Annual Report 2020
Aegon Bank N.V.

Aegon Bank N.V.
Thomas R. Malthusstraat 1-3
1066 JR Amsterdam

Contents

Report of the Management Board

1. General information

Aegon Bank N.V. with its labels 'Knab' and 'Aegon Bank', hereafter referred to as 'Aegon Bank', 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 Nederland"), based in The Hague, The Netherlands. Aegon Nederland is a subsidiary of Aegon Europe Holding B.V. and its ultimate parent is Aegon N.V. (together with its subsidiaries, "Aegon group")

Aegon Bank N.V. has been operating using two distinct labels: Aegon and Knab. As the Knab organization has become more mature, and to further optimize customer service and cost efficiency, the decision was made in 2019 to integrate the two operations and concentrate all of Aegon Bank's activities in one office in Amsterdam. Going forward Knab will be Aegon Bank's main brand in the market. Both labels were still active during 2020. In this Annual Report Knab refers to the entire organization of Aegon Bank N.V.

1.1 Purpose and mission statement

Knab's purpose and mission statement is to

"help entrepreneurs and their families feel comfortable about their current finances and achieve financial freedom later in life"

The fundamental Knab beliefs that contribute to this mission are
- Human: We are human and do things with great love.
- Open: We are open and always honest.
- Positive: We are positive and go above and beyond.
- Entrepreneurial: We are entrepreneurial and take risks intelligently.

When it comes to their finances, we help our customers feel comfortable. To achieve this, we give them control over their day-to-day transactions. Equipped with overviews and insights into their daily banking matters, our customers know where they stand and what they can do to improve their finances. This is the first step toward feeling comfortable: removing the worry around financial matters. It is also the basis for building up wealth for a financially secure future. We offer our customers relevant and simple products to help them accumulate wealth and make savings and investing more tangible, relevant and easy – all the things our customers need for a carefree financial future.

Over time, we aim to add other value adding offerings to our product and services portfolio, including self-employed tooling, business insurance, mortgages and loans. As such, Knab's portfolio will in time offer our customers:

- Convenience today
  - Daily use is at the core of Knab, providing proactive insight for entrepreneurs into their daily finances, crucial for good money management and a first step to feel at ease when it comes to their finances
- Solutions for tomorrow
  - We support our customers in setting money aside for foreseen and unforeseen circumstances
  - Knab helps to choose the best way of putting money aside and keeps customers informed if they need to take action, for business and privately
  - Proactively engage customers via relevant contact to start/top up on investments/ savings
  - We help our customers to protect themselves against every day risks and business-related risks
- Financial freedom in future
  - Customers (employees, self-employed and owners of small enterprises) have an increasing pension gap
  - Knab will help entrepreneurs & entrepreneurial people to retain their financial freedom in future by offering individual (retirement) solutions that are easy, transparent and fast to obtain, with great Knab services, to deliver a relevant customer experience
  - This can also include provisions to support them in their mortgage, business loans, etc.

Our overall proposition is built around Knab's core capability: digital with a human touch. Although we are an online bank, it is in our DNA to make the experience feel human for our customers, irrespective of the channel used. This is perfectly illustrated by the way we work and communicate with our customers: human & fair, easy-to-use & timesaving, proactive & relevant. In order to keep 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.

Besides our overall value proposition, we have defined three strategic pillars on our way toward a sustainable business model. This places our purpose and business strategy in the broader context of today's reality. At the same time, these pillars enable us to move toward a sustainable business model and serve our clients the best we can.

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

Creating more efficiency
- Increase execution power by focusing on differentiating customer engagement and outsourcing non-differentiating activities (e.g., SaaS)
- Optimize the asset and capital strategy
- Scale up operations to reduce the cost per client (e.g., through digitization)

Generating more valuable clients through expanding our services
- Enrich our payment service relationships
- Provide mortgages and business loan origination to improve access to assets
- Introduce digital individual wealth accumulation/individual retirement services

With the Knab operations reaching a substantial size, it was decided in 2019 to integrate Aegon Bank and Knab so as to combine the strengths of the two brands into one digital bank.

The integration resulted from a comprehensive review of the strategies pursued by Aegon Bank and Knab. Our customers live in a society where they are becoming increasingly responsible for their own financial situation. That is why we want to be the most customer-centric provider of services to help entrepreneurial-minded people manage their money matters, for now and in the future. These are primarily self-employed persons and small business owners, as well as retail customers. With Knab customers can arrange their money matters consciously, simply and effortlessly.

Knab values open and transparent communications, both internal and external. We love to learn from our customers and are dedicated to further improving our services together. We regularly invite customers to provide feedback, both online and offline. Our entrepreneurial mindset is constantly looking for new opportunities to deliver value to our customers.

To achieve this, we focus on five leading medium-term KPIs:
- Customer NPS of +40 (r-NPS)
- Annual net customer growth of 40,000
- Cost to income ratio of 60%
- Return on Capital of 9%
- Increasing employee NPS.

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

Aegon Bank N.V. offers banking solutions to Dutch consumers and small-scale enterprises. In October 2019 Aegon Bank N.V. integrated its two business units Aegon Bank and Knab. Aegon Bank N.V. continues to operate under these two labels. Going forward Knab will be Aegon Bank’s main brand in the market.

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. Regardless of the fact that it operates under Aegon Bank N.V.’s license, the market perceives Knab as an autonomous bank with its own branding, marketing and culture. Knab and has since grown a customer base of 287,000 customers. 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. Its mission is to make people feel comfortable about their finances, every day. This reflects Aegon's core mission to help people achieve a lifetime of financial security.

Aegon label
The banking services provided via the Aegon label focus on customers whose income and wealth are in the middle-market segment, in line with Aegon Netherlands’ target group. Aegon Bank offers simple and high-quality products. These include both savings products focused on security and investment products focused on a suitable risk/return profile that meet the customer's needs and risk appetite. With these products Knab reinforces Aegon Netherlands’ broad pension offerings. The Aegon Bank label activities mainly focus on 'Banksparen' products. *'Banksparen'* is a tax-deferred savings

product involving payments being made into a 'locked' bank account. These saving become available after a certain period of time for specific purposes such as a supplementary pension or paying off a mortgage. This product is predominantly sold via independent financial advisors, who remain a very important distribution channel.

1.3 Key policy elements

Knab's legal standards are translated into policies, procedures and work instructions. Failure to comply with these legal (and social) standards will affect Knab's reputation and could damage the trust that people place in the financial sector. In addition to external regulations, Knab adheres to codes of conduct that its employees must comply with. The regulations (detailed in policies and/or Codes of Conduct) applicable to Knab are available in our Policy House. These policies ensure that Knab is compliant with laws, regulations and social standards.

During 2020 the Management Board discussed several important subjects and developments, including:

Strategy & HR

- Knab's strategy
- HR-related issues, the impact of Covid-19 on employees, long-term absenteeism, vacancies, and the outcome of the Global Employee Survey
- Redesign of the organizational structure to further implement Knab's strategy
- Regulatory developments (including new legislation)

Clients

- Know Your Customer (KYC) and Customer Due Diligence (CDD)
- Monitoring the customer Net Promoter Score (NPS)
- Customer growth and client propositions
- IT Risk
- Settlement of security lease products

Finance, Capital & Risk

- Financial results and forecasts (Basel & IFRS) Budget and Mid-term planning
    - Managing the impact of the Covid-19 pandemic
    - Capitalization considerations
    - ALM: strategic asset allocation
        - Issuance of Covered Bond
    - Issuance of Saecure19
    - Asset sourcing including onboarding of new assets Robust mortgages & the Coronavirus Business Interruption Loan Scheme (CBILS).
- Interest-rate Risk Banking Book (IRBB) roadmap and Credit Risk roadmap
- Data & Data Governance
- Model landscape/Model governance
- Observations resulting from our internal controls testing around financial reporting in relation to the Sarbanes-Oxley Act
- Macroeconomic and market developments (including impact of continued low-interest environment)

1.4 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 or "Chief Daily" (Don van Arem)
- Wealth Accumulation Value Stream Lead or "Chief Wealth" (Bianca Joustra)

In February 2021 it was announced that Chief Technology Officer (CTO) Stephan Vinkenborg would resign. The vacancy of CTO has been filled pending DNB approval

During 2020 the Chief Digital, Data & Customer Information Officer (CDDO) Jens Waaijers stepped down. His responsibilities were transferred to other members of the Management Board. The position of CDDO has been discontinued and the corresponding duties have been divided among other positions within the company.

Promoting gender diversity on the Statutory Board and Supervisory Board is an important objective for Aegon Bank N.V. Recruitment and selection are based on expertise, skills and relevant experience. The Supervisory Board ('SB') also takes gender diversity into consideration in the light of its goal to ensure a balanced composition of the Statutory Board. The current composition of the Statutory Board 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).

The Supervisory Board does not meet the 'balanced composition' requirement under Dutch law (at least 30% of the seats to be filled by women and at least 30% by men). When identifying candidates for open positions, Aegon Bank N.V. actively searches for suitable female candidates with the help of external recruitment firms.

1.5 Remuneration policy

Knab's remuneration policy is 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 ('*Wet Financieel Toezicht'*, or 'Wft'), and the remuneration policy under Solvency II. Knab's remuneration policy is also in line with the Regulation on Sound Remuneration Policies ('*Regeling beheerst beloningsbeleid'*, issued by the Dutch Central Bank (DNB)), and remuneration requirements under the Capital Requirements Directive IV (*Richtlijn kapitaalvereisten* - 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 the company either directly or indirectly. Financial compensation consists of, among other things, cash, shares, employer-paid contributions, 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, (annual) HR performance management cycle, training opportunities, and career development.

Variable compensation

On 1 January 2020 Knab abolished variable pay entirely. No variable compensation was granted to members of the Management Board or other employees of Aegon Bank N.V. in 2020. Former members of Knab's Management Board who had been granted variable compensation in the past received a cash payment towards the variable compensation awarded upfront for performance year 2019, and deferred shares that had been granted in earlier years and vested in 2020. 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, with the exception of 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 in the supervisory board meeting of 10 September 2020. 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 shareholders.

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, Aegon N.V.'s Global Remuneration Framework, and Aegon Netherlands' Remuneration Policy.
Based on the *Wet beloningsbeleid financiële ondernemingen* Knab has to report the employees that were paid a remuneration in excess of EUR 1 million. At the balance-sheet date, no such individual were employed by Knab.

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.

Under the governance provisions of Knab's remuneration policy, the Supervisory Board is authorized, following the results of an ex-post risk assessment, to suspend or cancel all or any part of the variable remuneration granted conditionally to Identified Staff ('malus' clause).
Under the governance provisions of Knab's remuneration policy, the Supervisory Board is authorized to recover any variable remuneration previously paid to members of the management team and senior management if it was granted on the basis of inaccurate financial or other information ('claw-back' clause).

1.6 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 Authority for the Financial Markets ('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 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 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 and DNB agreed on a 1.5 year roadmap including a set of defined milestones, to be completed in June 2021. Implementation of the roadmap is on track. Delivery in 2020 was completed according to schedule, despite the challenges caused by Covid-19. The milestones for June 2021 are progressing as planned.

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 in order to ensure compliance with laws that regulate the use of personal data. Its tasks and powers are described in the EU's General Data Protection Regulation (GDPR), supplemented by the Dutch GDPR Implementation Act.

1.7 Business developments

Our customers live in a society in which they are becoming increasingly responsible for their own financial situation. That is why we want to be the most customer-centric 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, and retail customers. With us, customers can arrange their money matters consciously, 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 employ high-quality, automated and controlled processes. We apply technology smartly. This is how we are building a financially stable, sustainably profitable and compliant bank.

Managing the impact of Covid-19

The Covid-19 outbreak is causing significant disruption to society, impacting our customers, employees, suppliers. and operations. The health and wellbeing of our customers and employees is our foremost concern. Knab's purpose is to have our customers feel comfortable about their finances, every day. As Covid-19 has caused significant uncertainty for many companies and individuals, this purpose has become even more relevant. In times like these, it is of the utmost importance to show our added value to our customers. For Knab's business customers, we have therefore created an overview of all support schemes made available by the Dutch government. Useful articles, research reports and financial tips have been published in the Knab Library. From an operational perspective, we are proud of the way in which our employees have maintained high standards of customer service while implementing our business continuity plans in a short timeframe. This has resulted in an almost fully working-from-home situation since 13 March 2020.

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.

Credit risk

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 higher rated unsecured retail loans. Please also refer to paragraph 4.4.3 'Credit risk management'

Liquidity risk

During the pandemic, the bank continued to see net deposits from customers in 2020. However, given the potential impact of the Covid-19 crisis on its customer base, in particular the self-employed and small businesses, the bank has put contingency measures in place to be able to deal with potential increased liquidity needs. The bank set up a EUR 1.6 billion retained RMBS (SAECURE 19). The notes are ECB eligible retained notes and have therefore generated increased liquidity for Aegon Bank N.V. Please also refer to paragraph 4.4.16 'Liquidity risk' in the financial statements.

Operational cyber risk

Since the beginning of the Covid-19 outbreak, Knab and many other banks have been subject to large-scale phishing attacks. The severity of these attacks increased during the Covid-19 crisis in comparison to phishing attacks before the Covid-19 crisis. Knab uses various detection and prevention tools and has taken various additional visible and invisible measures to prevent these attacks. Following a motion approved by the Dutch Parliament, Knab decided to also compensate customers who have become the victims of spoofing by criminals.

Customer growth

Despite the pandemic, Knab continued to grow in 2020. The growth in savings was driven by deposits made by existing customers, and the addition of new customers.

The Knab customer base grew to a total of 287,146 (+27,932) customers, consisting of 132,638 retail customers and 177,234 business customers. The sum of the parts is greater than the whole due to a segment of customers having both a business and consumer account. Growth was primarily achieved by the acquisition of new business account holders (+24,204), while retail also showed a steady growth (+8,688).

The Aegon Bank label counted a total of 229,097 customers (Box 1 and Box 3) at the end of 2020. The overall number of customers showed a significant reduction of 164,560 customers in 2020, mainly Box 3 customers (-171,368), as a result of offboarding low-balance accounts and closing the onboarding funnels of Box 3 savings products in preparation of the full migration of Aegon Bank's customer base to Knab in 2021. Despite the decline in the overall number of customers, the savings balance remained stable due to a growth in Box 1 customers of 6,808 customers and savings of EUR 225m. In line with 2019, due to our favorable market '*banksparen'* position (top 3 position) and good relationship with intermediaries as the primary sales channel for these Box 1 products, '*banksparen'* continued to remain a stable factor for attracting new customers and savings in this product category.

NPS

Knab's Net Promotor Score (NPS) remained at a high level. For 2020 the retail NPS showed an average R-NPS of 21 and for our Business customers this was 35. The relational NPS for both business and retail customers showed a decline compared to 2019, mainly as a result of the KYC enhancement impact. Despite this decline in 2020, Knab is still among the top performing brands in terms of NPS compared to industry standards. Aegon Bank's NPS continued to perform below target. Low NPS is mainly due to the lack of direct customer contact (on average, direct contact with customers occurs once every 4-5 years).

Project ONE and further transformation of the organization

During 2019, the decision was made to integrate Aegon Bank N.V. and Knab Advies & Bemiddeling N.V.(KAB) to combine the strengths of these entities into one online/digital bank. Knab is now the single banking brand for Aegon in the Netherlands.

Project ONE involved integrating Knab and Aegon Bank, relocating to Amsterdam, and carving out a more autonomous self-supporting position within Aegon Netherlands as a specialized subsidiary.

As part of the integration, Aegon Bank's and Knab's management teams and organizations merged to establish integrated steering and enhancement control. During 2020 the internal organization was also fully embedded. The project will be fully completed when Aegon label products are transferred to the Knab label in 2021.

In order to become a more effective, learning organization, the bank's Management Board announced a transformation of the internal organization in 2020. This led to the set-up of value streams that are end-to-end responsible for customer needs. This has resulted in an even greater customer focus, an appealing wealth proposition and more direct control of our balance sheet. We believe that this strategy opens the way for new products and innovation.

Intended settlement of security leasing claims

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. The settlement is subject to conditions precedent and further operational details are yet to be worked out. Full performance of the agreement is expected in 2021. We refer to note 3.5 in this Board Report and note 24.4 in the Annual Report.

KYC

During 2020 Know Your Customer (KYC) continued to be a top priority for Knab, reflected in a clear KYC optimization and enhancement program (the 'KYC Project'). As part of the KYC Project, a multidisciplinary approach was taken in which all relevant stakeholders participated and external subject matter experts provided assistance and conducted validations on the work performed. The renewed and more robust KYC framework, including a renewed Risk Appetite Statement previously drawn up in 2019, was put in place in 2020.

With regard to Anti-Money Laundering monitoring, Knab further refined its existing transaction monitoring rules and successfully designed and introduced additional sets of transaction monitoring rules for detecting potential risks of money laundering, financing of terrorism, sanctions, and tax evasion. This has raised the maturity level of transaction monitoring even further.

In 2020 Knab focused on two areas: the remediation of historical transactions and enhancement of all existing customers onboarded before October 2019. After implementing the new transaction monitoring rules, Knab screened its historical transactions against the new rule sets and successfully mitigated all potential risks identified during the screening. Major steps have also been taken toward enhancing existing customers, , onboarded prior to implementation of the new onboarding funnels. This is to make sure that all customer files are in line with the improved KYC framework. Enhancement of existing customers will be completed in 2021.

Developments in Wholesale funding

In November 2020, Aegon Bank N.V priced its fifth EUR 500 million 5-year Covered Bond with a yield of -/- 0.362%. The deal was 5 times oversubscribed and successfully placed with more than 80 institutional investors. Furthermore, the EUR 750 first inaugural Covered Bond was repaid in December 2020.

Aegon Bank N.V is preparing to set up an additional Covered Bond Program, using a Soft Bullet structure. Any new covered bond issues are expected to take place under this program. The new Covered Bond Program will allow further diversification of the debt investor base and enhance flexibility with respect to bond tenors.

Aegon Bank N.V.'s credit agency rating

Standard & Poor's rating for Aegon Bank N.V. is A with a stable outlook.

As part of our drive to further reduce costs, Aegon N.V. has requested Fitch to simultaneously 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 Aegon Bank N.V. and the Covered Bonds issued under its Program.
On 1 December 2020 Fitch confirmed that it had cancelled the ratings as requested. Aegon Bank N.V. and its CPT Program have since been rated only by S&P.

Innovation

In October 2019, Knab introduced a safer method for new customers to confirm their identities via a passport scan using the NFC chip. This year, all customers of both labels will be asked to re-confirm their identities using this method, and to answer additional questions. This will improve our ability to meet our fiduciary duties by enhancing our knowledge of who our customers are and where the money in their accounts comes from. For the Knab label, we also deployed iProov, a biometric facial authentication technology. In line with our mobile first strategy, Knab account can now effortlessly authenticate themselves for a range of transactions using iProov. Knab is the first bank in Europe to use this technology. A key element is the rebinding process: when re-installing or updating our app, customers use it to re-verify their identities. With this new development we deliver outstanding customer experience without compromising on the highest security and compliance standards, and have become a more effective, learning organization.

Risk culture

Knab is growing rapidly and believes that its corporate culture is the foundation for accomplishing 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, innovation, risk identification, and risk impact assessment. Knab is unique in that it 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 of course 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 honest.
- Positive: We are positive and go above and beyond.
- Entrepreneurial: We are entrepreneurial and take risks intelligently.

At Knab we know that being entrepreneurial implies that risks cannot be avoided. Just like our clients we know that 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 we understand, and then only within our risk appetite as set by the Board. Being entrepreneurial means taking risks intelligently. The tone at the top sets the example. The progress of embedding risks in the core of 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 to all employees, and several training programs were rolled out in relation to compliance, operational risk and GDPR.

1.8 Brexit

On 31 December 2020 the United Kingdom (UK) officially left the European Union (EU). Just before the Brexit transition period ended, the EU and the UK closed a new "Trade and Cooperation Agreement" outlining their post-Brexit relationship. The agreement does not include a comprehensive chapter on financial services. Knab's main areas of concern have been addressed as the EU has so far temporarily recognized derivatives clearing houses and securities settlement. A rift could have threatened the stability of Europe's financial markets. The recognition of the London Clearing House (LCH) as an eligible clearing house for EU financial institutions has been extended to June 2022. In recent years, Knab has prepared for the possibility of a 'hard' Brexit and has worked towards replacing its UK counterparties. For centrally cleared derivatives, Knab has gradually moved from the LCH in London to Eurex in Frankfurt. Currently, Knab has moved almost all swaps (bilateral and LCH) to Eurex. The ongoing situation is carefully and continuously monitored by the bank's Asset and Liability Committees.

1.9 IBOR transition

The future of the IBORs (Interbank Offered Rates), such as the 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 covered by the new Benchmark Regulation (BMR), which stipulates that only BMR-compliant benchmarks may be used within the EU.

Knab recognizes that IBOR transitions may potentially have implications for our activities. Despite current uncertainties over how the transition from the IBORs to alternative benchmarks will be managed, it is widely acknowledged that IBOR benchmarks impact financial products and contracts, including amongst others derivatives, corporate bonds, structured debt products, deposits, and mortgages.

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

2. Financial information
2.1. Developments during the year

Underlying earnings reflect our profit from underlying business operations and exclude 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-underlying earnings are earnings dependent on market volatility or relating to events that are considered outside the normal course of business.

For 2020 total net income reflected a loss of EUR 31.5 million compared to a net profit of EUR 26.6 million in 2019, driven mainly by the provision recognized for legal claims, the impact of Covid-19 on impairment charges, KYC and regulatory roadmap costs, restructuring charges, and the impact of de-risking offset by a gain on fair value changes.

Amounts in EUR thousands	**2020**	**2019**
Operating income	190.705	190.534
Operating expenses	-162.581	-150.233
Underlying earnings before tax	**28.124**	**40.301**
Fair value items	43.816	18.654
Gains on investments	683	1.966
Impairment charges	-35.121	-16.315
Other charges	-73.262	-5.378
Non-underlying earnings/(losses) before tax	**-63.885**	**-1.073**
Income/(loss) before tax	**-35.761**	**39.228**
Income tax	4.308	-12.599
Net income/(loss)	**-31.453**	**26.629**
Return on equity[1]	4.0%	4.4%
Cost-to-income ratio[2]	85.3%	78.8%

General
The bank reported a growth in savings of EUR 1.0 billion, driven by deposits from existing customers and the addition of 27,932 new customers. Borrowings decreased by EUR 0.2 billion due to the repayment of Aegon Bank's EUR 0.7 billion inaugural conditional pass through covered bond (CPTH) in December, partly offset by the issue of the fifth issue under the CPTH program in November.

On the asset side of the balance sheet, the mortgage portfolio increased by EUR 1.3 billion, EUR 0.3 billion of which relating to the effects of hedge accounting due to the fall in market interest rates in 2020. The unsecured loans portfolio shrank by EUR 0.4 billion, due mainly to strong redemption levels across the portfolios. During 2020 Knab mainly invested in the Coronavirus Business Interruption Loan Scheme (CBILS) set up by the UK government. At year-end the exposure to CBILS amounted to EUR 0.3 billion.

Operating income
Although K reported a growth in savings, interest income fell by EUR 3.7 million, attributable mainly to a decrease in the unsecured portfolio, which in turn resulted in an EUR 8.0 million fall in interest income. Interest income from the mortgage portfolio increased by EUR 8.2 million, offset by higher net amortization charges on mortgages and lower interest income from the financial assets measured at fair value through OCI portfolio, due to falling market rates.
Interest expense rose by EUR 1.3 million. Interest charges increased by EUR 3.9 million driven by the increase in interest paid on derivatives and an increase in interest

1. Return on equity is calculated as annualized underlying earnings 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 issuer believes that return on equity provides meaningful information about the performance of its business.
2. Cost-to-income ratio is calculated as operating expenses divided by operating income as defined in the issuer's underlying earnings before tax measure. There is no IFRS financial measure that is directly comparable to the cost-to-income ratio. The issuer believes that the cost-to-income ratio provides meaningful information about the performance of its business.

expenses due to the issue of SNP notes in Q2 2019, slightly offset by the issue of Covered bond V, which generated a negative interest charge, and the repayment of Covered bond 1. Although the funds entrusted increased compared to 2019, interest charges on saving accounts fell by EUR 3.8 million due to falling market interest rates.
The increase in fee income of EUR 5.1 million is mainly due to the growth of Knab's customer base.

Expenses

Total expenses rose by EUR 12.3 million to EUR 162.6 million. Operating expenses increased primarily due to project ONE integration costs related to the IT migration (i.e. Knab and Aegon Bank label), consultancy support, housing and the liquidation of former entity Knab Advies & Bemiddeling N.V., and the transfer of a number of employees to Knab. Finally, other expenses included EUR 1.5 million in phishing/spoofing costs.

Overall, the cost-to-income ratio increased from 78.8% to 85.3% as the increase in underlying expenses exceeded the increase in underlying income.

Fair value items and gains on investments

Profit on financial transactions improved by EUR 23.9 million, driven mainly 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 that Knab is exposed to.

Impairments

The bank incurred impairment charges of EUR 92 million related to the IFRS 9 loan loss provisions in 2020 (2019: EUR 69.1 million), mainly on the unsecured SME and consumer loan portfolio. The deteriorated macro-economic outlook was the largest driver of the significant increase in provisions as a result of the impact Covid-19 crisis.

Underlying earnings before tax reflect management's best estimate of the investment return on consumer loans and SME loan investments (net of expected impairments). Of the total impairment charge EUR 57.7 million was reported under underlying earnings (2019: EUR 52.8 million)

Other charges

Total other charges rose by EUR 67.9 million to EUR 73.3 million. The 2020 charge consisted of an increase in the provision for legal claims amounting to EUR 44.9 million. Recharged restructuring costs of EUR 2.0 million were recognized for two reorganizations implemented in 2020. Furthermore, Knab's regulatory projects led to a cost of EUR 25.7 million in 2020.

Income tax

The future change in Dutch corporate income tax rates had a negative impact of EUR 4.6 million, which was processed through deferred taxes (2019: negative impact of EUR 2.8 million).

2.2. Regulatory requirements

At year-end Aegon Bank N.V. reported the following regulatory ratios:

	2020	2019
Common Equity Tier 1 ratio	21.0%	19.8%
Total Capital Ratio	21.2%	20.0%
LCR	164%	212%
NSFR	141%	147%
Leverage ratio	4.1%	4.6%
Asset Encumbrance ratio	18.3%	19.4%

Capital

During 2020 the company's total IFRS capital decreased by EUR 27.1 million due to the loss of EUR 28.9 million, compensated for by the revaluation reserve, which increased by EUR 2.2 million to EUR 11.6 million.

At the same time, the Total Capital Ratio improved by 1.2%, driven by a decrease in the total risk exposure amount by EUR 353 million to EUR 3.3 billion. The decrease in TREA mainly resulted from redemptions on consumer loans and SME loans, partly offset by increased mortgage loans and a higher risk exposure amount for operational risk due to the bank's growth.

The Common Equity Tier 1 Ratio improved from 19.8% to 21.0%, whereas the Total SREP Capital Requirement (TSCR) Ratio remained unchanged at 12.0% during 2020.

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 obligations as compared to the institution’s own funds. The Leverage Ratio is calculated as an institution's capital divided by that institution's total non-risk weighted exposures, expressed as a percentage. Aegon Bank N.V. meets the internal minimum requirement of 4% for 2020 and the external minimum requirements; the Leverage Ratio at 31 December 2020 was 4.1% (2019: 4.6%), driven by the growth of Knab’s balance sheet combined with a decrease in Tier 1 capital.

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 should have enough (extremely) high-quality liquid assets ((E)HQLA) in their liquidity buffer to cover the difference between the expected cash outflows and the expected capped cash inflows over a 30-day stressed 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 decreased from 212% to 164%, due to higher net outflows, partly offset by higher liquid assets. The LCR ratio remains above the external limit of 100%.

NSFR

The Net Stable Funding Ratio (NSFR) is the requirement that banks should 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 decreased by 6% to 141%, due mainly to the growth of the mortgage loan portfolio.

AER

An asset is treated by Aegon Bank N.V. 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 2020 the AER decreased by 1.14% to 18.30%. The encumbered assets showed a slight increase and so the decrease in the AER is fully attributable to the growth of the Bank’s balance sheet.

3. Main risks and uncertainties

3.1. General

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. From a financial perspective, Knab is primarily exposed to credit risk, interest rate risk, liquidity risk, and market risk. Knab is also exposed to non-financial risks, such as operational and compliance risks.

Knab manages risks on behalf of its customers and stakeholders. Knab's Enterprise Risk Management (ERM) Framework provides the core structure that allows for assessing, controlling and managing all the risks that Knab is exposed to. The ERM framework is therefore essential in ensuring the bank'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 daily business activities of the bank, but it also sets the guiding principles on how risk management is to be embedded in Knab's strategic planning process. In addition, the framework ensures that risks are identified, measured and controlled at all levels across the organization. It also allows any new risks to be identified. The framework provides for the measurement and reporting of risks, and stresses the importance of general risk awareness, attitudes and behavior on the part of employees, management, and leadership.

The ERM Framework is effective only if there is a sound and consistent risk culture throughout the organization.
Being entrepreneurial, one of Knab's core values, implies that risks cannot be avoided. Just like our customers we know that understanding the risks is the foundation of doing business. 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". 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 within daily management of the business and strategic planning, gives the bank a license to operate. It helps the bank protect its reputation, lower the cost of capital, reduce costs and ultimately minimize the risk of investigation, prosecution and penalties, because we do things the right way. By effectively managing our risks, we enhance our position by building trust.

The risk management & compliance function is:
"responsible, on behalf of the Management Board, for the supervision and oversight of the organization acting in a risk-aware manner and for proactively advising the Management Board. In this context, Knab expects the risk management function to proactively support management by highlighting risk responsibilities and supporting management in the design and implementation of appropriate controls".

Knab's risk strategy and its alignment with the corporate strategy is formulated in the bank's Risk Strategy. This strategy provides direction regarding the level of risk that is consistent with the requirements of various stakeholders, such as our customers, shareholders, employees, regulators, and rating agencies. The risk management strategy ensures that the bank maintains a solvency and liquidity position at all times that allows Knab to meet its obligations to our 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. Risk management supports the strategy by ensuring a common system for measuring risk, which creates a level playing field for competing for our resources. The execution of these building blocks is a continuous and iterative undertaking, and includes periodic or ad hoc adjustments to the strategy and risk appetite based on new risk information or changes to the business or business environment.

3.2. Financial risks

For Knab, financial risk includes credit risk, interest rate risk in the banking book (IRRBB), liquidity risk and market risk, i.e. foreign exchange risk. Knab does not hold any trading book. 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 as set out in its Risk Appetite document. Climate risk is assessed via stress testing. Stress testing is also performed, for example, when credit risk parameters are stressed because of either

physical risks or a deterioration in value due to policy changes or the energy transition.
With regard to IRRBB management, Knab aims for a neutral interest rate position, and applies a relatively simple interest rate hedging strategy (payer 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 its credit risk exposures. Hedge accounting is applied in order to minimize the IFRS P&L impact.

As a retail bank, Knab's liquidity risk originates mostly from retail savings on the liability side of the 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 all available and required liquidity and the impact on it in times of market and bank-specific stress events. Knab has adopted a stricter approach compared to the Basel III liquidity standards so that it is compliant with regulatory requirements.

For further information regarding risk management, please refer note 4 Risk Management in the consolidated financial statements.

3.3. Non-financial risks

Knab's non-financial risk exposure covers risks related to its strategy, compliance and operational processes. Strategy risk is periodically discussed and monitored within the Management Board. These other non-financial risks are discussed by the Non-Financial Risk committee on a monthly basis.

Compliance risks

The mission of Compliance 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. Cooperation with the first line is key, for example by giving advice on and raising awareness of compliance risks, and ensuring that the customers' needs and interests are taken into account in the design of the organization. With this approach, Compliance contributes to Knab's overall purpose: "Feeling comfortable about your finances. Every day". This means that the Compliance function must be pro-active, data-driven and in line with the business strategy.
The Compliance function's objective is to manage all compliance risks, more specifically by:

- Preventing non-compliance with laws and regulations, business principles, rules of conduct, and establishing good business practices for every aspect of the organization (e.g. governance, strategy, people, processes, policies, culture, communication);
- Establishing and maintaining effective compliance and integrity risk management (including effective conflict of interest management) and control systems, including identification, monitoring and reporting of compliance/integrity risks;
- Promoting integrity across Knab's business and employees, including creating awareness of compliance with internal policies and standards and of the fact that internal and external disciplinary actions, legal action or sanctions may be imposed in the event of misconduct or unacceptable behavior.

Operational risk

Knab defines operational risk as "the risk of losses arising from inadequate or failing internal processes and controls, people and systems, or external events." The operational risk framework provides the methodology and tools to identify, assess and monitor these risks.

One of the key operational risks is outsourcing risk. Knab is a relatively small organization and has outsourced various of its activities. Outsourcing involves Knab instructing a third party (or supplier) to perform activities that would normally be undertaken by the bank itself. Knab has a significant number of suppliers and should conduct its business in a controlled and sound manner at all times. As a consequence, outsourcing risk is an important risk for Knab and must be properly managed. Knab's senior management is ultimately responsible for the proper management of the risks associated with its outsourced activities.

Operational risk also includes IT, information security, and business continuity management risks. The bank's operating profit and financial position can be adversely affected by natural and man-made disasters such as hurricanes, riots, fires, explosions or 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. In the course of 2020, due to Covid-19, all employees began working from home, and measures were put in place immediately to mitigate the potential operational impact of Covid-19. This involved ensuring that everyone could work from home, including the Service Desk and IT Development, taking additional measures to combat the increase in cybercrime risk, and ensuring that all employees continued to feel connected with Knab.

During 2020, Know Your Customer (KYC) continued to be a top priority for Knab. A clear KYC optimization and enhancement program (the 'KYC Project') was rolled out. The renewed and more robust KYC framework, including a revised Risk Appetite Statement which had previously been drawn up in 2019, was put in place in 2020.

With regard to Anti-Money Laundering monitoring, Knab further refined its existing transaction monitoring rules and successfully designed and introduced additional sets of transaction monitoring rules for detecting potential risks of money laundering, financing of terrorism, sanctions, and tax evasion. This increased the maturity level of transaction monitoring even further.

After implementing the new transaction monitoring rules, Knab screened its historical transactions against the new rule sets and successfully mitigated all potential risks identified during the screening. Major steps were also taken to enhance existing customers, onboarded prior to implementation of the new onboarding funnels. This is to make sure that all customer files are in line with the improved KYC framework. Enhancement of existing customers will continue in 2021.

Climate risk

As part of SREP, Knab performed a self-assessment on the governance, strategy, measurement and management of climate-related risks. The main findings were that Knab has only limited exposure to climate risk although, at the same time, climate risk could be more embedded in its risk governance, strategy, measurement and management.

As regards the main asset classes (debt securities, mortgage loans, consumer loans, SME loans, and other assets), Knab considers itself exposed to climate risk mainly in an indirect way if climate risk-related matters were to impact the collateral value of mortgages (i.e. the housing market). A decrease in collateral value will increase Knab's capital requirements and impairment provision related to credit risk. The value of a residential property is subject to both transitional and physical climate risks. No specific criteria are currently used in mortgage origination with regard to a property's sustainability or carbon intensity. The portfolio is well-diversified but fully located in the Netherlands, which reduces the impact of potential climate risks.

On the liability side, climate-related risks for savings products mainly concern reputational risks resulting from customers' increased focus on the absence of a specific climate strategy or CO2 emission targets.

In 2020, Knab set up a Responsible Business working group tasked with exploring this theme further and developing strategies and raising awareness across the organization of corporate responsibility and climate risk. The working group will also review the DNB's good practices on climate risk identification, assessment, monitoring, mitigation and management.

3.4. Risk Management

The CRO has a 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 verifies that Knab's commercial activities are generally appropriate within the context of the risk appetite it has endorsed.

Knab uses a 'three lines of defense' model. The first line is basically the business itself. Its primary responsibility is to manage all risks arising from doing business. The risk management function (the Risk Management & Compliance department) is organized as the second line of defense. It operates from an independent position and has a monitoring and challenging role. Knab has organized the risk management function centrally and independently from Aegon Nederland. There are regular consultations with the CRO and CEO to ensure that the Management Board is aware of any material risks the company 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, or liquidity requirement.
To ensure customers' best interests, Knab does not simply put investment propositions on the market. Every new and updated proposition follows an approval process. In this process, Knab carefully balances the risks inherent in an investment proposal and weighs these up against its duty of care towards the customer and against financial sustainability and suitability as required by Knab's vision, 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. These propositions are selected through the use of pre-defined risk indicators, and the main goal of this exercise is to ensure customers' interests. Both processes determine whether an investment 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 vision, strategy, core values, and competences.

Internal Audit

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

IAN executes 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) as well as with Aegon policies and procedures.

Internal Audit Nederland has regular contact and consultations with the Supervisory Board's Risk & Audit Committee and the external independent auditor to discuss the risk analysis and audit plan.
Internal Audit Nederland also engages in frequent contact with DNB to discuss risk analyses, findings, and audit plans.

3.5. Pending litigation, portfolio and product-related issues

Securities leasing products ("aandelenlease")

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 seek fines or other monetary penalties, or changes in 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 2016, the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon's competitors. It decided that the financial institution was liable if a broker ('remisier') that had advised on the sale of the institution's products had not been properly licensed.

In July 2016, the consumer interest group Platform Aandelenlease (PAL) filed a class action against Aegon Bank N.V. regarding Aegon's securities leasing product Sprintplan. Allegations included the lack of a proper license for the brokers involved. In February 2020 the Court of Appeal rejected all claims of PAL. This ruling has become final. In addition, Aegon Bank N.V. 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 Authority ('Klachteninstituut Financiële Dienstverlening'), with numerous cases having been initiated by Leaseproces B.V. 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. The settlement is subject to conditions precedent and further operational details have yet to be worked out. Full performance of the agreement is expected in 2021. We refer to note 24 in the Annual Report.

4. Corporate Governance

The Banking Code, which primarily focuses on reducing risks, efficient auditing and capping board pay in the banking sector, came into effect on 1 January 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.

The initiative to have all bank employees take the oath is a significant tool in promoting the new culture that the banking industry wishes to embrace. A disciplinary scheme was introduced to ensure that taking the oath is not without meaning. As a result, bank employees are accountable to society as a whole. On 28 May 2015, a formal ceremony was held at Aegon Bank N.V. where all Aegon Bank and Knab employees were present to take the oath or pledge their commitment to these Rules of Conduct. Since then, all new employees have taken the oath so that they are aware of the new culture and will serve the best interests of our customers.

Putting our customers' interests first is the starting point of everything we do. In addition to including this goal in our core values, actually embedding it in our way of thinking across the organization is the real challenge. Aegon Bank N.V. actively involves employees in improving its existing processes and/or products for the benefit of the bank's customers.

Although the Dutch Corporate Governance Code does not apply to Aegon Bank N.V., Aegon Bank N.V. has expressed the intention to follow its best practice provisions and implement them across its organization wherever possible.

Supervisory Board

Composition and expertise

The Supervisory Board is evenly balanced, regarding their competences and expertise and is independent with three of its four members not being employed by Aegon. A profile has been prepared that includes detailed requirements for the expertise of supervisory board members.

Duties and working methods

Details of the Supervisory Board's duties and working methods are set out in the Supervisory Board Charter. In addition to the duties set out in the Articles of Association, these Rules include the best practice provisions from the Banking Code and the Dutch Corporate Governance Code.

In 2020, the members of the Supervisory Board and Management Board took part in the Continuous 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, financial reporting and audit.

With regard to the Supervisory Board's members, the permanent education program focused and will continue to focus on the following subjects: (i) ethics, 'moresprudentie' (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 simulation; (v) scenario analysis workshop; (vi) workshop governance, managerial dilemmas and boardroom dynamics; (vii) deepening financial frameworks and trends in supervision; and (viii) deepening financial reporting.

The annual self-assessments performed by the Supervisory Board took place in December 2020. The Supervisory Board performs a self-assessment once every three years under the supervision of an external party.

The Supervisory Board has established a Risk and Audit Committee and determines its composition. The committee prepares the decision-making of the Supervisory Board on subjects in their delegated areas. The Supervisory Board remains responsible for the decisions prepared by the committee.

Statutory Board appointed under the Articles of Association

Composition and expertise

Aegon Bank N.V.'s Statutory Board appointed under the Articles of Association consists of a 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 Rules of the Statutory Board. In addition to the duties set out in the Board Charter, this also includes additional provisions based on the best practice provisions in the Banking Code and Dutch Corporate Governance Code.

Aegon Bank N.V. and Aegon Nederland N.V. seek to put the interests of their customers first. Aegon Bank N.V. 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 pledge to act in the interests of the bank's customers to the best of their ability.

5. Corporate social responsibility

5.1. General

When the Knab brand was launched in 2012, we only had one goal in mind: to put our customers first in everything we do. It is our mission to make our customers feel comfortable about their finances. Our corporate social responsibility program revolves around initiatives that support this mission. We provide additional services to both customers and non-customers to help them make well-informed decisions for a healthy financial future.

Knab is aware that not everyone is able to make well-informed choices. In today's society, people are increasingly required to make their own arrangements and unfortunately there are many people who may not be able to do so. Knab's approach to corporate social responsibility is identical to that adopted by Aegon Nederland and so Knab's CSR initiatives have been aligned with those of Aegon Nederland.

5.2. Economic

Information & Knab Open

Knab provides free-of-charge services that help customers and non-customers make better informed financial decisions. Our extensive library offers over 800 articles about financial topics, ranging from insurance to pension plans, and from mortgages to savings. If you have a financial question, chances are you will find the answer in one of our articles.

Knab also frequently organizes meetings, both online and offline, about various financial topics. These events are hosted for customers and non-customers, retail and business. Popular topics include tax application, the government's budget plans ('Prinsjesdag') and expert master classes.

Tools & alerts

Furthermore, Knab offers various tools and alerts that can be used free of charge. These tools are designed to maximize value for customers and non-customers, for instance by allowing them to apply for a tax cashback ('middeling') or to find the best savings interest rate in the market ('rente alert'). Although many users of these tools also turn to Knab to help them with their daily payments and savings, they are not just marketing tools. We provide these smart services because we strongly believe they help people make better financial decisions, and should therefore be available to everyone.

Knab also provides specific tools that can only be used by its customers. These services are designed to maximize their control over money matters and so to make customers feel comfortable about their finances. Examples include alerts for double debt collection, overdrafts and foreign use of debit cards. These services can be used without additional costs and are included in the banking product.

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.

Teaching the young about money

During 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 as set out in the Collective Agreement. These activities are all organized in nearby municipalities.

5.3. Environment

Through our parent companies, Aegon Nederland and Aegon NV, Knab has committed itself to several initiatives with regard to the environment and climate change. Knab is an active member of the Responsible Investment Committee at Aegon Nederland, which monitors Aegon Asset Management's investment portfolio and Aegon Hypotheken's mortgage portfolio. Working with Aegon Nederland, Knab will define science-based targets in the course of 2021 in order to reduce the carbon footprint of our investments.

Responsible business

Aegon believes that it is essential that the goals of the Paris Climate Agreement are achieved. Not only from a social point of view but also to ensure that our customers can grow old in a clean and healthy environment. For this reason, Aegon Nederland and its subsidiaries seek to minimize climate change and environmental risks when investing their customers' money. We use our responsible investment strategies, policies, instruments (screening, engagement, voting, and exclusion) and investments to achieve change. More information about responsible investing is available on Aegon's website

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.

We have made significant progress over the last year 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 these investments. By measuring the greenhouse gas emissions associated with our investments, we hope to provide insights on the environmental impact of the different companies we help to finance.

Despite the progress made in recent years, we are not yet able to measure the CO2 emissions from all our investments. We hope to increase the proportion of investments measured for associated CO2 emissions in the coming years, as both industry measurement standards and our own capabilities develop. Where 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 the group companies of Aegon Nederland, 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 86% of our balance sheet assets as at 31 December 2020 (compared to 71% at 31 December 2019).

Asset class Amounts in EUR thousands (unaudited)	**Value (EURm)**	**Carbon footprint (tCO_2e)**	**Coverage (% of assets)**	**Relative intensity (tCO_2e/EURm)**	**Weighted-average carbon intensity (tCO_2e/EURm revenue)**
Cash	1.650	0	100%	0	0
Sovereign bonds	729	79.800	41%	269	235
Corporate credit	434	1.400	18%	18	24
Mortgages	11.978	231.200	96%	20	-
Unmeasured assets	2.344	Not yet measured			
Total	**17.137**	**312.400**	**79%**	**23**	

Mortgages are by far Aegon Bank's largest asset class, consisting solely of residential mortgages. For 96% (2019: 94%) of the collateral, an energy efficiency label was available. 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 2020, the total footprint was estimated to be 231,120 tCO2e (2019: 215,000 tCO2e), with an average approximate energy rating label of C (2019: ~D). The overall energy label distribution for residential mortgages was as follows:

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

Knab's own carbon footprint

By looking at our offices, mobility, and our cooperation with other companies, and by creating awareness among our employees, suppliers and other stakeholders, we want to halve the ecological footprint of Aegon Nederland's internal business operations per employee by 2030, as compared to 2018.

5.4. Social

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 visit 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 helps 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+ 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.

5.5. Employees

Our people are what makes us Knab. They help our customers through our app on the phone and through our online chat platform or share what they know 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.

6. Outlook

6.1. Developments

2020 has been a challenging year for Aegon Bank. A great deal of effort has gone into governance and risk management-related projects, such as project One, KYC, and the IRBB and credit risk roadmaps. Although considerable progress has been made, we are also aware that these projects will require our continued attention throughout 2021.

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. We sincerely want to thank our employees for their help and flexibility in what is sometimes a difficult working from home situation.

In 2021, as in 2020, we will continue to monitor market developments, specifically in relation to Covid-19, and how this may impact Knab.

In 2021 we will also continue the integration of Aegon Bank into the Knab brand and organization. The first milestone will be the introduction of the *Knab Pensioen Sparen* product in March 2021.

The financial sector has been undergoing major changes 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 2021.

The continued recovery of the housing market impacted the mortgage market. Demand for mortgage products is expected to remain high. Disintermediation and new forms of advice on financial products and services are expected to be developed and change further in 2021.

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

6.2. Post-reporting date events and expectations

There are no post-reporting date events and expectations that have not already been taken into account in the directors' report or financial statements.

Amsterdam, 16 April 2021

Statutory Board
Nadine Klokke
Mike de Boer
Ebbe Negenman

Report of the Supervisory Board

Report of the Supervisory Board

Duties

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

Meetings

The Supervisory Board convened seventeen times in 2020, of which eleven formal meetings. 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, DNB instruction, technology, data and innovation, and Brexit. An update on major projects was provided at each meeting. These projects concerned matters relating to, for example, risk management, KYC, IFRS9 and Project One. The Supervisory Board monitored these important and complex projects closely. Apart from the regular meetings, five additional Supervisory Board meetings were held regarding potential business opportunities, governance, regulatory topics, the annual report, CBILS, the capital plan, the progress update on the organizational restructuring, and self-assessment. In addition, regular bilateral meetings took place between Supervisory Board members and Management Board members.

The high frequency of both formal and informal meetings underscored the extraordinary nature of the year 2020 due to the impact of the Covid-19 pandemic on the bank, its clients, staff and all stakeholders. The 100% attendance rate by the individual Supervisory Board members underscores the commitment of the Supervisory Board as a collective to not only fulfill its supervisory role, but equally ensure to be available to support the Management Board with advice during what have proven some of the most testing times for all of us as both professionals and human beings.

Committees

Risk & Audit

The Risk & Audit Committee (RAC) consists of Gabrielle Reijnen (chairman) and Willem Horstmann. Its mandate is to do the preparatory work for the supervision of the Management Board in terms of the implementation, maintenance and operation of the company's risk management systems and risk appetite, finance and audit. 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 2020.

Remuneration

Aegon Bank N.V. 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 Banking Code, Aegon N.V.'s Global Remuneration Framework, and Aegon Netherlands' Remuneration Policy. Aegon Bank N.V. had a variable-pay system in place for the Management Board. In January 2020 this system was abolished as the transition to a fixed remuneration was effected.

License to operate

Due to its growth, Aegon Bank N.V. has become an increasingly significant player within the Dutch and European banking systems and believes that its responsibility for creating and maintaining trust in the banking sector should grow at the same pace. In view of this growth, Aegon Bank N.V. is very much aware that its 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. These projects continued during 2020.

Composition of the Supervisory Board

The current members of the Supervisory Board are Paul de Kroon, Gabrielle Reijnen, Willem Horstmann and Han Gerrits. Paul de Kroon and Han Gerrits were appointed to the Supervisory Board in December 2019 as new chairman and member with a focus on innovation and IT. Gabrielle Reijnen and Willem Horstmann were appointed in November 2017 as the new Chairman of the RAC and new member. All Supervisory Board members have been appointed for four-year terms.

Paul de Kroon, Gabrielle Reijnen, and Han Gerrits are external Supervisory Board members as per the provisions of the Dutch Corporate Governance Code. Willem Horstmann is also the CRO of Aegon Nederland N.V.

Self-assessment

The Supervisory Board's annual self-assessment took place in December 2020. The subjects reviewed included its own performance, completion of the actions determined during the annual self-assessment completed under the supervision of KPMG last year, the commitment of the individual board members, the culture within the Supervisory Board and its relationship with the Management Board, functioning of the chairman, governance, strategy, technology and innovation, 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 has a balanced mix of relevant experience, independence and an inclusive culture, although it has the ambition to ensure its diversity will be increased going forward.

In 2020, 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 Covid-19 pandemic has had a tremendous impact on all of us, not just in our professional life and business, but most importantly in what it means to be human. The bank's slogan 'Online bank. Human service' has been honored and lived by our staff throughout the past twelve months, led by the Management Board, in such an extraordinary professional way that has humbled us as Supervisory Board members. It is genuinely impressive how our people have stepped up to continue servicing our customers and other stakeholders, irrespective of the personal challenges faced whilst doing so. We are proud to serve as Supervisory Board to such a wonderful team that makes digital truly human, especially when it matters most.

Amsterdam, 16 April 2021

Paul de Kroon
Gabrielle Reijnen
Willem Horstmann
Han Gerrits

Aegon Bank N.V.'s Consolidated Financial Statements 2020

Consolidated statement of financial position

for the year ended December 31, 2020

Amounts in EUR thousand	Note	31-12-2020	31-12-2019
Assets			
Cash	5	1.548.307	1.904.003
Amounts due from banks	6	102.119	115.086
Mortgage loans and other loans	7	13.725.887	12.608.802
Financial assets measured at fair value through other comprehensive income	8	1.456.140	1.062.191
Derivatives	9	189.093	159.763
Other assets and receivables	10	115.704	68.643
Total assets		**17.137.249**	**15.918.489**
Equity and liabilities			
Savings deposits	11	12.539.843	11.535.813
Borrowings	12	2.612.894	2.730.934
Derivatives	9	788.993	561.575
Net deferred tax liabilities	13	84.810	74.579
Provisions	14	49.054	10.504
Other liabilities and accruals	15	352.936	266.660
Total liabilities		**16.428.529**	**15.180.066**
Equity	16	708.719	738.423
Total equity and liabilities		**17.137.249**	**15.918.489**

Consolidated income statement

for the year ended December 31, 2020

Amounts in EUR thousand	Note	2020	2019
Income			
Interest income calculated using the effective interest method	17.1	387.611	392.888
Interest expense calculated using the effective interest method	17.2	-83.771	-86.236
Other interest expense	17.2	-71.801	-67.888
Net interest income		**232.038**	**238.764**
Fee and commission income	18.1	22.360	17.292
Fee and commission expense	18.2	-1.844	-1.886
Net fee and commission income		**20.516**	**15.406**
Result from financial transactions	19	40.325	9.759
Impairment losses	21	-92.797	-69.089
Total income		**200.083**	**194.839**
Expenses			
Employee expenses	20.1	54.125	24.872
Other operating expenses	20.2	181.719	130.739
Total expenses		**235.844**	**155.611**
Income / (loss) before tax		**-35.761**	**39.227**
Income tax	22	4.308	-12.598
Net income / (loss)		**-31.453**	**26.629**
Net income / (loss) attributable to the parent company		**-31.453**	**26.629**

Consolidated statement of comprehensive income

for the year ended December 31, 2020

Amounts in EUR thousand	2020	2019
Net income	**-31.453**	**26.629**
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Gains / (losses) on financial assets measured at FVOCI	3.885	2.333
Gains / (losses) transferred to the income statement on disposal of financial assets measured at FVOCI	-550	-502
Aggregate tax effect of items recognized in other comprehensive income / (loss)	-1.111	-180
Other comprehensive income for the year	**2.224**	**1.650**
Total comprehensive income	**-29.229**	**28.279**
Total comprehensive income attributable to the parent company	**-29.229**	**28.279**

Aegon Bank had no financial assets measured at FVOCI without recycling as at December 31, 2020.
All items in comprehensive income may be reclassified subsequently to profit or loss.
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, 2020

Amounts in EUR thousand

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**
Capital injection	-	-	-	-	-	-
Dividends paid on participations	-	-	-475	-	-	-475
At December 31	**37.437**	**476.751**	**173.447**	**11.584**	**9.500**	**708.719**

2019	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**401.751**	**179.221**	**7.710**	**9.500**	**635.619**
Net income / (loss) recognized in the income statement	-	-	26.629	-	-	26.629
Other comprehensive income / (loss)	-	-	-	1.650	-	1.650
Total comprehensive income / (loss)	**-**	**-**	**26.629**	**1.650**	**-**	**28.279**
Capital injection	-	75.000	-	-	-	75.000
Dividends paid on participations	-	-	-475	-	-	-475
At December 31	**37.437**	**476.751**	**205.375**	**9.360**	**9.500**	**738.423**

Consolidated cash flow statement

for the year ended December 31, 2020

Amounts in EUR thousand	Note	2020	2019
Income / (loss) before tax		**-35.761**	**39.227**
Adjustments for:			
- Result from financial transactions	19	-40.325	-9.759
- Amortization and depreciation	17.1	81.910	75.933
- Impairment losses / (reversals)	21	92.797	69.089
- Additions / (releases) to provisions	14	38.549	421
- Tax (paid) / received	22	-17.001	-27.060
Changes in:			
- Saving deposits	11	1.004.029	950.038
- Other assets and receivables	10	-47.061	22.170
- Other liabilities and accruals	15	99.161	17.073
Purchase of mortgage loans and other loans	7	-3.010.615	-2.925.828
Sale and redemption of mortgage loans and other loans	7	1.973.643	1.667.047
Purchase of financial assets and liabilities at FVPL	9	185	270
Sale of financial assets and liabilities at FVPL	9	16.985	-33.078
Purchase of financial assets measured at FVOCI	8	-809.503	-
Sale and redemption of financial assets measured at FVOCI	8	408.029	251.125
Net cash flows from / (used in) operating activities		**-244.979**	**96.670**

		2020	2019
Issuance of SNP notes	12	-	497.146
Issuance of Covered Bond	12	508.100	-
Redemption of Covered Bond	12	-750.000	-
Dividends paid on participations	16	-475	-475
LTRO allotment	12	105.000	-
Increase in group loans relating to collateral	12	13.690	-13.810
Capital injection		-	75.000
Net cash flows from financing activities		**-123.685**	**557.861**
Net increase / (decrease) in cash and cash equivalents		**-368.664**	**654.531**
Cash and cash equivalents at the beginning of the year		**2.019.089**	**1.364.558**
Cash and cash equivalents at the end of the year		**1.650.425**	**2.019.089**
Cash	5	1.548.307	1.904.003
Amounts due from banks	6	102.119	115.086
Total		**1.650.425**	**2.019.089**

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 thousand	2020	2019
Interest received	**469.520**	**468.820**
Interest income calculated using the effective interest method	469.520	468.820
Interest paid	**155.572**	**154.124**
Interest expenses calculated using the effective interest method	83.771	86.236
Other interest expenses	71.801	67.888

Reconciliation of liabilities arising from financing activities
During 2020 net cash flows from financing activities related to liabilities includes 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 2019 net cash flows from financing activities related to liabilities included the increase in long-term borrowings due to the issuance of the Senior Non Preferred notes in June 2019. In 2020 Aegon Bank did not receive a capital injection (2019 EUR 75 million). 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. No dividends were paid to the parent company in either 2020 or 2019

Notes to the consolidated financial statements

1. General information

Aegon Bank N.V. ('Aegon Bank') 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 is a wholly-owned subsidiary of Aegon Nederland N.V. ('Aegon Nederland'), established in The Hague. Aegon Bank's ultimate holding company is Aegon N.V. in The Hague.

Aegon Bank N.V. has one operational segment that uses the Aegon Bank and Knab brands.

Aegon Bank N.V. and its group companies specialize in developing, selling and servicing savings and investment products.

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 2020 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 16 April 2020. The financial statements were submitted to the Annual General Meeting of Shareholders for adoption on 16 April 2020. The shareholders' meeting may decide not to adopt the financial statements but cannot amend them.

2.1.2. Continuity

Management has concluded that the organization has the resources to continue the business for the foreseeable future. Management is not aware of any material uncertainties which could lead to uncertainty regarding the continuity of the business. The financial statements are therefore based on the assumption that the organization will continue its business.

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 may be allowed to opt for an earlier adoption
date. In 2020, the following amendments to existing standards issued by the IASB became mandatory:

Accounting standard/ amendment/ interpretation	IASB effective date	Endorsed by EU	Impact for the entity
Definition of a Business (Amendments to IFRS 3)	January 1, 2020	Yes	Low
Definition of Material (Amendments to IAS 1 and IAS 8)	January 1, 2020	Yes	Low
Amendments to the References to the Conceptual Framework in IFRS Standards	January 1, 2020	Yes	Low

None of these amendments to existing standards are significantly impacting the financial position or consolidated financial statements.

2.1.4. Future adoption of new EU-IFRS accounting standards

The following standards and amendments to existing standards, published prior to January 1, 2021, were not early adopted by Aegon Bank, but will be applied in future years:

Accounting standard/ amendment/ interpretation	IASB effective date	Endorsed by EU	Early adopted by the entity	Impact for the entity
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	January 1, 2021	Not yet	No	High
Reference to the Conceptual Framework (Amendments to IFRS 3)	January 1, 2022	Not yet	No	Low
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	January 1, 2022	Not yet	No	Low
Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	January 1, 2022	Not yet	No	Low
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022	Not yet	No	Low
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 1, 2022	Not yet	No	Low

Interest rate benchmark reform
In 2019, Aegon elected to early adopt the 'Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7). In accordance with the transition provisions, the Phase I amendments have been adopted retrospectively 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 on 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 9 Derivatives for the required disclosures of the uncertainty arising from the IBOR reform for hedging relationships for which Aegon Nederland applied the reliefs.

In August 2020, the IASB issued the 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)', 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 Phase 2 amendments have no impact for Aegon Nederland in 2020. Aegon Nederland continues to follow the status of the IBOR reform, and will assess the impact for Aegon Nederland when further information becomes available.

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. Please refer to note 3 for more information.

2.3. Basis of consolidation

Subsidiaries
The consolidated financial statements include the financial statements of Aegon Bank and its subsidiaries. Subsidiaries (including structured entities) are entities over which Aegon Bank has control. Aegon Bank controls an entity when Aegon Bank is exposed to, or

has rights to variable returns from its involvement with the entity and it has the ability to affect those returns through its power over the entity.

The assessment of control is based on the substance of the relationship between Aegon Bank and the entity and, among other things, considers existing and potential voting rights that are substantive. 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 Aegon Bank's accounting principles, which is consistent with IFRS. Transactions between subsidiaries of Aegon Bank are eliminated. Intra-group 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.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned over the share of Aegon Bank in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair values of the assets, liabilities and contingent liabilities acquired in the business combination have been determined provisionally, adjustments to these values, resulting from the emergence within twelve months after the acquisition date of new evidence of facts and circumstances that existed as of the acquisition date, are made against goodwill. Aegon Bank recognizes contingent considerations either as a provision or as a financial liability depending on the characteristics. Contingent considerations recognized as provisions are discounted and the unwinding is recognized in the income statement as an interest expense. Any changes in the estimated value of contingent considerations given in a business combination are recognized in the income statement. Contingent considerations recognized as financial liabilities are measured at fair value through profit or loss.

The identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

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

Aegon Bank'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. Aegon Bank 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 at 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 Aegon Bank 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 counterpart.

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 Aegon Bank becomes a party to the contractual provisions of the instrument, and are classified for accounting purposes depending on the characteristics and the purpose for which they were purchased.

At initial recognition, Aegon Bank 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, such as fees and commissions. 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, Aegon Bank 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

Aegon Bank 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 through the expected life of the debt instrument or, where appropriate, a shorter period, 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 revenue 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 those 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:

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

Based on these factors, Aegon Bank 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' using the effective interest rate 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 Aegon Bank manages its assets in order to generate cash flows, depending on whether Aegon Bank'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 is applicable (e.g., 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 Aegon Bank 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 compensated.

Solely payment of principal and interest ('SPPI')

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and cash flows from the sale of the asset, Aegon Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, Aegon Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest only includes 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. Aegon Bank 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 and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, i.e., instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares. Aegon Bank subsequently measures all equity investments at FVPL. Gains and losses on equity investments at FVPL are included in the 'Result on financial transactions' line in the income statement.

Impairment

Aegon Bank 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. Aegon Bank 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 regulatory requirements, Aegon 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 4.4.44.4.3 provides more detail on how the expected credit loss allowance is measured.

Modification of loans

Aegon Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this happens, Aegon Bank assesses whether or not the new terms are substantially different from the original terms. It does so by considering, amongst others, the following factors:

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

If the terms are substantially different, Aegon Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently 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, Aegon Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and Aegon Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

The impact of 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 and when Aegon Bank retains the right to receive cash flows from the asset or has an obligation to pay received cash flows in full without delay to a third party 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 Aegon Bank has neither transferred nor retained substantially all the risks and rewards are recognized to the extent of Aegon Bank'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 separately recognized 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 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 for the consideration received for the transfer. In subsequent periods, Aegon Bank 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 is discharged, cancelled or expires).

The exchange between Aegon Bank and its original lenders of debt instruments with substantially different terms, as well as 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. As of 1 January 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, Aegon Bank enters into economic hedges to limit its 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 is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk 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 comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to 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. Aegon Bank 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.

Aegon Bank 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 of 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.

Aegon Bank 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 proportions thereof) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in 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. Aegon applies fair value hedge accounting for 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, Aegon Bank documents the relationship between hedging instruments and hedged items, its risk management objective, and the methods selected to assess hedge effectiveness. Aegon Bank 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 fair values or cash flows of the hedged items.

Aegon Bank 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. Aegon Bank 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 Aegon Bank. This hedging strategy is applied to the portion of exposure that is not naturally offset against matching positions held by Aegon Bank. 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 rate of interest with changes in the fair value of the interest rate swaps.

Aegon Bank 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 Aegon Bank hedges to the expected repayment date taking into account expected prepayments based on past experience;
- differences in the 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.

Aegon Bank 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, Aegon Bank adopts a dynamic hedging strategy (sometimes referred to as a 'macro' or 'portfolio' hedge) to hedge its exposure profile by closing and entering into new swap agreements at each month-end. Aegon Bank 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 Aegon Bank's hedge accounting and strategies please refer to 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.

Aegon Bank 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 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 Aegon Bank'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 Aegon Bank'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'. Saving 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 is discharged, cancelled or 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 noncash 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 it 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 is 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 issuing new shares.

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 Aegon Bank 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 expense on loans and other borrowings. Interest expense on loans and other borrowings carried at amortized cost is recognized in the income statement using the effective interest method. Fee and commission income that form 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 Aegon Bank as services rendered to Aegon Bank. Provisions for retirement plans and other benefits payable to staff of Aegon Nederland are recognized in the financial statements of Aegon Nederland. Similarly, buildings and most of the other equipment used by Aegon Bank 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. In January 2020 this system was abolished. Aegon Nederland operates share-based plans applicable to the Aegon N.V. Group that entitle employees to receive equity instruments over common shares of the parent company Aegon N.V.

For the share-based plans where employees are granted the conditional right to receive Aegon N.V. common shares if certain performance indicators are met and depending on continued employment of the individual employee, expenses recognized are based on the fair value on the grant date of the shares. 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 vest partly depend on Aegon N.V.'s relative total shareholder return in comparison with a peer group. For the determination of factors such as expected dividends, market observable data has been considered. 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 issue, 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. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment are described in the following sections.

Over the course of 2020 the world has seen substantial disruption caused by Covid-19. Alongside related market volatility, there is general uncertainty on how the pandemic will play out and the continued economic impact it will have. 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 in expected credit losses on loans, e.g. macro-economic scenarios, were updated to reflect the credit risk impact. These assumptions are considered critical accounting estimates. Please refer to notes 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 in the ECL models' Management has assessed that the Covid-19 pandemic has no impact on other judgments, estimates and assumptions.

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

3.1. Determination of control over investees

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

- 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 give current ability to direct relevant activities.

The analysis also depends on whether Aegon Bank 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's to affect the amount of the investor's returns.

In addition, IFRS requires that the assessment also consider Aegon Bank's relationships with other parties (who may be acting on Aegon Bank's behalf) and the possibility that the investee includes what are deemed to be separate entities, which will then need to be assessed for control separately.

In specific cases, which are described below, Aegon Bank 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 Aegon Bank 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 purpose and design of the investee (in terms of the 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 Aegon Bank 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. an exit price at the measurement date from the perspective of a 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.

Aegon Bank 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 Aegon Bank 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. Aegon Bank 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 active 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, for such assets and liabilities; determining their fair value requires a higher degree of judgment. 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 upon which to base a determination of fair value. The use of 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 remain 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 Aegon Bank, 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 (e.g. 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 Aegon Bank's assets and liabilities correspond with the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, Aegon Bank 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.

Aegon Bank 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. an 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 Aegon Bank'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.

Aegon Bank 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 Aegon Bank 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.

Aegon Bank has elected to continue to apply the macro fair value hedge accounting requirements of IAS 39 on adoption of IFRS 9. As such, fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the European Union (EU) IFRS 'carve out' is applied. Hedge accounting require use of estimates. The calculation of the basis adjustment is dependent of the expected and actual volume of prepayments, as Aegon Bank 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.

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 sources of data. When available, Aegon Bank uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon Bank'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, Aegon Bank 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, Aegon Bank 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, Aegon Bank 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 Aegon Bank corroborates detailed information, such as assumptions, inputs and methodologies used in pricing individual securities, against documented pricing methodologies. Aegon 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, Aegon Bank 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, Aegon Bank 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 Aegon Bank's view of the risk associated with each security. However, Aegon Bank 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.

Aegon Bank'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, Aegon Bank'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 is insignificant.

Aegon Bank'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, Aegon Bank uses quoted market prices in active markets to determine the fair value of its sovereign debt investments. When no quoted market prices are available, Aegon 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, Aegon Bank 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., 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. Aegon Bank 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 classified as level II/III at first instance and then corroborated to assign the proper level. Aegon Bank 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 interest mortgage loans and other loans originated by Aegon Bank, 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 interest 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.

Aegon Bank 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 Aegon Bank 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 Aegon Bank 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, Aegon Bank applies a credit spread to the risk-free interest rate when computing the guarantee provisions. This own credit spread is based on 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 fair value being disclosed in the notes to the consolidated financial statements). To determine the fair value of borrowings, the level hierarchy as described by IFRS is used. 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, an internal model is used, using market observable parameters (Level II). Aegon Bank uses a discounted cash flow method including yield curves such as deposit rates, floating rates, and 3-month swap rates. Aegon Bank 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.

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**

2019	Level I	Level II	Level III	Total 2019
Assets carried at fair value				
FVOCI investments				
- Debt securities	425.459	636.732	-	1.062.191
FVPL investments				
- Derivatives	1	159.761	-	159.763
Total assets	**425.460**	**796.494**	**-**	**1.221.954**
Liabilities carried at fair value				
- Derivatives	2	558.203	-	558.205
- Derivatives (bifurcated)	-	-	3.370	3.370
Total liabilities	**2**	**558.203**	**3.370**	**561.575**

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.

2020	As at 1-1-2020	Result income statement	Result OCI	Purchases	Sales	Transfers between I, II and III	As at 31-12-2020	Result year-end
Assets carried at fair value								
FVOCI investments - Debt securities	-	-	-	-	-	-	-	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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**

2019	As at 1-1-2019	Result income statement	Result OCI	Purchases	Sales	Transfers between I, II and III	As at 31-12-2019	Result year-end
Assets carried at fair value								
FVOCI investments - Debt securities	9.128	-	-	-	-	-9.128	-	-
Total assets	**9.128**	**-**	**-**	**-**	**-**	**-9.128**	**-**	**-**
Liabilities carried at fair value - Derivatives (bifurcated)	3.357	-148	-	161	-	-	3.370	-148
Total liabilities	**3.357**	**-148**	**-**	**161**	**-**	**-**	**3.370**	**-148**

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 during 2020 or 2019.

During 2020 there were no level III transfers. During 2019 there was one transfer from level III to level II involving an amount of EUR 9.1 million due to improved corroboration in line with regular standard reporting procedures.

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

In 2020 Aegon Bank reported an amount of EUR 5.2 million (2019: EUR 3.4 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 Aegon Bank'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 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. Therefore the unobservable inputs regarding fair value are listed as not applicable (-).

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

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

Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Bank and are not reasonably available.

2019	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	10.659.239	11.219.010	-	-	11.219.010	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Consumer loans and SME loans	1.473.599	1.548.121	-	-	1.548.121	Discounted cash flow	Prepayments and discount spreads (including cost of capital, RMBS financing spread, expect default)
Other loans	475.965	476.056	-	476.056	-	Discounted cash flow	n.a.
Liabilities							
Savings deposits	11.535.813	11.910.158	-	-	11.910.158	Discounted cash flow	Liquidity premium

Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Bank and are not reasonably available.

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 of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting standards for measuring ECL, such as:

- Determining criteria for significant increases 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; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

During 2020, in addition to the impact of forward looking macroeconomic expectations, Knab applied two main model adjustments for the unsecured loan portfolio:

- A specific model adjustment in the form of a PD override for Covid 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.
- A CBILS adjustment due to the additional uncertainty that emerges for CBILS since almost no payment behaviour can be observed during the first 12 months since loan origination. The structure of the CBILS product (no borrower payment required for first 12 months) results in an expected surge of defaults 15 months after origination. To fully capture the impact of forward looking macroeconomic factors with pressure on unemployment and economic growth, the management overlay ensures that the CBILS portfolio coverage is adequate based on a range of uncertain forward looking scenarios.

As at December 2020, the IFRS 9 ECL impact as a result of the model adjustments is EUR 24.9 million. EUR 9.2 million, EUR 5.9 million and EUR 10.9 million can be attributed to SME loans, consumer loans and CBILS respectively.

The total model adjustment of EUR 24.9m can be divided into a specific EUR 9.1 million, general EUR 6.0 million and CBILS EUR 10.9 million model adjustment.

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 adjustment due to the impact of the Covid-19 pandemic, and note 4.4.7, which also sets out key sensitivities of the ECL to changes in these elements.

Risk management

4. Risk management

4.1. Governance and risk management structure

The Management Board of Aegon Bank is responsible for Aegon Bank'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 members of the Executive Board of parent company Aegon Nederland is also a member of the Supervisory Board of Aegon Bank. The Supervisory Board is accountable for the company's risk management. The other three members of the Supervisory Board are independent of Aegon Bank and Aegon Nederland.

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. Please also refer to paragraph 4.4.3 'Credit risk management' and 4.4.16 'Liquidity risk'.

Aegon Bank operates a risk control system consistent with Aegon N.V.'s Internal Control Framework. The Management Board and management recognize the importance of efficient and effective risk management.

As a provider of bank products, Aegon Bank is exposed to a variety of risks, financial and non-financial. The main objective of Aegon Bank's risk management system is to protect its stakeholders, including its shareholder, customers and employees, from events that may impede the ongoing achievement of financial goals. This main objective is in line with the bankers' oath.

Aegon Bank manages risks in accordance with the principles and guidelines adopted by Aegon N.V. and Aegon Nederland. Aegon Bank operates a solid risk management system geared to controlling local operations and events.

Aegon Bank'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 the international money and capital markets have an impact on the value of investments and liabilities and accordingly constitute major risk components for Aegon Bank. Asset and liability management, applied by Aegon Bank 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.

Aegon Bank's risk management policies are aimed at optimizing and limiting its risk exposure for the different types of asset and credit rating categories in line with Aegon Bank's risk appetite. Diversification and risk spreading are the cornerstones of this policy. Limits are set for a variety of operational and financial risks and for the total financial risk exposure.

Operational risk focuses on identifying, assessing and monitoring risks such as business risks, legal and compliance risks, financial crime risks, processing risks, cybercrime 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 Aegon Bank to be an in-control organization, now and in the future.

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

As part of these policies, Aegon Bank uses derivatives to hedge certain risks, either partly (interest rate risk) or almost fully (foreign exchange rate risk). Aegon Bank'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.

Aegon Bank’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 Aegon Bank’s risks 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 Aegon Bank’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. Aegon Bank’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 31 December 2020 and 31 December 2019 calculated in accordance with the CRD IV requirements.

Capital management and solvency	**2020**	**2019**
Paid up capital instruments	37.437	37.437
Share premium	476.751	476.751
Retained earnings	205.376	179.222
Profit or loss attributable to owners of the parent	-31.453	26.629
Dividend	-475	-475
Accumulated other comprehensive income	11.583	9.359
Adjustments to CET1 due to prudential filters	-3.261	-1.242
CETI Capital	**695.958**	**727.681**
Additional Tier 1 Capital	9.500	9.500
Tier 1 Capital	**705.458**	**737.181**
Adjustments to CET1 due to prudential filters	3.261	1.242
IFRS Capital	**708.719**	**738.423**
Risk weighted Asset	3.331.372	3.681.585
CET1 Ratio	**20,89%**	**19,77%**
Total Capital Ratio	**21,18%**	**20,00%**

4.3. Product information

4.3.1. Overview of sales and distribution channels

channels to help customers assess what products and services are appropriate for their needs. In general, all business lines use the intermediary channel, which focuses on independent brokers in different market segments in the Netherlands.

Aegon Bank uses the direct channel (primarily for savings), an online channel and independent brokers to sell its products.

Knab, Aegon's online bank, allows customers to make their own choices about their personal financial situation, helping them to achieve their financial goals. Knab helps its customers make smart decisions by providing them with a clear overview of their finances, and advises them pro-actively on products that can help them achieve their financial goals.

4.3.2. Overview of business lines – Banking

Savings

Aegon Bank aims to achieve its vision and ambition through two labels: Aegon Bank and Knab.

Aegon Bank focuses on the 'income' and 'housing' markets but also seeks to expand the Aegon Netherlands-wide pensions offering. As the Dutch government changes the rules for pension schemes, customers increasingly find themselves having to take control of their own current and future income and wealth.

Aegon Bank offers simple and high-quality products. These include savings products focused on security and investment products focused on a suitable risk/return profile that fits the customer's needs and risk appetite. Processes are designed in such a way as to provide maximum benefit to customers, and customer service is based on principles such as easy access, speed, first time right, convenience, insight and understanding.

Aegon Bank's focus is on customers whose income and wealth is in the middle-market, in line with Aegon Netherlands' target group. Products are distributed directly to Aegon's customers. For more complex 'advice' products, independent financial advisers continue to be a very important distribution channel for Aegon Bank. Aegon Bank's activities mainly focus on 'Banksparen' products. 'Banksparen' is a tax-deferred savings product that allows payments to be made into a 'locked' bank account. The amount saved is available after a certain period of time for specific purposes, such as a supplementary pension or paying off a mortgage.

Knab

Knab aims to be the Netherlands' most customer-oriented financial platform by informing customers about their personal financial situation and enabling them to achieve their financial goals. It reflects the core of Aegon's purpose, which is to provide customers with an insight into and overview of their finances through its financial planning tools and alerts. As an online bank, Knab offers payment accounts, savings accounts, and a basic investment product.

Knab

Knab aims to be the most customer-oriented financial platform in the Netherlands, by informing customers about their personal financial situation and enabling them to achieve their financial goals. It reflects the core of Aegon's purpose, offering customers both insight and an overview of their finances through its financial planning tools and alerts. As an online bank Knab offers payment-accounts, savings and a basic investment product.

4.3.3. 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's 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, Aegon Bank 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 Aegon Bank or even assume direct supervision over the prudential aspects of Aegon Bank's business. Aegon Bank 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 bank 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 for prudential supervision of credit institutions and investment firms. The CRR is binding on 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 with respect to 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 Aegon Bank. 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 Aegon Bank 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 Aegon Bank 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 Aegon Bank 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 the total liabilities and own funds. The competent resolution authority will set a minimum level of MREL on a bank-by-bank basis, based on assessment criteria to be set out in technical regulatory standards.

4.4. The risk management approach

IFRS sensitivities

The sections below describe the estimated sensitivity of Aegon Bank'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 Aegon Bank'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 deposits from customers. 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 that requires 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.

4.4.1. Currency risk

Aegon Bank 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 is hedged using FX derivatives within Aegon Bank'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 (e.g. prepayment options on 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, 2017 guideline). Aegon Bank interprets this as follows: institutions should take both the supervisory outlier test and internal scenarios into account. Aegon Bank 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. Aegon Bank has therefore chosen a set-up where it capitalizes for a number of internal and external scenarios. The Aegon Bank specific scenarios are internally developed interest rate and CPR shock scenarios reflecting the nature, scale and complexity of the Aegon Bank portfolio. The scenarios make the capitalization formula more transparent and allow for an 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 fully hedges the interest rate risk. Due to a change in the mortgage valuation methodology, applied by Aegon Bank, the value of the mortgage portfolio has become more sensitive to mortgage spread movements. Unfortunately, the instruments used to hedge the interest rate risk, interest rate swaps, do not protect the value against these mortgage spread movements. Therefore, the DV01 limit is built from two components, namely a bandwidth for DV01 of equity excluding the effect of mortgage spread fluctuations and a bandwidth for DV01 of equity including the effect of mortgage spread fluctuations. The maximum tolerated Price Value of a Basis Point excluding the effect of the 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 year-end the Price Value of a Basis Point amounted to EUR 1 thousand (2019: EUR 28 thousand). At year-end of 2020, the limits had not been exceeded (Same as in 2019). Monthly stress tests were also performed.

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

	2020	2019	2018	2017	2016
3-month Euribor	-0,55%	-0,38%	-0,31%	-0,33%	-0,32%
10-year Dutch government	-0,48%	-0,06%	0,38%	0,52%	0,35%

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

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**

2019	Note	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Financial assets FVOCI	8	887.771	174.421	-	-	**1.062.191**
- Mortgage loans		1.495.075	2.372.327	1.934.899	4.856.938	**10.659.239**
- Loans to private individuals and Small and Medium Enterprise loans		31.539	1.148.948	172.454	120.657	**1.473.599**
- Other loans		475.868	-	98	-	**475.965**
Total loans	7	2.002.482	3.521.275	2.107.451	4.977.595	**12.608.802**
Total financial assets and loans		**2.890.252**	**3.695.696**	**2.107.451**	**4.977.595**	**13.670.994**

The category Loans to private individuals and Small and Medium Enterprise loans comprised Small and Medium Enterprises loans worth EUR 435.3 million (2019: EUR 333.0 million).

Sensitivity of interest rates

Aegon Bank's net income and equity are sensitive to changes in interest rates. Aegon Bank 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 of yield curve	2020		2019	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	-1.551	-32.275	-1.088	-10.092
Shift down 100 basis points	1.889	34.349	1.375	10.853

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

4.4.3. Credit risk management

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties. Aegon Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to note 4.4.7 for more details.

Aegon Bank manages credit risk through diversification and by setting permanent and temporary exposure limits for asset categories, rating categories, sectors, countries and individual counterparties or groups. Exposures are reported and reviewed against these set limits at least once every month. Aegon Bank 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 by reducing the exposures.

Covid-19 considerations

The impact on Consumer and SME Loans' credit losses has largely been mitigated by government support in the form of guaranteed lending, furlough / part-time schemes and tax breaks. The increase in ECL estimates are driven by forward looking information. The best estimate scenario indicates unemployment rates will be higher compared to pre-Covid-19 levels, resulting in increased IFRS 9 ECL levels.

A specific management adjustment is applied to UK Government Guaranteed CBILS (Coronavirus Business Interruption Loan Scheme) lending. The adjustment is considered necessary as a result of the structure of the CBILS product (no borrower payment required for first 12 months). Uncertainty in default rates emerging from month 15 onward, the second waves of Covid-19 that resulted in new lockdown measures and forward looking macroeconomic factors with pressure on unemployment and economic growth call for a management adjustment.

A specific management adjustment is applied to Covid-19 impacted loans that requested a payment holiday as a result of the pandemic. The adjustment results in an increased borrower PD, representing an increased likelihood of a borrower defaulting on its financial obligation.

A general management adjustment is applied to all Consumer and SME Loans related to the macroeconomic uncertainty of the Covid-19 pandemic.

The specific and general adjustments related to Covid-19 and are required to result in a best estimate IFRS 9 ECL provision. As with any management adjustment, expert judgment is involved and subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

By adding 80% UK government guaranteed small and medium enterprise loans to the asset mix, Aegon Bank has diversified and re risked its assets further. After an extensive analysis by experts from Aegon Asset Management, Aegon Bank decided to set limits on the maximum credit limit, and to exclude any loans from borrowers which are overdue or which have an active BKR registration. This has resulted in a highly diversified portfolio of consumer loans.

To manage concentrations of exposure to individual counterparties and groups of counterparties, and to encourage credit risk spreading, Aegon Bank uses a policy of internal and external limits. Internal limits are set on the basis of the issuer's credit rating. At December 31, 2020, the credit limits applied by Aegon Bank in millions of euros were as follows:

2020

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 Aegon Bank's Management Board.

Similar to other banks, Aegon Bank 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 Aegon Bank.
   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. Please refer to note 4.4.5 for a description of how Aegon Bank 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'. Please refer to note 4.4.6 for a description of how Aegon Bank defines credit-impaired and default.
2) Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime 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. Please refer to 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 Aegon Bank has incorporated this in 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

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

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

ECL calculations are performed on an individual basis, and therefore no grouping has been applied. 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 Aegon Bank in addressing the requirements of the Standard on a model-by-model basis. Aegon Bank has not applied the simplified approach to any of the ECL models.

4.4.5. Significant increase in credit risk (SICR)

Aegon Bank 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	None	30 days past due backstop
Consumer loans and SME loans	Variation in Forward-in-Time Probability of Default	None	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 is the 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

No secondary indicator is applied to mortgage loans or consumer loans, given that the Probability of Default variation approach has 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 Aegon Bank. 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 independent Credit Risk team.

Backstop

A backstop is applied in 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.

In line with regulatory requirements, Aegon Bank used the low credit risk exemption for debt securities for the year ended December 31, 2020. 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

Aegon Bank 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

Aegon Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement of principal, 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 Aegon Bank'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 transfer from Stage 3 to Stage 2 or Stage 1. The period of three months has been determined based on regulatory requirements which considers 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 Aegon Bank 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 Aegon Bank's expectation of the extent of 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 in the ECL models

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information. Aegon Bank has performed historical analyses and has identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Expert judgment has also been 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 DNB and Moody's. They provide an estimate of the economy over the next three years. After three years, to project the economic variables for the full remaining lifetime of each instrument, a mean reversion approach is adopted, meaning that economic variables tend to 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) are 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 whole 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, Aegon Bank 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 forecasts, the projections and likelihoods of occurrence are inherently subject to a high degree of uncertainty and hence the actual outcomes may be significantly different to those projected. Aegon Bank 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, 2020 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	Consumer price index Unemployment rate Credit Card Debt-Income ratio
Debt securities	GDP Unemployment rate

The weightings assigned to each economic scenario were as follows:

	Base	Upside	Downside
At 31 December 2020	45%	29%	26%

	Base	Upside	Downside
At 31 December 2019	45%	29%	26%

Other forward-looking considerations not otherwise incorporated into the above scenarios, such as the impact of regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and so no adjustment has been 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:

<u>Mortgage loans portfolio</u>

- 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 Aegon Bank'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):

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

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

2019	**Stress scenario**	
	-10%	+10%
House price index	1.162	-228

	Stress scenario	
	-1%	+1%
Unemployment rate	-6	13

<u>Consumer loans portfolio</u>

- Consumer price index; 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 Aegon Bank's economic variable assumptions.

Auxmoney

2020	**Stress scenario**	
	-1%	+1%
Consumer Price Index	-873	969

	Stress scenario	
	-1%	+1%
Change in Unemployment Rate	-1.735	2.037

2019	**Stress scenario**	
	-1%	+1%
Consumer Price Index	-1.387	1.268

	Stress scenario	
	-1%	+1%
Change in Unemployment Rate	-3.536	4.160

Zopa

2020	**Stress scenario**	
	-1%	+1%
Write-off rate for unsecured lending	-579	674

2019	**Stress scenario**	
	-1%	+1%
Write-off rate for unsecured lending	-158	162

CA-CF

2020	**Stress scenario**	
	-1%	+1%
Consumer Price Index	-149	158

	Stress scenario	
	-1%	+1%
Change in Unemployment Rate	-29	34

2019	**Stress scenario**	
	-1%	+1%
Consumer Price Index	-179	188

	Stress scenario	
	-1%	+1%
Change in Unemployment Rate	-444	504

<u>SME loans portfolio</u>

- Unemployment rate, because of its impact on obligors' ability to meet their contractual repayments.
- Credit Card Debt-Income ratio, because the sensitivity of the PD model to Credit Card Debt-Income ratio is the highest among the model variables.

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 Aegon Bank's economic variable assumptions.

Funding Circle non CBILS

2020	**Stress scenario**	
	-1%	+1%
Unemployment rate	-526	507

	Stress scenario	
	-1%	+1%
Credit Card Debt-Income ratio	-4.579	5.432

2019	Stress scenario	
	-1%	+1%
Unemployment rate	-249	258

	Stress scenario	
	-1%	+1%
Credit Card Debt-Income ratio	-1.570	1.970

Funding Circle CBILS

2020	Stress scenario	
	-1%	+1%
Unemployment rate	-61	66

	Stress scenario	
	-1%	+1%
Credit Card Debt-Income ratio	-465	625

4.4.9. Write-off policy

Aegon Bank 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 Aegon Bank'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.

Aegon Bank 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 a loss status for three years.

Aegon Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

4.4.10. Modification of financial assets

Aegon Bank will sometimes modify the terms of loans granted to customers due to 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 payment will most likely continue. These policies are kept under continuous review.

The risk of default of those assets after modification is assessed at the reporting date and compared with the risk under the original terms on initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. Aegon Bank monitors the subsequent performance of modified assets. Aegon Bank 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.

Aegon Bank 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 Aegon Bank's mortgage portfolio were modified during 2020. There was no significant impact on the lifetime ECL from modifications of financial assets during 2020.

4.4.11. Loss allowance

The loss allowance recognized during the year is 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 as at 1 January 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 derecognised or redeemed during the period	-11	-17	-14	-42
Write-offs	-	-	-2	-2
Other movements	-	-	-	-
Loss allowance as at 31 December 2020	**835**	**1.667**	**491**	**2.992**

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 1 January 2019	**44**	**144**	**148**	**337**
Stage transfers	51	-33	-18	-
New financial assets originated or purchased	21	3	6	30
Changes in PD/LGD/EAD	-76	-40	22	-94
Changes to model assumptions and methodologies	821	624	205	1.650
Financial assets derecognised or redeemed during the period	-6	-13	-11	-30
Write-offs	-	-	-20	-20
Other movements	-	-	-	-
Loss allowance as at 31 December 2019	**855**	**686**	**332**	**1.873**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 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 derecognised or redeemed during the period	-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 as at 31 December 2020	**15.979**	**19.435**	**51.231**	**86.645**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	**27.490**	**15.819**	**31.390**	**74.699**
Stage transfers	-6.840	32.155	40.485	65.800
New financial assets originated or purchased	12.959	7.820	5.635	26.415
Changes in PD/LGD/EAD	361	863	-40	1.183
Changes to model assumptions and methodologies	-3.688	-21.538	-14.612	-39.837
Financial assets derecognised or redeemed during the period	-14.346	-16.332	-14.080	-44.758
Write-offs	-	-	-	-
FX and other movements	1.351	1.295	3.018	5.664
Loss allowance as at 31 December 2019	**17.288**	**20.082**	**51.796**	**89.166**

SME loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 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 derecognised or redeemed during the period	-2.927	-1.123	-379	-4.430
Write-offs	-	-	-	-
FX and other movements	-739	-622	-1.779	-3.140
Loss allowance as at 31 December 2020	**15.213**	**22.704**	**31.664**	**69.581**

SME loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	**2.652**	**3.329**	**2.222**	**8.203**
Stage transfers	-95	-1.026	11.256	10.135
New financial assets originated or purchased	3.353	809	1.484	5.646
Changes in PD/LGD/EAD	104	105	-	208
Changes to model assumptions and methodologies	1.662	2.075	1.765	5.502
Financial assets derecognised or redeemed during the period	-1.101	-1.028	-1.469	-3.598
Write-offs	-	-	-	-
FX and other movements	567	284	1.077	1.929
Loss allowance as at 31 December 2019	**7.142**	**4.548**	**16.335**	**28.024**

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 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 derecognised or redeemed during the period	-127	-	-	-127
Write-offs	-	-	-	-
Other movements	-	-	-	-
Loss allowance as at 31 December 2020	**272**	**-**	**-**	**272**

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	**489**	**-**	**-**	**489**
Stage transfers	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Changes in PD/LGD/EAD	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Financial assets derecognised or redeemed during the period	-128	-	-	-128
Write-offs	-	-	-	-
Other movements	-	-	-	-
Loss allowance as at 31 December 2019	**361**	**-**	**-**	**361**

The loss allowance for debt securities measured at FVOCI of EUR 0.3 million (2019: EUR 0.4 million) does not reduce the carrying amount of these investments (which are measured at fair value), but gives rise to an equal and opposite gain in OCI.

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

	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**

During 2020 Aegon Bank N.V. implemented a new model for measuring the ECL on mortgage loan. The impact of the implementation of the new model has been accounted for in the line items changes to model assumptions and methodologies.

	2019
Mortgage loans measured at amortized cost	1.536
Consumer loans measured at amortized cost	47.142
SME loans measured at amortized cost	19.956
Debt securities measured at FVOCI	-129
Net impairment charge in P&L	**68.506**

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 as at 1 January 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 that have been derecognised or redeemed during the period (other than write-offs)	-1.064.608	-40.688	-3.980	-1.109.276
Modification of contractual cash flows of financial assets	-	-	-	-
Write-offs	-60	-	-29	-88
Other movements	529.852	-287.720	2.140	244.272
Gross carrying amount as at 31 December 2020	**11.484.515**	**483.789**	**13.185**	**11.981.489**

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2019	**9.388.677**	**217.942**	**13.419**	**9.620.038**
Stage transfers	1.605	-3.754	2.149	-
New financial assets originated or purchased	1.551.720	8.334	869	1.560.923
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-856.910	-27.807	-3.736	-888.453
Modification of contractual cash flows of financial assets	-	-	-	-
Write-offs	-28	-6	-204	-238
Other movements	368.842	-	-	368.842
Gross carrying amount as at 31 December 2019	**10.453.906**	**194.709**	**12.496**	**10.661.111**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 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 that have been derecognised or redeemed during the period (other than write-offs)	-430.524	-65.568	-35.449	-531.542
Modification of contractual cash flows of financial assets	-	-	-	-
Write-offs	-	-	-15.714	-15.714
FX and other movements	-12.695	-98	-1.743	-14.536
Gross carrying amount as at 31 December 2020	**584.022**	**94.136**	**84.903**	**763.061**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	**1.046.561**	**47.983**	**38.361**	**1.132.904**
Stage transfers	-147.282	89.610	57.672	-
New financial assets originated or purchased	577.555	49.826	18.786	646.167
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-502.263	-46.988	-19.909	-569.160
Modification of contractual cash flows of financial assets	-	-	-	-
Write-offs	-	-	-	-
FX and other movements	17.791	631	1.433	19.855
Gross carrying amount as at 31 December 2019	**992.362**	**141.062**	**96.343**	**1.229.767**

SME loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 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 that have been derecognised or redeemed during the period (other than write-offs)	-143.824	-6.520	-799	-151.144
Modification of contractual cash flows of financial assets	-	-	-	-
Write-offs	-	-	-	-
FX and other movements	-23.588	-2.620	-2.462	-28.670
Gross carrying amount as at 31 December 2020	**364.300**	**99.275**	**41.345**	**504.919**

SME loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	**228.971**	**33.778**	**3.710**	**266.459**
Stage transfers	-8.386	-10.408	18.794	-
New financial assets originated or purchased	177.924	3.738	2.516	184.178
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-98.240	-10.437	-2.452	-111.129
Modification of contractual cash flows of financial assets	-	-	-	-
Write-offs	-	-	-	-
FX and other movements	18.957	1.086	1.470	21.513
Gross carrying amount as at 31 December 2019	**319.226**	**17.758**	**24.038**	**361.022**

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

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	**1.314.614**	**-**	**-**	**1.314.614**
Stage transfers	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-251.125	-	-	-251.125
Modification of contractual cash flows of financial assets	-	-	-	-
Write-offs	-	-	-	-
Other movements	-1.298	-	-	-1.298
Gross carrying amount as at 31 December 2019	**1.062.191**	**-**	**-**	**1.062.191**

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. Please refer to note 4.4.4 for a more detailed description of ECL measurement. All asset classes not presented here are determined to have non-material credit risk or to be of a short-term nature. The gross carrying amounts of financial assets as shown below also represent Aegon Bank'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)	7.922.207	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 as at 31 December 2020	**11.483.680**	**482.122**	**12.694**	**11.978.497**

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)	7.912.979	140.993	1.931	8.055.903
Investment grade (Non-NHG guaranteed)	2.540.927	29.271	1.325	2.571.523
Standard/Special monitoring	-	24.444	9.240	33.685
Gross carrying amount	**10.453.906**	**194.709**	**12.496**	**10.661.111**
Loss allowance	855	686	332	1.873
Net carrying amount as at 31 December 2019	**10.453.051**	**194.023**	**12.164**	**10.659.239**

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 arrear				
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 as at 31 December 2020	**568.043**	**74.701**	**33.672**	**676.416**

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 arrear				
0-30	992.362	126.607	38.094	1.157.062
31-60	-	10.483	882	11.364
61-90	-	3.498	700	4.198
> 90	-	474	56.669	57.143
Gross carrying amount	**992.362**	**141.062**	**96.343**	**1.229.767**
Loss allowance	17.288	20.082	51.796	89.166
Net carrying amount as at 31 December 2019	**975.074**	**120.980**	**44.548**	**1.140.601**

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 arrear				
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 as at 31 December 2020	**349.087**	**76.571**	**9.681**	**435.339**

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 arrear				
0-30	319.226	14.613	-	333.839
31-60	-	2.281	-	2.281
61-90	-	864	-	864
> 90	-	-	24.038	24.038
Gross carrying amount	**319.226**	**17.758**	**24.038**	**361.022**
Loss allowance	7.142	4.548	16.335	28.024
Net carrying amount as at 31 December 2019	**312.084**	**13.210**	**7.703**	**332.998**

The credit risk of Aegon'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	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 as at 31 December 2020	**1.456.140**	**-**	**-**	**1.456.140**

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	456.849	-	-	456.849
AA	546.027	-	-	546.027
A	31.814	-	-	31.814
BBB	27.502	-	-	27.502
Carrying amount	**1.062.191**	**-**	**-**	**1.062.191**
Loss allowance (recorded in OCI)	361	-	-	361
Net carrying amount as at 31 December 2019	**1.062.191**	**-**	**-**	**1.062.191**

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 Aegon Bank'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	1.650.425	-	-	-	-	-	-	**1.650.425**
Derivatives	189.093	-	-	-	189.093	-	189.093	**-**
Other financial assets	93.601	-	-	-	-	-	-	**93.601**
At 31 December 2020	**1.933.119**	**-**	**-**	**-**	**189.093**	**-**	**189.093**	**1.744.026**

	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	2.019.089	-	-	-	-	-	-	**2.019.089**
Derivatives	159.763	-	-	-	159.763	-	159.763	**-**
Other financial assets	63.491	-	-	-	-	-	-	**63.491**
At 31 December 2019	**2.242.343**	**-**	**-**	**-**	**159.763**	**-**	**159.763**	**2.082.580**

Collateral and other credit enhancements

Aegon Bank employs a range of policies and practices to mitigate credit risk. The most common of these is to accept collateral for funds advanced. Aegon Bank has internal policies in place on 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 Aegon Bank has also entered into master netting agreements;
- Charges over business assets such as premises, inventory 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.

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

Aegon Bank closely monitors collateral held for financial assets considered to be credit-impaired, because it is more likely that Aegon Bank 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 those assets are shown below:

	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 31 December	**139.433**	**83.386**	**56.047**	**12.679**

	2019			
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Mortgage loans	12.496	332	**12.164**	12.102
Consumer loans	96.343	51.796	**44.548**	-
SME loans	24.038	16.335	**7.703**	-
At 31 December	**132.878**	**68.463**	**64.415**	**12.102**

The 'fair value of collateral held' column represents the value of individual mortgage loans (where the value of the real estate exceeds the value of the mortgage loan) because Aegon Bank is not entitled to this part of the collateral.

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

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 31 December	**12.694**

Mortgage portfolio - LTV distribution	**2019**
Lower than 50%	532
50 to 60%	252
60 to 70%	1.283
70 to 80%	2.566
80 to 90%	3.923
90 to 100%	1.139
Higher than 100%	2.469
At 31 December	**12.164**

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

	2020	2019
ABSs- Collateralized Debt Obligations (CDOs)	197.999	237.756
ABSs- Other	8.073	12.446
Residential mortgage backed securities (RMBSs)	87.314	171.451
Total investments in unconsolidated structured entities	**293.386**	**421.653**
Financial - Banking	189.890	60.973
Financial - Other	47.638	14.595
Industrial	190.486	139.511
Utility	5.705	-
Sovereign exposure	729.036	425.459
Total	**1.456.140**	**1.062.191**
Of which past due and / or impaired assets	-	-

Credit risk concentration – mortgage loans

Fair value of the mortgage loan portfolio:	2020	2019
Fair value mortgage loans	12.402.846	11.219.010
The LTV was approximately	69,6%	67,5%
The part of the portfolio that is government guaranteed	69,3%	75,8%
Delinquencies in the portfolio (defined as 60 days in arrears)	0,1%	0,1%
Impairments (reversals) during the year	1.120	1.536

Credit risk concentration - mortgage loans	2020	2019
Apartment	1.463.771	1.364.845
Residential	9.739.170	8.770.183
Other	124	-
Total	**11.203.064**	**10.135.027**
Of which past due and / or impaired assets	64.954	51.688

Unconsolidated structured entities

Aegon Bank's investments in unconsolidated structured entities, such as RMBSs, CMBSs and ABSs, are presented in the line items financial assets measured at FVOCI and financial assets FVPL in the statement of financial position. Aegon Bank's interests in these unconsolidated structured entities can be characterized as basic interests. Aegon Bank 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, Aegon Bank invests primarily in senior notes. Additional information on credit ratings of Aegon Bank's investments in unconsolidated structured entities is disclosed in the sections that describe the composition and impairment assessment by class of debt instrument. The composition of Aegon Bank's structured entities portfolios is highly diverse by reference to the individual amount per entity, and so Aegon Bank only has non-controlling interests in unconsolidated structured entities.

Aegon Bank did not provide financial or other support to unconsolidated structured entities. Nor does Aegon Bank have any intention of providing financial or other support to unconsolidated structured entities in which Aegon Bank has an interest or previously had an interest. Furthermore, these structured entities were not originated by Aegon Bank.

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**

2019	Number of entities	Carrying amount
EUR 0 < 10 million	17	82.537
> EUR 10 < 25 million	8	122.109
> EUR 25 < 50 million	4	161.357
> EUR 50 < 75 million	1	55.650
At December 31	**30**	**421.653**

For unconsolidated structured entities in which Aegon Bank has 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 Aegon Bank's interests in unconsolidated structured entities as recognized in the statement of financial position. Aegon Bank did not recognize any other interests in unconsolidated structured entities, such as commitments, guarantees, provisions, derivative instruments or other liabilities.

	2020			
Type of asset 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**

	2019			
Type of asset in unconsolidated entity	Interest income	Total gains and losses	**Total**	**Investments**
Residential mortgage backed securities	586	490	**1.076**	171.451
Asset Backed Securities	2.456	-	**2.456**	237.756
ABS's - Other	10	12	**22**	12.446
Total	**3.051**	**502**	**3.554**	**421.653**

4.4.14. Equity market risk and other investments risk

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

4.4.15. Derivatives risk

Aegon Bank 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 o of this risk, Aegon Bank only uses customary financial derivatives, such as interest rate swaps, futures, and currency contracts.

4.4.16. Liquidity risk

Aegon Bank 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 Aegon Bank include the liquidity of its investments and the fact that a large portion of savings deposits are repayable on demand.

By adding of consumer loans and SME loans to the asset mix, Aegon Bank has further reduced its cash flow mismatch. The contractual repayments on consumer loans on average have a shorter maturity than mortgages and bonds. Aegon Bank has also added more short-term mortgages to the balance sheet through a number of strategic exchanges in recent years, in order to reduce the cash flow mismatch.

Aegon Bank performs very stringent hypothetical stress tests on a monthly basis, simulating two parallel shocks:

- an unexpected and sudden loss of customer confidence in Aegon Bank 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.

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

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

As a reaction to increased uncertainty in the market due to the pandemic , Aegon Bank issued SAECURE 19 (S19) and purchased all the notes issued by S19. The notes are ECB eligible retained notes and therefore generated increased liquidity capacity for Aegon Bank.

As at December, 31 2020 Aegon Bank held EUR 729 million (2019: EUR 425 million) of its investments in sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. In addition, Aegon Bank holds funds at the Dutch Central Bank which Aegon Bank can immediately withdraw. As at December 31, 2020, the amount was EUR 1,543 million (2019: EUR 1,899 million). Aegon Bank 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 2020 and 2019. 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.

2020	**On demand**	**< 1 year**	**1 < 5 year**	**5 < 10 year**	**> 10 year**	**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**

2019	**On demand**	**< 1 year**	**1 < 5 year**	**5 < 10 year**	**> 10 year**	**Total**
Cash	1.904.003	-	-	-	-	1.904.003
Amounts due from banks	115.086	-	-	-	-	115.086
Investments	-	2.306.475	5.528.819	2.715.304	3.120.396	13.670.994
Other assets	9.625	58.968	50	-	-	68.643
Total	**2.028.714**	**2.365.444**	**5.528.869**	**2.715.304**	**3.120.396**	**15.758.726**

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) – gross undiscounted 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 are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Aegon Bank 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.

2020	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	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**

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Borrowings	-	749.224	1.492.654	489.057	-	2.730.934
Savings deposits	8.669.186	630.457	1.304.071	538.342	393.757	11.535.813
Other financial liabilities	21.667	250.494	5.004	-	-	277.164
Total	**8.690.853**	**1.630.175**	**2.801.728**	**1.027.399**	**393.757**	**14.543.912**

Category " Other financial liabilities " 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'.

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

2020	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	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

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	27.395	84.680	139.170	204.025	455.270
Cash outflows	-	-97.597	-299.277	-256.255	-255.356	-908.484

4.4.17. Other risks

Legislation and regulations

Aegon Bank faces significant risks of litigation and regulatory investigations and actions in connection with its activities. Increasingly in recent years, the financial services sector has been involved in litigation, regulatory investigations and actions by a range of governmental 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 Aegon Bank's operations, operating results, and financial position.

Climate risks

Aegon Bank bears potential financial risks and non-financial risks as a result of the direct and indirect consequences of climate change. These risks can be distinguished in physical risks and transitional risks:

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

Aegon Bank has initiated a working group on climate risk in 2020 to explore the topic further and develop strategies and raise awareness within the organization on responsible business and climate risk. 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. As part of the working group on climate risk within Aegon Bank, the ECB expectations will be assessed and taken as a guide to establish a roadmap for further integrating climate risk within Aegon 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 Aegon Bank 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 consisting of approximately 6 weeks. No interest is paid on this 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 -/-50bps (end of 2019: -/-50bps, up and until September 17, 2019: -/-40bps) 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 83.7 million (2019: EUR 79.3 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

	2020	2019
Average balance on deposit with DNB at year-end	1.360.273	1.784.618
Average minimum required balance on deposit by DNB for year-end period	83.718	79.326

6. Amounts due from banks

	2020	2019
Bank accounts	102.119	115.086
Total	**102.119**	**115.086**

Amounts due from banks comprise receivables from banks in the Netherlands and abroad and cash collateral provided. Of the amounts due from banks, EUR 29.3 million (2019: EUR 18.6 million) related to cash positions posted at a DNB account held by the participating instant payment facilitating banks facilitating overnight instant payments. Furthermore, amounts due from banks, for an amount of EUR 51.8 million (2019: EUR 20.7 million) were held by consolidated securitizations.

Amounts due from banks also included restricted bank accounts at an amount of EUR 17.4 million (2019: EUR 9.9 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.

	2020	2019
Loans to the private sector		
- Mortgage loans	11.978.497	10.659.239
- Loans to private individuals and Small and Medium Enterprise loans	1.111.755	1.473.599
- Other loans	635.635	475.965
Total	**13.725.887**	**12.608.802**
Fair value	14.229.832	13.243.187

	2020	2019
Current	2.016.513	1.837.363
Non-current	11.709.374	10.771.439
Total	**13.725.887**	**12.608.802**

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 775 million (2019: EUR 524 million).

The mortgages structured through covered bonds amounted to EUR 2.371 million (2019: EUR 2,706 million).

Loans to private individuals and SMEs of EUR 1,112 million (2019: EUR 1,474 million) partly related to the consumer loans portfolio that was purchased during 2013. The loans were structured through a securitization (Kigoi), which has fully been consolidated by Aegon Bank. The total balance of consumer loans that were not structured through Kigoi amounted to EUR 583 million (2019: EUR 991 million). This portfolio contains consumer loans originated in Germany and the UK. The Auxmoney portfolio decreased during 2020 because no new loans were acquired anymore from March 2020. Furthermore, the portfolio consisted of Small and Medium Enterprises loans for a total amount of EUR 435 million (2019: EUR 333 million). The SME loan portfolio also comprised Coronavirus Business Interruption Loan Scheme loans (CBILS) amounting to EUR 253 million (2019: EUR 0 million). These loans were originated from June 2020 onward. The UK government pays the origination fee and interest for the first 12 months of the loan, and provides an 80% guarantee on the outstanding principal at default.

In 2019, other loans comprised a loan granted to Amvest Vastgoed B.V. During 2020, this loan was redeemed (2019: EUR 46.4 million). Other loans also included a loan of EUR 636 million (2019: EUR 429 million) to Aegon Derivatives N.V. and Aegon N.V. The loan to Aegon Derivatives relates to cash collateral given under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Bank. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values on derivatives and is settled daily.
The Aegon N.V. loan relates to collateral for foreign exchange transactions. The loan represented a payable of EUR 13.7 million in 2020 (2019: EUR 3.2 million receivable).

Loans allowance account

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

2020	Mortgage loans	Loans to private individuals and SME	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**

2019	Mortgage loans	Loans to private individuals and SME	Other	**Total**
At January 1	**336**	**82.902**	**2.081**	**85.318**
Addition charged to income statement	1.536	67.099	83	68.718
Amounts written off	-	-4.198	-422	-4.619
Other	-	-28.478	-	-28.478
At December 31	**1.872**	**117.324**	**1.742**	**120.938**

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.

	2020	2019
Financial assets measured at fair value through other comprehensive income	1.456.140	1.062.191
Total financial assets, excluding derivatives	**1.456.140**	**1.062.191**

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**

2019	FVOCI	**Total**	Fair value
Debt securities	1.062.191	1.062.191	1.062.191
At December 31	**1.062.191**	**1.062.191**	**1.062.191**

	2020	2019
Current	203.326	469.112
Non-current	1.252.814	593.079
Total financial assets, excluding derivatives	**1.456.140**	**1.062.191**

The increase in financial assets at fair value through profit or loss is mainly due to the purchase of sovereign exposures during 2020.

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

Investments in unconsolidated structured entities

Aegon Bank did not provide financial or other support to unconsolidated structured entities. Nor does Aegon Bank have any intentions of providing financial or other support to unconsolidated structured entities in which Aegon Bank has an interest or previously had an interest.

Please refer to note 4.4.12 'Credit risk exposure' of the consolidated financial statements for more information.

9. Derivatives

	Derivative asset		Derivative liability	
	2020	2019	2020	2019
Derivatives not designated in a hedge	37.897	61.912	22.322	56.663
Derivatives designated as fair value hedges	151.195	97.850	766.671	504.912
Total	**189.093**	**159.763**	**788.993**	**561.575**

	2020	2019
Current	-977	-8.703
Non-current	-598.924	-393.109
Total net derivatives	**-599.900**	**-401.812**

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 arrangements, and similar arrangements.

Derivatives not designated in a hedge

	Derivative asset		Derivative liability	
	2020	2019	2020	2019
Derivatives held as an economic hedge	37.897	61.912	17.168	53.293
Bifurcated embedded derivatives	-	-	5.154	3.370
Total	**37.897**	**61.912**	**22.322**	**56.663**

Aegon Bank 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 Aegon Bank's products involve guarantees to customers. The extent of Aegon Bank'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 in these guarantees are hedged through futures contracts.

Hedge accounting

Aegon Bank'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 2020, Aegon Bank recognized EUR 259.0 million in fair value changes on mortgage loans under fair value hedge accounting under the EU carve-out in the income statement (2019: EUR 278.3 million). Furthermore, EUR -/- 0.2 million (2019: EUR -/- 1.6 million) in fair

value changes on borrowings were recognized in fair value hedge accounting under full IFRS.
These amounts were offset by EUR -/- 205.1 million fair value changes recognized on derivatives used as hedging instrument (2019: EUR -/-254.6 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. During 2020 Aegon Bank amortized EUR -/- 8.9 million (2019: EUR -/- 3.5 million) on the basis adjustment.

The total net accounting ineffectiveness recognized in the income statement was EUR 53.7 million in 2020 (2019: EUR 22.0 million). As at December 31, 2020, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR 615.5 million negative, presented in the statement of financial position as EUR 766.7 million under liabilities and EUR 151.2 million under assets (2019: EUR 407.1 million negative, EUR 504.9 million under liabilities and EUR 97.9 million under assets).

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

2020

	Carrying amounts				
Fair value hedges	**Notional**	**Assets**	**Liabilities**	**Balance Sheet line item(s)**	**Changes in fair value used in calculating hedge ineffectiveness**
<u>Interest rate</u>					
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 Aegon Bank’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**		
<u>Interest rate</u>						
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

Fair value hedges	Gains / (loss) recognised in OCI	Hedge ineffectiveness recognised 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.	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.

2019

Fair value hedges	Carrying amounts Notional	Assets	Liabilities	Balance Sheet line item(s)	Changes in fair value used in calculating hedge ineffectiveness
Interest rate					
Macro fair value hedge	4.691.231	97.850	504.912	Derivatives	-256.130
Micro fair value hedge	-	-	-	Derivatives	1.520

The following table provides details of the hedged exposures as part of Aegon Bank'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	10.659.239	-	524.211	-	Mortgage loans and other loans	278.247
Micro fair value hedge	-	2.730.934	-	3.716	Borrowings	-1.608

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
			Amounts reclassified from reserves to P&L as:			
Interest rate						
Macro fair value hedge	n.a.	22.117	Result from financial transactions	n.a.	n.a.	n.a.
Micro fair value hedge	n.a.	-87	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 adopted in the new Benchmark Regulation (BMR), which stipulates that only BMR compliant benchmarks may be used within the EU.

Knab recognizes that IBOR transitions potentially have implications on our activities. Despite current uncertainties on how the transition from IBORs to alternative benchmarks will be managed, it is widely acknowledged that IBOR benchmarks impact financial products and contracts, including amongst others. derivatives, corporate bonds, structured debt products, deposits and mortgages.

As part of the IBOR transition during 2020, the discount rate switch from EONIA (Euro Overnight Index Average) to €STR (Euro Short-Term Rate) took place for the derivatives in our portfolio. The differences in market value due to this discount switch did not have a material impact on the financial statements of Knab.

Aegon Bank's fair value hedges are directly exposed to changes in benchmark rates (predominantly Eonia and Euribor), because it is not clear until when these benchmark rates will be continued and how they will transition to alternative rates. For example, the majority of financial instruments designated as fair value hedges have a maturity date beyond December 31, 2021 (gross notional amount: EUR 11,098 million). Aegon Bank applies the relief available under IAS 39 to ensure that this uncertainty does not result in the early termination of hedge accounting, whilst also assuming for measurement purposes that, owing to the general principle of equivalence, transitions to alternative rates will not result in significant contract modifications.

10. Other assets and receivables

	2020	2019
Receivables	63.389	20.586
Accrued income	52.315	48.058
Total	**115.704**	**68.643**

10.1. Receivables

	2020	2019
Investment debtors	41.098	13.130
Current account with group companies	22.103	5.152
Other	189	2.303
Total	**63.389**	**20.586**
Current	63.381	20.536
Non-current	8	50
Total	**63.389**	**20.586**

The current account with group companies consists of a current account asset with Aegon Nederland N.V. of EUR 22.1 million (2019: EUR 5.2 million asset). The increase in investment debtors related to pending settlement of investment transaction as per year-end.

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

10.2. Accrued income

	2020	2019
Accrued interest	52.315	48.058
At December 31	**52.315**	**48.058**

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

11. Savings deposits

	2020	2019
At January 1	11.535.813	10.585.775
Deposits	15.452.708	12.494.003
Withdrawals	-14.511.469	-11.615.849
Interest credited	62.790	71.885
At December 31	**12.539.843**	**11.535.813**
Current	10.091.253	9.299.643
Non-current	2.448.590	2.236.170
	12.539.843	**11.535.813**

The savings deposits comprise EUR 987 million of savings related to 'Bankspaarhypotheken' (2019: EUR 893 million). The received deposits related to the 'Bankspaarhypotheken' are directly invested in a sub participation of the mortgage of the specific client. The sub participation in the mortgages and the related deposits are shown gross in the financial statements as there is no intention to (directly) settle the deposit with the mortgage.

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

12. Borrowings

	2020	2019
Borrowings	2.612.894	2.730.934
At December 31	**2.612.894**	**2.730.934**

	2020	2019
Current	119.002	749.224
Non-current	2.493.892	1.981.710
Total	**2.612.894**	**2.730.934**
Fair value	2.700.810	2.733.360

At year end, Aegon Bank had issued the following covered bonds and senior notes

Issue	Issue date	Nominal value	Maturity date	Interest rate
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%
SNP	June 2019	500	June 2024	0.63%

Covered bond (Cobo)

In Q4 2015, Aegon Bank entered into a EUR 5 billion Conditional Pass-Through Covered Bond Program. Under the Program, the payment of interest and principal is guaranteed by an Aegon-administered structured entity, Aegon Conditional Pass-Through Covered Bond Company B.V. (the Company). In order for the Company to be able to honor its guarantee, Aegon Bank transfers ownership of the mortgage loans originated by Aegon affiliates to the Company. The Company is consolidated by Aegon Bank. In December 2015, Aegon Bank successfully placed its first covered bond transaction backed under this Program. Cobo 1 was fully repaid in December 2020. The nominal value of Cobo 1 amounted to EUR 750 million.

Senior Non Preferred Notes (SNP)

In Q2 2019 Aegon Bank issued EUR 0.5 billion of Senior Non-Preferred notes (SNP). These SNP notes qualify as 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, Aegon Bank borrowed EUR 105 million from the European Central Bank under its Long Term Refinancing Operation (LTRO) program (2019: EUR 0 million). The loan has a 3-month term.

13. Net deferred tax liabilities

	2020	2019
Net deferred tax liabilities	84.810	74.579
Total net deferred tax liability / (asset)	**84.810**	**74.579**

Movements in deferred tax

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**

2019	Financial assets	Total
At January 1	**67.301**	**67.301**
Charged to income statement	7.097	7.097
Charged to equity	180	180
At December 31	**74.579**	**74.579**

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 tax assets are recognized for temporary differences, carry forward of unused tax losses and carry forward of unused tax credits 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 (2019: negative impact of EUR 2.8 million), which is processed through deferred taxes.

14. Provisions

	2020	2019
Other provisions	49.054	10.504
Total	**49.054**	**10.504**

	2020	2019
Current	49.054	5.501
Non-current	-	5.004
Total	**49.054**	**10.504**

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 on a settlement with Leaseproces B.V. for claims regarding Vliegwiel and Sprintplan represented by Leaseproces. The settlement is subject to conditions precedent and further operational details are to be worked out. Full execution of the agreement is expected in 2021.

Movements in provisions

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

2019	Total
At January 1	10.145
Additions charged to earnings	421
Used during the year	-62
At December 31	**10.504**

15. Other liabilities and accruals

	2020	2019
Other liabilities	294.364	205.294
Accruals	58.572	61.366
Total	**352.936**	**266.660**

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

15.1. Other liabilities

	2020	2019
Investment creditors	7.767	6.686
Income tax payable	10.378	23.263
Social security and taxes payable	6.755	7.895
Current account with group companies	222.691	77.343
Other creditors	46.773	90.108
Total	**294.364**	**205.294**
Current	294.364	205.294
Non-current	-	-
Total	**294.364**	**205.294**

Current accounts with group companies comprised a liability to Aegon Hypotheken B.V. of EUR 222.7 million (2019: EUR 77.3 million).The current account increased as Aegon Bank N.V. acquired more mortgages as at 31 December 2020 as compared to 31 December 2019.

15.2. Accruals

	2020	2019
Accrued interest	58.572	61.366
Total	**58.572**	**61.366**
Current	58.572	61.366
Non-current	-	-
Total	**58.572**	**61.366**

Financial liabilities valued at amortized cost

The table below shows the items recognized under total financial liabilities that are valued at amortized cost.

	2020	2019
Savings deposits	12.539.843	11.535.813
Borrowings	2.612.894	2.730.934
Other liabilities and accruals	352.936	266.660
Total	**15.505.673**	**14.533.408**

16. Equity

	2020	2019
Share capital	37.437	37.437
Share premium	476.751	476.751
Revaluation reserves	11.584	9.360
Retained earnings	204.900	178.746
Participations	9.500	9.500
Net income / (loss)	-31.453	26.629
Total	**708.719**	**738.423**

There were no movements in share premium (2019: EUR 75 million capital injection).

16.1. Share capital

	2020	2019
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, of which 37,437 shares have been issued and fully paid. There have been no changes since the previous financial year. In 2020 and 2019, Aegon Bank paid no dividends to Aegon Nederland N.V.

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

Aegon Bank may also cancel a distribution of dividends if fails to meet the solvency capital requirement, or the dividend distribution would lead 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 would 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

	2020	2019
At January 1	**9.359**	**7.710**
Gross revaluation	3.974	2.461
Net (gains) / losses transferred to income statement	-640	-631
Tax effect	-1.111	-180
At December 31	**11.583**	**9.359**

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

16.3. Participations

	2020	2019
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:

- The participations are subordinated perpetual liabilities issued by Aegon Bank N.V.
- The participations 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 has the right to waive one or more monthly interest payments and the fee discount. If interest payments are waived, no accumulation will be applied.
- Based on the discretion of management, the bank may have the right to repay the notional five years after the issue.
- 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.

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, 2020, Aegon Bank had issued 1,900 participations with a corresponding value of EUR 9.5 million (2019: 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	2020	2019
Mortgage loans and other loans	385.862	388.199
Debt securities	1.749	4.689
Total	**387.611**	**392.888**

	2020	2019
Financial assets measured at FVOCI	1.749	4.689
Amortized cost	385.862	388.199
Total	**387.611**	**392.888**

Mortgage loans and other loans comprised EUR 272.6 million (2019: EUR 264.3 million) in mortgages, EUR 78.9 million (2019: EUR 93.0 million) in consumer loans, EUR 34.1 million (2019: EUR 29.9 million) in SME loans, and EUR 0.5 million (2019: EUR 1.0 million) in other loans.

Interest income on financial assets and financial liabilities measured at fair value through profit or loss are shown under the heading Other interest income.

17.2. Interest expense and related fees

Interest expenses calculated using the effective interest method	2020	2019
Cash	6.894	6.849
Savings deposits	61.194	64.970
Covered bond and SNP notes	15.379	14.192
Other	305	226
Total	**83.771**	**86.236**

Other interest expenses	2020	2019
Derivatives	71.801	67.888
Total	**71.801**	**67.888**

	2020	2019
Amortized cost	83.771	86.236
Financial liabilities measured at FVPL	71.801	67.888
Total	**155.572**	**154.124**

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

	2020	2019
Revenue from customer transactions	22.360	17.292
Total	**22.360**	**17.292**

18.2. Fee and commission expense

	2020	2019
Commissions	1.844	1.886
Total	**1.844**	**1.886**

19. Result from financial transactions

	2020	2019
Net fair value change of guarantees	-1.632	148
Net fair value change of derivatives	41.275	7.644
Realized gains / (losses) on mortgage loans	132	-
Realized gains / (losses) on consumer loans	-	1.464
Realized gains / (losses) on financial assets measured at FVOCI	550	502
Total	**40.325**	**9.759**

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

20. Employee expenses and other operating expenses

20.1. Employee expenses

At December 31, 2020, Aegon Nederland employed 384 (2019: 339) FTEs who carried out work for Aegon Bank or its subsidiaries. All staff are based in the Netherlands. The salaries, social security contributions and pension contributions for staff employed by Aegon Nederland are recharged to Aegon Bank. The total staff costs including intra-group charges are shown in the table below.

Staff expenses increased from EUR 24.9 million in 2019 to EUR 54.1 million in 2020. The increase in salaries was driven mainly by the bank's growth, expenses for regulatory tracks, the impact of the integration of Aegon Bank and Knab, and the related termination of outsourcing of activities to Knab Advies en Bemiddeling in 2019.

	2020	2019
Salaries	25.071	12.674
Post-employment benefit costs	4.872	1.936
Social security charges	3.233	1.806
Other personnel costs	20.949	8.456
Total	**54.125**	**24.872**

"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 Aegon Bank are a fixed percentage of the salaries charged to the entity.

20.2. Other operating expenses

	2020	2019
IT and consultancy fees	23.672	38.630
Investment expenses	33.022	33.180
Recharged costs of support organizations	21.819	33.597
Other expenses	103.206	25.333
Total	**181.719**	**130.739**

Operating expenses increased primarily due to the Bank's growth as compared to 2019. Costs also increased because of the integration of Knab and Aegon Bank (project One) additional expenses on regulatory tracks and provision charges.

Independent auditor's fee

PricewaterhouseCoopers Accountants N.V. were Aegon Bank's independent public auditors during 2020 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 Aegon Bank 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 2020 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 COBO 5
  - ISAE 3402 reporting on Deposit Guarantee System
  - Assurance report on "Netto Havenpensioen"
  - Agreed upon procedures on Asset coverage test and liquidity reserve test for covered bond program

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).

	2020	2019
Members of the Board of Directors		
Gross salary and social security contributions	927.852	921.530
Pension premium	69.002	103.763
Other benefits	179.175	180.687
Total	**1.176.030**	**1.205.980**

Mortgage loans to Statutory Board

On the reporting date, members of the Statutory Board had mortgage loans totaling EUR 817.000 from a company associated with Aegon Bank (2019: EUR 1.472.000) at variable interest rates ranging from 1.70% to 4.65% in line with the terms and conditions available to Aegon Bank employees. During 2020, the amount in mortgages decreased by EUR 655.000 (2019: decrease of EUR 85.000). There were no other loans, guarantees or advance payments.

Variable Compensation Plans

Members of the statutory board as well as selected jobholders have been granted Variable compensation, in accordance with the rules applicable to them and their interpretations by relevant authorities. Of these, the Dutch 2015 Act on compensation in the financial sector (Wet beloningsbeleid financiële ondernemingen Wft) and CRD IV are prominent examples. The rules have been adopted in Aegon N.V.'s Global Remuneration Framework and consistently applied within Aegon Nederland. After the performance period, and based on the framework, variable compensation, if any, is partially made available and partly deferred. Variable compensation is paid in both cash and in Aegon N.V. shares. The shares were conditionally granted at the beginning of the year at the volume weighted average price (VWAP) on the Euronext stock exchange in Amsterdam 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 Nederland 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 is applicable to determine whether allocated (unvested) variable compensation should become unconditional or should be adjusted. In addition, for members of the Statutory Board, The Supervisory Board has the right to reclaim variable compensation that has already been paid out or vested.

The deferred shares of the variable compensation award cliff-vest three years after allocation, while the deferred parts 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 adjust 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 regulations under Dutch law, no transactions regarding the shares may be exercised in blackout periods.

All share plans are recognized in the financial statements of Aegon Nederland as cash-settled share based payment transactions since all grants are settled by Aegon Nederland in Aegon N.V. shares via the current account with Aegon N.V. Aegon Nederland 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 hold these shares within Aegon and settle directly with the tax authorities in cash rather than in shares.

Aegon Nederland provides for the full provision of the Variable Compensation Plans (both for Aegon N.V. and Aegon Nederland) and recharges the Variable Compensation Plans 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 for active and former members of the statutory board.

Variable compensation plan of year:	Conditionally granted shares	Conditionally granted cash	Actual shares granted	Actual cash granted	Transferred in period
2020	n/a	n/a	n/a	n/a	n/a
2019	11.235	38.248	6.441	21,064	2020-2023
2018	8.256	48.322	8.163	44,124	2019-2022
2017	8.013	39.533	6.645	34.880	2018-2021
2016	13.762	70.577	10.276	52.723	2017-2020

On 1 January 2020 Knab abolished variable pay entirely therefore share granted in 2020 is not applicable.

The following tables give information on the granted shares for the Board of Directors.

Movements during the year	2020	2019
Unvested at January 1	18.769	17.134
Reversal conditionally granted	-11.235	-8.256
Number of shares conditionally granted *	n/a	11.235
Number of shares allocated	6.441	8.163
Number of shares forfeited	-	-
Number of shares vested	-5.581	-9.507
Unvested at December 31	**8.394**	**18.769**

*

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
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
2016	3,990 to 4,898	5.129

Unvested shares by plan year	2020	2019
2020	n/a	n/a
2019	5.060	11.235
2018	2.176	3.264
2017	1.158	2.316
2016	-	1.954
Unvested at December 31	**8.394**	**18.769**

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 Aegon Bank for internal supervisory board members. This is in accordance with Aegon Bank'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 149.000 (2019: EUR 123.000), 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 mortgage loans from a company associated with Aegon Bank totaling EUR 475.000 (2019: EUR 581.000) at an average interest rate of 2.43% (2019: 2.45%). Repayments of EUR 106.000 were received in 2020 (2019: EUR 21.000).

21. Impairment losses

	2020	2019
Impairment charges comprise:		
- Financial assets measured at fair value through other comprehensive income	-89	-129
- Loans	92.886	69.218
Total	**92.797**	**69.089**

The impairment charge is due to the increase in impairment provisions of mortgages by EUR 1.0 million Consumer loans EUR 71.9 million and SME loans EUR 20.8 million. Please refer to note 4.4.11 ' Loss allowance'.

22. Income tax

	2020	2019
Current tax		
- current year	-13.557	5.501
- adjustments to prior year	129	-
Deferred tax		
- origination / (reversal) of temporary differences	4.617	4.305
- changes in tax rates / bases	4.632	2.792
- adjustments to prior years	-129	-
Income tax for the period (income) / charge	**-4.308**	**12.598**

The weighted average applicable statutory tax rate for Aegon Nederland in 2020 and 2019 was 25%. The earlier enacted change in the applicable tax rate as of 2021 (from 25% to 21.7%, which was approved in December 2019) has been replaced by the new law for 2021. This law was approved in December 2020 and the new enacted tax rate for 2021 will remain 25%. The changes in the enacted tax rate have been taken into account in the (reversal of) deferred taxes

The reversal of the future reduction in Dutch corporate income tax rates had a negative impact of -/- EUR 4.6 million (2019: Negative impact of EUR 2.8 million), which was processed through deferred taxes.

Reconciliation between standard and effective income tax

	2020	2019
Income / (loss) before tax	-35.761	39.227
Income tax calculated using weighted average applicable statutory rates (income) / charge	-8.940	9.807
Difference due to the effects of:		
- changes in tax rates / bases	4.632	2.792
- adjustments to prior years	-	-
Income tax for the period (income) / charge	**-4.308**	**12.598**

Aegon Bank 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. Aegon Bank 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.

	2020		2019	
	Trading	Designated	Trading	Designated
Derivatives with positive values	37.897	151.195	61.912	97.850
Total financial assets at FVTPL	**37.897**	**151.195**	**61.912**	**97.850**

	2020		2019	
	Trading	Designated	Trading	Designated
Derivatives with negative values	22.322	766.671	56.663	504.912
Total financial liabilities at FVTPL	**22.322**	**766.671**	**56.663**	**504.912**

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:

	2020		2019	
	Trading	Designated	Trading	Designated
Net gains and losses	31.935	43.235	-459.646	427.760

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

In the normal course of business, Aegon Bank has entered into commitments under investment purchase and sales transactions, most of which to be performed in the course of 2021. The amounts represent the future outflow and inflow, respectively, of cash related to 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.

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

Purchases	2020	2019
Loans to private individuals and SME loans	96.000	188.000
Mortgage loans	646.970	160.000

Sales	2020	2019
Mortgage loans	42.785	22.705

The increase in mortgage loans purchased is mainly due to the fact that Aegon Hypotheken and Aegon Bank N.V. agreed that mortgages have to be ordered 3 months upfront (2019: 1 month).

24.2. Other commitments and contingencies

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

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

Aegon Bank'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 Aegon Bank's statement of financial position. The total amount of assets related to these services was EUR 312 million (2019: EUR 271 million).

In connection with its private loans portfolio Aegon Bank had an undrawn commitment amounting to EUR 0 million (2019: EUR 39 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 a maximum of 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 up to 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

Aegon Bank may be 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.

There are also certain groups that encourage others to bring lawsuits in respect of products. 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.

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 will not be able to resolve some or all of these matters in the manner that it expects. In certain instances, Aegon Nederland subsidiaries have modified business practices in response to inquiries or inquiry findings. Regulators may impose fines or other monetary penalties or require Aegon Bank to change the way in which it conducts its business. Aegon Bank has defended and intends to continue defending itself vigorously when it believes claims are 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 2016, the Dutch Supreme Court ruled on a case in which a securities leasing product had been sold by one of Aegon's competitors. The Court held that the financial institution was liable if a broker (*remisier*) advising on the sale of the institution's products was not properly licensed.

In July 2016, the consumer interest group Platform Aandelenlease (PAL) filed a class action against Aegon Bank over Aegon's securities leasing product Sprintplan. Allegations included, among other things, the lack of a proper license on the part of the brokers involved. In February 2020, the Dutch Court of Appeal rejected all of the PAL's claims. This ruling has become final. In addition, 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 on a settlement with Leaseproces B.V. for claims regarding Vliegwiel and Sprintplan represented by Leaseproces. The settlement is subject to conditions precedent and further operational details are to be worked out. Full execution of the agreement is expected in 2021. Although all securities leasing products have expired there is a long history of ongoing litigation regarding security leasing products – including the two prior class actions regarding the Sprintplan product– it cannot be ruled out that these proceedings might have a material adverse effect on Aegon Bank's results on operations or its financial position.

25. Transfers of financial assets

Transfers of financial assets occur when Aegon Bank 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, Aegon Bank may be involved, among other things, in the following transactions:

- Transferred financial assets that are not derecognized in their entirety:
    - Securities lending, whereby Aegon Bank 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 Aegon Bank does not have a continuing involvement (normal sale).
- Transferred financial assets that are derecognized in their entirety, but where Aegon Bank has a continuing involvement:
    - Securitizations whereby mortgage loans are transferred to a securitization vehicle which is not part of the Group and where Aegon Bank 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 Aegon Bank has a continuing involvement, and assets accepted and pledged as collateral.

25.1. Assets pledged

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

On May 28, 2020, Aegon Bank 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.). Aegon Bank controls the SPE, which is therefore consolidated by Aegon Bank. The notes are ECB eligible retained notes.

The value of the collateral posted was EUR 1,587 million (2019: EUR 424 million). The difference between the collateral value and ECB loans is available as an additional credit facility (2020: EUR 1,482 million; 2019: EUR 424 million).

As part of Aegon Bank’s mortgage loan funding program, EUR 2.4 billion (2019: EUR 2.7 billion) has been pledged as security for notes issued (refer to note 0 ‘Borrowings’).

26. Offsetting, enforceable master netting arrangements 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 Aegon Bank 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.

Aegon Bank mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and ISDA master netting agreements for each of the legal entities of Aegon Bank to allow Aegon Bank 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 Aegon Bank 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 to standard long-term borrowing, derivatives, securities lending and securities borrowing activities, and requirements determined by exchanges where the bank acts as an intermediary.

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

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

2019	Gross amounts of recognized financial assets	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
			Financial instruments	Cash collateral received (excluding surplus collateral)	
Derivatives	159.763	**159.763**	159.763	-	**-**
At December 31	**159.763**	**159.763**	**159.763**	**-**	**-**

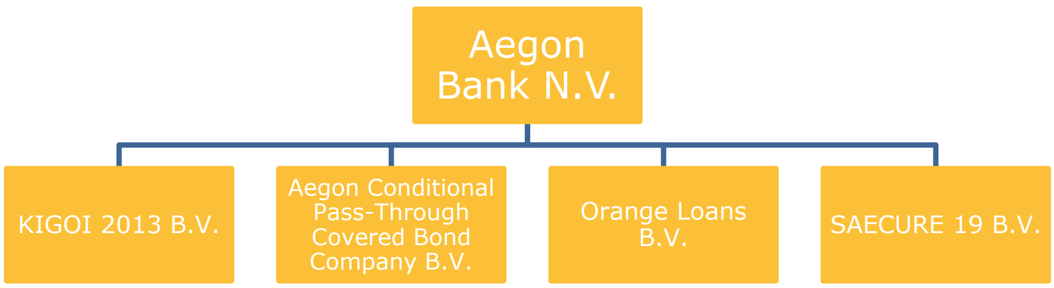
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2020	Gross amounts of recognized financial liabilities	**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**

2019	Gross amounts of recognized financial liabilities	**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	558.205	**558.205**	159.763	398.443	**-**
At December 31	**558.205**	**558.205**	**159.763**	**398.443**	**-**

27. Group companies

The organization chart of Aegon Bank N.V. and its principal subsidiary at year-end 2020 was as follows:



Wholly owned subsidiaries

Orange Loans B.V. was incorporated in 2015. Orange Loans B.V. holds some of the consumer loan and SME loan portfolio of Aegon Bank N.V. and is located in the Netherlands.

Aegon Bank 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. 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 relate to the securitization of 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 has it any intention of providing, 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 grouping.

Aegon N.V. has granted Aegon Bank a loan in relation to collateral for foreign exchange transactions. The loan represented a payable of EUR 13.7 million in 2020 (2019: EUR 3.2 million receivable).

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 conditions for 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 2020 were EUR 23.4 million (2019: EUR 36.1 million).

At the end of the year, Aegon Bank N.V. had a current account asset from Aegon Nederland N.V. of EUR 22.1 million (2019: EUR 5.1 million asset). EUR 0.3 million (2019: 0.3 million) of interest on the intercompany current account was charged through the income statement in 2020.

Aegon Bank N.V. did not pay a dividend to Aegon Nederland N.V. in 2020 (2019: no dividend). During 2020 Aegon Bank did not receive a capital injection from Aegon Nederland N.V. (2019: 75 million).

Aegon Levensverzekering N.V.

In 2020 Aegon Levensverzekering N.V. sold for Eur 38 million mortgages to Aegon Bank N.V. (2019: EUR 602 million).

Aegon Hypotheken B.V.

As of 2018 the mortgages held by Aegon Bank N.V. are managed and administered by Aegon Hypotheken B.V. The recharge for these services was EUR 18.4 million (2019: EUR 16.5 million).

Aegon Hypotheken has originated mortgages for Aegon Bank for a total amount of EUR 2.001 million (2019: EUR 943 million). Furthermore, in 2020 Aegon Hypotheken BV sold mortgages to Aegon Bank N.V. for a total amount of EUR 390 mln.

At the end of the year, Aegon Bank N.V. had a current account liability to Aegon Hypotheken B.V. of EUR 222.7 million (2019: liability EUR 77.3 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 5.7 million for this in 2020 (2019: EUR 5.1 million). The recharges are on normal commercial terms.

Amvest Vastgoed B.V.

During 2015 Aegon Bank N.V. entered into a credit facility with Amvest Vastgoed B.V. amounting to EUR 50 million. During 2020 this loan was redeemed (2019: EUR 46.4 million). The interest received on the facility amounts to EUR 0.3 million (2019: EUR 1.0 million). 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. The recharge was EUR 1.0 million (2019: EUR 0.8 million). Aegon Bank N.V. has received cash collateral on derivative positions via Aegon Derivatives N.V., see also note 6.

29. Approval of the consolidated financial statements

The consolidated financial statements of Aegon Bank for the year ended 31 December 2020 were approved by the Board of Directors and by the Supervisory Board on April 16, 2021.

The consolidated financial statements will be put for adoption to the General Meeting of Shareholders. The shareholders meeting may decide not to adopt the Consolidated financial statements, but may not amend these during the meeting.

Supervisory Board	Statutory Board
P.M. de Kroon	N.J.A. Klokke
G. Reijnen	M.R. de Boer
W. Horstmann	E.G. Negenman
J.W.M. Gerrits	

N.J.A. Klokke

M.R. de Boer

E.G. Negenman

P.M. de Kroon

W. Horstmann

G. Reijnen

J.W.M. Gerrits

Aegon Bank N.V.'s Company Financial Statements 2020

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 2020

(before profit appropriation)

Amounts in EUR thousand	Note	31-12-2020	31-12-2019
Assets			
Cash	3	1.548.307	1.904.003
Amounts due from banks	4	82.944	69.931
Mortgage loans and other loans	5	13.740.751	12.630.546
Group companies	6	-	8.504
Financial assets measured at fair value through other comprehensive income	7	1.456.140	1.062.191
Derivatives	8	189.093	159.763
Other assets and receivables	9	116.981	77.260
Total assets		**17.134.215**	**15.912.198**
Equity and liabilities			
Savings deposits	10	12.539.843	11.535.813
Borrowings	11	2.612.894	2.730.934
Derivatives	8	788.993	561.575
Net deferred tax liabilities	12	84.810	74.579
Provisions	13	49.054	10.504
Other liabilities and accruals	14	349.903	260.370
Total liabilities		**16.425.496**	**15.173.775**
Equity	15	708.719	738.423
Total equity and liabilities		**17.134.215**	**15.912.198**

Income statement
for the year ended 31 December 2020

Amounts in EUR thousand	2020	2019
Income		
Interest income calculated using the effective interest method	341.737	350.626
Interest expense calculated using the effective interest method	-83.722	-86.102
Other interest expense	-71.801	-67.888
Net interest income	**186.214**	**196.636**
Fee and commission income	22.360	17.292
Fee and commission expense	-1.844	-1.886
Net fee and commission income	**20.516**	**15.406**
Result from financial transactions	40.032	9.658
Impairment losses	-38.760	-35.444
Total income	**208.001**	**186.256**
Expenses		
Employee expenses	54.125	24.872
Other operating expenses	174.475	124.794
Total expenses	**228.601**	**149.666**
Income / (loss) before tax	**-20.599**	**36.590**
Income tax	518	-11.939
Net income attributable to the parent company	**-20.081**	**24.651**
Net income / (loss) group companies	-11.371	1.978
Net income / (loss)	**-31.453**	**26.629**

Notes to the financial statements

1 General information

Aegon Bank N.V. ('Aegon Bank') 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. Aegon Bank is a wholly owned subsidiary of Aegon Nederland N.V. ('Aegon Nederland'), established in The Hague. Aegon Bank's ultimate holding company is Aegon N.V., also established in The Hague.

Aegon Bank and its group companies develop, sell and service savings and investment products.

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 Aegon Bank's consolidated financial statements.

For information on the accounting policies, please refer to 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, please refer 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 in 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 net asset value of the group company will be attributed to loan receivables to that group company. Positive results in subsequent periods are first attributed to net asset value of the loans before the profit is attributed again to the net asset value of the subsidiary. When the measurement of a group company based on the net asset value is negative, it will be stated at nil.

3 Cash

For more information, see note 5 'Cash' in the consolidated financial statements.

4 Amounts due from banks

	2020	2019
Bank accounts	82.944	69.931
Total	**82.944**	**69.931**

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

	2020	2019
Loans to the private sector		
- Mortgage loans	11.978.497	10.659.239
- Loans to private individuals and Small and Medium Enterprise loans	465.221	792.914
- Other loans	1.297.033	1.178.394
Total	**13.740.751**	**12.630.546**
Fair value	14.205.530	13.229.082

	2020	2019
Current	2.624.469	2.520.994
Non-current	11.116.281	10.109.553
Total	**13.740.751**	**12.630.546**

On May 28, 2020, Aegon Bank 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.). Aegon Bank controls the SPE, which is therefore consolidated by Aegon Bank. Substantially all of the risks and rewards were retained by Aegon Bank. 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

	2020	2019
At January 1	**8.504**	**6.464**
Net income / (loss) for the financial year attributed to group company	-8.504	2.040
Total	**-**	**8.504**

During 2020 Orange loans recorded impairment losses under IFRS 9 due to the impact of forward looking macroeconomic expectations. The negative net asset value of EUR 2.9 million of the subsidiary has been recoded as a net asset adjustment on the intercompany loan between Aegon Bank N.V. and Orange loans.

For a list of names of group companies, see note 27 to the consolidated financial statements.

7 Other financial assets

	2020	2019
Financial assets measured at fair value through other comprehensive income	1.456.140	1.062.191
Total financial assets, excluding derivatives	**1.456.140**	**1.062.191**

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**

2019	FVOCI	**Total**	Fair value
Debt securities	1.062.191	1.062.191	1.062.191
At December 31	**1.062.191**	**1.062.191**	**1.062.191**

	2020	2019
Current	203.326	469.112
Non-current	1.252.814	593.079
Total financial assets, excluding derivatives	**1.456.140**	**1.062.191**

Summary of movements in financial assets, mortgage loans, and other loans

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**

2019	**Debt securities FVOCI**	**Mortgage loans**	**CL SME loans and other loans**	**Total**
At January 1	**1.314.613**	**9.619.701**	**1.564.206**	**12.498.521**
Acquisitions	-	1.770.370	841.302	2.611.672
Redemptions and sales	-251.125	-932.646	-462.590	-1.646.361
Unrealized gains and losses	1.830	278.247	-	280.078
Amortizations through income statement	-3.759	-74.897	-750	-79.407
Realized gains and losses	502	-	1.464	1.966
Impairment (losses) / reversals	129	-1.536	-34.037	-35.444
FX and other movements	-	-	61.713	61.713
At December 31	**1.062.191**	**10.659.239**	**1.971.308**	**13.692.738**

8 Derivatives

See note 9 'Derivatives' to the consolidated financial statements.

9 Other assets and receivables

	2020	2019
Receivables	76.688	33.099
Accrued income	40.293	44.161
Total	**116.981**	**77.260**

9.1 Receivables

	2020	2019
Investment debtors	41.098	13.130
Current account with group companies	35.402	17.666
Other	189	2.303
Total	**76.688**	**33.099**
Current	76.680	33.049
Non-current	8	50
Total	**76.688**	**33.099**

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

9.2 Accrued income

	2020	2019
Accrued interest	40.293	44.161
At December 31	**40.293**	**44.161**

'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

	2020	2019
Borrowings	2.612.894	2.730.934
At December 31	**2.612.894**	**2.730.934**

	2020	2019
Current	119.002	749.224
Non-current	2.493.892	1.981.710
Total	**2.612.894**	**2.730.934**
Fair value	2.700.810	2.733.360

	2020	2019
At January 1	2.730.934	2.243.797
Acquisitions	626.790	497.146
Disposals	-746.119	-13.810
Amortization	1.289	3.801
At December 31	**2.612.894**	**2.730.934**

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

	2020	2019
Other liabilities	291.330	199.003
Accruals	58.572	61.366
Total	**349.903**	**260.370**

14.1 Other liabilities

	2020	2019
Investment creditors	458	715
Income tax payable	14.653	22.943
Current account with group companies	222.691	77.343
Social security and taxes payable	6.755	7.895
Other creditors	46.773	90.108
Total	**291.330**	**199.003**
Current	291.330	199.003
Non-current	-	-
Total	**291.330**	**199.003**

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

14.2 Accruals

	2020	2019
Accrued interest	58.572	61.366
Total	**58.572**	**61.366**
Current	58.572	61.366
Non-current	-	-
Total	**58.572**	**61.366**

This item comprises interest payable and is classified entirely as current liabilities. The carrying amounts disclosed reasonably approximate fair value at year-end.

15 Equity

	2020	2019
Share capital	37.437	37.437
Share premium	476.751	476.751
Revaluation reserves	11.584	9.360
Retained earnings	204.900	178.746
Participations	9.500	9.500
Net income / (loss)	-31.453	26.629
Total	**708.719**	**738.423**

Movement in share premium does not include a capital injection (2019: EUR 75 million).

15.1 Share capital

	2020	2019
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 ordinary shares of EUR 1.000,00 nominal value each, of which 37.437 shares have been issued and fully paid. There have been no changes since the previous financial year. In 2020 and 2019, Aegon Bank N.V. did not pay dividend to Aegon Nederland N.V.

15.2 Statement of changes in equity after profit appropriation

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**
Capital injection	-	-	-	-	-	-
Dividends paid on participations	-	-	-475	-	-	-475
At December 31	**37.437**	**476.751**	**173.447**	**11.584**	**9.500**	**708.719**

2019	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**401.751**	**179.221**	**7.710**	**9.500**	**635.619**
Net income / (loss) recognized in the income statement	-	-	26.629	-	-	26.629
Other comprehensive income / (loss)	-	-	-	1.650	-	1.650
Total comprehensive income / (loss)	**-**	**-**	**26.629**	**1.650**	**-**	**28.279**
Capital injection	-	75.000	-	-	-	75.000
Dividends paid on participations	-	-	-475	-	-	-475
At December 31	**37.437**	**476.751**	**205.375**	**9.360**	**9.500**	**738.423**

Refer to note 16 ‘Equity’ of the consolidated financial statements for more information on equity.

16 Employees

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 Remuneration Statutory 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 and Supervisory Board.

18 Remuneration Independent Auditor

Refer to note 20 'Employee expenses and other operating expenses' of the consolidated financial statements for information on the remuneration of the independent Auditor.

19 Related party transactions

Orange loans B.V. invests on behalf of Aegon Bank N.V. in UK originated consumer loans and SME loans. These investment activities are funded through an intercompany loan between Aegon Bank N.V. and Orange loans B.V. As per year end 2020 the net asset value of the loan amounted to EUR 661 million. (2019: EUR 702 million). The loan is rolled forward on a (bi-)monthly basis. The coupon of the loan is based on a one month Libor + 100 basis points.

Refer to note 28 'Related party transactions' of the consolidated financial statements for information on the related party transactions.

20 Commitments and contingencies

Refer to note 24 'Commitment and contingencies' of the consolidated financial statements for more information.

21 Events after the statement of financial position date

There were no events after the statement of financial position date that give further information on the situation pertaining on the reporting date.

22 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 deducted from the retained earnings	-31.453
Net result	**-31.453**

This proposal has not yet been incorporated in the financial statements.

Amsterdam, April 16, 2021

Supervisory Board
P.M. de Kroon
G. Reijnen
W. Horstmann
J.W.M. Gerrits

Statutory board
N.J.A. Klokke
M.R. de Boer
E.G. Negenman

N.J.A. Klokke

M.R. de Boer

E.G. Negenman

P.M. de Kroon

W. Horstmann

G. Reijnen

J.W.M. Gerrits

Other information

Statutory provisions regarding profit appropriation
Appropriation of profit will be determined in accordance with article 23 of the Articles of Association of Aegon Bank N.V. The relevant provisions read as follows:

- The profit made in any financial year will be at the disposal of the Annual General Meeting.
- Distribution of profit shall take place after adoption of the financial statements which show this to be permissible.
- The Annual General Meeting may decide to an interim distribution, 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 resolve to make interim distributions and/or distributions charged 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 2020

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 2020 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 2020 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 2020 of Aegon Bank N.V., Amsterdam. The financial statements include 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 2020;
- the following statements for 2020: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows; 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 2020;
- 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

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 Company 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 risks of material misstatement in the expected credit loss allowance for mortgage loans and other loans and the estimation uncertainty in fair value of 'level 2' and 'level 3' financial instruments, we particularly considered these to be key audit matters 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 brought under hedge accounting.

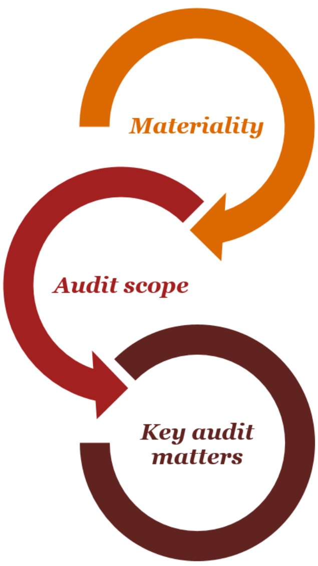
We ensured that our audit team included the appropriate skills and competences, which are needed for the audit of a bank. We, therefore, included specialists in the areas of IT, taxation and hedge accounting, as well as experts in the areas of valuation and credit modelling in our team.

Impact of COVID-19 on our 2020 audit approach

As explained in the executive board report on pages 9 to 10 of the annual report, the COVID-19 outbreak impacted, amongst others, the business operations of Aegon Bank N.V. and its credit customers. The COVID-19 outbreak impacted the way we performed our audit as well. In response, we have considered the impact of COVID-19 on our audit approach and in the execution of our audit. Inquiries and meetings with management took place via video conferencing. Teams and team members were reminded of the importance of staying alert to the quality of evidence and to perform sufficient and appropriate tests over the audit evidence obtained to be satisfied that the Group's records are complete, accurate and authentic. The following highlights the areas of focus in our audit that were primarily impacted by COVID-19:

- The impact on the Group's control environment due to remote working. We have carried out video conferencing meetings with screen-sharing as part of our procedures to evaluate the Group's design, implementation and operational effectiveness of controls. We have also paid specific attention to the reliability and continuity of IT systems.
- The impact on the Group's fraud risks exposure and operational incidents.
- The impact on the Group's capital and liquidity position.
- The Group's allowance for expected credit losses on loans. Uncertainty of the current environment and the continuously changing nature of the impact of the COVID-19 pandemic has added further complexity and judgement when auditing accounting estimates. Our procedures included assessment of these accounting implications and the relevant disclosures in the financial statements in accordance with the financial reporting framework applied by the Company. Reference is made to the section 'Key audit matters'.

The outline of our audit approach was as follows:



Materiality

- Overall materiality: € 6,100,000.

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
- Fair value of 'level 2' and 'level 3' financial instruments
- Application of macro fair value hedge accounting.

Materiality

The scope of our audit is 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 the aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€ 6,100,000 (2019: € 5,900,000).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement we used 2.5% of net interest income.
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 growth of the Group, mainly as a result of several one-off results, projects and transactions, and therefore we do not consider profit before tax to be the most appropriate benchmark. Recognising this inconsistency in the annual profit before tax, the shareholder also uses alternative benchmarks to assess the performance of the Group. In assessing other benchmarks, we believe net interest income, being an important financial metric for the general performance of a bank that reflects the link between return on assets and cost of funding, is a more appropriate benchmark to use that adequately reflects the growth of the Group.

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 misstatements identified during our audit above € 300,000 (2019: € 240,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

For balance sheet reclassifications, we considered a higher amount warranted, 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 €8.5 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 performed the audit work on these components. In doing so, the audit team selected specific balances and transactions within the Group for which an audit of financial information was considered necessary. Due to this approach, the material and relevant line items, comprising relevant 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 tailored towards the fact that the Group makes use of several service organisations in its day-to-day operations.

We obtained evidence over the controls performed by the service organisations through, amongst others, obtaining and assessing ISAE 3402 reports from other auditors. We concluded that we could rely on the work of these auditors for the purpose of our audit.

The Group has outsourced its consumer and SME loan processing and administration services to external parties. In our assessment of the consumer and SME loan portfolio balances and related transactions, we obtained sufficient and appropriate evidence over the controls performed by the service organisations through assessing the ISAE 3402 type 2 reports. These reports were issued by external auditors of whom we have assessed their independence, capability and objectivity.
In addition, 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. Based on these procedures performed, we concluded that we could rely on the work of these auditors for the purpose of our audit, supplemented by our own procedures.

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.

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit are:

In respect to fraud:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

In respect to non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the management board with the oversight of the supervisory board. We refer to section 4 'Risk management' of the annual report where the management board included its risk assessment and risk control measures. We also refer to section 'Report of the management board' where the management board reflects thereon.

Risk of fraud

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks, tested high-risk manual journal entries and evaluated key estimates and judgements for bias by management, and finally we incorporated elements of unpredictability in our audit. We refer to the key audit matters on the expected credit loss allowance for mortgage loans and other loans and the fair value of 'level 2' and 'level 3' financial instruments, which are both examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

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 processes.

In line with auditing standard 250 we made a distinction between laws and regulations in our audit approach:

- Laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements.
  For this category, in line with the requirements as included in Standard 250, we obtained sufficient audit evidence regarding compliance with the provision of those laws and regulations.
- Laws and regulations that do not have a direct effect on the determination of material amounts and disclosures in the financial statements, but where compliance may be fundamental to the operating aspect of the business, to the Group's ability to continue its business or to avoid material penalties. For this category, we performed specific procedures to identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

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 anti-money laundering and anti-terrorist financing regulations, as well as regulations linked to the operating licenses for the banking activities (including the Financial Supervision Act ('Wet op het financieel toezicht').
We inquired of management and/or those charged with governance 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 disclosure on page 9 with respect to the instruction received from the Dutch Central Bank and the disclosure on page 11 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 we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context.

We note that the key audit matters related to 'Expected credit loss allowance for mortgage loans and other loans', 'Fair value of 'level 2 and 3' financial instruments' 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 for mortgage loans and other loans *Refer to note 2.8 'Financial assets' on page 42 of the summary of significant accounting policies, note 3.5 'Measurement of the expected credit loss allowance' on page 62 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 'Definition 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' on pages 70 to 84 and note 7 'Mortgage and other loans' on page 97.*	*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'.

Key audit matter

As at 31 December 2020, the mortgage loans and other loans amount to €13,726 million (2019: €12,609 million) and the total impairment amounts to €160.8 million (2019: €120.9 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 12-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 2020, the mortgage loans represented a gross carrying amount of €10.6 billion (loan loss allowance of €3.0 million) and the consumer and SME loans represented a gross carrying amount of €1.3 billion (loan loss allowance of €156.2 million). Considering the limited (remaining) credit risk in other loans, they are not included in the scope of this key audit matter.

Model methodology and inputs

In the ECL models the Group utilises, amongst others, 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' on page 74 of the financial statements.

The critical data elements that are input 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 and the probability of the scenarios is weighted in order to determine the expected credit losses.

Our audit work and observations

Assessment of model-based impairments

With support of our internal credit modelling experts, we performed the following procedures on the model-based impairments as at 31 December 2020:

- 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 obtaining management's approach, assessing the conceptual soundness of management's approach in identifying impaired loans and assessing adjustments made when a different definition of default was applied by the service organisations;
- 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 their provided explanations and evidence supporting the key model parameters by benchmarking them to other market participants.

We challenged management on the implications of COVID-19 on the ECL provision by performing the following:

- enquiries with management, the modelling department, and the finance and control department about the changes made and the reasoning behind these;
- we verified whether changes were needed and whether appropriate changes were made to the models, underlying assumptions and/or staging policy following the implications of COVID-19;
- reconciled assumptions underlying the overlays applied to supporting documentation from service organisations;
- we reconciled the applied macro-economic scenarios with 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.

Key audit matter	*Our audit work and observations*
Judgements and estimation uncertainty The judgements and estimation uncertainty in the loan-loss allowance of mortgage loans and other loans is 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 overlays applied. 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), increase the risks of material misstatement. Therefore, we consider this a key audit matter in our audit.	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.
Fair value of 'level 2' and ;'level 3' financial instruments *Refer to note 2.8 'Financial assets' on page 42, 2.9 'Financial liabilities' on page 45 and 2.10 'Derivatives and hedging strategy' on page 45 of the summary of significant accounting policies, note 3.4 'Fair value hierarchy' on page 58 of the critical accounting estimates and judgment in applying accounting policies, note 8 'Other financial assets' on page 98 and note 9 'Derivatives' on page 99.* As at 31 December 2020, the items valued at fair value in the financial statements concern: • debt securities amounting to €1,456.1 million; and • derivatives amounting to €189.1 million on the asset side and €789.0 million on the liability side of the balance sheet.	*Control design and operating effectiveness* We assessed the design and tested the operating effectiveness of internal controls over the investments process including management's selection and approval of valuation methodologies and assumptions, controls over data inputs including trade execution and security set-up within the administration systems and management's monitoring of valuations provided by third parties. We determined that we could rely on these controls for the purpose of our audit. *Substantive audit procedures* We, with assistance of our valuation experts, performed the following procedures to address the valuation of derivatives financial instruments: • We reconciled the key inputs such as contractual cash flows, nominal amounts, and swap rates to the source system and to external confirmations or third-party statements and determined these to be reconciled.

Key audit matter	*Our audit work and observations*
In the determination of the fair value of financial instruments, the fair value hierarchy is applied: • level 1: valuations based on quoted prices (unadjusted) in active markets; • level 2: valuations based on other than quoted prices included within level 1 that are observable either directly or indirectly; • level 3: valuations based on unobservable inputs for the asset. The areas that involved significant audit effort and judgement relate to the level 2 and level 3 investments, since these are valued using model valuations instead of quoted prices in an active market. The majority of the Group's derivatives fall within level 2 of the fair value hierarchy, except for €5.2 million of bifurcated embedded derivatives that fall under level 3. Given that the level 3 position is below our overall materiality level, this is not in scope of this key audit matter. Of the debt securities, an amount of €729.0 million falls within level 1 and € 727.1 million within level 2 of the fair value hierarchy. No level 3 debt securities are held as at 31 December 2020. The fair value of such financial instruments (level 2 and level 3 financial instruments) is determined using valuation techniques (such as discounted cash flow models) and the use of assumptions and estimates such as market prices of comparable instruments, credit risk, volatilities, correlation and discount rates. The judgement applied by management mainly relates to: • the assessment of the appropriateness of quotes obtained from the brokers for debt securities with no quoted market prices to determine the most appropriate estimate of fair value; and • the discount rates and actuarial assumptions used in the valuation of the bifurcated embedded derivatives.	• We performed an independent valuation of the derivative positions and compared these to the recorded values. We determined that the estimates made by management are within an acceptable range to our own estimates. • We assessed whether the Company is entitled to the collateral received as part of derivative financial instrument transactions through reconciliation to external confirmations or third-party statements. We determined that the Company appropriately accounted for the collateral received in relation to its derivative portfolio. For debt securities, we independently obtained market prices from third-party pricing vendors and compared these to management's fair value estimates. We determined that the estimates made by management are within an acceptable range to our independently obtained vendor market prices. Finally, we assessed the completeness and accuracy of the disclosures in the Group's financial statements relating to the fair value of financial instruments and observed that the disclosure complies with the requirements included in EU-IFRS.

Key audit matter	***Our audit work and observations***
Given the level of judgement and the related estimation uncertainty around fair valuation with respect to level 2 and level 3 valuations in combination with the size of the debt securities portfolio and the derivatives portfolio held as an economic hedge, we consider the fair value valuation of level 2 and level 3 financial instruments as a key audit matter.	
Application of macro fair value hedge accounting *Refer to note 2.10 'Derivatives and hedging strategy' on page 45 of the summary of significant accounting policies, note 7 'Mortgage and other loans' on page 97, note 9 'Derivatives' on page 99 and note 19 'Result from financial transactions' on page 110.* The Group has designated derivatives used as fair value hedges on interest rate risk in its mortgage portfolio. For 2020, the Group recognised a €259.0 million fair value change on the mortgage portfolio and a €0.1 million fair value change on borrowings that were offset by the fair value change in the derivatives designated for hedging for an amount of €205.1 million. Due to the application of macro fair value hedge accounting under EU-IFRS and 'highly' effective hedging relations, only the total net ineffectiveness is recognised in the income statement, which amounts to €53.8 million. The cumulative fair value impact of the mortgage loans designated in the hedging relationship is €775 million, resulting in a higher carrying value as described in note 7 on page 97. As required by EU-IFRS, the Company 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* Our substantive audit procedures on hedge accounting included, amongst others, evaluation of whether the hedge accounting methodology applied by the Company is in accordance with EU-IFRS, with the assistance of our hedge accounting specialists. For a sample 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 outcome of the effectiveness testing to be consistent with our own calculations and the methodology applied 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'. 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.

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.	

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the report of the management board;
- the report of the supervisory board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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 the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and 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 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 following the passing of a resolution by the shareholders at the annual meeting held on 15 May 2013. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of seven 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 with 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 events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

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 to be 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, 16 April 2021
PricewaterhouseCoopers Accountants N.V.

Original has been signed by A.R. Vermeulen RA MSc pwc

Appendix to our auditor's report on the financial statements 2020 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.