge. Movements in the fair value of hedge instruments are offset by movements in the fair value of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line item. Movements in the fair value of bifurcated embedded derivatives are also included in this line item.

2.22. Employee expenses and other operating expenses

Employee expenses and other administrative expenses incurred are allocated to the period to which they relate. Salaries, social security and pension contributions for staff employed by Aegon Nederland are recharged to Knab as services rendered to Knab. Provisions for retirement plans and other benefits payable to staff of Aegon Netherlands are recognized in the financial statements of Aegon Nederland. Similarly, buildings and most of the other equipment used by Knab are provided and the associated costs recharged by Aegon Nederland.

2.23. Share-based payments

Aegon Bank N.V. had a variable pay system in place for the Management Board up to 2020. Although no shares are granted since 2020 Aegon Netherlands still operates this share-based plan. For the share-based plan where employees were granted a conditional right to receive Aegon N.V. common shares when certain performance indicators are met and depending on continued employment of the individual.

The fair value is measured at the market price of the Aegon N.V common shares, adjusted to take into account the non-vesting and market conditions upon which the shares were granted. For example, where the employee is not entitled to receive dividends during the vesting period, this factor is taken into account when estimating the fair value of the shares granted.

The number of shares that will still vest partly depend on Aegon N.V.’s relative total shareholder return in comparison with a peer group. To determine factors such as expected dividends, market observable data has been used. In addition, where the relative total shareholder return is included in the performance criteria, this factor represents a market condition and hence is taken into account when estimating the fair value of the shares granted.

For these cash-settled plans a liability is recognized using the fair value based on the elapsed portion of the vesting period. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement.

2.24. Income tax

Income tax is calculated at the current rate on the pre-tax profits for the financial year, taking into account any temporary and permanent differences between the profit determination in the financial statements and the profit calculation for tax purposes. Taxes comprise deferred and current taxes on profit. Taxes on pre-tax profits are recognized in the income statement, unless the taxes relate to items that are recognized directly in other comprehensive income. In that case, the taxes are also recognized in other comprehensive income.

2.25. Events after the reporting period

The financial statements will be adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements were authorized for publication, if those events provide evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment to the financial statements.

Critical accounting estimates and judgment in applying accounting policies

3. Critical accounting estimates and judgment in applying accounting policies

Applying the accounting policies in preparing the financial statements requires management to apply judgment in terms of assumptions and estimates about future results or other developments, including the likelihood, timing or amount of future transactions or events. Those estimates are inherently subject to change and actual results could differ from them. Accounting policies that are critical to the financial statement presentation and require complex estimates or significant judgment are described in the following sections.

Over the course of 2020 and 2021 the world has seen substantial disruption caused by COVID-19. Alongside related market volatility, there is general uncertainty as to how the pandemic will play out and continue to impact the economy. The preparation of the annual accounts requires management to make judgments, estimates and assumptions that impact the application of the accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Due to the COVID-19 pandemic, the assumptions about expected credit losses on loans, for example macro-economic scenarios, were updated during 2020 and 2021 to reflect the credit risk impact. These assumptions are considered critical accounting estimates. Please refer to note 3.5 'Measurement of the expected credit loss allowance', note 4.4.3. 'Credit risk management', and note 4.4.8 'Forward-looking information incorporated into the ECL models'. Management believes that the COVID-19 pandemic will have no impact on other judgments, estimates and assumptions.

Other accounting policies that require performing estimates or exercising judgment with regard to the financial statement presentation are described in the following sections.

3.1. Determination of control over investees

In determining whether Knab controls an investee, management analyzes whether Knab has power over the investee. The outcome of this analysis depends on the following criteria:

- The investee's purpose and design;
- What are the relevant activities (driving the investee's returns) and how are decisions about them taken; and
- Whether the investor's rights currently enable it to direct relevant activities.

The analysis also depends on whether Knab is exposed or has rights to variable returns from its involvement with the investee, and whether it has the ability to use its powers over the investee to influence the investor's level of returns.

In addition, IFRS requires that the assessment also considers Knab's relationships with other parties (who may be acting on Knab's behalf) and the possibility that the investee consists of separate entities, whose control will then need to be assessed separately.

In specific cases, which are described below, Knab applied judgment in terms of the criteria for consolidation to determine whether or not it controlled an investee.

Investment vehicle

An investment vehicle means any vehicle whose primary objective is to invest and manage its assets with a view to generating superior returns.
In order to determine whether Knab controls an investment vehicle, the overall relationship between the investor, the investee and other parties involved with the investee, in particular, are analyzed so as to determine whether they are an agent or a principal:

- The scope of its decision-making power over the investee;
- The rights held by other parties;
- The remuneration to which it is entitled in accordance with the remuneration agreement; and
- The decision-maker's exposure to variability of returns from other interests that it holds in the investee.

Structured entities

A structured entity is defined in IFRS 12 as "an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements." In these instances the tests and indicators to assess control provided by IFRS 10 focus more on the investee's purpose and design (in terms of relevant activities that affect the structured entity most significantly) and the exposure to variable returns, which for structured entities lies in interests such as derivatives, rather than on entities that are controlled by voting rights.

3.2. Determination of fair value and fair value hierarchy

The following is a description of the methods used by Knab to determine fair value and a quantification of its exposure to assets and liabilities measured at fair value.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e., the exit price at the measurement date from the perspective of the market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

Knab uses the following hierarchy for measuring and disclosing the fair value of assets and liabilities:

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that Knab can access at the measurement date;
- Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active or quoted market prices are not available, a valuation technique is used.

The degree of judgment used in measuring the fair value of assets and liabilities generally inversely correlates with the level of observable valuation inputs. Knab maximizes the use of observable inputs and minimizes the use of unobservable valuation inputs when measuring fair value. For example, financial instruments with quoted prices in active markets will generally have a higher degree of price observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require a higher degree of judgment.

The assets and liabilities categorization within the fair value hierarchy is based on the lowest input that is significant to the fair value measurement.

The judgment that a market is inactive may include, although not necessarily determinatively, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets, assurance will be obtained that the transaction price provides evidence of fair value or that the adjustments to transaction prices are necessary to measure the fair value of the instrument.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement will be high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and so a higher degree of judgment will need to be exercised to determine the fair value of such assets and liabilities. An instrument is classified in its entirety as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs. "Unobservable" in this context means that there is little or no current market data available from which to determine the price at which an at arm's-length transaction would be likely to occur. It generally does not mean that there is no market data available at all on which to base a determination of fair value. Using different methodologies or assumptions to determine the fair value of certain instruments (both financial and non-financial) could result in a different estimate of fair value at the reporting date.

The valuation techniques applied to financial instruments affected by IBOR reforms remained consistent with those of other market participants, and the uncertainty over the outcome of the reforms has not affected the classification of the instruments.

To operationalize the fair value hierarchy applied by Knab, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (for example. index, third-party pricing service, broker, internally modeled). This logic for assigning fair value levels is reviewed periodically to determine whether any modifications are necessary in the light of current market conditions.

3.3. Fair value of assets and liabilities

The estimated fair values of Knab's assets and liabilities correspond with the amounts that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, Knab uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm's length basis. Fair value is not determined on the basis of a forced liquidation or distressed sale.

Knab applies valuation techniques if, in its opinion, the market is inactive or no quoted market prices are available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, which is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. the exit price at the measurement date from the perspective of the market participant that holds the asset or owes the liability). Therefore, unobservable inputs reflect Knab's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

Knab employs oversight over the valuation of financial instruments that includes an appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting on the results of the policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilized to corroborate those inputs. Further details of the validation processes are set out below.

Financial assets and liabilities are measured on the basis of a pricing hierarchy in order to ensure a controlled process that systematically promotes the use of prices from sources in which Knab has the most confidence, with the least amount of manual intervention, and to embed consistency in the selection of price sources. Depending on the asset type, the pricing hierarchy consists of a waterfall that starts with making use of market prices from indices, followed by use of third-party pricing services or brokers.

Knab has elected to continue to apply the macro fair value hedge accounting requirements of IAS 39 on adoption of IFRS 9. As such, it applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the European Union (EU) IFRS 'carve out'. Hedge accounting requires the use of estimates. The calculation of the basis adjustment depends on the expected and actual volume of prepayments, as Knab hedges to the expected repayment date taking into account expected prepayments based on past experience and discounting of the hedged item based on a zero curve. The amortization of the basis adjustment is performed over the delta of the basis adjustment and the market value of the fixed leg of the interest rate swaps in the hedging relationship. The duration of these swaps is used as proxy for the amortization period. During 2021 Knab an estimate change, replacing the duration of the swaps by the duration of the fixed leg, as this duration better matches the duration of the basis adjustment.

Details are provided in note 2.10 'Derivatives and hedging strategy' and note 9 'Derivatives'.

3.3.1. Debt securities

The fair values of debt securities are determined by management taking into consideration several data sources. When available, Knab uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Knab's valuation policy utilizes a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third-party pricing services. If no prices are available from these sources, the securities are submitted to brokers to obtain quotes. The majority of brokers' quotes are non-binding. As part of the pricing process, Knab assesses the appropriateness of each quote (i.e. to determine whether or not it is based on observable market transactions) so as to determine the most appropriate fair value estimate. Lastly, securities are priced using internal cash-flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

To understand the valuation methodologies used by third-party pricing services, Knab reviews and monitors the applicable methodology documents of the third-party pricing services. Any changes to their methodologies are noted and examined to check that they are reasonable. In addition, Knab performs in-depth reviews of prices received from third-party pricing services on a sample basis. The objective of these reviews is to demonstrate that Knab corroborates detailed information, such as assumptions, inputs and methodologies used in pricing individual securities, against documented pricing methodologies. Knab only uses third-party pricing services and brokers with a substantial presence in the market and who have appropriate experience and expertise.

Third-party pricing services will often determine prices using recently reported trades for identical or similar securities. The third-party pricing service will make adjustments for the time elapsed between the trade date and the statement of financial position date to take into account available market information. In the absence of recently reported trades, third-party pricing services and brokers will use modeling techniques to determine a security price by looking at expected future cash flows based on the performance of the underlying collateral and then discounting them at an estimated market rate.

Periodically, Knab performs an analysis of the inputs obtained from third-party pricing services and brokers to ensure that the inputs are reasonable and produce a reasonable fair value estimate. The asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, a review of pricing statistics and trends, and consideration of recent relevant market events. Other controls and procedures with regard to prices received from indices, third-party pricing services or brokers include validation checks such as exception reports highlighting significant price changes, stale prices or unpriced securities. Additionally, Knab performs back-testing on a sample basis. Back-testing involves selecting a sample of securities trades and comparing the prices in those transactions to prices used for financial reporting. Significant variances between the prices used for financial reporting and transaction prices are investigated to explain the cause of the difference.

Credit ratings are also an important factor in the valuation of securities and are included in the internal process for determining Knab's view of the risk associated with each security. However, Knab does not only rely on external credit ratings but also has an internal process in place, based on market observable inputs, to determine its view of the risks associated with each security.

Knab's portfolio of private placement securities (held at fair value under the classification of fair value through other comprehensive income or fair value through profit or loss) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third-party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, Knab's asset specialists review the matrix to ensure that the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs for the valuation include coupon rates, the current interest rate curve used for discounting purposes, and liquidity premiums to account for the illiquid nature of these securities. The liquidity premiums are determined on the basis of prices of recent transactions in the private placements market, comparing the value of the privately offered security to a similar public security. The impact of the liquidity premium for private placement securities on the overall valuation was insignificant.

Knab's portfolio of debt securities can be subdivided into Sovereign debt, Residential mortgage-backed securities (RMBS), Commercial mortgage-backed securities (CMBS), Asset-backed securities (ABS), and

Corporate bonds. The valuation methodology for these specific types of debt securities is explained in more detail below.

Sovereign debt
When available, Knab uses quoted market prices in active markets to determine the fair value of its sovereign debt investments. When no quoted market prices are available, Knab will use market prices from indices or quotes from third-party pricing services or brokers.

Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS)
Valuations of RMBS, CMBS and ABS are monitored and reviewed on a monthly basis. Valuations per asset type are based on a pricing hierarchy which uses a waterfall approach that starts with market prices from indices, followed by use of third-party pricing services or brokers. The pricing hierarchy is dependent on the possibilities for corroborating market prices. If no market prices are available, Knab uses internal models to determine fair value. Significant inputs for the internal models are generally determined based on relative value analyses that include comparisons to instruments with similar collateral and risk profiles. Market standard models may be used to model the specific collateral composition and cash flow structure of each transaction. The most significant unobservable input is the liquidity premium, which is embedded in the discount rate.

Corporate bonds
Valuations of corporate bonds are monitored and reviewed on a monthly basis. The pricing hierarchy is dependent on the possibilities for corroborating market prices when available. If no market prices are available, valuations are determined according to a discounted cash flow methodology using an internally calculated yield. The yield is comprised of a credit spread over a given benchmark. In all cases, the benchmark is an observable input. The credit spread includes observable and unobservable inputs. Knab starts by taking an observable credit spread from a similar bond of the given issuer, and then adjust this spread based on unobservable inputs. The unobservable inputs may include subordination, liquidity and maturity differences.

Corroboration
Level classifications are assigned to all securities on a quarterly basis. Those securities that have been priced by non-binding broker quotes are initially classified as level II/III and then corroborated to assign the proper level. Knab compares the received quote against all other evidence available. If the differences between the price used to measure the security and two additional prices are within a 3% difference range, a level II is assigned, otherwise the security is classified as level III. If quotes are not corroborated and do not seem to reflect a fair value, measures are taken to obtain a more reliable valuation; those securities are always classified as level III.

3.3.2. Mortgage loans, private loans and other loans

For private loans, fixed-rate mortgage loans and other loans originated by Knab, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield and maturity characteristics. For fixed-rate mortgage loans, the market rate is adjusted for expenses, prepayment rates, lapse assumptions (unobservable inputs), and liquidity and credit risk (market observable inputs). An increase in expense spread, prepayment rates and/or prepayment assumptions, would reduce the fair value of the mortgage loan portfolio.

The fair value of mortgage loans, private loans and other loans with a floating interest rate used for disclosure purposes is assumed to approximate their carrying amount, adjusted for changes in credit risk. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

3.3.3. Money-market and other short-term investments and deposits with financial institutions

The fair value of assets maturing within a year is assumed to approximate their carrying amount adjusted for credit risk where appropriate. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

3.3.4. Derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that a typical market participant would consider and are based on observable market data when available. Models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, mainly futures and certain options, are based on quoted market prices in active markets. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices of exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models or an independent third party. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

Knab normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements, where practical, and ISDA[1] master netting agreements to offset credit risk exposure. If no collateral is held by Knab or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

3.3.5. Embedded derivatives in bank products

Some bifurcated derivatives embedded in Knab products are not quoted on an active market. Valuation techniques are used to determine the fair values of these derivatives. Given the dynamic and complex nature of the cash flows relating to these derivatives, their fair values are often determined by using stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market prices and rates of return, equity and interest rate volatility, credit risk, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free interest rates, such as the Euro Inter-Bank Offered Rate (EURIBOR) yield curve or the current rates on Dutch government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. As required for discounting cash flows, Knab applies a credit spread to the risk-free interest rate when computing the guarantee provisions. Knab calculates this credit spread on the basis of the market spread for credit default swaps in a reference portfolio of European life insurers (including Aegon N.V.).

3.3.6. Borrowings

Borrowings are carried at amortized cost (with their fair values being disclosed in the notes to the consolidated financial statements). To determine the fair value of borrowings, Knab uses the level hierarchy as described by IFRS. The preferred method of obtaining the fair value of fair value option bonds is the quoted price (Level I). If markets are less liquid or no quoted prices are available, Knab uses internal model, based on market observable parameters (Level II). Knab uses a discounted cash flow method including yield curves such as deposit rates, floating rates, and 3-month swap rates. Knab also includes its own credit spread based on its credit default swap curve

1 International Swaps and Derivatives Association

3.4. Fair value hierarchy

The table below provides an analysis of assets and liabilities recorded at fair value on a recurring basis by fair value hierarchy level.

2021	Level I	Level II	Level III	Total 2021
Assets carried at fair value				
FVOCI investments				
- Debt securities	663.953	1.108.468	-	1.772.421
FVPL investments				
- Derivatives	-	211.860	-	211.860
Total assets	**663.953**	**1.320.327**	**-**	**1.984.281**
Liabilities carried at fair value				
- Derivatives	180	474.310	-	474.491
- Derivatives (bifurcated)	-	-	2.585	2.585
Total liabilities	**180**	**474.310**	**2.585**	**477.076**

2020	Level I	Level II	Level III	Total 2020
Assets carried at fair value				
FVOCI investments				
- Debt securities	729.036	727.104	-	1.456.140
FVPL investments				
- Derivatives	8	189.085	-	189.093
Total assets	**729.043**	**916.189**	**-**	**1.645.233**
Liabilities carried at fair value				
- Derivatives	64	783.775	-	783.839
- Derivatives (bifurcated)	-	-	5.154	5.154
Total liabilities	**64**	**783.775**	**5.154**	**788.993**

Movements in Level III financial instruments measured at fair value

The table below shows the movements in Level III financial instruments measured at fair value.

2021	As at 1-1-2021	Result income statement	Result OCI	Purchases	Sales	Transfers between I, II and III	As at 12-31-2021	Result year-end
Liabilities carried at fair value - Derivatives (bifurcated)	5.154	-2.711	-	142	-	-	2.585	-2.711
Total liabilities	**5.154**	**-2.711**	**-**	**142**	**-**	**-**	**2.585**	**-2.711**

2020	As at 1-1-2020	Result income statement	Result OCI	Purchases	Sales	Transfers between I, II and III	As at 12-31-2020	Result year-end
Liabilities carried at fair value - Derivatives (bifurcated)	3.370	1.632	-	152	-	-	5.154	1.632
Total liabilities	**3.370**	**1.632**	**-**	**152**	**-**	**-**	**5.154**	**1.632**

The total gains or losses in the last column represent the net gains or losses for the financial year during which the financial instrument was held as a Level III instrument.

Significant transfers between Levels I/II and Level III

There were no significant transfers between Level I and Level II of the fair value hierarchy in 2021 or 2020.

There were no level III transfers in 2021 and 2020.

Significant unobservable assumptions and impact of changes in significant unobservable assumptions on reasonably possible alternatives

In 2021 Knab reported an amount of EUR 2.6 million (2020: EUR 5.2 million) in Level III bifurcated embedded derivatives. To determine the fair value of bifurcated embedded derivatives related to guarantees, a discount rate is used including Knab's own credit spread. An increase in its own credit spread results in a lower valuation of the embedded derivatives, while a decrease results in a higher valuation of the embedded derivatives.

Fair value information about assets and liabilities not measured at fair value

The following table presents the carrying values and estimated fair values of assets and liabilities, excluding assets and liabilities carried at fair value on a recurring basis.

Certain financial instruments that are not carried at fair value are carried at amounts that approximate their fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, short-term receivables and accrued interest receivables, short-term liabilities, accrued liabilities and long-term borrowings and group loans. These instruments are not included in the table below. Furthermore, for certain financial instruments disclosed in the table below, the carrying amounts reasonably approximate the disclosed fair values at year-end. Unobservable inputs regarding their fair value are therefore listed as not applicable (-).

All of the instruments disclosed in the table are held at amortized cost.

2021	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy			Valuation technique	Unobservable inputs
			Level I	Level II	Level III		
Assets							
Mortgage loans	11.961.342	12.678.989	-	-	12.678.989	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Consumer loans and SME loans	783.455	816.727	-	-	816.727	Discounted cash flow	Prepayments and discount spreads (including cost of capital, RMBS financing spread, expect default)
Other loans	297.418	297.418	-	297.418	-	Discounted cash flow	N/A
Liabilities							
Savings deposits	11.586.074	11.724.231	-	-	11.724.231	Discounted cash flow	Outflow rates, tracking and reversion parameters
Borrowings	2.988.586	3.027.015	3.027.015	-	-	Discounted cash flow	N/A

For certain financial assets and liabilities disclosed in the table, the carrying amounts reasonably approximate the disclosed fair value at year-end. Therefore the unobservable inputs regarding the fair value are listed as not applicable (N/A)

2020	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy			Valuation technique	Unobservable inputs
			Level I	Level II	Level III		
Assets							
Mortgage loans	11.978.497	12.402.846	-	-	12.402.846	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Consumer loans and SME loans	1.111.755	1.191.351	-	-	1.191.351	Discounted cash flow	Prepayments and discount spreads (including cost of capital, RMBS financing spread, expect default)
Other loans	635.635	635.635	-	635.635	-	Discounted cash flow	N/A
Liabilities							
Savings deposits	12.539.843	12.672.116	-	-	12.672.116	Discounted cash flow	Liquidity premium, outflow rates, tracking and reversion parameters
Borrowings	2.612.894	2.700.810	2.700.810	-	-	Discounted cash flow	N/A

For certain financial assets and liabilities disclosed in the table, the carrying amounts reasonably approximate the disclosed fair value at year-end. Therefore the unobservable inputs regarding the fair value are listed as not applicable (N/A)

Financial assets and liabilities valued at amortized cost

The table below shows the items valued at amortized cost.

	2021	2020
Cash	859.629	1.548.307
Amounts due from banks	130.030	102.119
Mortgage loans and other loans	13.042.215	13.725.887
Other assets and receivables	133.976	115.704
Total assets at amortized cost	**14.165.850**	**15.492.017**

	2021	2020
Savings deposits	11.586.074	12.539.843
Borrowings	2.988.586	2.612.894
Other liabilities and accruals	272.167	352.936
Total	**14.846.828**	**15.505.673**

3.5. Measurement of the expected credit loss allowance

The expected credit loss allowance for financial assets measured at amortized cost or FVOCI is an area that requires using complex models and significant assumptions about future economic conditions and credit behavior (for example the likelihood of customers defaulting and the resulting losses).

Significant judgment also has to be exercised in applying the accounting standards for measuring ECL, including:
- Determining criteria for significant increases in credit risk;
- Choosing appropriate models and assumptions to measure ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

In 2020, in addition to determining the impact of forward-looking macroeconomic expectations, Knab applied two main model adjustments for its unsecured loan portfolio:
- A specific model adjustment in the form of a PD override for COVID-19 impacted loans;
- A general model adjustment in the form of a model parameter update (increase in expected default rates), which increases the provision as a result of uncertainty and potential additional defaults.

In 2021, the models were recalibrated to incorporate the COVID-19 downturn and the EBA's definition of default.

As at December 31, 2021, the IFRS 9 ECL impact as a result of model adjustments was EUR 12.9 million (2020: EUR 24.9 million).

The inputs, assumptions and estimation techniques applied to measure ECL are explained in more detail in note 4.4.3 which further sets outs specific and general management adjustments due to the impact of the COVID-19 pandemic, and note 4.4.7, which also describes key sensitivities of the ECL to changes in these factors.

Risk management

4. Risk management

4.1. Governance and risk management structure

Knab's Management Board is responsible for Knab's risk management and risk control system. The Management Board reports to the shareholder and the regulator in accordance with the terms of its license. One of the employees of the ultimate parent company Aegon Group is a member of Knab's Supervisory Board. The other two members of the Supervisory Board are independent of Knab and Aegon Nederland. The Supervisory Board oversees and challenges the Management Board and provides advice as appropriate. The oversight role includes reviewing management performance and the achievement of objectives, challenging the strategy, and monitoring and scrutinizing the systems that ensure financial information integrity and the soundness and effectiveness of risk management and internal controls.

Due to the impact of COVID-19, Aegon Bank has put its business continuity plans into action to help ensure the safety and well-being of our staff, and to make sure that we have the capability to support our customers and can continue our business operations. The bank's management is continuously monitoring the markets and the economic turbulence caused by the COVID-19 outbreak, and its impact on the bank. The most significant risks for the bank are credit and liquidity risks. See also paragraphs 4.4.3 'Credit risk management' and 4.4.16 'Liquidity risk'.

Taking measured risks is at the core of a bank's business. As a financial institution offering banking services, Knab is exposed to a variety of risks. Its main financial risks can be divided into credit and market (including liquidity) risks. Knab is also exposed to non-financial risks, which it divides into operational and compliance risks. These include privacy and modelling risks. To be able to meet its strategic objectives in line with its organizational purpose, Knab has also setup a domain for enterprise risks.

Knab's Enterprise Risk Management Framework (hereafter ERM Framework) provides the core structure that allows Knab to assess, control and manage its entire risk exposure, including strategic risks that could have an impact on the achievement of its strategy and objectives. The ERM Framework is therefore essential to safeguarding Knab's (financial) strength.

The ERM Framework is a comprehensive framework. Not only does it define the principles on how risk management should be integrated into the bank's daily business activities, but it also lays down the guiding principles for how risk management should be part of the bank's strategic planning process. The framework ensures the identification, measurement and control of risks at all levels across the organization. It also provides the framework for identifying emerging risks and has therefore been designed as a dynamic system. The framework covers risk measurement and reporting, and underlines the importance of general risk awareness, attitude and behavior on the part of employees, management, and leadership.

The ERM Framework is only effective when a robust and consistent risk culture is present throughout the organization. Knab has therefore defined guiding principles for an outstanding risk culture as part of its organizational culture, which is purpose-led and value-driven. This forms the basis for the ERM Framework.

The purpose of risk management is to create and protect value for Knab's customers, employees, and shareholders. It improves performance, encourages innovation, and supports the achievement of objectives.

Knab manages risks in accordance with the principles and guidelines adopted by Aegon N.V. and Aegon Nederland.

Knab's financial risk exposure arises from its normal conduct of business, a key component of which is to invest savings at its own risk and expense. Fluctuations in international money and capital markets have an impact on the value of investments and liabilities and accordingly constitute major risk components for Knab. Asset and liability management, applied by Knab to protect its statement of financial position, solvency and liquidity, plays a key role in ensuring an acceptable level of exposure to managed financial risks, such as liquidity risk, interest rate risk and credit risk.

The risk management strategy ensures that the bank will at all times have a solvency and liquidity position that allows Knab to perform its obligations to its customers, even when highly adverse scenarios unfold or material risk events occur. It is our strategy to be competitive in target markets, have reliable access to affordable funding, and provide stability to shareholders. Diversification and risk spreading are the cornerstones of this policy. Limits are set for a variety of operational and financial risks and for the bank's total financial risk exposure.

Knab uses derivatives to hedge certain risks, either partly (interest rate risk) or almost fully (currency risk). Knab's policy on the use of derivatives specifies control, authorization, execution and monitoring requirements for the use of these instruments. The policy also specifies measures to limit counterparty credit risk when using derivatives, such as contractual requirements for the receipt and provision of collateral. See note 4.4.3.

Non-financial risk management (operational and compliance) focuses on identifying, assessing and monitoring risks such as business risks, legal and compliance risks, financial crime risks, processing risks, cybercrime risks, ESG risks, outsourcing risks and systemic risks. Risks are assessed by using several methods, including risk and control self-assessments. Information on incidents, issues, operational losses and key risk indicators are used to determine the current risk profile and decisions on how to address the risk exposure. Risks, issues and action plans are monitored and reported on periodically.

In addition to the above-mentioned instruments, controls and policy compliance are important instruments helping Knab to be an in-control organization, now and in the future.

Knab's operating results and financial position may be adversely affected by natural and man-made disasters such as flooding, hurricanes, riots, fires, explosions and the risk of a pandemic (such as COVID-19). Furthermore, natural disasters, terrorism and fires could disrupt Knab's operations and result in significant loss of property, substantial personnel losses, and the destruction of company and customer information.

Knab's statement of financial position is subjected to monthly stress tests involving hypothetical scenarios in accordance with a stress-testing framework. Management uses the outcomes of these "what if?" scenarios to manage Knab's risk exposure and capital position. The models, scenarios and assumptions are regularly reviewed and, where necessary, updated. The effects of hypothetical financial shocks on net income and equity, the statement of financial position, solvency and liquidity are reviewed against the limits set. Adjustments are made when potential effects exceed or threaten to exceed these limits.

Finally, a capital buffer is maintained to cover unexpected potential losses in line with Knab's risk appetite and desired credit rating. The capital buffer must also meet the capital adequacy requirements set by the Dutch Central Bank in line with the Capital Requirements Directive (CRD) IV as included in the Revised Capital Requirements Directive.

4.2. Capital management and solvency

Pursuant to guidance issued by the Dutch Central Bank, the level of capital is subject to certain requirements. Knab's capital is reviewed against its on-balance sheet and off-balance sheet assets. These assets are weighted according to their risk level. The minimum total capital ratio is 8%. The table below shows the amounts at December 31, 2021 and December 31, 2020, calculated in accordance with the CRD IV requirements.

Capital management and solvency	2021	2020
Paid up capital instruments	37.437	37.437
Share premium	476.751	476.751
Retained earnings	173.448	205.376
Profit/(loss) attributable to parent company's owners of the parent	81.601	-31.453
Dividend	-45.475	-475
Accumulated other comprehensive income	1.973	11.583
Adjustments to CET1 due to prudential filters	-1.968	-3.261
CETI Capital	**723.766**	**695.958**
Additional Tier 1 Capital	9.500	9.500
Tier 1 Capital	**733.266**	**705.458**
Adjustments to CET1 due to prudential filters	1.968	3.261
IFRS Capital	**735.235**	**708.719**
Risk- weighted assets	3.495.565	3.331.372
CET1 Ratio	**20,71%**	**20,89%**
Total Capital Ratio	**20,98%**	**21,18%**

4.3. Regulation and supervision

General

The Dutch financial sector is subject to regulation under the Financial Supervision Act (*Wet op het financieel toezicht* or *Wft*). The Wft sets out the cross-sectoral and functional approach of the Dutch supervisory system. Supervision of financial institutions under the Wft rests with the Dutch Central Bank (DNB) and the Dutch Financial Markets Authority (AFM).

The DNB is responsible for prudential supervision, while the AFM supervises the conduct of business by financial institutions and the conduct of business on the financial markets. The aim of the DNB's prudential supervision is to ensure the solidity of financial institutions and to contribute to financial sector stability. With regard to banks, the DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank (ECB).

In supervising business conduct, the AFM focuses on ensuring orderly and transparent financial market processes, integrity in the relationships between market parties, and due care in the provision of services to customers.

The Dutch supervisory authorities have a number of formal tools to exercise their supervisory tasks. These tools include the authority to request information, if this is necessary for the purpose of prudential supervision, and the power to issue formal instructions to financial institutions, impose fines, or publish sanctions. As a prudential regulatory authority, the DNB may, under certain circumstances, require the submission of a recovery plan or short-term financing plan, appoint a trustee, draw up a transfer plan, or ultimately withdraw the license of a financial institution.

Financial supervision of credit institutions

Since November 4, 2014, Knab has been subject to indirect supervision by the ECB under the new European system of banking supervision, the Single Supervisory Mechanism (SSM), which comprises the European Central Bank and the relevant national authorities of participating EU member states. The SSM is one of the elements of the Banking Union. The ECB may give instructions to the DNB regarding Knab or even assume direct supervision over the prudential aspects of Knab's business. Knab is required amongst other things to file monthly, quarterly and yearly regulatory reports and an audited Annual Report to the DNB in its capacity as the banking regulator.

Credit institutions are subject to regulatory requirements. These include (without limitation) capital and liquidity requirements, the requirement to maintain a certain leverage ratio, governance and reporting requirements in line with the requirements of EU Directive 2013/36/EU (CRD IV) and EU Regulation 575/2013 (CRR).

CRD IV and the CRR are the European Union's translation of the Basel III Accord on prudential supervision of credit institutions and investment firms. The CRR is binding for all EU member states and became effective on January 1, 2014. CRD IV is an EU directive and must be implemented into national legislation. CRD IV has been implemented in the Netherlands by amending the Financial Supervision Act on August 1, 2014.

The CRR came into effect in all EU member states on January 1, 2014. The CRD IV and CRR frameworks include capital adequacy requirements and requirements for holding increased capital against derivative positions, and introduce two supplementary buffers (a capital conservation buffer and counter-cyclical buffer) and a new liquidity framework (liquidity coverage ratio, net stable funding ratio, and leverage ratio). The leverage ratio is defined as Tier-1 capital divided by a measure of non-risk weighted assets. Under CRD IV, the leverage ratio must not fall below 3%, although uncertainty still remains as to the exact percentage and the scope of the leverage ratio under CRD IV. With respect to this percentage, the Dutch government has announced that it wishes to implement a minimum leverage ratio of 4% for large Dutch banks, which does not apply to Knab. The ultimate aim of Basel III/CRD IV is to reduce leverage in order to bring institutions' unweighted assets more in line with their Tier-1 capital. The capital requirements include qualitative as well as quantitative requirements.

Capital of the highest quality, Common Equity Tier 1, forms a substantial part of a credit institution’s capital. Additional Tier 1 capital accounts for the rest of the Tier 1 capital. In addition, a credit institution’s capital may comprise Tier 2 capital, which is of a lesser quality than Tier 1 capital.

Directive 2014/59/EU (the Banking Recovery and Resolution Directive or BRRD) and Regulation 806/2014 on the Single Resolution Mechanism (the SRM Regulation) form the European framework for recovery and resolution for ailing banks, certain investment firms and their holding companies. The BRRD was implemented in the Netherlands on November 26, 2015 by amending the Wft (the BRRD Implementation Act). The SRM Regulation was adopted on July 15, 2014. Those parts of the SRM Regulation that deal with recovery and resolution came into effect on January 1, 2016.

The BBRD provides for early intervention measures that may be imposed by the national competent authority on Knab in the event that its financial condition is deteriorating. These early intervention measures could pertain to, amongst other things, changes in its legal or operational structure, the removal of (individuals within) senior management or the management body, or the appointment of a temporary administrator to work together with or replace such (individuals within) senior management or management body. The national resolution authority may also, under certain circumstances, decide to write down or convert relevant capital instruments, including Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, in a specific order.

Were Knab N.V. to fail or be likely to fail and the other resolution conditions were also met, the national resolution authority would be able to place Knab N.V. under resolution. As part of the resolution scheme to be adopted by the national resolution authority it may decide to apply certain resolution tools and exercise its powers pursuant to the implemented BRRD in order to give effect to those resolution tools. In addition, the SRM Regulation and BRRD Implementation Act introduce a bail-in tool which gives the national resolution authority the power to write down or convert into equity certain debt and other liabilities of the institution.

Pursuant to the SRM Regulation and BRRD Implementation Act, banks are required at all times to meet a minimum amount of own funds and eligible liabilities (MREL), expressed as a percentage of total liabilities and own funds. The competent resolution authority will set a minimum MREL level on a bank-by-bank basis, based on assessment criteria to be set out in technical regulatory standards.

4.4. IFRS sensitivities

The sections below describe the estimated sensitivity of Knab’s net income and equity in various scenarios. The analyses show how net income and equity would be affected by movements in each type of market risk at the reporting date. These possible changes are designated as shocks since, for purposes of determining sensitivities, they are deemed to occur suddenly.

Each sensitivity analysis sets out the extent to which a given shock could affect management’s critical estimates and assessments when applying Knab’s reporting policies. Market-consistent assumptions are applied to the measurement of unlisted investments and obligations. Although management's short-term assumptions may change if there is a reasonable change in a risk factor, long-term assumptions are not altered unless there is evidence of a permanent change. This is reflected in the sensitivity analyses below.

The analysis of each type of market risk assumes that the exposures on the reporting date are representative of the entire year and that the shocks occur at the beginning of the year. The analysis results ignore risk management measures taken to cushion losses to the extent that they are not reflected in the reporting. Depending on movements in the financial markets, these measures may include disposals of investments, changing the composition of the investment portfolio, and adjusting interest rates on customer deposits. Mitigating action by management is only taken into account to the extent that it forms part of existing policy and procedures, such as existing hedging programs and adjustments to interest rates. One-off action requiring a change in policy is ignored.

The results also ignore interactions between risk factors and assume that no changes in circumstances have occurred with respect to all other assets and liabilities. Consequently, the results of the analyses cannot be extrapolated or interpolated for smaller or larger variations, as the effects need not be linear.

The sensitivity results do not represent the outcomes that would have been achieved if risk components had been different, because the analyses are based on exposures at year-end rather than the actual exposures during the year. Nor are the sensitivity results intended as a reliable prediction of future income or equity. Furthermore the analyses do not take into account the variety of options available to management to respond to changes in the financial markets, such as reallocating portfolio assets. In addition, the sensitivities are not a reliable forecast of the impact of a possible shock on another date, as the portfolio may then have a different composition. No risk management process can clearly predict future results.

In addition to the IFRS sensitivities, risk management also takes into account the risks which only indirectly impact the IFRS sensitivities. This holds especially for interest rate risk, where the market value of equity is one of the metrics used for hedging.

4.4.1. Foreign exchange risk

Knab faces limited currency risk on exposures denominated in a currency other than the euro. Currency risk in the investment portfolios is managed using asset liability matching principles and hedged using FX derivatives within Knab's risk appetite for foreign currency exposures.

4.4.2. Interest rate risk

Interest rate risk is an important risk type inherent to banking activities. It arises from the transformation function performed by banks: funding long-term loans form short-term deposits. Maturity and interest rate type mismatches in the bank's assets and liabilities expose the bank to the risk of changing interest rates on the money and capital markets with a potentially adverse impact on economic value and earnings. Interest rate risk is increased by options embedded in many of the common banking products (for example. prepayment options for loans or early withdrawal options for term deposits).

Interest rates are an important driver in terms of the valuation of and risks created by such options. The European Banking Authority requires banks 'to not only rely on the supervisory outlier test' for their capitalization (Article 25, EBA/GL/2018/02). Knab interprets this as follows: institutions should take both the supervisory outlier test and internal scenarios into account. Knab is of the opinion that the most appropriate way is to capitalize on a set of scenarios. This choice involves taking both the supervisory outlier test and internal scenarios into account. Knab has therefore implemented a set-up where it capitalizes for a number of internal and external scenarios. The Knab specific scenarios are internally developed interest rate and CPR shock scenarios that reflect the nature, scale and complexity of the Knab portfolio. The scenarios make the capitalization formula more transparent and allow for the explicit inclusion of the supervisory outlier test and internal scenarios. The capitalization framework and IRRBB stress testing take into account Economic Value of Equity at Risk and Earnings at Risk.

According to the current IRRBB strategy, Aegon Bank hedges the market value of equity. The mortgage valuation methodology applied by Aegon Bank renders the value of its mortgage portfolio sensitive to movements in mortgage spreads. The instruments used to hedge interest rate risk (interest rate swaps) do not protect the value against those movements. The DV01 limit therefore consists of two components, namely a bandwidth for the DV01 of equity excluding the effect of mortgage spread fluctuations, and a bandwidth for the DV01 of equity including the effect of mortgage spread fluctuations. The maximum tolerated Price Value of a Basis Point excluding the effect of mortgage portfolio spread fluctuations has been set at +/-100 thousand DV01. The maximum tolerated Price Value of a Basis Point including the effect of the mortgage portfolio spread fluctuations has been set at +/-550 thousand DV01 equity.

At December 31, 2021, the Price Value of a Basis Point amounted to EUR 205 thousand (2020: EUR 1 thousand). no limits had been exceeded (same as in 2020). Monthly stress tests were also performed.

Interest rates at the end of each of the last five years

	2021	2020	2019	2018	2017
3-month Euribor	-0,57%	-0,55%	-0,38%	-0,31%	-0,33%
10-year Dutch government	-0,04%	-0,48%	-0,06%	0,38%	0,52%

The tables below show the earlier of the contractual interest rate adjustment date and maturity date for financial assets and loans.

2021	Note	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Financial assets FVOCI	8	417.713	1.297.053	57.655	-	**1.772.421**
- Mortgage loans		769.008	1.407.741	1.972.618	7.811.975	**11.961.342**
- Loans to private individuals and small and medium enterprise loans		40.136	682.884	14.798	45.636	**783.455**
- Other loans		297.356	-	62	-	**297.418**
Total loans	7	1.106.500	2.090.625	1.987.479	7.857.612	**13.042.215**
Total financial assets and loans		**1.524.213**	**3.387.678**	**2.045.133**	**7.857.612**	**14.814.636**

2020	Note	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Financial assets FVOCI	8	515.719	940.421	-	-	**1.456.140**
- Mortgage loans		1.178.037	1.829.210	2.036.216	6.935.033	**11.978.497**
- Loans to private individuals and small and medium enterprise loans		64.241	794.327	180.361	72.826	**1.111.755**
- Other loans		635.546	-	89	-	**635.635**
Total loans	7	1.877.824	2.623.537	2.216.666	7.007.859	**13.725.887**
Total financial assets and loans		**2.393.543**	**3.563.958**	**2.216.666**	**7.007.859**	**15.182.027**

The category Loans to private individuals and small and medium-sized enterprises comprised EUR 399.2 million worth of SME loans (2020: EUR 435.3 million).

Sensitivity to interest rates

Knab's net income and equity are sensitive to changes in interest rates. Knab measures this sensitivity for its various holdings of financial assets and liabilities. Interest rate changes may cause different assets to have different effects on net income and equity. The table below shows the estimated total effect of a parallel shift in the yield curve on net income and equity.

Parallel movement in yield curve	2021		2020	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	-977	-38.062	-1.551	-32.275
Shift down 100 basis points	1.213	40.151	1.889	34.349

The sensitivity of net income to parallel shifts in the yield curve remains limited.

4.4.3. Credit risk management

Estimating credit exposure for risk management purposes is a complex process that requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. Determining the credit risk of a portfolio of assets also involves estimating the likelihood of defaults occurring, the associated loss ratios, and default correlations between counterparties. Knab measures credit risk using Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). This is in line with the approach adopted for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. See note 4.4.7 for more details.

Knab manages credit risk through diversification and by setting permanent and temporary exposure limits for asset classes, rating categories, sectors, countries, and individual counterparties or groups. Exposures are reported and reviewed against these set limits at least once every month. Knab also applies deterministic stress scenarios (credit spread shocks) to measure the effects on its net income, equity, and solvency. These effects are tested against the set limits. Where necessary, adjustments are made to mitigate the exposures.

COVID-19 considerations

The observed defaults and resulting credit losses on Knab's consumer and SME loans were largely mitigated in 2020 and 2021 by UK and German government support measures in the form of borrowers migrating to guaranteed lending (early prepayment of pre-COVID loans), furlough/part-time schemes, and tax breaks.

By adding 80% UK government-guaranteed small and medium enterprise loans to its asset mix, Knab continued to diversify and de-risk its assets.

The decrease in ECL estimates was driven by improved forward-looking macroeconomic expectations in combination with lower-than-expected observed defaults in 2021.

In 2021 and 2020, a specific management adjustment was applied to UK government-guaranteed CBILS (Coronavirus Business Interruption Loan Scheme) lending. The adjustment was considered necessary due to the structure of the CBILS product (no borrower payments required for the first 12 months). Due to limited payment behavior, the management adjustment will be in place until at least May 2022. In the subsequent 12 months, the management adjustment may be replaced with a data-driven approach.

As with any management adjustment, expert judgment is involved and subject to a high degree of inherent uncertainty and so the actual outcomes may differ significantly from those projected.

In 2020, a specific management adjustment was applied to COVID-19-impacted loans that required a payment holiday as a result of the pandemic. The adjustment resulted in increased borrower PD, representing the increased likelihood of borrowers defaulting on their financial obligations. Furthermore, a general management adjustment was applied to all consumer and SME loans in connection with macroeconomic uncertainties arising from the COVID-19 pandemic. The above adjustments were not applicable at year-end 2021, as these items were fully implemented in the ECL model.

To manage concentrations of exposure to individual counterparties and groups of counterparties, and to encourage credit risk spreading in debt securities, Knab uses a policy of internal and external limits. Internal limits are set on the basis of the issuer's credit rating. At December 31, 2021, the credit limits applied by Knab in millions of euros were as follows:

2021

Credit ratings	Corporate Credit Limit Amount (EURm)	Government backed exposure Limit Amount (EURm)
AAA	78	360*
Aax	78	360
Ax	76	78
BBBx	50	50
BBx	0	0
Bx	0	0
CCC - CCx	0	0
Cx / Unrated	0	0

*No limits for domestic (Dutch) government bonds and Super AAA.

If a credit rate downgrade causes the credit risk to exceed a set limit, the risk is lowered to within the set limit once this becomes practically possible, with the limit being dependent on the quality of the asset in question. Any deviation from these limits will, in all cases, require the explicit approval of Knab's Management Board.

Similar to other banks, Knab also prevents concentrations of exposure to individual counterparties and groups of counterparties by applying the 'large exposures rules' set out in Chapter 7 of the Dutch Regulation on Solvency Requirements for Credit Risk [*Regeling solvabiliteitseisen voor het kredietrisico*], which in turn is based on the Prudential Rules Decree [*Besluit prudentiële regels*] (Sections 102-104).

4.4.4. Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

1) A financial instrument that is not credit-impaired on initial recognition is classified into 'Stage 1' and has its credit risk continuously monitored by Knab.
    a) If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. See note 4.4.5 for a description of how Knab determines when a significant increase in credit risk has occurred.
    b) If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. See note 4.4.6 for a description of how Knab defines credit-impaired and default.
2) Financial instruments in Stage 1 have their ECL measured at a 12-month expected credit losses that result from default events possible within the next 12 months.
3) Financial instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. See note 4.4.7 for a description of inputs, assumptions and estimation techniques used to measure ECL.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 4.4.8 includes an explanation of how Knab has incorporated this into its ECL models.

The following diagram summarizes the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Knab employs separate models to calculate ECL on the following asset classes:

- Mortgage loans
- Consumer loans
- SME loans
- Debt securities

Debt securities are covered by a single model because these portfolios are all managed in a similar fashion. Asset classes not covered by the ECL calculations are considered either to have immaterial credit risk or to be short-term in nature. Given the need to adapt the models to the different portfolio characteristics, all ECL models use different key judgments and assumptions. As such, the paragraphs below outline the key judgments and assumptions made by Knab in addressing the requirements of IFRS 9 on a model-by-model basis. Knab does not apply the simplified approach to its ECL models.

4.4.5. Significant increase in credit risk (SICR)

Knab considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

	Quantitative criteria	Qualitative criteria	Backstop criteria
Mortgage loans	Variation in Forward-in-Time Probability of Default	Forborne Exposure	30 days past due backstop
Consumer loans and SME loans	Variation in Forward-in-Time Probability of Default	Forborne Exposure	30 days past due backstop
Debt securities	Relative changes in rating	Watch-list approach	No other backstop applied

Quantitative criteria

For mortgage loans and consumer loans the Variation in Forward-in-Time (FiT) Probability of Default (PD) is used as a primary indicator to assess significant increase in credit risk. This method assesses whether a significant increase in credit risk has occurred based on the relative negative movements in a loan’s PD. Negative movements are associated with credit rating deteriorations, mainly driven by current and recent payment behavior.

For debt securities the relative change in credit rating is used as a primary indicator to assess significant increases in credit risk. For this purpose, the CNLP credit ratings are used. The CNLP rating is a composite rating of the main rating agencies (Moody’s, Standard and Poor’s, Fitch). The rating agencies use forward-looking macroeconomic factors and other available supportive information to rate a counterparty. If no external credit rating is available to determine the composite CNLP rating, internal ratings are used.

Qualitative criteria

For mortgage loans, Consumer loans and SME loans significant increase in credit risk is assumed when forbearance measures have been applied.

For debt securities, the watch-list approach is applied as an additional qualitative criterion. The watch-list approach involves instruments on the watch-list being manually observed. The criteria for moving an instrument to the watch-list are:

- The value either falls to 80% and below (amortized) cost and stays there for six months; or
- The value falls by 20% over 3 months; or
- The value falls to 60% and below (amortized) cost.

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all financial instruments held by Knab. In relation to debt securities, where a watchlist is used to monitor credit risk, this assessment is performed at counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the 2nd line Credit Risk team.

Backstop
A backstop is applied to the mortgage loan and consumer loan portfolios to exposures considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. No backstop is applied to debt securities, given that the 30 days past due presumption is rebutted based on the default backstop being 5 days past due on these instruments.

Knab uses the low credit risk exemption for debt securities. As such, external and internal credit ratings, respectively, are used to assess whether a significant increase in credit risk has occurred for these assets.

4.4.6. Definitions of default and credit-impaired assets

Knab assesses whether a financial instrument is in default or credit-impaired using the following criteria:

	Quantitative criteria	Qualitative criteria
Mortgage loans	90 days past due backstop	Foreclosure Sale at material economic loss (>1%) Distressed restructuring
Consumer loans and SME loans	90 days past due backstop	Sale at material economic loss (>1%) Distressed restructuring
Debt securities	5 days past due backstop	Rating falls to “D” (external or internal) Breach of significant covenants without reasonable and supportable waiver being obtained Distressed restructuring is taking place Bankruptcy or equivalent injunction is filed for the obligor Obligor is classified as default internally

Knab will consents to a distressed restructuring of the credit obligation if it is likely to result in a lower financial obligation caused by material forgiveness or postponement of the principal amount, interest or, where relevant, fees. With regard to distressed restructuring of credit obligations, the threshold for sale at material economic loss is set at 1%.

The definition of default has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given No Cure (LGN) throughout Knab’s expected loss calculations.
An instrument is considered to no longer be in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of three months, and an assessment has shown that the obligor is no longer unlikely to pay. When cured, the instrument will be moved from Stage 3 to Stage 2 or Stage 1. The three-month period has been determined on the basis of regulatory requirements which consider the likelihood of a financial instrument returning

to default status after cure using different possible cure definitions.

4.4.7. Measuring ECL – Inputs, assumptions and estimation techniques

ECL is measured on either a 12-month basis (Stage 1) or lifetime basis (Stages 2/3) depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12-month PD), or over the remaining lifetime (lifetime PD) of the obligation.
- EAD is based on the amounts Knab expects to be owed at the time of default, over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD).
- Loss Given Default (LGD) represents Knab's expectation of the extent of the loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of the claim, and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where the 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months, and the lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The discount rate used to calculate ECL is the original effective interest rate or an approximation of it.

The lifetime PD of a financial instrument is calculated as the sum total of the probabilities of all future developments covered by the ECL. All possible future developments are enumerated and for each future development a probability is calculated. The possibility of full prepayment is included as a possible future development. The probability of each possible future development is estimated using statistical modelling techniques.

Expected credit losses measured on a Stage 3 lifetime basis are the discounted product of the expected amount of exposure that will default without cure, and the Loss Given No-cure ('LGN') is, defined as follows:

- The expected amount that will default without cure is calculated as the current exposure amount times the sum of probabilities over possible future developments that result in default without cure. All possible future developments are enumerated and for each future development a probability is calculated. The possibility that an exposure amount is repaid by means of scheduled payments or unscheduled prepayments is included as a possible future development. The probability of each possible future development is estimated using statistical modelling techniques.
- The LGN represents the expected extent of the loss on an exposure that defaults without cure. The LGN varies by type and amount of exposure, type and amount of collateral available, the presence of other credit support, the duration of default, and the macro-economic forecast. The LGN is expressed as a percentage loss per unit of exposure at the time of default. The LGN is calculated for each future quarter.

The LGN is based on factors that impact the recoveries made post-default. These vary by product type:

- For mortgages, this is primarily based on the collateral type and projected value, the estimated recovery rate on the collateral, NHG guarantee eligibility, and savings proceeds when applicable.
- For consumer loans, LGNs are set at a product level, based on debt sale agreements.
- For debt securities, LGN are estimated by applying a statistical modelling technique to historical recovery rate data provided by rating agencies.

Forward-looking economic information is considered in determining the 12-month and lifetime ECLs, and the lifetime PD by using a set of variables describing the state of the macro economy as input for calculating of the LGN and the probability of default and prepayment.

4.4.8. Forward-looking information incorporated into the ECL models

The assessment of significant increases in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information. Knab has performed historical analyses to identify the key economic variables impacting credit risk and expected credit losses for each portfolio. Expert judgment was also applied in this process.

These economic variables and their associated impact on the ECL and Lifetime PD vary by financial instrument. Forecasts of these economic variables (the "base economic scenario") are derived from the DNB and Moody's. They provide an economic outlook for the next three years. After three years, a mean reversion approach is adopted to project the economic variables for the full remaining lifetime of each instrument, meaning that economic variables have either a long-run average rate (e.g. for unemployment) or a long-run average growth rate (e.g. GDP) over a period of three years. A statistical regression analysis has been performed to understand the impact that changes in these macro-economic variables have historically had on default rates, prepayment rates, and the LGN.

Three macro-economic scenarios (upside, downside, and base) have been generated, taking into account their historically observed correlations. The upside and downside scenarios are generated by applying shocks to the historical average deviation from the long-term mean observed in the best/worst 25% of historically observed quarters. The shocks applied correspond to the historical average deviation from the long-term mean observed in the best/worst 25% of historically observed quarters. The ECL is a weighted average of the expected credit losses in all three macro-economic scenarios, where the weighting depends on the likelihood of the scenario. Using multiple economic scenarios ensures that the ECL represents the best estimate of expected credit losses and does not just represent the credit losses in the most likely scenario.

The SICR is assessed using the lifetime PD under each of the scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the entire financial instrument is in Stage 1, Stage 2, or Stage 3, and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, Knab measures ECL as either a probability-weighted 12-month ECL (Stage 1), or a probability-weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).
As with any economic forecast, the projections and likelihoods of occurrence are inherently subject to a high degree of uncertainty and so the actual outcomes may differ significantly from those projected. Knab considers these forecasts to represent its best estimate of the possible outcomes.

Variable economic assumptions

The most significant forward-looking considerations used for the ECL estimate as at December 31, 2021 are set out below. The "base", "upside" and "downside" scenarios were used for all portfolios.

Mortgage loans	House price index Unemployment rate
Consumer loans and SME loans	Unemployment rate Domestic demand Gross domestic product
Debt securities	GDP Unemployment rate

Knab invests in consumer loans and SME loans through several third-party lending platforms. Due to the different nature and geography the lending platforms are presented are presented separately in the tables in these paragraphs:

Consumer loans portfolio
- Auxmoney; comprising Germany based loans
- Zopa; comprising UK based loans
- CACF; comprising Netherlands based loans

SME loans
- Funding Circle non CBILS; comprising UK based loans
- Funding Circle CBILS; comprising 80% government guaranteed UK based loans

The weightings assigned to each economic scenario were as follows:

Mortgages	**Base**	**Upside**	**Downside**
At December 31, 2021	45%	29%	26%

Unsecured loans and debt securities	**Base**	**Upside**	**Downside**
At December 31, 2021	40%	30%	30%

Mortgages, unsecured loans and debt securities	**Base**	**Upside**	**Downside**
At December 31, 2020	45%	29%	26%

Other forward-looking information not otherwise incorporated into the above scenarios, such as the impact of regulatory, legislative or political changes, was also considered, but was not deemed to have a material impact and so no adjustment was made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

The most significant assumptions affecting the ECL allowance are as follows:

Mortgage loans portfolio
- House price index, because it provides an indication of mortgage collateral valuations; and
- Unemployment rate, because of its impact on obligors' ability to meet their contractual repayments.

Set out below are the changes to the ECL that would result from reasonably possible changes in these parameters from the actual assumptions used in Knab's economic variable assumptions (for example, the impact on ECL of increasing the estimated unemployment rate by 1% in each of the base, upside, and downside scenarios):

2021	**Stress scenario**	
	-10%	+10%
House price index	99	-73

	Stress scenario	
	-1%	+1%
Unemployment rate	-176	207

2020	**Stress scenario**	
	-10%	+10%
House price index	372	-295

	Stress scenario	
	-1%	+1%
Unemployment rate	-92	320

Consumer loans portfolio
- Unemployment rate, because of its impact on obligors' ability to meet their contractual repayments.
- Domestic demand, because domestic demand is an indication of individuals' disposable income and as a result an indication of their ability to pay back their debt.

Set out below are the changes to the ECL that would result from reasonably possible changes in these parameters from the actual assumptions used in Knab's economic variable assumptions.

Auxmoney

2021	Stress scenario	
	-1%	+1%
Unemployment rate	-2.501	2.769

2020	Stress scenario	
	-1%	+1%
Unemployment rate	-7.521	8.226

Zopa

2021	Stress scenario	
	-1%	+1%
Domestic demand	192	-166

2020	Stress scenario	
	-1%	+1%
Domestic demand	1.497	-1.382

CA-CF

2021	Stress scenario	
	-1%	+1%
Consumer price index	-100	107

	Stress scenario	
	-1%	+1%
Unemployment rate	-9	10

2020	Stress scenario	
	-1%	+1%
Consumer price index	-149	158

	Stress scenario	
	-1%	+1%
Unemployment rate	-29	34

<u>SME loans portfolio</u>

- Gross domestic product, because GDP indicates the general economic status of a country and as a result it is correlated to enterprises' cash flows and their ability to pay back their debt.

Set out below are the changes to the ECL that would result from reasonably possible changes in these parameters from the actual assumptions used in Knab's economic variable assumptions.

Funding Circle non CBILS

2021	Stress scenario	
	-1%	+1%
Gross domestic product	382	-374

2020	Stress scenario	
	-1%	+1%
Gross domestic product	1.269	-1.246

Funding Circle CBILS

2021	Stress scenario	
	-1%	+1%
Gross domestic product	145	-123

2020	Stress scenario	
	-1%	+1%
Gross domestic product	580	-540

4.4.9. Write-off policy

Knab will write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) the cessation of enforcement activity and (ii) where Knab's recovery method is to foreclose collateral and the value of the collateral is such that there is no reasonable expectation of recovering the debt in full.

Knab may write off financial assets that are still subject to enforcement activity. Consumer and SME loans are written-off if a loan has been in an arrears status for three years.

Knab will still seek to fully recover amounts it is legally owed, but which have been partially written off due to no reasonable expectation of full recovery.

4.4.10. Modification of financial assets

Knab will sometimes modify the terms of loans granted to customers following commercial renegotiations or in the event of distressed loans, for the purpose of maximizing recovery. These restructuring activities may include extended payment terms and, in limited cases, penalty interest arrangements. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payments will most likely continue. These policies are kept under continuous review.

The risk of default on those assets after modification is assessed at the reporting date and compared with the risk under the original terms on initial recognition, if the modification is not substantial and so does not result in derecognition of the original asset. Knab monitors the subsequent performance of modified assets. Knab may determine that credit risk has significantly improved after restructuring and so move the assets from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This will be done only for assets which have performed in accordance with the new terms for three consecutive months or more.

Knab will continue to monitor whether there is a subsequent significant increase in credit risk in relation to those assets by using specific models for modified assets. A limited number of loans within Knab's mortgage portfolio were modified during 2021. There was no significant impact on the lifetime ECL from modifications of financial assets during 2021.

4.4.11. Loss allowance

The loss allowance recognized during the year was impacted by a variety of factors, as described below:

- Transfers between stages due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired during the year, and the consequent "step up" (or "step down") between the 12-month and lifetime ECLs;
- Additional allowances for new financial instruments recognized during the year, as well as releases for financial instruments de-recognized during the year;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs during the year, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the year and write-offs of allowances related to assets that were written off during the year.

The following tables show the changes in the loss allowance between the beginning and end of the year due to these factors:

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance at 1 January 1, 2021	**835**	**1.667**	**491**	**2.992**
Stage transfers	204	-723	-100	-620
New financial assets originated or purchased	52	50	19	121
Changes in PD/LGD/EAD	-652	-33	100	-584
Changes to model assumptions and methodologies	-	-	-	-
Financial assets derecognized or redeemed during the year	-110	-199	-104	-413
Write-offs	-	-	-	-
Other movements	-	-	-	-
Loss allowance at December 31, 2021	**329**	**762**	**405**	**1.496**

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance at 1 January 1, 2020	**855**	**686**	**332**	**1.873**
Stage transfers	16	10	-26	-
New financial assets originated or purchased	36	83	14	133
Changes in PD/LGD/EAD	-16	452	66	502
Changes to model assumptions and methodologies	-44	453	120	528
Financial assets derecognized or redeemed during the year	-11	-17	-14	-42
Write-offs	-	-	-2	-2
Other movements	-	-	-	-
Loss allowance at December 31, 2020	**835**	**1.667**	**491**	**2.992**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at 1 January 1, 2021	**15.979**	**19.435**	**51.231**	**86.645**
Stage transfers	-4.799	-643	6.196	755
New financial assets originated or purchased	218	47	158	422
Changes in PD/LGD/EAD	3.722	-27	-974	2.721
Changes to model assumptions and methodologies	-866	-3.027	9	-3.883
Financial assets derecognized or redeemed during the year	-7.511	-9.602	-35.544	-52.657
Write-offs	-	-	-4.578	-4.578
FX and other movements	59	13	684	755
Loss allowance at December 31, 2021	**6.801**	**6.196**	**17.183**	**30.180**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at 1 January 1, 2020	**17.288**	**20.082**	**51.796**	**89.166**
Stage transfers	-19.389	4.700	21.785	7.096
New financial assets originated or purchased	1.803	1.640	1.681	5.124
Changes in PD/LGD/EAD	23.557	4.540	2.432	30.529
Changes to model assumptions and methodologies	-106	-1.788	2.487	594
Financial assets derecognized or redeemed during the year	-6.881	-9.522	-11.816	-28.219
Write-offs	-	-	-15.714	-15.714
FX and other movements	-293	-217	-1.421	-1.931
Loss allowance at December 31, 2020	**15.979**	**19.435**	**51.231**	**86.645**

SME loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at 1 January 1, 2021	**15.213**	**22.704**	**31.664**	**69.581**
Stage transfers	-9.135	10.639	11.729	13.234
New financial assets originated or purchased	297	54	45	396
Changes in PD/LGD/EAD	5.665	1.236	1.176	8.077
Changes to model assumptions and methodologies	-5.613	-338	-3.306	-9.257
Financial assets derecognized or redeemed during the year	-4.350	-15.873	-7.770	-27.994
Write-offs	-	-	-1.804	-1.804
FX and other movements	121	352	2.191	2.663
Loss allowance at December 31, 2021	**2.198**	**18.773**	**33.925**	**54.895**

SME loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at 1 January 1, 2020	**7.142**	**4.548**	**16.335**	**28.024**
Stage transfers	-12.673	1.109	14.919	3.356
New financial assets originated or purchased	3.956	12.262	349	16.568
Changes in PD/LGD/EAD	22.377	2.668	2.426	27.471
Changes to model assumptions and methodologies	-1.924	3.862	-206	1.732
Financial assets derecognized or redeemed during the year	-2.927	-1.123	-379	-4.430
Write-offs			-	-
FX and other movements	-739	-622	-1.779	-3.140
Loss allowance at December 31, 2020	**15.213**	**22.704**	**31.664**	**69.581**

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at 1 January 1, 2021	**272**	**-**	**-**	**272**
Stage transfers	-	-	-	-
New financial assets originated or purchased	736	-	-	736
Changes in PD/LGD/EAD	-	-	-	-
Changes to model assumptions and methodologies	287	-	-	287
Financial assets derecognized or redeemed during the year	-111	-	-	-111
Write-offs	-	-	-	-
Other movements	-	-	-	-
Loss allowance at December 31, 2021	**1.183**	**-**	**-**	**1.183**

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at 1 January 1, 2020	**361**	**-**	**-**	**361**
Stage transfers	-	-	-	-
New financial assets originated or purchased	37	-	-	37
Changes in PD/LGD/EAD	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Financial assets derecognized or redeemed during the year	-127	-	-	-127
Write-offs	-	-	-	-
Other movements	-	-	-	-
Loss allowance at December 31, 2020	**272**	**-**	**-**	**272**

The loss allowance for debt securities measured at FVOCI of EUR 1.2 million (2020: EUR 0.3 million) did not reduce the carrying amount of these investments (which are measured at fair value) but gave rise to an equal and opposite gain in OCI.

Based on the tables above the following table presents a reconciliation of movements in the loss allowance that had an impact on the income statement with the net impairment charge presented in the income statement.

	2021
Mortgage loans measured at amortized cost	-1.496
Consumer loans measured at amortized cost	-6.834
SME loans measured at amortized cost	-17.177
Debt securities measured at FVOCI	911
Net impairment charge in P&L	**-24.596**

In 2020 Knab N.V. implemented a new model for measuring the ECL on mortgage loans. The impact of the new model was accounted for in the line items changes to model assumptions and methodologies.

	2020
Mortgage loans measured at amortized cost	1.120
Consumer loans measured at amortized cost	50.313
SME loans measured at amortized cost	41.421
Debt securities measured at FVOCI	-89
Net impairment charge in P&L	**92.765**

The following tables further specify the changes in gross carrying amounts to help explain their significance for the changes in the loss allowance for the same portfolios as discussed above.

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount at January 1, 2021	**11.484.515**	**483.789**	**13.185**	**11.981.489**
Stage transfers	236.372	-235.932	-440	-
New financial assets originated or purchased	1.520.517	7.024	801	1.528.342
Financial assets derecognized or redeemed during the year (other than write-offs)	-1.157.688	-47.850	-2.985	-1.208.523
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-	-
Other movements	-350.749	11.426	854	-338.470
Gross carrying amount at December 31, 2021	**11.732.968**	**218.456**	**11.415**	**11.962.838**

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount at January 1, 2020	**10.453.906**	**194.709**	**12.496**	**10.661.111**
Stage transfers	-603.544	601.466	2.078	-
New financial assets originated or purchased	2.168.969	16.022	479	2.185.470
Financial assets derecognized or redeemed during the year (other than write-offs)	-1.064.608	-40.688	-3.980	-1.109.276
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-60	-	-29	-88
Other movements	529.852	-287.720	2.140	244.272
Gross carrying amount at December 31, 2020	**11.484.515**	**483.789**	**13.185**	**11.981.489**

Consumer loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount at January 1, 2021	**584.022**	**94.136**	**84.903**	**763.061**
Stage transfers	14.441	-14.598	156	-
New financial assets originated or purchased	46.135	341	177	46.652
Financial assets derecognized or redeemed during the year (other than write-offs)	-298.787	-48.206	-53.171	-400.165
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-4.514	-4.514
FX and other movements	8.429	134	842	9.405
Gross carrying amount at December 31, 2021	**354.240**	**31.807**	**28.392**	**414.439**

Consumer loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount at January 1, 2020	**992.362**	**141.062**	**96.343**	**1.229.767**
Stage transfers	-49.163	12.078	37.084	-
New financial assets originated or purchased	84.043	6.662	4.382	95.087
Financial assets derecognized or redeemed during the year (other than write-offs)	-430.524	-65.568	-35.449	-531.542
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-15.714	-15.714
FX and other movements	-12.695	-98	-1.743	-14.536
Gross carrying amount at December 31, 2020	**584.022**	**94.136**	**84.903**	**763.061**

SME loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount at January 1, 2021	**364.300**	**99.275**	**41.345**	**504.919**
Stage transfers	-34.329	15.351	18.978	-
New financial assets originated or purchased	75.763	4.465	223	80.452
Financial assets derecognized or redeemed during the year (other than write-offs)	-127.959	-18.777	-10.926	-157.662
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-1.804	-1.804
FX and other movements	22.415	2.491	3.280	28.186
Gross carrying amount at December 31, 2021	**300.190**	**102.805**	**51.096**	**454.091**

SME loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount at January 1, 2020	**319.226**	**17.758**	**24.038**	**361.022**
Stage transfers	-40.996	21.367	19.629	-
New financial assets originated or purchased	253.482	69.289	940	323.711
Financial assets derecognized or redeemed during the year (other than write-offs)	-143.824	-6.520	-799	-151.144
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-	-
FX and other movements	-23.588	-2.620	-2.462	-28.670
Gross carrying amount at December 31, 2020	**364.300**	**99.275**	**41.345**	**504.919**

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount at January 1, 2021	**1.456.140**	**-**	**-**	**1.456.140**
Stage transfers	-	-	-	-
New financial assets originated or purchased	702.425	-	-	702.425
Financial assets derecognized or redeemed during the year (other than write-offs)	-358.117	-	-	-358.117
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-	-
Other movements	-28.027	-	-	-28.027
Gross carrying amount at December 31, 2021	**1.772.421**	**-**	**-**	**1.772.421**

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount at January 1, 2020	**1.062.191**	**-**	**-**	**1.062.191**
Stage transfers	-	-	-	-
New financial assets originated or purchased	809.503	-	-	809.503
Financial assets derecognized or redeemed during the year (other than write-offs)	-408.029	-	-	-408.029
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-	-
Other movements	-7.525	-	-	-7.525
Gross carrying amount at December 31, 2020	**1.456.140**	**-**	**-**	**1.456.140**

4.4.12. Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment
The following tables provide an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. See note 4.4.4 for a more detailed description of ECL measurement. All asset classes not presented here are deemed to have no material credit risk or to be of a short-term nature. The gross carrying amounts of financial assets as shown below also represent Knab's maximum exposure to credit risk on the assets.

Mortgage loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Investment grade (NHG-guaranteed)	7.536.194	154.543	5.131	7.695.868
Investment grade (Non-NHG-guaranteed)	4.196.774	63.424	464	4.260.661
Standard/Special monitoring	-	489	5.820	6.309
Gross carrying amount	**11.732.968**	**218.456**	**11.415**	**11.962.838**
Loss allowance	329	762	405	1.496
Net carrying amount at December 31, 2021	**11.732.639**	**217.694**	**11.010**	**11.961.342**

Mortgage loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Investment grade (NHG-guaranteed)	7.922.207	364.086	6.230	8.292.523
Investment grade (Non-NHG-guaranteed)	3.562.308	112.148	113	3.674.569
Standard/Special monitoring		7.555	6.842	14.397
Gross carrying amount	**11.484.515**	**483.789**	**13.185**	**11.981.489**
Loss allowance	835	1.667	491	2.992
Net carrying amount at December 31, 2020	**11.483.680**	**482.122**	**12.694**	**11.978.497**

For credit risk purposes, mortgages are classified as NHG-guaranteed, non-NHG-guaranteed, and mortgages with standard/special monitoring. Mortgages which are more than 60 days in arrear are classified as subject to standard/special monitoring.

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Days in arrears				
0-30	354.240	28.394	4.204	386.839
31-60	-	2.604	787	3.391
61-90	-	707	242	949
> 90	-	102	23.159	23.260
Gross carrying amount	**354.240**	**31.807**	**28.392**	**414.439**
Loss allowance	6.801	6.196	17.183	30.180
Net carrying amount at December 31, 2021	**347.439**	**25.611**	**11.209**	**384.259**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Days in arrears				
0-30	583.965	83.037	26.931	693.933
31-60	3	6.272	629	6.904
61-90	19	4.024	144	4.187
> 90	35	802	57.199	58.036
Gross carrying amount	**584.022**	**94.136**	**84.903**	**763.061**
Loss allowance	15.979	19.435	51.231	86.645
Net carrying amount at December 31, 2020	**568.043**	**74.701**	**33.672**	**676.416**

SME loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Days in arrears				
0-30	300.190	100.401	8.624	409.214
31-60	-	1.708	553	2.261
61-90	-	697	722	1.418
> 90	-	-	41.198	41.198
Gross carrying amount	**300.190**	**102.805**	**51.096**	**454.091**
Loss allowance	2.198	18.773	33.925	54.895
Net carrying amount at December 31, 2021	**297.992**	**84.033**	**17.172**	**399.196**

SME loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
Days in arrears				
0-30	364.300	97.710	1.031	463.041
31-60	-	1.514	150	1.664
61-90	-	51	58	109
> 90	-	-	40.106	40.106
Gross carrying amount	**364.300**	**99.275**	**41.345**	**504.919**
Loss allowance	15.213	22.704	31.664	69.581
Net carrying amount at December 31, 2020	**349.087**	**76.571**	**9.681**	**435.339**

The credit risk of Knab's retail loans (consumer loans and SME loans) is determined using a combination of loan application and behavioral characteristics. At the time of loan origination, the key factor in assessing credit risk is the credit rating provided by the lending platform at origination. During the loan's lifetime, the customer's payment behavior (i.e., arrears status and prepayments) is the key factor in determining the loan's credit risk.

Debt securities measured at FVOCI	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
AAA	342.953	-	-	342.953
AA	752.779	-	-	752.779
A	462.081	-	-	462.081
BBB	214.609	-	-	214.609
Carrying amount	**1.772.421**	**-**	**-**	**1.772.421**
Loss allowance (recorded in OCI)	1.183	-	-	1.183
Net carrying amount at December 31, 2021	**1.772.421**	**-**	**-**	**1.772.421**

Debt securities measured at FVOCI	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
AAA	488.294	-	-	488.294
AA	703.824	-	-	703.824
A	161.292	-	-	161.292
BBB	102.730	-	-	102.730
Carrying amount	**1.456.140**	**-**	**-**	**1.456.140**
Loss allowance (recorded in OCI)	272	-	-	272
Net carrying amount at December 31, 2020	**1.456.140**	**-**	**-**	**1.456.140**

Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table provides an analysis of the maximum credit risk exposure arising from financial assets not subject to impairment (i.e. FVPL or application of the low credit risk exemption). For asset classes not included in the table below, their gross carrying amount best represents Knab's credit risk exposure to these items.

	Maximum exposure to credit risk	**Collateral**						**Net exposure**
		Cash	Real estate	Guarantees	Master netting agreements	Surplus collateral	Total collateral	
Cash and amounts due from banks	989.659	-	-	-	-	-	-	**989.659**
Derivatives	211.860	-	-	-	211.860	-	211.860	**-**
Other financial assets	88.691	-	-	-	-	-	-	**88.691**
At December 31, 2021	**1.290.210**	**-**	**-**	**-**	**211.860**	**-**	**211.860**	**1.078.350**

	Maximum exposure to credit risk	**Collateral**						**Net exposure**
		Cash	Real estate	Guarantees	Master netting agreements	Surplus collateral	Total collateral	
Cash and amounts due from banks	1.650.425	-	-	-	-	-	-	**1.650.425**
Derivatives	189.093	-	-	-	189.093	-	189.093	**-**
Other financial assets	93.601	-	-	-	-	-	-	**93.601**
At December 31, 2020	**1.933.119**	**-**	**-**	**-**	**189.093**	**-**	**189.093**	**1.744.026**

Collateral and other credit enhancements

Knab employs a range of policies and practices to mitigate credit risk. The most common of these is to accept collateral for funds advanced. Knab has internal policies in place regarding the acceptability of specific classes of collateral or credit risk mitigation.

Aegon Bank performs a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal types of collateral for loans and advances are:

- Mortgages on residential properties;
- Guarantees given (e.g. NHG);
- Margin agreements for derivatives, for which Knab has also entered into master netting agreements;
- Charges over business assets such as premises, inventories, and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term financing of and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances varies according to the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralized.

Knab's policies regarding obtaining collateral did not significantly change during the reporting period and there has been no significant change in the overall quality of the collateral held by Knab since the prior period.

Knab closely monitors the collateral held for financial assets that are considered to be credit-impaired, as it is more likely that Knab will need to take possession of the collateral to mitigate potential credit losses.

Credit-impaired financial assets and the collateral held to mitigate potential losses on them are shown below:

	2021			
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Mortgage loans	11.415	405	**11.010**	11.389
Consumer loans	28.392	17.183	**11.209**	-
SME loans	51.096	33.925	**17.172**	-
At December 31	**90.903**	**51.512**	**39.391**	**11.389**

	2020			
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Mortgage loans	13.185	491	**12.694**	12.679
Consumer loans	84.903	51.231	**33.672**	-
SME loans	41.345	31.664	**9.681**	-
At December 31	**139.433**	**83.386**	**56.047**	**12.679**

The 'fair value of collateral held' column represents the value of individual mortgage loans (where the value of the property exceeds the value of the mortgage loan) because Knab is not entitled to this portion of the collateral.

The following table shows the distribution of Loan-to-Value ratios (LTV) for Knab's credit-impaired mortgage portfolio:

Mortgage portfolio - LTV distribution	**2021**
Lower than 50%	627
50 to 60%	493
60 to 70%	777
70 to 80%	2.693
80 to 90%	3.813
90 to 100%	2.631
Higher than 100%	381
At December 31	**11.415**

Mortgage portfolio - LTV distribution	**2020**
Lower than 50%	415
50 to 60%	-
60 to 70%	965
70 to 80%	2.871
80 to 90%	3.132
90 to 100%	4.812
Higher than 100%	499
At December 31	**12.694**

4.4.13. Credit risk concentration

The following tables present specific risk concentration information for financial assets measured at FVOCI and financial assets at FVPL.

Credit risk concentration – debt securities and money market investments

	2021	2020
ABSs- Collateralized Debt Obligations (CDOs)	84.577	197.999
ABSs- Other	-	8.073
Residential mortgage backed securities (RMBSs)	50.024	87.314
Total investments in unconsolidated structured entities	**134.600**	**293.386**
Financial - Banking	403.581	189.890
Financial - Other	60.059	47.638
Industrial	458.148	190.486
Utility	52.080	5.705
Sovereign exposure	663.953	729.036
Total	**1.772.421**	**1.456.140**
Of which past due and / or impaired assets	-	-

Credit risk concentration – mortgage loans

Fair value of the mortgage loan portfolio:	2021	2020
Fair value of mortgage loans	12.678.989	12.402.846
The LTV was approximately	55,1%	69,6%
The portion of the portfolio that is government guaranteed	64,4%	69,3%
Delinquencies in the portfolio (defined as 60 days in arrears)	0,1%	0,1%
Impairments (reversals) during the year	-1.496	1.120

Credit risk concentration - mortgage loans	2021	2020
Residential apartment	1.482.230	1.463.771
Residential house	10.024.081	9.739.170
Other	-	124
Total	**11.506.311**	**11.203.064**
Of which past due and / or impaired assets	55.250	64.954

Unconsolidated structured entities

Knab's investments in unconsolidated structured entities, such as RMBSs, CMBSs and ABSs, are presented in the line item financial assets measured at FVOCI in the statement of financial position. Knab's interests in these unconsolidated structured entities can be characterized as basic interests. Knab has no loans, derivatives or other interests related to these investments. The maximum exposure to losses on these investments is therefore equal to the carrying amount as reflected in the credit risk concentration table regarding debt securities and money-market investments. To manage credit risk, Knab invests primarily in senior notes. Additional information on the credit ratings of Knab's investments in unconsolidated structured entities is provided in the sections describing the composition and impairment assessment by class of debt instrument. The composition of Knab's portfolios of structured entities is highly diverse in terms of the individual amount per entity, and so Knab only has non-controlling interests in unconsolidated structured entities.

Knab did not provide financial or other support to unconsolidated structured entities during the year. Nor does Knab intend to provide financial or other support to unconsolidated structured entities in which Knab has an interest or previously had an interest. Nor were these structured entities originated by Knab.

2021	Number of entities	Carrying amount
EUR 0 < 10 million	13	52.010
> EUR 10 < 25 million	3	43.523
> EUR 25 < 50 million	1	39.067
At December 31	**17**	**134.600**

2020	Number of entities	Carrying amount
EUR 0 < 10 million	17	77.947
> EUR 10 < 25 million	6	87.003
> EUR 25 < 50 million	2	74.016
> EUR 50 < 75 million	1	54.420
At December 31	**26**	**293.386**

For unconsolidated structured entities in which Knab had an interest at the reporting date, the table below shows the total income received from those interests. The investments column shows the carrying amounts of Knab's interests in unconsolidated structured entities as recognized in the statement of financial position. Knab did not recognize any other interests in unconsolidated structured entities, such as commitments, guarantees, provisions, derivative instruments or other liabilities.

	2021			
Type of interest in unconsolidated entity	Interest income	Total gains and losses	**Total**	**Investments**
Residential mortgage backed securities	366	641	1.007	50.024
Asset backed securities	1.287	-56	1.231	84.577
ABS's - Other	11	-136	-126	-
Total	**1.663**	**449**	**2.112**	**134.600**

	2020			
Type of interest in unconsolidated entity	Interest income	Total gains and losses	**Total**	**Investments**
Residential mortgage backed securities	587	366	954	87.314
Asset backed securities	2.147	-	2.147	197.999
ABS's - Other	26	12	38	8.073
Total	**2.761**	**379**	**3.139**	**293.386**

4.4.14. Currency risk

With respect to foreign currencies, the Bank´s policy is to hedge its exposure to foreign currency risk. Due to the nature of the unsecured loan book Knab is mainly exposed to the UK pound. The Bank´s exposure at year end is:

	2021			2020		
in €	Exposure	Hedging instruments	Net exposure	Exposure	Hedging instruments	Net exposure
Assets						
Sterling	591.784			667.948		
Total Exposure	**591.784**	**595.874**	**-4.090**	**667.948**	**700.335**	**-32.387**

4.4.15. Equity market risk and other investment risks

Fluctuations in equity markets, real estate markets and capital markets may have a negative impact on Knab's profitability and capital position. However, Knab has very limited equity investments and is therefore not exposed to significant risks arising from shocks in equity prices.

4.4.16. Derivatives risk

Knab is exposed to foreign exchange rate fluctuations and movements in the fair value of its investments as a result of changes in the term structure of interest rates and credit spreads. To hedge some or all of this risk, Knab only uses conventional financial derivatives, such as interest rate swaps, futures, and currency contracts.

4.4.17. Liquidity risk

Knab operates a liquidity risk policy that focuses on holding enough liquid assets to meet liquidity requirements, both in normal market conditions and in extreme situations resulting from unforeseen circumstances. Key risk factors for Knab include the liquidity of its investments and the fact that a large portion of savings deposits are repayable on demand.

Knab performs very stringent hypothetical liquidity stress tests on a monthly basis, simulating a scenario in which systemic and idiosyncratic stress occurs simultaneously. This scenario applies a number of shocks, the most severe being:

- an unexpected and sudden loss of customer confidence in Knab leading to an unexpected and very rapid drawdown of savings deposits; and
- an unexpected and extreme decline in the liquidity of assets, meaning that the investment portfolio can be liquidated less quickly and at considerably lower market values.

Knab can generate sufficient liquidity, taking into account appropriate management actions, to meet its liquidity needs in this hypothetical stressed liquidity scenario.

In addition, Knab monitors the inflow and outflow of savings deposits on a daily basis, in the light of market conditions and its overall cash position.

Knab issued SAECURE 19 (S19) in 2020. Knab subsequently purchased all the notes issued under S19. The notes are ECB-eligible retained notes and so generated increased liquidity for Knab.
As at December 31, 2021, Knab held EUR 664 million (2020: EUR 729 million) worth of sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. In addition, Knab holds funds at the Dutch Central Bank which it can immediately withdraw. As at December 31, 2021, these funds amounted to EUR 855 million (2020: EUR 1,543 million). Knab expects to be able to continue to meet its commitments on the basis of its operating cash flows and revenues from financial assets.

Maturity analysis of assets – (Other than derivatives)

The tables below show the residual maturities for each financial asset class at December 31, for 2021 and 2020. The tables do not take into account repayments, interest coupons or dividends to be received and reinvested. The mortgages in the table are based on expected outflows based in turn on historical experiences.

2021	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10 years	Total
Cash	859.629	-	-	-	-	859.629
Amounts due from banks	130.030	-	-	-	-	130.030
Investments	-	1.676.235	5.568.204	3.236.846	4.333.351	14.814.636
Other assets	10.866	123.102	-	-	8	133.976
Total	**1.000.525**	**1.799.336**	**5.568.204**	**3.236.846**	**4.333.359**	**15.938.270**

2020	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10 years	Total
Cash	1.548.307	-	-	-	-	1.548.307
Amounts due from banks	102.119	-	-	-	-	102.119
Investments	-	2.219.838	5.556.429	3.224.138	4.181.621	15.182.027
Other assets	7.965	107.731	-	-	8	115.704
Total	**1.658.390**	**2.327.570**	**5.556.429**	**3.224.138**	**4.181.629**	**16.948.156**

Category "Investments" includes the categories "Mortgage loans and other loans" and "Financial assets measured at fair value through other comprehensive income" as shown in the statement of financial position.

Maturity analysis of liabilities (Other than-derivatives) –undiscounted gross contractual cash flows

The tables below show the remaining contractual maturities for each class of financial liability. When the counterparty has a choice as to when to pay an amount, the liability is shown on the basis of the earliest date on which it can be required to be paid. Financial liabilities which are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Knab has to assume that notice is given immediately, and the repayment is presented at the earliest date after the end of the notice period. When the amount payable is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, if the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

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2021	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10 years	Total
Borrowings	-	126	2.002.783	491.975	493.703	2.988.586
Savings deposits	8.333.390	613.940	1.635.246	678.949	324.549	11.586.074
Other financial liabilities	19.552	262.863	-	-	-	282.415
Total	**8.352.942**	**876.929**	**3.638.029**	**1.170.924**	**818.252**	**14.857.076**

2020	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10 years	Total
Borrowings	-	119.002	2.003.377	490.516	-	2.612.894
Savings deposits	9.467.718	623.535	1.399.905	625.137	423.547	12.539.843
Other financial liabilities	16.229	385.761	-	-	-	401.990
Total	**9.483.947**	**1.128.298**	**3.403.282**	**1.115.653**	**423.547**	**15.554.726**

The "Other financial liabilities" category includes the categories "Other liabilities and accruals" and "Provisions" as shown in the statement of financial position

Maturity analysis – derivatives (contractual cash flows)

The table below shows the liquidity analysis for derivative financial instruments, based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

For gross-settled derivatives, cash flows are presented in the table below for both the 'paying leg' and 'receiving leg'. The credit risk on the 'receiving leg' is mitigated by collateral and ISDA 'master netting' agreements as explained for 'credit risk'.

When a cash flow is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, if the cash flow varies with changes in a reference rate, the amount disclosed may be based on the level of the reference rate at the reporting date.

The table includes all financial derivatives regardless of whether they have a positive or negative value.

2021	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10 years	Total
Cash inflows	-	46.725	135.932	199.954	225.959	608.569
Cash outflows	-	-120.302	-281.362	-259.023	-231.258	-891.945

2020	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10 years	Total
Cash inflows	-	35.598	121.522	59.441	76.743	293.304
Cash outflows	-	-112.484	-377.141	-252.262	-192.918	-934.805

4.4.18. Other risks

Legislation and regulations

Knab faces significant risks of litigation and regulatory investigations and actions in connection with its activities. In recent years, the financial services sector has increasingly become involved in litigation, regulatory investigations and actions by a range of government and regulatory bodies relating to generally accepted practices in the industry. A judgment on a large claim or the imposition of strict measures by regulatory bodies may have serious consequences for Knab's operations, operating results, and financial position.

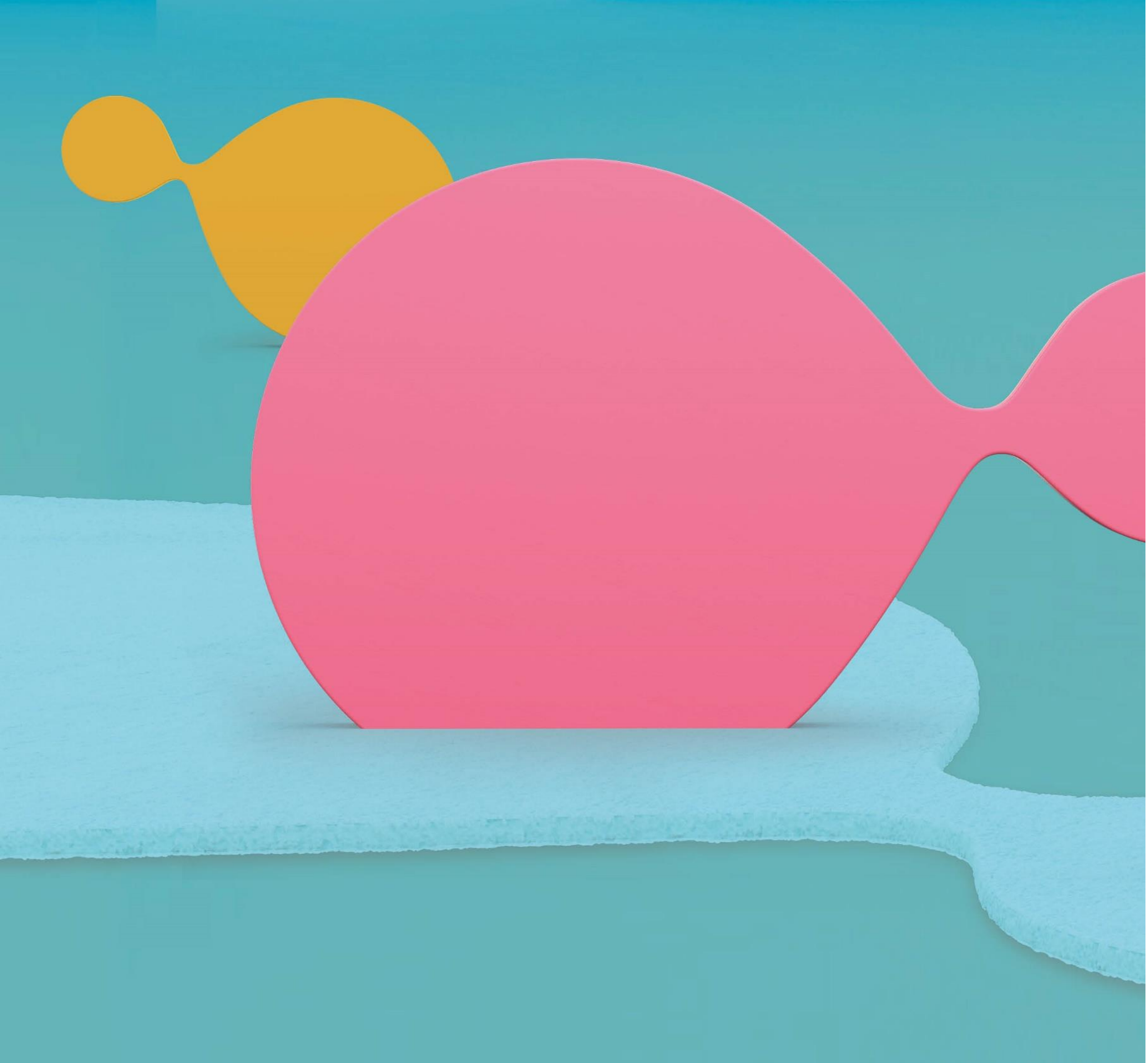
Climate risks

Knab is exposed to financial and non-financial risks as a result of the direct and indirect consequences of climate change. These risks can be divided into physical
risks and transitional risks:

- Physical risks: risks that arise from more frequent and severe climate events, which can pose acute or chronic risks;
- Transitional risks: risks that result from the process of adjusting toward a carbon-neutral economy.

Knab has set up a working group on climate risk in 2020 to further explore the topic and to develop strategies for and raise awareness of responsible business operations and climate risk across the organization. The ECB has issued a report with guidance on climate-related and environmental risks in November 2020, highlighting 13 supervisory expectations for dealing with climate risk in the fields of business model and strategy, governance and risk appetite, risk management and disclosures. Knab's working group on climate risk will assess the ECB's expectations and adopt them as a guide for creating a roadmap for further integrating climate risk across the bank.

Notes to the consolidated financial statements



5. Cash

Cash and cash equivalents include cash and demand balances held with the Dutch Central Bank. The Dutch Central Bank requires Knab to place an equivalent of 1% of its customer deposits with agreed maturities or savings accounts (without restrictions to withdraw their money) in an account with the Dutch Central Bank. This so-called minimum reserve is renewed each maintenance period, which consists of approximately 6 weeks. No interest is paid on the minimum reserve. Deposits at the Dutch Central Bank in excess of seven times the minimum reserve are subject to the ECB's deposit rate of -/- 50 bps (2020: -/-50 bps), in accordance with the two-tier system implemented on October 30, 2019. The average minimum required balance on deposit with the Dutch Central Bank was EUR 73.5 million (2020: EUR 83.7 million). The other cash and cash equivalents have no restrictions. Due to the nature of this asset, the total amount classifies as a current asset.

	2021	2020
Average balance on deposit with DNB at year-end	764.654	1.360.273
Average minimum required balance on deposit by DNB for year-end period	73.517	83.718

6. Amounts due from banks

	2021	2020
Bank accounts	130.030	102.119
Total	**130.030**	**102.119**

Amounts due from banks comprise receivables from banks in the Netherlands and abroad and cash collateral provided. Of the amounts due from banks, EUR 39.3 million (2020: EUR 29.3 million) related to cash positions placed in a DNB account held by the participating instant payment facilitating banks, which facilitate overnight instant payments. Furthermore, amounts due from banks comprised an amount of EUR 49.0 million (2020: EUR 51.8 million) held by consolidated securitizations.

Amounts due from banks also included restricted bank accounts at an amount of EUR 15.3 million (2020: 17.4 million).

Bank accounts are payable on demand, and deposits have a maturity of less than three months. The carrying amounts disclosed reasonably approximate the fair values at year-end.

7. Mortgage loans and other loans

Mortgage loans and other loans include advances granted in the conduct of business other than advances to credit institutions.

	2021	2020
Loans to the private sector		
- Mortgage loans	11.961.342	11.978.497
- Loans to private individuals and small and medium enterprise loans	783.455	1.111.755
- Other loans	297.418	635.635
Total loans at amortized cost	**13.042.215**	**13.725.887**

Fair value	13.793.133	14.229.832

	2021	2020
Current	1.539.437	2.016.513
Non-current	11.502.778	11.709.374
Total	**13.042.215**	**13.725.887**

Certain mortgage loans shown within mortgage loans and other loans are designated in fair value interest rate hedging relationships and are fair valued with respect to the hedged interest rate. This resulted in a higher carrying value of EUR 455 million (2020: EUR 775 million).

The mortgages structured through covered bonds amounted to EUR 2.908 million (2020: EUR 2.371 million).

Loans to private individuals and SMEs of EUR 783 million (2020: EUR 1,112 million) partly related to the consumer loans portfolio purchased in 2013. The loans were structured through a securitization (Kigoi), which has fully been consolidated by Knab. The total balance of consumer loans that were not structured through Kigoi amounted to EUR 324 million (2020: EUR 583 million). This portfolio contains consumer loans originated in the UK and Germany. The latter, Auxmoney portfolio decreased during 2021 because no new loans were acquired from March 2020. Furthermore, the portfolio consisted of EUR 398 million (2020: EUR 435 million) worth of loans to small and medium-sized enterprises. The SME loan portfolio also comprised Coronavirus Business Interruption Loan Scheme loans (CBILS) amounting to EUR 288 million (2020: EUR 253 million). These loans were originated between June 2020 and June 2021. The UK government paid the origination fee and interest for the first 12 months of the loan and provides an 80% guarantee on the outstanding principal at default.

Other loans included a loan of EUR 294 million (2020: EUR 636 million) to Aegon Derivatives N.V. and Aegon N.V. The loan to Aegon Derivatives relates to cash collateral posted for derivatives transactions. Aegon Derivatives will settle this collateral with external parties on behalf of Knab. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values of derivatives and is settled daily.
The Aegon N.V. loan relates to collateral for foreign exchange transactions. The loan represented a receivable of EUR 3.3 million in 2021 (2020: EUR 13.7 million payable).

Loans allowance account

During the year, movements in the loans allowance account were as follows:

2021	Mortgage loans	Loans to private individuals and SMEs	Other	**Total**
At January 1	**2.992**	**156.225**	**1.581**	**160.798**
Addition charged / (reversal) to income statement	-1.496	-24.011	-169	-25.676
Amounts written off	-	-7.320	-342	-7.662
Other	-	-39.819	-	-39.819
At December 31	**1.495**	**85.075**	**1.071**	**87.641**

2020	Mortgage loans	Loans to private individuals and SMEs	Other	**Total**
At January 1	**1.872**	**117.324**	**1.742**	**120.938**
Addition charged to income statement	1.120	91.735	32	92.886
Amounts written off	-	-17.994	-193	-18.186
Other	-	-34.841	-	-34.841
At December 31	**2.992**	**156.225**	**1.581**	**160.798**

Loans that are written off but are still subject to enforcement amount to EUR 22.1 million (2020: 15.7 million)

8. Other financial assets

Other financial assets exclude derivatives. Please refer to note 9 for derivatives and to note 23 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

	2021	2020
Financial assets measured at fair value through other comprehensive income	1.772.421	1.456.140
Total financial assets, excluding derivatives	**1.772.421**	**1.456.140**

2021	FVOCI	**Total**	Fair value
Debt securities	1.772.421	1.772.421	1.772.421
At December 31	**1.772.421**	**1.772.421**	**1.772.421**

2020	FVOCI	**Total**	Fair value
Debt securities	1.456.140	1.456.140	1.456.140
At December 31	**1.456.140**	**1.456.140**	**1.456.140**

	2021	2020
Current	136.798	203.326
Non-current	1.635.623	1.252.814
Total financial assets, excluding derivatives	**1.772.421**	**1.456.140**

None of the financial assets were reclassified during the financial year.

Investments in unconsolidated structured entities

Knab did not provide financial or other support to unconsolidated structured entities. Nor does Knab intend to provide financial or other support to unconsolidated structured entities in which Knab has an interest or previously had an interest.

See note 4.4.12 'Credit risk exposure' of the consolidated financial statements for more information.

9. Derivatives

	Derivative asset		Derivative liability	
	2021	2020	2021	2020
Derivatives not designated in a hedge	28.772	37.897	21.331	22.322
Derivatives designated as fair value hedges	183.088	151.195	455.745	766.671
Total	**211.860**	**189.093**	**477.076**	**788.993**

	2021	2020
Current	-9.802	-977
Non-current	-255.414	-598.924
Total net derivatives	**-265.216**	**-599.900**

Please refer to note 23 for a summary of all financial assets and financial liabilities at fair value through profit or loss, and note 26 for more information on offsetting, enforceable master netting agreements, and similar arrangements.

Derivatives not designated in a hedge

	Derivative asset		Derivative liability	
	2021	2020	2021	2020
Derivatives held as an economic hedge	28.772	37.897	18.746	17.168
Bifurcated embedded derivatives	-	-	2.585	5.154
Total	**28.772**	**37.897**	**21.331**	**22.322**

Knab uses derivatives for risk management purposes. Its exposure to interest rate risk arising from its investments, on the one hand, and its commitments, on the other, is adjusted to what it considers to be an appropriate level by using derivatives. The instruments used are interest rate swaps (IRSs) and futures.

Only a small part of Knab's products involve guarantees to customers. The extent of Knab's guarantee obligation varies according to changes in the underlying assets and will only become effective at the end date of the underlying contract. The guarantee obligation is to be regarded as a written put position. Customers pay a mark-up for the guarantees. The market and interest rate risks inherent in these guarantees are hedged through futures contracts.

Hedge accounting

Knab’s fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting are recognized in the income statement. The effective portion of the fair value change on the hedged item is also recognized in the income statement. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ended 31 December 2021, Knab recognized EUR -/- 309.5 million in fair value changes on mortgage loans under fair value hedge accounting under the EU carve-out in the income statement (2020: EUR 259.0 million). Furthermore, EUR 0.5 million (2020: EUR -/- 0.2 million) in fair value changes on borrowings were recognized in fair value hedge accounting under full IFRS.
These amounts were offset by EUR 342.8 million fair value changes recognized on derivatives used as hedging instruments (2020: EUR -/- 205.1 million). This offset is possible only when using the EU carve-out on hedge accounting because otherwise the hedge would not be “highly” effective as required by IFRS. In 2021, the amortization charge on the basis adjustment was EUR -/- 11.9 million (2020: EUR -/- 8.9 million).

The total net accounting ineffectiveness recognized in the income statement was EUR 33.9 million in 2021 (2020: EUR 53.7 million). As at December 31, 2021, the fair value of outstanding derivatives designated under fair value hedge accounting was minus EUR 272.7 million, presented in the statement of financial position as EUR 455.7 million within liabilities and EUR 183.1 million within assets (2020: minus EUR 615.5 million, EUR 766.7 million within liabilities and EUR 151.2 million within assets).

The following table provides details of the hedging instruments used as part of Knab’s hedging strategies:

2021

	Carrying amounts				
Fair value hedges	**Notional**	**Assets**	**Liabilities**	**Balance sheet line item(s)**	**Change in fair value used to assess hedge ineffectiveness**
<u>Interest rate</u>					
Macro fair value hedge	5.031.569	183.088	455.745	Derivatives	343.654
Micro fair value hedge	-	-	-	Derivatives	-809

The following table provides details of the hedged exposures as part of Knab’s hedging strategies:

Fair value hedges	**Carrying amount of hedged item**		**Accumulated amount of fair value adjustments on the hedged item**		**Balance sheet line item(s)**	**Change in fair value of hedged item to assess ineffectivness**
	Assets	**Liabilities**	**Assets**	**Liabilities**		
<u>Interest rate</u>						
Macro fair value hedge	11.961.342	-	455.031	-	Mortgage loans and other loans	-309.474
Micro fair value hedge	-	-	-	-1.158	Borrowings	497

Fair value hedges	Gains / (loss) recognized in OCI	Hedge ineffectiveness recognized in P&L	P&L line item that includes hedge ineffectiveness	*Amounts reclassified from reserves to P&L as:* Hedged cash flows will no longer occur	Hedged item affected P&L	P&L line item that includes reclassified amount
Interest rate						
Macro fair value hedge	N/A	34.180	Result on financial transactions	N/A	N/A	N/A
Micro fair value hedge	N/A	-312	Result on financial transactions	N/A	N/A	N/A

2020

Fair value hedges	Notional	Carrying amounts Assets	Liabilities	Balance Sheet line item(s)	Changes in fair value used in calculating hedge ineffectiveness
Interest rate					
Macro fair value hedge	4.560.964	151.195	766.671	Derivatives	-205.003
Micro fair value hedge	-	-	-	Derivatives	-63

The following table provides details of the hedged exposures as part of Knab's hedging strategies:

Fair value hedges	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance Sheet line item(s)	Change in fair value of hedged item for ineffectiveness assessment
	Assets	Liabilities	Assets	Liabilities		
Interest rate						
Macro fair value hedge	11.978.497	-	775.433	-	Mortgage loans and other loans	258.977
Micro fair value hedge	-	2.492.915	-	2.035	Borrowings	-182

			Amounts reclassified from reserves to P&L as:			
Fair value hedges	**Gains / (loss) recognised in OCI**	**Hedge ineffectiveness recognised in P&L**	**P&L line item that includes hedge ineffectiveness**	**Hedged cash flows will no longer occur**	**Hedged item affected P&L**	**P&L line item that includes reclassified amount**
Interest rate						
Macro fair value hedge	n.a.	53.975	Result from financial transactions	n.a.	n.a.	n.a.
Micro fair value hedge	n.a.	-245	Result from financial transactions	n.a.	n.a.	n.a.

Effect of uncertainty over IBOR reform on derivatives designated as fair value hedges

The future of IBORs (Interbank Offered Rates) such as Euribor, EONIA and LIBOR has been a major topic on the global agenda since the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of leading interest rate benchmarks in 2013. The FSB proposed new standards to reform interest rate benchmarks and the use of transaction-based input data instead of non-transactional/panel input data. In the EU, this is reflected in the new Benchmark Regulation (BMR), which stipulates that only BMR-compliant benchmarks may be used within the EU.

As part of the IBOR transition in 2020, we switched from using the EONIA (Euro Overnight Index Average) to using the €STR (Euro Short-Term Rate) as the discount rate for the derivatives in our portfolio. The differences in market value caused by this switch had no material impact on Knab's financial statements.

10. Other assets and receivables

	2021	2020
Receivables	82.255	63.389
Accrued income	51.721	52.315
Total	**133.976**	**115.704**

10.1. Receivables

	2021	2020
Investment debtors	36.326	41.098
Current account with group companies	45.283	22.103
Other	646	189
Total	**82.255**	**63.389**
Current	82.247	63.381
Non-current	8	8
Total	**82.255**	**63.389**

Current accounts with group companies compromised a receivable from Aegon Nederland N.V. of EUR 45.3 million (2020: EUR 22.1 million).

The carrying amounts disclosed reasonably approximate the fair values at year-end.

10.2. Accrued income

	2021	2020
Accrued interest	51.721	52.315
At December 31	**51.721**	**52.315**

Accrued income is classified entirely as a current asset. The carrying amounts disclosed reasonably approximate the fair values at year end.

11. Savings deposits

	2021	2020
At January 1	12.539.843	11.535.813
Deposits	19.006.119	15.452.708
Withdrawals	-20.018.103	-14.511.469
Interest credited	58.216	62.790
At December 31	**11.586.074**	**12.539.843**
Current	8.947.330	10.091.253
Non-current	2.638.744	2.448.590
	11.586.074	**12.539.843**

Savings deposits comprised EUR 1,040 million of savings related to 'Bankspaarhypotheken' (2020: EUR 987 million). Deposits received for 'Bankspaarhypotheken' are directly invested in a subparticipation of the customer's mortgage. The subparticipations in the mortgages and the related deposits are shown as gross amounts in the financial statements, as there is no intention to (directly) offset the mortgage against the deposit.

12. Borrowings

	2021	2020
Borrowings	2.988.586	2.612.894
At December 31	**2.988.586**	**2.612.894**

	2021	2020
Current	126	119.002
Non-current	2.988.460	2.493.892
Total	**2.988.586**	**2.612.894**
Fair value	3.027.015	2.700.810

At year end, Knab had issued the following covered bonds and senior notes:

Issue	Issue date	Par value	Maturity date	Interest rate
Conditional Pass-Through Covered Bond Program				
Cobo 2	May 2016	500	May 2023	0.25%
Cobo 3	June 2017	500	June 2027	0.75%
Cobo 4	November 2017	500	November 2024	0.38%
Cobo 5	November 2020	500	November 2025	0.01%
Soft Bullet Covered Bond Program				
Cobo SB 1	June 2021	500	June 2036	0.38%
Other issues				
SNP	June 2019	500	June 2024	0.63%

Covered bond (Cobo)

In May 2021, Knab launched a EUR 5 billion Soft Bullet Covered Bond ("SBCB") Program, in addition to the Conditional Pass-Through Covered Bond ("CPTCB") Program previously set up in 2015. Under these Programs, the payment of interest and principal is guaranteed by an Aegon-administered structured entity, i.e., Aegon Conditional Pass-Through Covered Bond Company B.V and Aegon Soft Bullet Covered Bond Company B.V., respectively (the "Companies"). In order for the Companies to honor its guarantee, Knab transfers ownership of mortgage loans originated by Aegon affiliates to the Companies. The Companies are consolidated by Knab. After five successful CPTCB issuances, Knab successfully issued its inaugural EUR 500 million transaction, with a 15-year maturity, under the SBCB Program in June 2021. The first CPTCB issuance, dating back to 2015, was fully repaid in December 2020. The par value of the CPTCB issue amounted to EUR 750 million.

Senior Non Preferred Notes (SNP)

In Q2 2019 Knab issued EUR 0.5 billion in Senior Non-Preferred notes (SNP). These SNP notes are MREL eligible notes. Under the MREL Regulation, the National Resolution Authority must impose a minimum requirement for own funds and eligible liabilities. If a bank fails and goes into resolution, the MREL acts as a buffer to absorb losses and to provide new capital to the bank. The legal maturity of the notes is Q2 2024. The notes will only be redeemed at the option of the Issuer for tax reasons and upon the occurrence of an MREL Disqualification Event. An "MREL Disqualification Event" occurs if, as a result, any amendment to or change in any Applicable MREL Regulations, or any change in the application or official interpretation of any Applicable MREL Regulations, in any such case becoming effective on or after the Issue Date of the notes, the notes are or (in the opinion of the Issuer or the Competent Authority) are likely to become fully or partially excluded from the Issuer's MREL Eligible Liabilities.

LTRO

At December 31, 2020, Knab had borrowed EUR 105 million from the European Central Bank under its Long Term Refinancing Operation (LTRO) program (2021: EUR 0 million). The loan had a 3-month term.

13. Net deferred tax liabilities

	2021	2020
Net deferred tax liabilities	80.744	84.810
Total net deferred tax liability / (asset)	**80.744**	**84.810**

Movements in deferred tax

2021	Financial assets	Total
At January 1	**84.810**	**84.810**
Charged to income statement	-878	-878
Charged to equity	-3.188	-3.188
At December 31	**80.744**	**80.744**

2020	Financial assets	Total
At January 1	**74.579**	**74.579**
Charged to income statement	9.120	9.120
Charged to equity	1.111	1.111
At December 31	**84.810**	**84.810**

Deferred tax assets and liabilities are netted if there is a legally enforceable right to net current tax assets and liabilities and the deferred tax items relate to the same taxation authority. Deferred positions are recognized for temporary differences, unused tax loss carryforwards and unused tax credit carryforwards when, in the opinion of management, it is probable that they can be utilized. All deferred taxes are non-current.

The future change in Dutch corporate income tax rates had a negative impact of EUR 4.6 million in 2020, which was processed through deferred taxes. No tax rate changes were introduced by the Dutch government in 2021.

14. Provisions

	2021	2020
Other provisions	10.248	49.054
Total	**10.248**	**49.054**

	2021	2020
Current	10.248	49.054
Non-current	-	-
Total	**10.248**	**49.054**

The provisions mainly relate to pending claims and litigations. Aegon Bank is involved in claims for compensation and the cancellation or nullification of contracts concerning the Vliegwiel product, a variation on securities leasing products. Currently, proceedings are pending before the Dutch courts and the Financial Services Complaints Tribunal (Klachteninstituut Financiële Dienstverlening), with numerous cases having been initiated by Leaseproces B.V., a company representing a large number of claimants In December 2020, Aegon Bank reached an agreement in principle with Leaseproces B.V. for the settlement of claims filed by Leaseproces regarding Vliegwiel and Sprintplan products. The settlement was confirmed and became final on September 13, 2021. The agreement is expected to be performed fully in 2Q 2022.

Movements in provisions

2021	Total
At January 1	49.054
Additions and releases recorded in income statement	2.115
Used during the year	-40.921
At December 31	**10.248**

2020	Total
At January 1	10.504
Additions charged to earnings	44.931
Used during the year	-6.382
At December 31	**49.054**

15. Other liabilities and accruals

	2021	2020
Other liabilities	212.036	294.364
Accruals	60.132	58.572
Total	**272.167**	**352.936**

The carrying amounts of the financial items disclosed reasonably approximate their fair values at year-end.

15.1. Other liabilities

	2021	2020
Investment creditors	8.075	7.767
Income tax payable	38.193	10.378
Social security and taxes payable	16.581	6.755
Current account with group companies	113.737	222.691
Other creditors	35.449	46.773
Total	**212.036**	**294.364**
Current	212.036	294.364
Non-current	-	-
Total	**212.036**	**294.364**

Current accounts with group companies comprised a payment obligation to Aegon Hypotheken B.V. of EUR 113.7 million (2020: EUR 222.7 million) resulting from the originated loans by Aegon Hypotheken B.V. around year-end.

15.2. Accruals

	2021	2020
Accrued interest	60.132	58.572
Total	**60.132**	**58.572**
Current	60.132	58.572
Non-current	-	-
Total	**60.132**	**58.572**

16. Equity

	2021	2020
Share capital	37.437	37.437
Share premium	476.751	476.751
Revaluation reserves	1.973	11.584
Retained earnings	127.973	204.900
Participations	9.500	9.500
Net income / (loss)	81.601	-31.453
Total	**735.234**	**708.719**

In 2021, Knab paid a dividend of EUR 45.0 million (2020: 0). Distributed dividend in 2021 per share outstanding amounts to EUR 500.

16.1. Share capital

	2021	2020
Authorized share capital	90.000	90.000
Not issued	52.563	52.563
Total	**37.437**	**37.437**

The authorized share capital is EUR 90 million, divided into 90,000 shares with a par value of EUR 1,000 each, 37,437 shares of which have been issued and fully paid. There have been no changes since the previous financial year. In 2021 Knab paid a dividend of EUR 45.0 million (2020 no dividends paid).

Under Dutch law, the amount that is legally available for distribution as a dividend to the shareholder is the amount available after deducting the outstanding share capital (whether paid-in or otherwise) and the reserves required to be kept by law and the Articles of Incorporation.

Knab may also cancel a dividend payment if it fails to meet the solvency capital requirement or the dividend payment leads to failure to meet the solvency capital requirement. In such circumstances, dividends may be distributed only if (i) the Dutch Central Bank by way of an exception waives the cancellation of dividends, (ii) the distribution does not lead to a further deterioration of Aegon's solvency position, and (iii) the minimum capital requirement continues to be satisfied after the distribution is made.

16.2. Revaluation reserves

	2021	2020
At January 1	**11.583**	**9.359**
Gross revaluation	-10.539	3.974
Net (gains) / losses transferred to income statement	-2.260	-640
Tax effect	3.188	-1.111
At December 31	**1.972**	**11.583**

There are restrictions on the distribution to shareholders of revaluations relating to financial instruments that are not actively traded / quoted.

16.3. Participations

	2021	2020
At January 1	9.500	9.500
Issuance of participations	-	-
At December 31	**9.500**	**9.500**

Aegon Bank has issued client participations under the brand name Knab. The participations have the following characteristics:

- They are subordinated perpetual liabilities issued by Aegon Bank N.V.
- They were available for Plus, Premium and Business Knab customers.
- Holders of the participations are entitled to a 50% discount on the monthly Knab fee and an interest rate of initially 5% on the notional of the participation.
- The interest rate will be reviewed periodically and may be adjusted to reflect market conditions and no step-ups will be applied.
- The bank may, at the discretion of management, repay the notional five years after the issue of the participations.
- Prepayments can only be made on regulatory grounds and with the regulator's approval.
- As set out in the prospectus, the bank may in specific situations obliterate the notional of the participations.

- As set out in the prospectus, the bank may in specific situations obliterate the notional of the participations.

Based on its specific characteristics, the participation qualifies as Tier 1 capital under the applicable banking regulations. Due to its nature, the instrument also qualifies as equity under IFRS. The discount on the fee is netted against the corresponding fee income. The interest charges are treated as dividends in the consolidated statement of changes in equity. Dividends are shown on a net basis. This includes the deducted dividend tax on the discount and interest.

On November 2, 2017, a change to the terms of the participations program became effective, pursuant to which (among other things) (i) no participations would be issued anymore and (ii) Aegon Bank had the right to redeem all participations starting from November 1, 2022 (if not redeemed earlier under the terms of the program). At December 31, 2021, Aegon Bank had issued 1,900 participations with a corresponding value of EUR 9.5 million (2020: 1,900 participations with a corresponding value of EUR 9.5 million).

17. Interest income and expense

17.1. Interest income and related fees

Interest income calculated using the effective interest method	2021	2020
Mortgage loans and other loans	370.668	385.862
Debt securities	432	1.749
Total	**371.099**	**387.611**

	2021	2020
Financial assets measured at FVOCI	432	1.749
Amortized cost	370.668	385.862
Total	**371.099**	**387.611**

Mortgage loans and other loans comprised EUR 280.3 million (2020: EUR 272.6 million) in mortgages, EUR 46.5 million (2020: EUR 78.9 million) in consumer loans and EUR 43.8 million (2020: EUR 34.1 million) in SME loans.

17.2. Interest expense and related fees

Interest expenses calculated using the effective interest method	2021	2020
Cash	5.511	6.894
Savings deposits	54.862	61.194
Covered bonds and SNP notes	13.161	15.379
Other	463	305
Total	**73.997**	**83.771**

Other interest expenses	2021	2020
Derivatives	79.228	71.801
Total	**79.228**	**71.801**

	2021	2020
Amortized cost	73.997	83.771
Financial liabilities measured at FVPL	79.228	71.801
Total	**153.225**	**155.572**

Interest expenses on financial assets and financial liabilities that are measured at fair value through profit or loss are presented as other interest expenses.

18. Fee and commission income and expense

18.1. Fee and commission income

	2021	2020
Revenue from customer transactions	26.310	22.360
Total	**26.310**	**22.360**

Revenues from customer transactions includes for EUR 6.2 million (2020: EUR 5.7 million) fees charged to Aegon Hypotheken B.V. in relation to the 'Banksparen' mortgage product. The Revenue from customer transactions is comprised of fee charged to Knab customers for monthly package fees.

18.2. Fee and commission expense

	2021	2020
Commissions	1.933	1.844
Total	**1.933**	**1.844**

19. Result on financial transactions

	2021	2020
Net fair value change of guarantees	2.711	-1.632
Net fair value change of derivatives	10.535	41.275
Realized gains / (losses) on mortgage loans	361	132
Realized gains / (losses) on consumer loans	784	-
Realized gains / (losses) on financial assets measured at FVOCI	3.172	550
Total	**17.563**	**40.325**

The net fair value change of derivatives consists of the net gains or losses on derivatives and hedge accounting. This line item also includes FX gains or losses. For details of the amount recognized as the net fair value change of derivatives, see note 9 'Derivatives'.

20. Employee expenses and other operating expenses

20.1. Employee expenses

At December 31, 2021, Aegon Netherlands employed 386 FTEs (2020: 384 FTEs) who carried out work for Knab or its subsidiaries. All staff are based in the Netherlands. The salaries, social security contributions and pension contributions for staff employed by Aegon Netherlands are recharged to Knab. The total staff costs including intra-group charges are shown in the table below.

	2021	2020
Salaries	26.254	25.071
Post-employment benefit costs	5.220	4.872
Social security charges	3.310	3.233
Other personnel costs	18.933	20.949
Total	**53.716**	**54.125**

"Other Personnel costs" mainly comprise the costs of hiring temporary workers and interim staff.

The assets and liabilities arising from employee benefits for staff working for Aegon Bank are recognized in the financial statements of Aegon Nederland N.V. Please refer to the financial statements of Aegon Nederland N.V. for more information on the pension plan and defined benefit liabilities. The pension costs charged (post-employment benefit costs) to Knab are a fixed percentage of the salaries charged to the entity.

20.2. Other operating expenses

	2021	2020
IT and consultancy fees	24.056	23.672
Investment expenses	34.785	33.022
Recharged costs of support organizations	13.568	21.819
Other expenses	46.333	103.206
Total	**118.742**	**181.719**

Operating expenses decreased primarily due to lower expenses due to the integration of Aegon Bank and Knab (project One) and lower expenses on regulatory tracks and provision charges.

Independent auditor's fee

PricewaterhouseCoopers Accountants N.V. were Knab's independent external auditors during 2021 and they have audited these financial statements. Under Section 382a.3 of Book 2 of the Dutch Civil Code, the fees for services rendered to Knab do not need to be disclosed in this Annual Report. The aggregate fees for professional services and other services rendered by PricewaterhouseCoopers Accountants N.V. to the Aegon Group as a whole are disclosed in Aegon N.V.'s Annual Report.

For the period to which the statutory audit 2021 relates, and in addition to the audit of the statutory financial statements, PriceWaterhouseCoopers Accountants N.V., rendered the following services to the company and its subsidiaries.

- Other audit services required by law or regulatory requirements:
    - Audit of the regulatory returns to be submitted to the Dutch Central Bank
    - Assurance engagement on cost price models to be submitted to the Dutch Financial Markets Authority (AFM)
    - Assurance engagement on segregation of assets to be submitted to the AFM
    - Agreed upon procedures on interest rate risk reporting to the Dutch Central Bank

- Other audit services:
    - Comfort letters relating to the update of the prospectus, supplement and the issue of the soft bullet covered bond
    - Review report on Q2 and Q4 finrep reports
    - ISAE 3402 reporting on Deposit Guarantee System
    - Assurance report on "Netto Havenpensioen"
    - Agreed upon procedures on asset coverage test and liquidity reserve test for the covered bond programs

20.3. Remuneration of (former) Statutory Board members

Current and former members of the Statutory Board are regarded as key management personnel. The remuneration of current and former directors recharged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code is set out below (amounts in euros).

	2021	2020
Members of the Board of Directors		
Gross salary and social security contributions	936.886	927.852
Pension premium	9.126	69.002
Other benefits	138.273	179.175
Total	**1.084.285**	**1.176.030**

Mortgage loans to Statutory Board

On the reporting date, members of the Statutory Board had mortgage loans totaling EUR 784.000 from a company associated with Knab (2020: EUR 817.000) at variable interest rates ranging from 1,54% to 4.55% in line with the terms and conditions available to Knab employees. During 2021, the amount in mortgages decreased by EUR 33,000 (2020: decrease of EUR 655,000). There were no other loans, guarantees or advance payments.

Variable Compensation Plans

Members of the Statutory Board and selected employees have been granted variable compensation in accordance with the rules applicable to them and the interpretations of those rules adopted by the relevant authorities. The Dutch Act on Financial Sector Pay 2015(*Wet beloningsbeleid financiële ondernemingen; Wft*) and the CRD IV are prominent examples. These rules have been incorporated into Aegon N.V.'s Global Remuneration Framework and consistently applied across Aegon Nederland. After the performance period, and based on the framework, any variable compensation is partly made available and partly deferred. Variable compensation is paid in both cash and Aegon N.V. shares. The shares were conditionally granted at the beginning of the year at the volume-weighted average price (VWAP) quoted on the Amsterdam Euronext stock exchange during the period between December 15 preceding a plan year and January 15 of the plan year. The performance indicators apply over a performance period of one year and consist of Aegon N.V. and/or Aegon Netherlands targets (both financial and non-financial) set by the Supervisory Board or the remuneration committee, and personal/strategic targets. The conditional grant of variable compensation is also dependent on continued employment of the individual employee to whom the rights have been granted. An ex-post assessment will be performed to determine whether any allocated (unvested) variable compensation should become unconditional or be adjusted. In addition, for members of the Statutory Board, the Supervisory Board has the right to claw back variable compensation that has already been paid out or vested.

The deferred shares portion of the variable compensation cliff-vest three years after allocation, while the deferred portions for members of the Statutory Board tranche-vest during a three-year period after allocation. Before each vesting moment, the Supervisory Board can decide to revise an award downwards based on the annual ex-post risk assessment, which takes into account significant and exceptional circumstances which were not (sufficiently) reflected in the initial performance assessment.

In compliance with Dutch regulations, no transactions regarding the shares may be conducted in blackout periods.

All share plans are recognized in Aegon Nederland's financial statements as cash-settled share-based payment transactions, since all grants are settled by Aegon Netherlands in Aegon N.V. shares via its current account with Aegon N.V. Aegon Netherlands uses a net settlement option for participants to meet withholding income tax obligations on vested tranches. This means that Aegon will not sell shares on the market, but retain them instead and settle directly with the tax authorities in cash rather than shares.

Aegon Netherlands operates the variable compensation plans (both for Aegon N.V. and Aegon Nederland) and recharges the associated costs for employees that work solely for Knab.

Variable compensation for members of the Statutory Board

The following table shows the rights granted for active plans.

Variable compensation plan for year:	Conditionally granted shares	Actual shares granted	Transferred in period
2021	N/A	N/A	N/A
2020	N/A	N/A	N/A
2019	11.235	6.441	2020-2023
2018	8.256	8.163	2019-2022
2017	8.013	6.645	2018-2021

On January 1, 2020, Knab abolished the variable pay system in its entirety and so no shares were granted in 2021 or 2020.

The following tables provide information on the shares granted to the Statutory Board.

Movements during the year	2021	2020
Unvested at January 1	8.394	18.769
Reversal conditionally granted		-11.235
Number of shares conditionally granted *	N/A	N/A
Number of shares allocated		6.441
Number of shares vested	-2.552	-5.581
Unvested at December 31	**5.842**	**8.394**

Information on share prices used for the grant (in EUR) by plan year

	Fair value of shares at grant date in EUR	Average share price used for grant in EUR
2021	N/A	N/A
2020	N/A	N/A
2019	2,741 to 3,737	4,162
2018	4,143 to 5,054	5,848
2017	4,040 to 4,933	4,933

Unvested shares by plan year	2021	2020
	N/A	N/A
2020	N/A	N/A
2019	4.754	5.060
2018	1.088	2.176
2017	-	1.158
Unvested at December 31	**8.394**	**8.394**

20.4. Remuneration of (former) Supervisory Board members

Members and former members of the Supervisory Board are regarded as key management personnel. No costs were recharged to Knab for internal supervisory board members. This is in accordance with Knab's remuneration policy.

The remuneration of current and former supervisory directors charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code was EUR 111.439 (2020: EUR 149.000), consisting entirely of gross pay and the employer's share of social security contributions.

Mortgage loans to Supervisory Board

On the reporting date, supervisory directors had no mortgage loans from a company associated with Knab (2020: total of EUR 475.000 at an average interest rate of 2.45%).

21. Impairment losses

	2021	2020
Impairment charges comprise:		
- Financial assets measured at fair value through other comprehensive income	911	-89
- Loans	-25.676	92.886
Total	**-24.764**	**92.797**

The impairment result regarding loans in 2021 is positive due to net reversals of impairments on mortgages by EUR 1.5 million (2020: EUR 1.1 million charge), net reversals of impairments on consumer loans by EUR 6.8 million (2020: EUR 50.3 million charge) and net reversals of impairments on SME loans by EUR 17.2 million (2020: EUR 41.4 million charge). See note 4.4.11 'Loss allowance'.

22. Income tax

	2021	2020
Current tax		
- current year	32.179	-13.557
- adjustments to prior year	-782	129
Deferred tax		
- origination / (reversal) of temporary differences	-4.149	4.617
- changes in tax rates / bases	2.489	4.632
- adjustments to prior years	782	-129
Income tax for the period (income) / charge	**30.519**	**-4.308**

The weighted average applicable statutory tax rate for Knab in 2021 and 2020 was 25%. The newly enacted tax rate for 2022 will be 25.8% (2021: 25%). The future change in the Dutch corporate income tax rate (from 25% to 25.8%) had a negative impact of EUR 2.5 million in 2021, which was processed through deferred taxes (2020 EUR 4.6 million).

Reconciliation between standard and effective income tax

	2021	2020
Income / (loss) before tax	112.120	-35.761
Income tax calculated using weighted average applicable statutory rates (income) / charge	28.030	-8.940
Difference due to the effects of:		
- changes in tax rates / bases	2.489	4.632
Income tax for the period (income) / charge	**30.519**	**-4.308**

Knab is a member of the tax group headed by Aegon N.V., and any taxes it owes directly are set off at the level of the tax group. Knab is jointly and severally liable for all tax liabilities of the entire tax group.

23. Summary of financial assets and financial liabilities at fair value through profit or loss

The table below summarizes the carrying amounts of financial assets and financial liabilities that are classified as at fair value through profit or loss, with appropriate distinction between those financial assets and financial liabilities held for trading and those that, upon initial recognition, were designated as at fair value through profit or loss.

	2021		2020	
	Trading	Designated	Trading	Designated
Derivatives with positive values	28.772	183.088	37.897	151.195
Total financial assets at FVTPL	**28.772**	**183.088**	**37.897**	**151.195**

	2021		2020	
	Trading	Designated	Trading	Designated
Derivatives with negative values	21.331	455.745	22.322	766.671
Total financial liabilities at FVTPL	**21.331**	**455.745**	**22.322**	**766.671**

Gains and losses recognized in the income statement on financial assets and financial liabilities classified as at fair value through profit or loss can be summarized as follows:

	2021		2020	
	Trading	Designated	Trading	Designated
Net gains and losses	-52.610	24.545	31.935	43.235

Changes in the fair value of financial liabilities designated at fair value through profit or loss were not attributable to changes in credit spread. There were also no differences between the carrying amounts of these financial liabilities and the contractual amounts payable at maturity (net of surrender penalties).

24. Commitments and contingencies

24.1. Investments contracts

Knab has entered into commitments under investment purchase and sales transactions in the normal course of its business, most of which were to be performed in 2021. The amounts shown represent the future cash outflows and inflows from these investment transactions that are not reflected in the statement of financial position. Mortgage loan commitments represent undrawn mortgage loan facilities provided and outstanding mortgage proposals. Sales of mortgage loans relate to pre-announced redemptions on mortgage loans.

Knab has committed itself directly or through Orange Loans to investing in private loans and SME loans.

Purchases	2021	2020
Loans to private individuals and SME loans	23.821	69.000
Mortgage loans	782.374	646.970

Sales	2021	2020
Mortgage loans	21.914	42.785

24.2. Other commitments and contingencies

Knab acts as a guarantor vis-à-vis its customers for the performance of the obligations of Stichting Aegon Beleggingsgiro.

Knab is a member of the tax group headed by Aegon N.V, and any taxes it owes directly are set off at the level of the parent of the tax group. Knab is jointly and severally liable for all tax liabilities of the entire tax group.

24.3. Off-balance sheet assets

As part of its core activities, Knab enters into contracts and maintains relationships with customers for a variety of financial services. In consideration of these services, Knab is paid a fee linked to the value of assets, the investment returns or the risks involved in the contract.

Knab's financial services include distributing investment funds that operate on the retail market. These assets are held by customers and, accordingly, are not reported in Knab's statement of financial position. The total amount of assets related to these services was EUR 372 million (2020: EUR 312 million).

Deposit Guarantee Scheme

The Deposit Guarantee Scheme (DGS) guarantees certain bank deposits of account holders in the event that a Dutch-based bank fails. The scheme provides security for deposits of up to EUR 100,000 per account holder per bank, irrespective of the number of accounts. In the case of a joint account held by two persons, this amount applies per person. The scheme covers almost all savings accounts, current accounts and short-term deposits, but no shares or bonds. If a credit institution fails and there are not enough funds to pay its account holders the guaranteed amounts in full or at all, the Dutch Central Bank (DNB) will pay out no more than the above-mentioned maximum amounts. The total amount so paid will then be refunded to the DNB by the banks under a cost allocation scheme.

The Dutch Ministry of Finance and the DNB are currently working on the creation of a fund to finance the Deposit Guarantee Scheme. The change is occasioned by experiences from the credit crisis and upcoming European legislation. Under the new funding method, banks will pay risk-weighted ex-ante contributions into the DGS. This new policy took effect on 1 January 2016.

24.4. Litigations and proceedings

Knab may become involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. Current and former customers, both institutional and groups representing customers, may initiate litigation.

In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers have been treated fairly, and to respond to matters raised by policyholders and their representatives. There is a risk that Knab will not be able to resolve some or all of these matters in the manner that it expects. In certain instances, Aegon Netherlands subsidiaries have modified business practices in response to inquiries or inquiry findings. Regulators may impose fines or other monetary penalties or require Knab to change the way in which it conducts its business.

Aegon Bank has litigation policies in place to deal with claims, defending a claim when it is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Bank will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

25. Transfers of financial assets

Transfers of financial assets occur when Knab transfers contractual rights to receive cash flows from financial assets or when it retains the contractual rights to receive the cash flows from the financial asset transferred, but assumes a contractual obligation to pay those cash flows to one or more recipients under the arrangement.

In the normal course of business, Knab may be involved, among other things, in the following transactions:

- Transferred financial assets that are not derecognized in their entirety:
  - Securities lending, whereby Knab transfers legal (but not the beneficial) ownership of assets and receives cash and non-cash collateral. The assets transferred are not derecognized. The obligation

to repay the cash collateral is recognized as a liability. The non-cash collateral is not recognized in on the statement of financial position; and

- Transferred financial assets that are derecognized in their entirety and in which Knab does not have a continuing involvement (normal sale).
- Transferred financial assets that are derecognized in their entirety, but where Knab has a continuing involvement:
  - Securitizations whereby mortgage loans are transferred to a securitization vehicle which is not part of the Group and where Knab has a continuing involvement in the transferred assets.
- Collateral accepted in the case of securities lending, reverse repurchase agreements and derivative transactions.
- Collateral pledged in the case of (contingent) liabilities, repurchase agreements, securities borrowing and derivative transactions.

The following disclosures provide details of transferred financial assets that are not derecognized in their entirety, transferred financial assets that are derecognized in their entirety, but where Knab has a continuing involvement, and assets accepted and pledged as collateral.

25.1. Assets pledged

Knab is required to pay cash for margin calls to be able to trade in derivatives on the securities markets. Knab is required to hold a certain percentage of its assets relating to its banking activities in an account with the Dutch Central Bank. See note 5 “Cash” for more information.

On May 28, 2020, Knab sold EUR 1.7 billion of mortgage loans to an SPE and purchased all of the debt securities issued by the SPE (SAECURE 19 B.V.). Knab controls the SPE, which is therefore consolidated by Knab. The notes are ECB eligible retained notes.

The value of the collateral posted was EUR 1,433 million (2020: EUR 1,587 million). The difference between the collateral value and ECB loans is available as an additional credit facility (2021: EUR 1,433 million; 2020: EUR 1,482 million).

As part of Knab’s mortgage loan funding program, EUR 2.9 billion (2020: EUR 2.4 billion) has been pledged as security for notes issued (See to note 12‘)

26. Offsetting, enforceable master netting agreements, and similar arrangements

The table below provides details relating to the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities.

Financial assets and liabilities are offset in the statement of financial position when Knab has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realize the asset and settle the liability simultaneously.

Knab mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and ISDA master netting agreements for each of its legal entities so as to allow Knab to exercise its right to offset credit risk exposure. The credit support agreement will normally specify the threshold over which Aegon Bank or its counterparty must post collateral. Transactions requiring Knab or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary for standard long-term borrowing, derivatives, securities lending and securities borrowing activities, and subject to requirements determined by exchanges where the bank acts as an intermediary.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

2021	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position: Financial instruments	Related amounts not set off in the statements of financial position: Cash collateral received (excluding surplus collateral)	**Net amount**
Derivatives	211.860	-	**211.860**	211.860	-	**-**
At December 31	**211.860**	**-**	**211.860**	**211.860**	**-**	**-**

2020	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position: Financial instruments	Related amounts not set off in the statements of financial position: Cash collateral received (excluding surplus collateral)	**Net amount**
Derivatives	189.093	-	**189.093**	189.093	-	**-**
At December 31	**189.093**	**-**	**189.093**	**189.093**	**-**	**-**

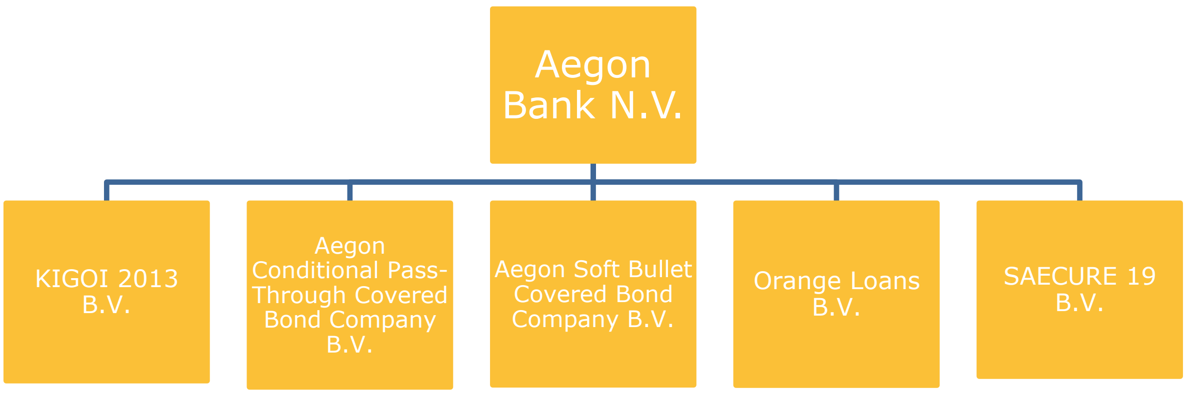
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2021	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	**Net amounts of financial liabilities presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral pledged	
Derivatives	474.491	-	**474.491**	211.860	297.356	**-34.725**
At December 31	**474.491**	-	**474.491**	**211.860**	**297.356**	**-34.725**

2020	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	**Net amounts of financial liabilities presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral pledged	
Derivatives	783.839	-	**783.839**	189.093	594.712	**34**
At December 31	**783.839**	**-**	**783.839**	**189.093**	**594.712**	**34**

27. Group companies

The organization chart of Aegon Bank N.V. and its principal subsidiary at year-end 2021 was as follows:



Wholly owned subsidiaries
Incorporated in 2015, Orange Loans B.V. holds some of the consumer loan and SME loan portfolio of Aegon Bank N.V.. The company is located in the Netherlands.

Aegon Bank N.V. has issued a statement of liability pursuant to Section 403 of Book 2 of the Dutch Civil Code for Orange Loans B.V.

Investments in structured entities
KIGOI 2013 B.V., Aegon Conditional Pass-Through Covered Bond Company B.V., Aegon Soft Bullet Covered Bond Company B.V. and SAECURE 19 B.V are not subsidiaries of Aegon Bank N.V. Because Aegon Bank N.V. has control over the structured entities, the special purpose entities have been consolidated as group companies (see also note 2.3).

The structured entities were set up for the purpose of securitizing mortgage loans and private loans. The contracts with these entities do not include provisions pursuant to which Aegon Bank N.V. could be required to provide financial support in certain circumstances. Aegon Bank N.V. has not provided, nor does it intend to provide, financial or other support without having a contractual obligation to do so.

28. Related party transactions

Aegon Bank N.V. undertakes a range of transactions with Aegon N.V. group entities, the principal ones of which are described below.

Aegon Bank N.V. has identified the following associates as related parties:

- Aegon N.V.
- Aegon Nederland N.V.
- Aegon Levensverzekering N.V.
- Aegon Hypotheken B.V.
- Amvest Vastgoed B.V.
- Aegon Investment Management B.V.
- Aegon Derivatives N.V.
- Aegon Custody B.V.

Aegon N.V.
Aegon Bank N.V. is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax group as if it were an autonomous taxpayer. Aegon Bank N.V. is jointly and severally liable for all tax liabilities of the entire tax group.

Aegon N.V. has granted Aegon Bank a loan in relation to collateral for foreign exchange transactions. The loan represented a receivable of EUR 3.3 million in 2021 (2020: EUR 13.7 million payable).

Aegon Nederland N.V.
Employees of Aegon Bank N.V., including key management personnel, may make use of financing and insurance facilities at prices available to agents. The benefit to the employees is equivalent to the margin made by agents. The terms and conditions of these products are the same for key management personnel and other staff.

Aegon Bank N.V. offers products to employees of Aegon Nederland N.V., including key management personnel of Aegon Bank N.V. itself, on the same terms and conditions as for other members of staff.

Aegon Nederland N.V. provides Aegon Bank N.V. with administrative support and facilities at cost. All transactions with group companies pass through Aegon Bank N.V. and are accounted for in the current account with Aegon Bank N.V. Total recharged expenses in 2021 were EUR 13.5 million (2020: EUR 23.4 million).

At the end of the year, Aegon Bank N.V. had a current account asset from Aegon Nederland N.V. of EUR 45.3 million (2020: EUR 22.1 million asset). EUR 0.5 million (2020: 0.3 million) of interest on the intercompany current account was charged through the income statement in 2021.

Aegon Bank N.V. paid EUR 45.0 million dividend to Aegon Nederland N.V. in 2021 (2020: no dividend).

Aegon Hypotheken B.V.
Mortgages held by Aegon Bank N.V. are managed and administered by Aegon Hypotheken B.V. The recharge for these services was EUR 20.2 million (2020: EUR 18.4 million).

Aegon Hypotheken originated mortgages for Aegon Bank for a total amount of EUR 1.646 million (2020: EUR 2.001 million). Furthermore, in 2021 Aegon Hypotheken BV sold no mortgages to Aegon Bank N.V. (2020: EUR 390 million).

At the end of the year, Aegon Bank N.V. had a current account liability to Aegon Hypotheken B.V. of EUR 113.7 million (2020: liability EUR 222.7 million). No interest is charged regarding this account liability.

Aegon Bank N.V. offers a 'Banksparen' mortgage product in cooperation with Aegon Hypotheken B.V. Aegon Hypotheken B.V. paid Aegon Bank N.V. EUR 6.2 million for this in 2021 (2020: EUR 5.7 million). The recharges are on normal commercial terms.

Amvest Vastgoed B.V.

In 2015, Aegon Bank N.V. entered into a EUR 50 million credit facility with Amvest Vastgoed B.V.. This loan was redeemed in 2020. The interest received on the facility amounted to EUR 0.3 million in 2020. Amvest Vastgoed B.V. is a 50% joint venture of Aegon Nederland N.V.

Aegon Investment Management B.V./Aegon Derivatives N.V./Aegon Custody B.V.

Investment and derivative activities are undertaken through Aegon Investment Management B.V. and Aegon Derivatives N.V. and securities custody through Aegon Custody B.V. Costs are recharged on normal commercial terms. In 2021, the recharge was EUR 1.3 million (2020: EUR 1.2 million). Aegon Bank N.V. has received cash collateral on derivative positions via Aegon Derivatives N.V., see also note 6.

29. Events after the statement of financial position date

On February 24, 2022, Russia invaded Ukraine, which caused a humanitarian crisis and is also impacting global financial markets and causing economic turbulence. At the date of this report the depth and length of this invasion is unknown, and the situation is changing rapidly from day to day. Knab is closely monitoring the financial markets and economic turbulence that has arisen as a consequence of the situation and the related international sanctions, and its impact on Knab. The most significant risks Aegon faces are related to financial markets, particularly from volatility in credit, equity and interest rates. The notes to Knab's financial statements include elaborate descriptions and related financial market sensitivities. Knab is actively managing its risks and capital position to maintain a robust balance sheet, as the Company navigates through the uncertainty created by the current geopolitical situation. The Company is on high alert status to help ensure the safety and well-being of its staff, as well as its capability to support its customers, while maintaining our financial and operational resilience. Knab has no investments in Russia and Ukraine.

30. Approval of the consolidated financial statements

Knab’s consolidated financial statements for the year ended 31 December 2021 were approved by the Board of Directors and the Supervisory Board on April 14, 2022.

The consolidated financial statements will be submitted for adoption to the General Meeting of Shareholders. The GMS may decide not to adopt the consolidated financial statements, but cannot amend them at the meeting.

Supervisory Board	Statutory Board
P.M. de Kroon	N.J.A. Klokke
G. Reijnen	M.R. de Boer
W. van de Kraats	E.G. Negenman

N.J.A. Klokke

M.R. de Boer

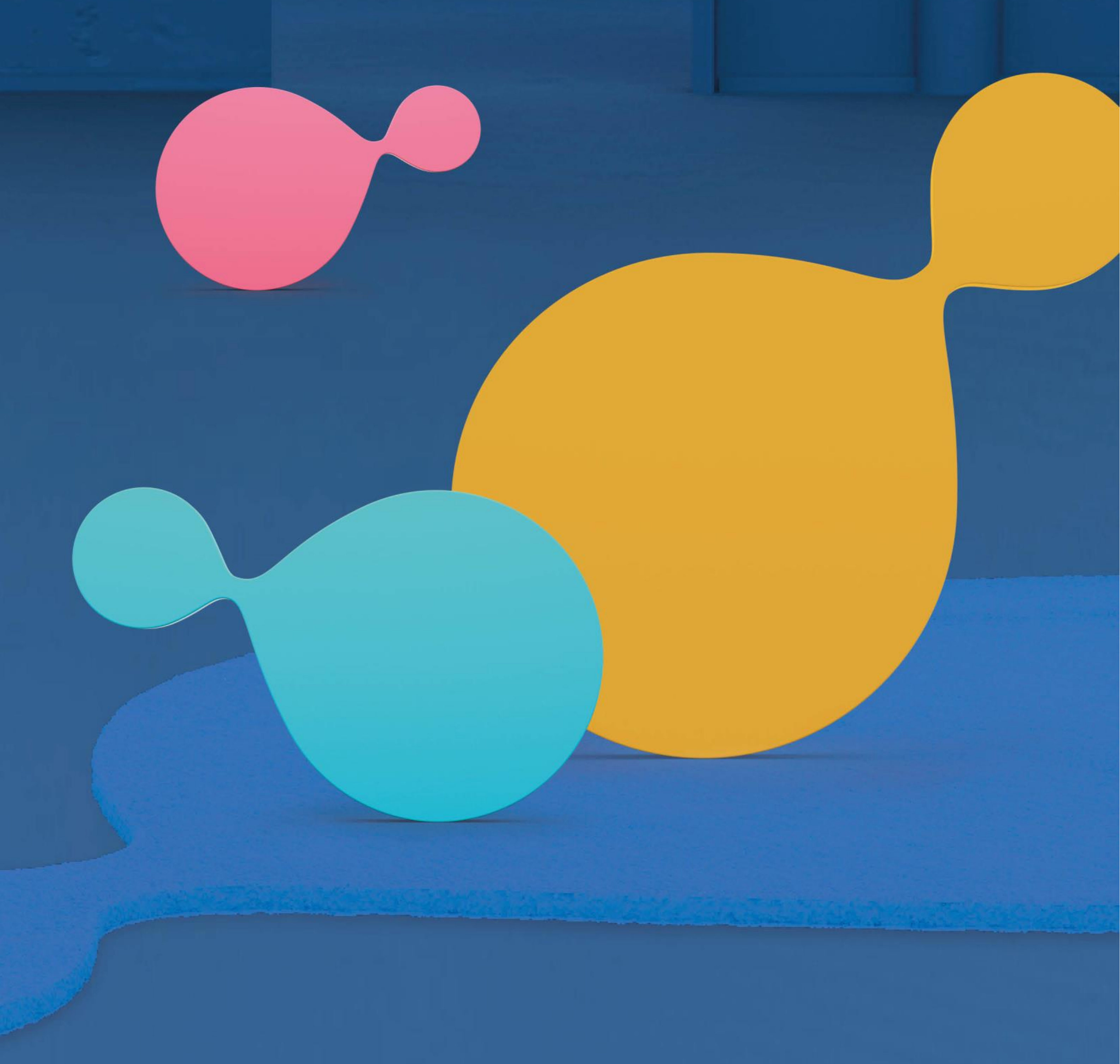
E.G. Negenman

P.M. de Kroon

W. van de Kraats

G. Reijnen

Aegon Bank N.V.'s Company Financial Statements 2021



Report of the Management Board

See page 5 of the Annual Report for the Report of the Management Board.

Statement of financial position

for the year ended 31 December 2021

(before profit appropriation)

Amounts in EUR thousands	Note	31-12-2021	31-12-2020
Assets			
Cash	3	859.629	1.548.307
Amounts due from banks	4	81.308	82.944
Mortgage loans and other loans	5	13.027.090	13.740.751
Group companies	6	40.433	-
Financial assets measured at fair value through other comprehensive income	7	1.772.421	1.456.140
Derivatives	8	211.860	189.093
Other assets and receivables	9	135.255	116.981
Total assets		**16.127.997**	**17.134.215**
Equity and liabilities			
Savings deposits	10	11.586.074	12.539.843
Borrowings	11	2.988.586	2.612.894
Derivatives	8	477.076	788.993
Net deferred tax liabilities	12	80.744	84.810
Provisions	13	10.248	49.054
Other liabilities and accruals	14	250.034	349.903
Total liabilities		**15.392.762**	**16.425.496**
Equity			
- Share capital		37.437	37.437
- Share premium		476.751	476.751
- Revaluation reserves		1.973	11.584
- Retained earnings		127.973	204.900
- Participations		9.500	9.500
- Net income / (loss)		81.601	-31.453
Total equity	15	**735.235**	**708.719**
Total equity and liabilities		**16.127.997**	**17.134.215**

Income statement
for the year ended 31 December 2021

Amounts in EUR thousands	2021	2020
Income		
Interest income calculated using the effective interest method	319.407	341.737
Interest expense calculated using the effective interest method	-73.915	-83.722
Other interest expenses	-79.228	-71.801
Net interest income	**166.264**	**186.214**
Fee and commission income	26.310	22.360
Fee and commission expense	-1.933	-1.844
Net fee and commission income	**24.377**	**20.516**
Result on financial transactions	17.520	40.032
Impairment losses	7.651	-38.760
Total income	**215.812**	**208.001**
Expenses		
Employee expenses	53.716	54.125
Other operating expenses	107.705	174.475
Total expenses	**161.421**	**228.601**
Income / (loss) before tax	**54.391**	**-20.599**
Income tax	-16.087	518
Net income attributable to the parent company	**38.304**	**-20.081**
Net income / (loss) group companies	43.297	-11.371
Net income / (loss)	**81.601**	**-31.453**

Notes to the financial statements

1 General information

Aegon Bank N.V. ('Knab') is a public limited liability company organized and existing under Dutch law, listed in the Trade Register of the Amsterdam Chamber of Commerce under number 30100799, with its registered address at Thomas R. Malthusstraat 1-3, 1066 JR Amsterdam. Knab is a wholly owned subsidiary of Aegon Nederland N.V. ('Aegon Nederland'), established in The Hague. Knab's ultimate holding company is Aegon N.V., also established in The Hague.

Aegon Bank N.V. and its group companies specialize in developing, selling and servicing savings and investment products to help their customers accumulate wealth and to make savings and investing more tangible, relevant and easy – all the things our customers need for a carefree financial future

2 Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Dutch accounting principles as embodied in Part 9 of Book 2 of the Dutch Civil Code. Based on Section 2:362.8 of the Dutch Civil Code, the valuation principles applied are based on International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and used for the preparation of Knab's consolidated financial statements.

For information on the accounting policies, see note 2 'Significant accounting policies' in the consolidated financial statements. These also apply to the company financial statements, unless stated otherwise.

For disclosures on risk management, see to note 4 'Risk Management' in the consolidated financial statements.

2.2 Group companies

The group companies are stated at their net asset value, measured in accordance with IFRS as applied to the Group's consolidated financial statements. When the net asset value of a group company is negative, the result for the period that cannot be attributed to the group company's net asset value will be attributed to its loan receivables. Any positive results in subsequent periods will first be attributed to the net asset value of the loans before the profit is attributed again to the subsidiary's net asset value. When the measurement of a group company based on its net asset value is negative, it will be carried at nil value.

3 Cash

For more information, see note 5 'Cash' in the consolidated financial statements.

4 Amounts due from banks

	2021	2020
Bank accounts	81.308	82.944
Total	**81.308**	**82.944**

Amounts due from banks comprise receivables from banks in the Netherlands and abroad and cash collateral provided.

Bank accounts are payable on demand. The carrying amounts disclosed reasonably approximate the fair values at year-end.

5 Mortgage loans and other loans

	2021	2020
Loans to the private sector		
- Mortgage loans	11.961.342	11.978.497
- Loans to private individuals and small and medium enterprise loans	238.436	465.221
- Other loans	827.311	1.297.033
Total	**13.027.090**	**13.740.751**

Fair value	13.758.533	14.205.530

	2021	2020
Current	2.039.545	2.624.469
Non-current	10.987.544	11.116.281
Total	**13.027.090**	**13.740.751**

On May 28, 2020, Knab sold EUR 1.7 billion of mortgage loans to an SPE, and purchased all of the debt securities issued by the SPE (SAECURE 19 B.V.). Knab controls the SPE, which is therefore consolidated by Knab. Substantially all of the risks and rewards were retained by Knab. Because interest rate risk and credit, late payment and prepayment risks were not transferred (or not fully), the mortgage loans transferred were not derecognized in the company financial statements.

6 Group companies

	2021	2020
At January 1	**-**	**8.504**
Net income / (loss) for the financial year attributed to group company	40.433	-8.504
Total	**40.433**	**-**

During 2020, Orange loans recorded impairment losses under IFRS 9 due to the impact of forward-looking macroeconomic expectations. The subsidiary’s negative net asset value of EUR 2.9 million has been reclassified as a net asset adjustment to the intercompany loan between Aegon Bank N.V. and Orange loans. At year-end 2021, the entity had a positive net asset value.

For a list of group companies, see note 27 to the consolidated financial statements.

7 Other financial assets

	2021	2020
Financial assets measured at fair value through other comprehensive income	1.772.421	1.456.140
Total financial assets, excluding derivatives	**1.772.421**	**1.456.140**

2021	FVOCI	Total	Fair value
Debt securities	1.772.421	1.772.421	1.772.421
At December 31	**1.772.421**	**1.772.421**	**1.772.421**

2020	FVOCI	Total	Fair value
Debt securities	1.456.140	1.456.140	1.456.140
At December 31	**1.456.140**	**1.456.140**	**1.456.140**

	2021	2020
Current	136.798	203.326
Non-current	1.635.623	1.252.814
Total financial assets, excluding derivatives	**1.772.421**	**1.456.140**

Summary of movements in financial assets, mortgage loans, and other loans

2021	Debt securities FVOCI	Mortgage loans	CL SME loans and other loans	Total
At January 1	**1.456.139**	**11.978.497**	**1.762.254**	**15.196.891**
Acquisitions	702.425	1.685.034	3.483	2.390.942
Redemptions and sales	-358.117	-1.322.132	-771.525	-2.451.774
Unrealized gains and losses	-12.799	-309.474	-	-322.273
Amortizations through income statement	-17.488	-72.440	-509	-90.438
Realized gains and losses	3.172	361	-	3.533
Impairment (losses) / reversals	-911	1.496	7.066	7.651
FX and other movements	-	-	64.979	64.979
At December 31	**1.772.420**	**11.961.343**	**1.065.747**	**14.799.511**

2020	Debt securities FVOCI	Mortgage loans	CL SME loans and other loans	Total
At January 1	**1.062.191**	**10.659.239**	**1.971.308**	**13.692.738**
Acquisitions	809.503	2.502.178	185.710	3.497.391
Redemptions and sales	-408.029	-1.359.481	-352.468	-2.119.978
Unrealized gains and losses	3.335	258.977	-	262.312
Amortizations through income statement	-11.500	-81.428	-618	-93.546
Realized gains and losses	550	132	-	683
Impairment (losses) / reversals	89	-1.120	-37.730	-38.760
FX and other movements	-	-	-3.948	-3.948
At December 31	**1.456.139**	**11.978.497**	**1.762.254**	**15.196.891**

8 Derivatives

See note 9 ‘Derivatives’ to the consolidated financial statements.

9 Other assets and receivables

	2021	2020
Receivables	91.281	76.688
Accrued income	43.975	40.293
Total	**135.255**	**116.981**

9.1 Receivables

	2021	2020
Investment debtors	36.326	41.098
Current accounts with group companies	54.309	35.402
Other	646	189
Total	**91.281**	**76.688**
Current	91.273	76.680
Non-current	8	8
Total	**91.281**	**76.688**

The carrying amounts disclosed reasonably approximate the fair values at year-end.

9.2 Accrued income

	2021	2020
Accrued interest	43.975	40.293
At December 31	**43.975**	**40.293**

'Accrued income' is classified entirely as a current asset. The carrying amounts disclosed reasonably approximate the fair values at year-end.

10 Savings deposits

See note 11 'Savings deposits' to the consolidated financial statements.

11 Borrowings

	2021	2020
Borrowings	2.988.586	2.612.894
At December 31	**2.988.586**	**2.612.894**

	2021	2020
Current	126	119.002
Non-current	2.988.460	2.493.892
Total	**2.988.586**	**2.612.894**
Fair value	3.027.015	2.700.810

	2021	2020
At January 1	2.612.894	2.730.934
Acquisitions	493.485	626.790
Disposals	-116.853	-746.119
Amortization	-940	1.289
At December 31	2.988.586	2.612.894

For more information, see note 12 ‘Borrowings’ to the consolidated financial statements.

12 Net deferred tax liabilities

See note 13 ‘Net deferred tax liabilities’ to the consolidated financial statements.

13 Provisions

See note 14 ‘Provisions’ to the consolidated financial statements.

14 Other liabilities and accruals

	2021	2020
Other liabilities	189.902	291.330
Accruals	60.132	58.572
Total	**250.034**	**349.903**

14.1 Other liabilities

	2021	2020
Investment creditors	374	458
Income tax payable	23.761	14.653
Current accounts with group companies	113.737	222.691
Social security and taxes payable	16.581	6.755
Other creditors	35.449	46.773
Total	**189.902**	**291.330**
Current	189.902	291.330
Non-current	-	-
Total	**189.902**	**291.330**

The carrying amounts of the financial items disclosed reasonably approximate the fair values at year-end.

14.2 Accruals

	2021	2020
Accrued interest	60.132	58.572
Total	**60.132**	**58.572**
Current	60.132	58.572
Non-current	-	-
Total	**60.132**	**58.572**

This item comprises interest payable and is classified entirely as a current liability. The carrying amounts disclosed reasonably approximate the fair values at year-end.

15 Equity

	2021	2020
Share capital	37.437	37.437
Share premium	476.751	476.751
Revaluation reserves	1.973	11.584
Retained earnings	127.973	204.900
Participations	9.500	9.500
Net income / (loss)	81.601	-31.453
Total	**735.234**	**708.719**

15.1 Share capital

	2021	2020
Authorized share capital	90.000	90.000
Not issued	52.563	52.563
Total	**37.437**	**37.437**

The authorized share capital is EUR 90 million, divided into 90,000 common shares with a par value of EUR 1,000.00 each, 37,437 shares of which have been issued and fully paid. There have been no changes since the previous financial year. In 2021, Aegon Bank N.V. paid 45.0 million in dividends to Aegon Nederland N.V. (2020: 0),

15.2 Statement of changes in equity after profit appropriation

Amounts in EUR thousands

2021	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**476.751**	**173.447**	**11.584**	**9.500**	**708.719**
Net income / (loss) recognized in the income statement	-	-	81.601	-	-	81.601
Other comprehensive income / (loss)	-	-	-	-9.611	-	-9.611
Total comprehensive income / (loss)	**-**	**-**	**81.601**	**-9.611**	**-**	**71.990**
Dividends paid on participations	-	-	-475	-	-	-475
Dividends paid on common shares	-	-	-45.000	-	-	-45.000
At December 31	**37.437**	**476.751**	**209.574**	**1.973**	**9.500**	**735.234**

2020	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**476.751**	**205.375**	**9.360**	**9.500**	**738.423**
Net income / (loss) recognized in the income statement	-	-	-31.453	-	-	-31.453
Other comprehensive income / (loss)	-	-	-	2.224	-	2.224
Total comprehensive income / (loss)	**-**	**-**	**-31.453**	**2.224**	**-**	**-29.229**
Dividends paid on participations	-	-	-475	-	-	-475
At December 31	**37.437**	**476.751**	**173.447**	**11.584**	**9.500**	**708.719**

Please refer to note 16 ‘Equity’ of the consolidated financial statements for more information on equity.

16 Employees

Please refer to note 20 ‘Employee expenses and other operating expenses’ of the consolidated financial statements for information on employee expenses and number of FTEs employed.

17 Income tax

Refer to note 22 Income tax of the consolidated financial statements for information on the weighted average applicable statutory tax rate for Knab.

18 Remuneration of the Statutory Board and Supervisory Board

Refer to note 20 'Employee expenses and other operating expenses' of the consolidated financial statements for information on the remuneration of the Statutory Board and Supervisory Board.

19 Independent Auditor's fees

Please refer to note 20 'Employee expenses and other operating expenses' of the consolidated financial statements for information on the fees paid to the independent Auditor.

20 Related party transactions

Orange Loans B.V. invests in UK-originated consumer loans and SME loans on behalf of Aegon Bank N.V. These investment activities are funded through an intercompany loan between Aegon Bank N.V. and Orange Loans B.V. At year-end 2021 the net asset value of the loan amounted to EUR 530 million (2020: EUR 661 million). The loan is rolled forward on a (bi-)monthly basis. The coupon of the loan is based on a one-month compounded SONIA + 100 basis points.

See note 28 'Related party transactions' of the consolidated financial statements for information on the related party transactions.

21 Commitments and contingencies

See note 24 'Commitment and contingencies' of the consolidated financial statements for more information.

22 Events after the statement of financial position date

On February 24, 2022, Russia invaded Ukraine, which caused a humanitarian crisis and is also impacting global financial markets and causing economic turbulence. At the date of this report the depth and length of this invasion is unknown, and the situation is changing rapidly from day to day. Knab is closely monitoring the financial markets and economic turbulence that has arisen as a consequence of the situation and the related international sanctions, and its impact on Knab. The most significant risks Aegon faces are related to financial markets, particularly from volatility in credit, equity and interest rates. The notes to Knab's financial statements include elaborate descriptions and related financial market sensitivities. Knab is actively managing its risks and capital position to maintain a robust balance sheet, as the Company navigates through the uncertainty created by the current geopolitical situation. The Company is on high alert status to help ensure the safety and well-being of its staff, as well as its capability to support its customers, while maintaining our financial and operational resilience. Knab has no investments in Russia and Ukraine.

23 Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to appropriate the result for the financial year as follows:

To be added to the retained earnings	81.601
Net result	**81.601**

This proposal has not yet been incorporated in the financial statements.

Amsterdam, April 14, 2022

Supervisory Board	Statutory Board
P.M. de Kroon	N.J.A. Klokke
G. Reijnen	M.R. de Boer
W. van de Kraats	E.G. Negenman

N.J.A. Klokke

M.R. de Boer

E.G. Negenman

P.M. de Kroon

W. van de Kraats

G. Reijnen

Other information

Statutory provisions regarding profit appropriation
Any profit will be appropriated in accordance with article 23 of Aegon Bank N.V.'s Articles of Association. The relevant provisions read as follows:

- The profit made in any financial year will be at the disposal of the Annual General Meeting.
- The profit will be distributed after adoption of the financial statements showing this to be permissible.
- The Annual General Meeting may decide to pay an interim dividend if the requirements are met, as evidenced by an interim statement of net assets pursuant to Section 2:105 (4) of the Dutch Civil Code.
- The Annual General Meeting may decide to make interim and/or other distributions and charge them to a reserve of the company.
- Distributions on shares may only take place up to the amount of the distributable equity.

Independent auditor's report

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

Report on the financial statements 2021

Our opinion

In our opinion:

- the consolidated financial statements of Aegon Bank N.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at 31 December 2021 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ('EU-IFRS') and with Part 9 of Book 2 of the Dutch Civil Code;
- the company financial statements of Aegon Bank N.V. ('the Company') give a true and fair view of the financial position of the Company as at 31 December 2021 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2021 of Aegon Bank N.V., Amsterdam. The financial statements comprise the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the following statements for 2021: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the income statement for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

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

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The basis for our opinion

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

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

Independence

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

Our audit approach

We designed our audit procedures with respect to the key audit matters, fraud and going concern, and the matters resulting from that, in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The information in support of our opinion, like our findings and observations related to individual key audit matters, the audit approach to fraud risk and the audit approach to going concern were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Overview and context

Aegon Bank N.V. is a bank that provides payment, savings and investment products under two labels: Aegon Bank and Knab. The Group invests in mortgage loans, loans to private individuals and small and medium enterprise ('SME') loans and debt securities. The Group is comprised of several components as disclosed in note 27 'Group companies' of the consolidated financial statements and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

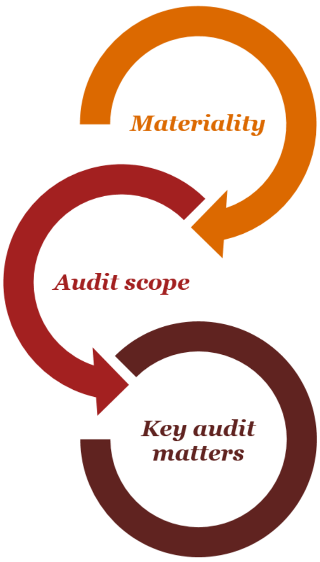
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. Note 3 'Critical accounting estimates and judgment in applying accounting policies' of the consolidated financial statements of the Group describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risk of material misstatement in the expected credit loss allowance for mortgage loans and other loans, we particularly considered this to be a key audit matter as set out in the section 'Key audit matters' of this report. Furthermore, we identified the application of macro fair value hedge accounting as a key audit matter due to the detailed, formal and technical requirements in relation to the application of hedge accounting and the significance of the Group's exposure under hedge accounting.

In the sections 'Strategic risks' and 'Sustainability' in the report of the management board and the section 'Climate risks' in the financial statements, the Group explains the possible effects of climate change and the impact on its financial position, as well as their targets and KPIs in light of their sustainability efforts. We discussed the Group's assessment and governance thereof with management and evaluated the potential impact on the financial position including the underlying assumptions and estimates in respect of, amongst others, the expected credit loss allowance of mortgage and other loans and the valuation of debt securities. Considering the anticipated limited impact on the Group's current financial position, the impact of climate change is not considered a separate key audit matter.

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

We ensured that our audit team included the appropriate skills and competences, which are needed for the audit of a bank. We, therefore, included specialists in areas such as IT, taxation and hedge accounting, as well as experts in the areas of valuation and credit modelling in our team.

The outline of our audit approach was as follows:



Materiality

- Overall materiality: € 7,300,000.

Audit scope

- We conducted audit work on Aegon Bank N.V. and all consolidated entities.
- For information technology general controls ('ITGCs'), consumer and SME loan processing and administration services, the Group made use of several service organisations, for which we needed to rely on the work of other auditors.

Key audit matters

- Expected credit loss allowance for mortgage loans and other loans.
- Application of macro fair value hedge accounting.

Materiality

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

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

Overall group materiality	€ 7,300,000 (2020: € 6,100,000).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 1% of equity.
Rationale for benchmark applied	We performed a stakeholders' analysis that includes the perspective of the parent company, customers, creditors and regulators for assessing suitable benchmarks and thresholds for determining overall materiality. We consider, as a point of reference, that (average) profit before tax is the preferred materiality benchmark as it generally is seen as best representing the common interests of the stakeholders. However, we believe the Group's profit before tax over the past few years does not consistently reflect the underlying performance of the Group, mainly as a result of several one-off results, projects and transactions. Therefore, we evaluated this benchmark and looked at alternatives. For the purpose of our audit, we concluded that equity is a meaningful benchmark that represents the interests of the stakeholders and is also reflective of the overall performance of the Group and its overall financial position. To ensure we determine an appropriate level of materiality, we assessed this benchmark against other benchmarks such as: interest margin, profit before tax and total assets. Based on the above considerations, we consider EUR 7.3 million to be the appropriate overall materiality level.

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

We agreed with the supervisory board that we would report to them any misstatement identified during our audit above € 365,000 (2020: € 300,000) as well as misstatements below that amount that, in our view, warrant reporting for qualitative reasons.

For balance sheet reclassifications, we considered a higher amount, given the relatively large size of the balance sheet compared to the income statement. We agreed with the supervisory board to report balance sheet reclassifications above € 8.0 million.

The scope of our group audit

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

All components as disclosed in note 27 'Group companies' of the consolidated financial statements form an integral part of the administration of Aegon Bank N.V. As a result, the group audit team also performed the audit work on the respective components. In doing so, the audit team selected specific balances and transactions within the Group for which audit procedures were considered necessary. Consequently, all the material and relevant line items, comprising underlying balances and transactions, were in scope of our audit.

Banks in general depend heavily on the reliability and continuity of their information technology (IT) environment. We engaged our IT specialists to assist us in assessing the ITGCs at the Group to the extent relevant and for the purpose of our audit. This included the assessment of policies and procedures applied by the Group to ensure IT operates as intended and provides reliable data for financial reporting purposes. Furthermore, our IT specialists supported us in our key report testing and IT application controls testing.

Our approach was also tailored towards the fact that the Group makes use of several service organisations in its day-to-day operations among others with respect to the consumer and SME loan processing and administration services. We obtained evidence over the controls performed by the service organisations through, among others, obtaining and assessing ISAE 3402 reports from other auditors. These reports were issued by external auditors of whom we have assessed their independence, capability and objectivity. We concluded that we could rely on the work of these auditors for the purpose of our audit, supplemented by our own procedures. In addition, with respect to the consumer and SME loan portfolios, we reconciled the balances and positions to the service reports received from the external parties and reconciled a sample of individual loans to the underlying contracts.

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

Audit approach on fraud risks

We identified and assessed the risk of material misstatement of the financial statements due to fraud. During our audit we obtained an understanding of the Group and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes. We considered available information and made enquiries with members of the statutory board, the supervisory board and others, including internal audit, risk management and compliance.

As part of our process of identifying fraud risks, we evaluated so-called fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated these fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud. In all our audits, we pay attention to the risk of management override of controls, as this risk is always considered to present a significant risk of fraud.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment of management, as well as among others, the code of conduct, whistle blower procedures and incident registration and follow-up. Where considered appropriate, we tested the operating effectiveness of internal controls designed to mitigate fraud risks. We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud. If so, we re-evaluated our assessment of fraud risk and its resulting impact on our audit procedures. Further, we performed an assessment of matters reported on the whistleblowing and complaints procedures and results of management's investigation of such matters.

As described in the auditing standards, management override of controls and risk of fraud in revenue recognition are presumed risks of fraud. Based on our considerations of various factors, such as the high volume of individually small transactions, non-complex calculations, and our assessment of the inherent risk at the assertion level, the engagement team concluded that the risk of fraud in revenue recognition does not rise to the level of a significant risk for any of the revenue streams of the Group.

Based on the procedures described above we identified 'management override of controls', including the risk of management bias when setting assumptions, as a fraud risk and performed the following specific procedures:

Identified fraud risks	***Our audit work and observations***
Management override of controls In accordance with Standard 240.32, the risk of management override of controls is always considered to present a significant risk of fraud that cannot be rebutted. Methods by which management could override controls include, but are not limited to, the following: • Manipulation of the financial reporting process by recording inappropriate or unauthorized journal entries. • Intentional misstatement of accounting estimates that involve subjective inputs and assumptions. • Entering into significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual, that have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.	To the extent relevant to our audit, we have reviewed the design of internal controls to mitigate the risk of override of internal control and tested the effectiveness of the controls in the processes for generating and processing journal entries and making estimates. We also paid specific attention to the restricted access in IT systems and the possibility that segregation of duties is not enforced. We identified significant assumptions and tested these against the Group's and market experience information. For details we refer to the key audit matter on the expected credit loss allowance for mortgage loans and other loans, which is an example of our approach related to an area of higher risk due to an accounting estimate where management makes significant judgements. We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We selected journal entries based on risk criteria and performed specific audit procedures on these. We identified no significant transactions outside normal business operations. Our work did not lead to specific indications of fraud or suspicions of fraud with regard to the override of internal control by management.

Audit approach on going concern

As disclosed in section 'Presentation' of the notes to the consolidated financial statements, the management board performed their assessment of the Company's ability to continue as a going concern for the foreseeable future and has not identified events or conditions that may cast significant doubt on the Company's ability to continue as a going concern (hereafter: going concern risks).
Our procedures to evaluate management's going concern assessment include, amongst others:

- Considering whether management's going concern assessment includes all relevant information of which we are aware as a result of our audit, inquire with management regarding management's most important assumptions underlying their going concern assessment;

- evaluated the developments in respect of funding, liquidity and solvency of the Group and, where applicable, assessed these in the context of the prudential requirements imposed by the Dutch Central Bank;
- evaluated the Group's medium-term planning and budget process (including the Group's balance sheet planning 2021-2023), specifically for the next twelve months; and
- Performed inquiries of management as to their knowledge of going concern risks beyond the period of management's going concern assessment.

Our procedures did not result in outcomes contrary to management's assumptions and judgments used in the application of the going concern assumption.

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

There is an industry risk that emerging compliance or litigation areas have not been identified and or addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory matters.

In our audit, a distinction is made between those laws and regulations which have a direct effect on the determination of material amounts and disclosures in the financial statements and those that do not have a direct effect but where compliance may be fundamental to the operating aspects of the business, to the Group's ability to continue its business or to avoid material penalties.

We identified that the risk of non-compliance with laws and regulations relates mainly to the laws and regulations that have an indirect impact on the financial statements, such as for example anti-money laundering and anti-terrorist financing regulations, as well as regulations linked to the banking specific operating licenses (including the Financial Supervision Act ('Wet op het financieel toezicht')). We inquired of management and the supervisory board as to whether the Group is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities. We refer to the section 'Regulation and supervision' of the report of the management board and in the notes to the consolidated financial statements for the disclosure with respect to the instruction received from the Dutch Central Bank and to the section 'Non-financial risks' of the report of the management board for the disclosure with respect to the 'Know Your Customer' project.

Key audit matters

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

Compared to prior year we no longer included a key audit matter related to the fair value of 'level 2 and 3' financial instruments given the limited amount of level 3 financial instruments included in the balance sheet as well as our respective findings and conclusions on this matter in prior years. Moreover, the judgement applied in the level 2 valuations is considered limited. The key audit matters related to 'Expected credit loss allowance for mortgage loans and other loans' and 'Application of macro fair value hedge accounting' are recurring. These relate to the Group's primary business objectives and did not change significantly compared to prior year.

Key audit matter	Our audit work and observations
Expected credit loss allowance ('ECL') for mortgage loans and other loans *Refer to note 2.8 'Financial assets' of the summary of significant accounting policies, note 3.5 'Measurement of the expected credit loss allowance' of the critical accounting estimates and judgement in applying accounting policies, notes 4.4.3 'Credit risk management, 4.4.4 'Expected credit loss measurement', 4.4.5 'Significant increase in credit risk (SICR), 4.4.6 'Definitions of default and credit-impaired assets', 4.4.7 'Measuring ECL – Inputs, assumptions and estimation techniques, 4.4.8 'Forward-looking information incorporated in the ECL models', 4.4.9 'Write-off policy', 4.4.10 'Modification of financial assets' and 4.4.11 'Loss allowance' and note 7 'Mortgage and other loans'.* As at 31 December 2021, the mortgage loans and other loans amount to €13.042 million (2020: €13.726 million) and the total ECL amounts to €87.6 million (2020: €160.8 million). In line with the requirements of IFRS 9, the Group applies a three-stage expected credit loss impairment model consisting of: • stage 1: recognition of loss allowances measured at an amount equal to the twelve-month expected credit losses for performing loans; • stage 2: recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for financial assets with a significant increase in credit risk, but not yet deemed credit-impaired; and • stage 3: recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for credit-impaired financial instruments. The Group built separate ECL models for the mortgage loans and consumer and SME loans, taking into account the differences in their characteristics. As at 31 December 2021, the mortgage loans represented a gross carrying amount of €12.0 billion (loan loss allowance of €1.5 million) and the consumer and SME loans represented a gross carrying amount of € 783.5 million (loan loss allowance of €85.1 million). Considering the limited (remaining) credit risk in other loans (carrying amount of € 297.4 million including an	*Control design and operating effectiveness* Our audit procedures over the expected credit loss allowance for mortgage loans and other loans started with gaining an understanding of the Group's internal controls over the credit risk management and impairment processes. We evaluated the governance framework over the development, validation, calibration and implementation of the impairment models. We assessed the model validation procedures, and related findings, that were performed by the model validation team of the Group. We assessed the ISAE 3402 type 2 reports of the service organisations with respect to the consumer and SME loan processing and administration services as described in the section 'The scope of our group audit'. *Assessment of model-based impairments* With support of our internal credit modelling experts, we performed the following substantive procedures on the model-based impairments as at 31 December 2021: • evaluation of the reasonableness of the applied model methodology (including the assumptions regarding PD, LGD, LGN and EAD, applied criteria for significant increase in credit risk, assumptions for the measurement of ECL, and the number and relative weightings of forward-looking scenarios) in line with EU-IFRS and market practice; • evaluation of the definition of default by assessing the conceptual soundness of management's approach; • evaluation of the macro-economic scenarios and macroeconomic variables applied by challenging these with observable market data; • testing the input data and data lineage in respect of the critical data elements through testing of IT dependencies and a reconciliation of a sample of input data to the external administrations of the service organisations or source systems; and • challenging management on the reasonableness of provided explanations and evidence supporting the key model parameters by benchmarking these to other market participants. We challenged management on the implications of COVID-19 on the ECL provision by performing the following:

Key audit matter	*Our audit work and observations*
ECL of €1.1 million), they are not included in the scope of this key audit matter. As the management board currently considers the impact of climate risk to be limited on the Group's loan portfolio, they did not increase the ECL level for transitional or physical climate change at year-end 2021. *Model methodology and inputs* In the ECL models the Group utilises, amongst other factors, probability of default (PD), loss-given default (LGD), loss-given no-cure (LGN) and exposure at default (EAD). For the definition of these variables, refer to note 4.4.7 'Measuring ECL – Inputs, assumptions and estimation techniques' of the consolidated financial statements. The critical data elements that are inputs for these models were retrieved from the service organisations or source systems. Apart from these elements, three global macroeconomic scenarios ('base', 'upside' and 'downside') were incorporated into the models with the probability of these scenarios being weighted in order to determine the expected credit losses. *Judgements and estimation uncertainty* The judgements and estimation uncertainty in the loan-loss allowance of mortgage loans and consumer and SME loans are primarily linked to the following aspects: • determining criteria for significant increase in credit risk; • choosing appropriate models and assumptions for the measurement of ECL; • establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; • establishing groups of similar financial assets for the purposes of measuring ECL; and • the uncertainties related to the incorporation of the implications of COVID-19 in the ECL models (macro-economic scenarios and predictions, model performance, etc.) and in the overlay applied on SME loans amounting to €12.9 million.	• enquiries with management, the modelling department, and the finance and control department in relation to the changes made and reasoning applied; • we verified whether changes were needed and whether appropriate changes were made to the models and underlying assumptions following the implications of COVID-19, if and where relevant; • reconciled assumptions underlying the management overlay applied to supporting documentation from the service organisation; • we reconciled the applied macro-economic scenarios to the latest publications of external parties (i.e. DNB); and • we assessed the sensitivity analysis performed by management related to, amongst others, the applied macro-economic forecasts. We paid attention to the potential impact of physical and transitional climate-related risks on the allowance for expected credit losses. In this context, we assessed stress tests and self-assessments performed by management including the evaluation of the risks and any risk mitigating measures present within the Group. Given the composition of the loan portfolio as at 31 December 2021, the impact of physical and transitional climate-related risks currently have no material impact on the measurement of the mortgage loans and other loans. Based on the above we assessed the methodology and inputs to be in line with market and industry practice. Furthermore, we assessed the adequacy of the disclosures, including disclosures on estimation uncertainty and judgements, and observed that the disclosures comply with the disclosure requirements included in EU-IFRS.

Key audit matter	Our audit work and observations
The complexity of the models, the assessment of the (un)suitability of the models in the COVID-19 environment, the significance of the assumptions applied, and judgements made by management and the overlay adjustment applied (due to inherent limitations and COVID-19 adjustments), all increase the risks of material misstatement. Therefore, we consider this a key audit matter in our audit.	
Application of macro fair value hedge accounting *Refer to note 2.10 'Derivatives and hedging strategy' of the summary of significant accounting policies, note 7 'Mortgage and other loans', note 9 'Derivatives' and note 19 'Result on financial transactions' of the consolidated financial statements.* The Group has designated derivatives used as fair value hedges on interest rate risk in its mortgage portfolio. For 2021, the Group recognised a €309.5 million fair value change on the mortgage portfolio and a €0.5 million fair value change on borrowings that were offset by the fair value change in the derivatives designated for hedging for an amount of €342.8 million. Due to the application of macro fair value hedge accounting under EU-IFRS and 'highly' effective hedging relations, the total net ineffectiveness is recognised in the income statement, which amounts to €33.9 million (2020: €53.7 million). The cumulative fair value adjustment (net of amortisation) on the mortgage loans designated in the hedging relationship is €455 million as at 31 December 2021, resulting in a higher carrying value as described in note 7 of the consolidated financial statements. As required by EU-IFRS, the Group has to comply with a number of requirements, including: • documenting the hedge relationship in formal hedge documentation; • performing prospective and retrospective (quantitative) effectiveness testing; and • recording any resulting ineffectiveness in the income statement.	*Control design and operating effectiveness* Our audit procedures performed on the Group's application of macro fair value hedge accounting included testing of the internal controls over the monthly preparation of the hedging documentation and calculation of the fair value changes. We determined that we could rely on these controls for the purpose of our audit. *Substantive audit procedures* With the assistance of our hedge accounting specialists, our substantive audit procedures on hedge accounting included, amongst others, evaluation whether the hedge accounting methodology applied by the Group is in accordance with EU-IFRS. For a sample of the monthly hedge documentation, we assessed: • whether the hedge documentation was in line with the requirements included in EU-IFRS; • management's prospective and retrospective effectiveness testing to determine whether the hedge relationships were effective and whether the hedge effectiveness has been calculated accurately; and • the reconciliation of the net amount of hedge accounting ineffectiveness to the hedge adjustment recorded in the income statement. We found the effectiveness testing to be mathematically accurate, the inputs reconcile to the source systems and the methodology applied is in line with the technical requirements. We found the application of hedge accounting for the purpose of our audit of the financial statements to be appropriate and meeting the requirements of IAS 39 'Financial Instruments'.

Key audit matter	Our audit work and observations
Given the detailed formal and technical requirements that are applicable to the application of hedge accounting and the significance of the exposures brought under hedge accounting, we consider this a significant element of our audit.	Furthermore, we assessed the completeness and accuracy of the disclosures relating to hedge accounting and observed that the disclosures comply with the requirements included in EU-IFRS.

Report on the other information included in the annual report

The annual report contains other information. This includes all information in the annual report in addition to the financial statements and our auditor's report thereon.

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

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

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

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

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Aegon Bank N.V. on 15 May 2013 by the supervisory board. This followed the passing of a resolution by the shareholders at the annual general meeting held on 15 May 2013. Our appointment has been renewed annually by shareholders and now represents a total period of uninterrupted engagement of 8 years.

No prohibited non-audit services

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

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 20.2 to the financial statements.

Responsibilities for the financial statements and the audit

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

The management board is responsible for:

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

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

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

Our responsibilities for the audit of the financial statements

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

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

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

Amsterdam, 14 April 2022
PricewaterhouseCoopers Accountants N.V.

Original has been signed by C.C.J. Segers RA

Appendix to our auditor's report on the financial statements 2021 of Aegon Bank N.V.

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

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

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

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

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

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

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

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