Half Year Report Aegon Bank N.V. 1H 2021

Aegon Bank NV reports first half year 2021 results

Aegon Bank N.V. operates mainly under the Knab brand and will hereinafter be referred to as "Knab" or "the bank".

Summary

- During the first half year of 2021, the number of fee-paying customers of our online bank Knab grew by 16,000 to a total of 301,000.
- Growth of our customer base and increased usage of value-added services led to a 24% growth in fee and commission income compared with the first half year of 2020.
- During the first half of 2021, our online bank Knab observed an increase in savings deposits. This was partially offset by a decrease in savings deposits from non-fee-paying customers in our traditional savings bank due to the phasing out of the *Aegon Sparen* product. Overall, this led to EUR 74 million net deposits.
- The bank remains well capitalized, with a Total Capital Ratio of 21.3%, while our liquidity remains robust with a Liquidity Coverage Ratio (LCR) of 225% as per June 30, 2021.
- In the first half of 2021, the bank generated a net profit of EUR 26.6 million, compared with a loss of EUR 18.5 million in the first half of 2020. This significant improvement was mainly due to lower impairment charges in the unsecured loan book, driven by repayments and prepayments.
- The bank further enhanced KYC processes and credit risk management in the first half of 2021.
- In June 2021, Knab successfully issued its inaugural EUR 500 million, 15-year maturity, Soft Bullet Covered Bond.

Customers and business developments

According to recent customer research customers are very satisfied with Knab. The net promoter scores (NPS) of 38 (business) and 23 (retail) are relatively high for our industry.

Our customers appreciate us because of (1) the ease with which they can manage their banking matters online, (2) our customer-friendliness and (3) our clear way of communicating. To further improve the ease of use and security of banking, Knab replaced the usage of the card reader by facial recognition. The percentage of customers with a registered Knab App has increased from 76% (June 2020) to 95% (June 2021).

During the first half of 2021 Knab introduced Apple Pay. Unlike at some other banks, Apple Pay is not only available for retail customers, but also for our business customers. In line with our mobile first strategy, it is our goal to eventually offer mobile payment through all major providers. In addition, we are introducing pension savings and business insurance products. These are all features and products that our customers indicated that they need.

In May 2021, Han Gerrits started as Chief Technical Officer (CTO) at the bank. Han will continue to expand and renew the bank's technology. After he became the CTO, Han stepped down as a member of the bank's Supervisory Board. He will not be replaced, and as a consequence the Supervisory Board now consists of three members.

The number of fee-paying customers of our online bank operating under the Knab brand increased by 16,000 in the first half of 2021, which contributed to the net addition of savings. This was only partly offset by the phasing out of the *Aegon Sparen* product, and led to EUR 74 million net deposits. Together with interest paid to our customers this led to a EUR 104 million increase in total savings to EUR 12.6 billion.

In the past year and a half, Aegon Bank implemented enhancements to its credit risk framework – including policies and procedures – for loans originated via third-party lending platforms. This enhancement program was completed in the first half of 2021 and followed the bank's own risk assessments and a designation order from DNB, which was received at the end of 2019.

Financial performance

In the first half year of 2021, Aegon bank generated a net profit of EUR 26.6 million, compared with a loss of EUR 18.5 million in the first half of 2020. Several factors contributed to this improvement, of which the main items are discussed below.

Net interest income and fee and commission income
Interest rates continue to be low and as a result interest income decreased by EUR 14.0 million compared with the first half of 2020. In addition to the challenging interest rate environment, high repayments and prepayments in the unsecured loan portfolio led to a decline in the balances and related interest income. Compared with last year, this resulted in a decrease in interest income of EUR 11.2 million.

Interest charges increased, mainly driven by higher interest paid on derivatives. This was partially offset by lower interest charges on saving accounts and wholesale funding. Although the savings entrusted increased by EUR 719 million compared with the first half of 2020, interest charges on saving accounts fell by EUR 2.4 million due to the lowering of interest paid to customers in response to falling market interest rates. Interest expenses on wholesale funding decreased by EUR 1.8 million. This was mainly due to the issue of Covered bond V in November 2020, which generated a negative interest charge, and the repayment of Covered bond I in December 2020.

In line with Knab's growth, fee and commission income increased by 24% or EUR 2.3 million compared with the first half of 2020 to EUR 11.9 million. A higher customer base and increased use of value-added services led to this increase.

Expenses
Total expenses increased by EUR 1.9 million to EUR 93.3 million. The expenses increased mainly due to expenses related to projects to enhance the bank's KYC and credit risk processes. Consequently, the cost-to-income ratio deteriorated from 80.5% in the first half of 2020 to 83.9% in the first half of 2021.

Result from financial transactions
The result from financial transactions was lower by EUR 5.8 million compared with the same period last year. Although hedge accounting is applied, an ineffective portion remains in the profit and loss account due to the basis risk to which the bank is exposed. Knab will continue to work to reduce the volatility and ineffective portion of these hedges. This basis risk led to a gain of EUR 16.9 million in the first half of 2021, down from the gain of EUR 23.6 million in the first half of 2020.

Impairment Charges
Overall Knab's impairment charges improved by EUR 82.5 million to EUR 2.7 million. De-risking, repayments and prepayments in the unsecured loan portfolio were the main drivers for the significant decrease. In the first half of 2020, as a result of the COVID-19 crisis, the bank incurred impairment charges mainly on the unsecured SME and consumer loan portfolio. The deteriorated macro-economic outlook was the largest driver of the addition to provisions in 2020.

Operating result and Return on Equity
The operating result before tax reflects our profit from underlying business operations and excludes components that relate to accounting mismatches that are the result of market volatility or relate to events that are considered outside the normal course of business. The operating result before tax decreased from EUR 19.7 million in the first half of 2020 to EUR 15.3 million in the first half of 2021.

Return on Equity (ROE) is calculated as the annualized operating result after tax (applying a nominal tax rate) divided by average shareholders' equity excluding revaluation reserves over the period. The ROE decreased from 4.1% in the first half of 2020 to 3.2% in the first half of 2021, which is primarily due to the lower operating result and increased shareholders' equity. The latter is due to retained net income.

Aegon has been involved in claims for compensation and the cancellation or nullification of contracts concerning *Vliegwiel* products, a variation on securities leasing products. In the first half of 2021, Aegon reached an agreement on a settlement with Leaseproces and ConsumentenClaim for those customers with *Vliegwiel* and *Sprintplan* products who are represented by Leaseproces and ConsumentenClaim. Through this settlement, Aegon aims to provide clarity to its customers. Execution of the settlement is expected in the third quarter of 2021. The settlement had already been fully provisioned for and therefore did not impact the first half 2021 results.

Balance sheet

The bank's balance sheet total increased to EUR 187 million to EUR 17.3 during the first half year of 2021, the main driver being the increase in customer savings.

Credit risk

The bank's investment philosophy is to combine a mix of prime mortgage loans and debt securities, which is currently complemented with higher-yielding unsecured SME and consumer loans portfolios that are in run-off. The remainder of the asset-side of the balance sheet is composed of cash and amounts due from other banks. During the COVID-19 crisis, credit risk mainly materialized through impairments on unsecured SME and consumer loans. 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 the higher rated unsecured retail loans. The exposure to unsecured loans decreased by EUR 141 million compared with year-end 2020 to EUR 971 million by June 30, 2021.

The bank expanded its mortgage and sovereign bond portfolios in the first half of 2021. The asset side of the balance sheet mainly consists of mortgages, which represent 69% of the total assets. Of these mortgages, 67% are guaranteed by the Dutch state through the NHG scheme, and the portfolio has an average Loan-to-Value of approximately 68%. The cash position decreased as a result of investments in mortgages and debt securities.

Liquidity risk

The bank continued to see net deposits from customers in the first half of 2021. However, given the potential impact of the COVID-19 crisis on its customer base, in particular the self-employed and small business owners, the bank put contingency measures in place to be able to deal with potential increased liquidity needs.

Furthermore, Knab issued a Soft Bullet Covered bond during the first half of 2021. The new Covered Bond Program allows the bank further to diversify its debt investor base and enhances flexibility with respect to bond tenors.

The LCR on June 30, 2021 equaled 225% as compared with 164% at year-end 2020. The main reason for the high liquidity level is to serve as a buffer when off-boarding saving products from non-fee-paying customers. The liquidity position remained well above the regulatory minimum of 100%, in part supported by net deposits and the issuance of the Soft Bullet Covered Bond in the first half of the year.

Capital position

Throughout the COVID-19 crisis, the bank has maintained a solid capital position on a regulatory basis. The Total Capital Ratio of the bank remained unchanged from year-end 2020 at 21.3% as of June 30, 2021. Shareholders' equity on an IFRS basis amounted to EUR 731 million as of June 30, 2021.

Managing the impact of COVID-19

The COVID-19 pandemic continued to cause significant disruption to society, impacting our customers, employees, suppliers and operations. The health and wellbeing of our customers and employees has been our foremost concern. Knab's purpose is to make our customers feel comfortable about their finances every day. The management of the bank continues to monitor the turbulence in financial markets and the wider economy that has arisen as a consequence of the COVID-19 pandemic and its impact on the bank. The bank continues to actively manage its most significant risks, being credit risk and liquidity risk.

Amsterdam, August 27, 2021

Board under the articles of association

N.J.A. Klokke (CEO)
M.R. de Boer (CFO)
E.G. Negenman (CRO)

Key Figures – Unaudited

Income statement on IFRS basis			**unaudited**
EUR thousands	First half 2021	First half 2020	%
Net interest income	108,608	124,097	*(12)*
Net fee and commission income	11,911	9,589	*24*
Result from financial transactions	10,869	16,680	*(35)*
Impairment charges	(2,661)	(85,206)	*(97)*
Expenses	(93,254)	(91,358)	*2*
Income before tax	**35,472**	**(26,199)**	***n.m***
Corporate income tax	(8,868)	7,653	*n.m*
Net income / (loss)	**26,604**	**(18,546)**	***n.m***

Financial overview			**unaudited**
EUR thousands	First half 2021	First half 2020	%
Operating result before tax	15,326	19,675	*(22)*
Non-operating result before tax	20,146	(45,875)	*n.m*
Income tax	(8,868)	7,653	*n.m.*
Net income / (loss)	**26,604**	**(18,546)**	***n.m.***

Ratios	First half 2021	Full year 2020	First half 2020
Return on equity (i)	3.2%	3.0%	4.1%
Cost-to-income ratio (ii)	83.9%	85.3%	80.5%
Common Equity Tier 1 ratio	21.0%	21.0%	21.5%
Total Capital Ratio	21.3%	21.2%	21.8%
LCR	225%	164%	207%
NSFR	148%	141%	135%
Leverage ratio	4.2%	4.1%	4.3%
Asset Encumbrance ratio	19.0%	18.3%	20.1%

Consolidated Statement of Financial Position			**unaudited**
EUR thousands	30 June 2021	31 December 2020	%
Cash	1,694,661	1,548,307	9
Amounts due from banks	126,041	102,119	23
Mortgage loans and other loans	13,442,974	13,725,887	(2)
Financial assets measured at fair value through other comprehensive income	1,773,792	1,456,140	22
Derivatives	193,189	189,093	*2*
Other assets and receivables	93,998	115,704	*(19)*
Total assets	**17,324,655**	**17,137,249**	***1***
Savings deposits	12,644,290	12,539,843	*1*
Borrowings	2,987,623	2,612,894	*14*
Derivatives	547,711	788,993	*(31)*
Net deferred tax liabilities	82,469	84,810	*(3)*
Provisions	45,929	49,054	*(6)*
Other liabilities and accruals	285,346	352,936	*(19)*
Equity	**731,286**	**708,719**	***3***
of which revaluation reserve	*7,783*	*11,584*	*(33)*
Total equity and liabilities	**17,324,655**	**17,137,249**	***1***

(i) Return on equity is calculated as 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. The bank believes that return on equity provides meaningful information about the performance of the bank's business.

(ii) Cost-to-income ratio is calculated as Operating expenses divided by Operating income as defined in the bank's measure of Operating result before tax. There is no IFRS financial measure that is directly comparable to the cost-to-income ratio. The bank believes that the cost-to-income ratio provides meaningful information about the performance of the bank's business.

Disclaimer

The financial statements contained in this document have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed for use in the European Union. All figures in this document are unaudited. Small differences are possible in the tables due to rounding.

Certain of the statements contained in this document are not historical facts. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Readers are cautioned not to place undue reliance on these forward-looking statements, which merely reflect company expectations at the time of writing. Actual results may differ materially from expectations conveyed in forward-looking statements due to changes caused by various risks and uncertainties. Such risks and uncertainties include but are not limited to the following:

(1) changes in economic conditions in the bank's core markets, general economic conditions or the performance of the bank's investments;

(2) the effects of the COVID-19 pandemic and response measures, such as lockdowns and travel restrictions, on the bank's business and operations and on the bank's customers, suppliers and employees;

(3) changes in performance of financial markets;

(4) consequences of Brexit or other European Union countries leaving the European Union and a potential (partial) break-up of the euro;

(5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally such as changes in borrower and counterparty creditworthiness;

(6) changes affecting interest rate levels;

(7) changes in customer behavior and public opinion in general related to, among other things, the type of products the bank sells, including legal, regulatory or commercial necessity to meet changing customer expectations;

(8) customer responsiveness to both new products and distribution channels;

(9) increasing levels of competition in the Netherlands;

(10) changes in the policies of central banks and/or governments;

(11) litigation or regulatory action that could require the bank to pay significant damages or change the way the bank does business;

(12) competitive, legal, regulatory, or tax changes that affect profitability, the distribution cost of or demand for the bank's products;

(13) changes in credit ratings;

(14) the impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items and the ability to achieve projected operational synergies;

(15) system disruptions or failures, breaches of security or data privacy, cyber-attacks, human error, or inadequate controls including in respect of third parties with which we do business and other operational risks;

(16) inability to retain key personnel;

(17) changes in accounting regulations and policies or a change by the bank in applying such regulations and policies, voluntarily or otherwise, which may affect the bank's reported results or regulatory capital adequacy levels; and

(18) catastrophic events, either manmade or by nature, including acts of terrorism, acts of war and pandemics.

These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, the bank expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the bank's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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