Half Year Report Aegon Bank N.V. 1H 2022

AEGON | knab

Aegon Bank NV reports first half year 2022 results

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

Summary

- During the first half year of 2022, the number of fee-paying customers of our online bank Knab grew by 24,000 to a total of 325,000.
- Growth of our customer base and increased usage of value-added services led to a 19% growth in fee and commission income compared with the first half year of 2021.
- The bank remains well capitalized, with a Total Capital Ratio of 19.8%, while our liquidity remained robust with a Liquidity Coverage Ratio (LCR) of 223% as per June 30, 2021.
- In the first half of 2022, the bank generated a net profit of EUR 16.2 million, compared with a net profit of EUR 26.6 million in the first half of 2021.

Customers and business developments

In the first half of 2022 Knab observed the highest customer inflow in 7 years and reached a total of fee-paying customers of 325,000, supporting Knab's growth strategy. Knab also introduced Google Pay and managed investments for retail and business, continuing to respond to customer feedback and deliver customer value. At the end of the first half year of 2022, Knab saw its r-NPS score develop back to 30. A relatively high score for its industry. Knab's efforts have not only been appreciated by its customers, but also more widely recognized as evidenced by the Banking Award 2022 (i.e. 'Zakelijk Bankieren Award 2022') Knab received for the best business account for self-employed.

In April 2022, Joost Brouwer and Maartje Cremers were appointed as members of the Management Board. Joost Brouwer started as Chief Lending at the bank and will focus on launching a new business lending proposition. Maartje Cremers started as Chief Daily Use and will continue building the best bank for entrepreneurs and their families. The CRO of the bank has decided to leave us as per September, 1 2022. Knab is currently in the final stages of appointing an ad interim successor. Eric Drok has succeeded Paul de Kroon as chair of the Supervisory Board as from July 2022.

With easy to use financial products and by sharing relevant information Knab helps entrepreneurs become financially smarter. By constantly engaging with entrepreneurs Knab learns more about their situation, ideas and opinions on financial topics. Knab shares the outcomes of its research among its customer base with the broader public through the 'Knab Bieb' and publications. This way, Knab makes the voice of the entrepreneur heard. In the first half year, 75 articles were added to the 'Knab Bieb', an online library with over a thousand articles. In the first half of 2022 the library was consulted more than one million times.

DNB reviewed the improvements Aegon Bank made to its credit risk framework for loans originated via third party lending platforms. Aegon Bank acknowledges the findings and took the decision to cease investing and put the current unsecured loans through third party lending into run off.

In 2021 Aegon and Consumentenclaim reached an agreement on the compensation of customers holding Vliegwiel and Sprintplan products. Most of the claims have been settled during 2021, and the remainder during the first half of 2022. The settlement had already been fully provided for in 2020.

Financial performance

In the first half year of 2022, Aegon bank generated a net profit of EUR 16.2 million, compared with a net profit of EUR 26.6 million in the first half of 2021. The decrease of net profit is mostly driven by lower interest income on the unsecured loans portfolio due to a lower outstanding balance, lower hedge effectiveness and the sale of a part of the debt securities portfolio. This was partly offset by lower interest charges paid on savings and higher net fee income.

Net interest income

Interest income decreased by EUR 23.0 million compared with the first half of 2021. This was mostly driven by the decline of the unsecured loans portfolio, which declined in volume by EUR 0.3 billion, mainly due to strong redemptions in this portfolio. As a result, interest income reduced by EUR 17.8 million compared to the first half of 2021. Interest charges decreased by EUR 9.2 million. This was mainly driven by a decrease in interest paid on derivatives by EUR 5.2 million compared to first half year 2021. In addition, due to the decreased interest rates, interest charges on savings decreased by EUR 3.5 million compared with the first half of 2021.

Net fee and commission income

In line with Knab's growth strategy, it achieved a 19% increase of the fee and commission income compared with the first half of 2021. This resulted from an expansion of the customer base, increases in fee rates and growth in the use of value-added services.

Expenses

Total expenses decreased by EUR 11.6 million to EUR 81.7 million. The expenses decreased mainly due the finalization of the bank's enhancement projects for Know Your Customer and lower cost for credit risk processes.

Result from financial transactions

The result from financial transactions decreased by EUR 22.1 million to a loss of EUR 11.3 million. This decrease is mainly due to two drivers: 1) 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. In the first half of 2022 this led to a loss of EUR 0.2 million compared to a gain of EUR 7.8 million in the first half of 2021. And 2), in the first half of 2022 the bank sold a part of its government bonds, leading to a realized loss of EUR 7.3 million.

Impairment Charges

Knab's impairment charges improved by EUR 8.5 million to recoveries of EUR 5.9 million in the first half of 2022. De-risking, repayments and prepayments in the unsecured loan portfolio were the main drivers for the significant decrease of the provisions and the related impairment charges.

Operating result and Return on Equity

The operating result before tax reflects Knab's 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 15.3 million in the first half of 2021 to EUR 14.1 million in the first half of 2022 reflecting the de-risking of the portfolio.

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 3.2% in the first half of 2021 to 2.8% in the first half of 2022, which is primarily due to the lower operating result and increased shareholders' equity excluding the revaluation reserve. The latter is due to retained net income during the first half of 2022.

Balance sheet

The bank's balance sheet total increased by EUR 0.8 billion to EUR 16.9 billion during the first half year of 2022. The main drivers were collateral received on derivatives of EUR 0.6 billion due to the sharp increase in interest rates, and an increase in customer savings of EUR 0.2 billion due to continued organic growth.

Credit risk

The bank's investment philosophy is to combine a mix of prime mortgage loans and debt securities, which are 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. The exposure to unsecured SME and consumer loans decreased over first half 2022 by EUR 152 million. The run-off nature in combination with performance of these portfolios resulted in an EUR 5.9 million release of impairments in the earnings over first half of 2022. During the first half of 2022 Knab only invested in unsecured loans through partly UK government guaranteed loan origination. As of June, 30 2022, 47% of the unsecured loan portfolio consisted of these loans.

The bank expanded its mortgage portfolio in the first half of 2022 by EUR 408 million. The asset side of the balance sheet mainly consists of mortgages, which represent 72% of the total assets. Of these mortgages, 60% are guaranteed by the Dutch state through the NHG scheme, and the portfolio has an average Loan-to-Value of approximately 55% as per June 30, 2022. The cash position increased by EUR 1.2 billion mainly as the result of cash collateral received on interest rate derivatives.

Liquidity risk

The bank continued to see net deposits from customers in the first half of 2022 leading to a EUR 228 million increase in savings. The Liquidity Coverage Ratio on June 30, 2022 equaled 223% as compared with 202% at year-end 2021. The main reason for this increase was the increase in cash position as a result of the inflow of cash from collateral received in relation to the interest rate derivatives. The liquidity position remained well above the regulatory minimum of 100%.

Capital position

Over first half of 2022, Knab's Own Funds decreased by EUR 42 million. This was driven by a negative development in Other Comprehensive Income as result of negative revaluations on Knab's debt securities portfolio as a result of higher swap rates. Over time, the negative revaluation will normalize to zero when the securities are held till maturity and fully redeem at their maturity date.

The capital position remained solid with a Total Capital Ratio of 19.8% per June 2022, compared to 21.0% per year end 2021. Regulatory own funds amounted to EUR 691 million and Shareholders' equity amounted to EUR 709 million.

Amsterdam, August 29, 2022

Statutory Board

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 2022**	**First half 2021**	**%**
Net interest income	94,763	108,608	*(13)*
Net fee and commission income	14,124	11,911	*19*
Result from financial transactions	(11,291)	10,869	*(204)*
Impairment reversals / (charges)	5,879	(2,661)	*321*
Expenses	(81,678)	(93,254)	*12*
Income before tax	**21,797**	**35,472**	***(39)***
Corporate income tax	(5,624)	(8,868)	*37*
Net income	**16,174**	**26,604**	***(39)***

Financial overview			**unaudited**
EUR thousands	**First half 2022**	**First half 2021**	**%**
Operating result before tax	14,139	15,326	*(8)*
Non-operating result before tax	7,658	20,146	*(62)*
Income tax	(5,624)	(8,868)	*37*
Net income / (loss)	**16,174**	**26,604**	***(39)***

Ratios	**First half 2022**	**Full year 2021**	**First half 2021**
Return on equity (i)	2.8%	4.2%	3.2%
Cost-to-income ratio (ii)	85.0%	79.5%	83.9%
Common Equity Tier 1 ratio	19.5%	20.8%	21.0%
Total Capital Ratio	19.8%	21.1%	21.3%
LCR	223%	202%	225%
NSFR	149%	142%	148%
Leverage ratio	4.1%	4.5%	4.2%
Asset Encumbrance ratio	17.2%	20.0%	19.0%

Consolidated Statement of Financial Position			**unaudited**
EUR thousands	**30 June 2022**	**31 December 2021**	**%**
Cash	2,027,970	859,629	136
Amounts due from banks	126,115	130,030	(3)
Mortgage loans and other loans	12,165,198	13,042,215	(7)
Financial assets measured at fair value through other comprehensive income	1,376,192	1,772,421	(22)
Derivatives	1,110,924	211,860	*424*
Other assets and receivables	137,876	133,976	*3*
Total assets	**16,944,275**	**16,150,130**	***5***
Savings deposits	11,815,489	11,586,074	*2*
Borrowings	3,562,824	2,988,586	*19*
Derivatives	554,088	477,076	*16*
Net deferred tax liabilities	70,413	80,744	*(13)*
Provisions	6,282	10,248	*(39)*
Other liabilities and accruals	226,165	272,167	*(17)*
Equity	**709,014**	**735,235**	***(4)***
of which revaluation reserve	*(40,184)*	*1,972*	*(2138)*
Total equity and liabilities	**16,944,275**	**16,150,130**	***5***

(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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