Annual Report 2022
Aegon Bank N.V.

AEGON | knab

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Report of the Management Board

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Message from the CEO

2022 was in many ways a remarkable year for Knab. Not only did we celebrate our tenth anniversary, we also welcomed a record number of customers. And we strengthened our position as the number one bank for the self-employed. Furthermore, our customers indicated that they were more satisfied with us than ever before.

Financially, the year was marked by rising inflation and interest rates, partly driven by Russia's invasion of Ukraine. After more than ten years of declining and even negative interest rates, the summer of 2022 was a turning point with the ECB announcing interest rate hikes. Lastly, for Knab, 2022 was also the year in which it was announced that Aegon Netherlands (including Knab) would combine their operations with those of a.s.r.. Major news that will lead Knab to an exciting future.

In 2022, we continued to work to position Knab as the number one bank for the self-employed, and that paid off. For self-employed individuals, we have proven that we can really make a difference in their daily lives. Research has shown that one in three entrepreneurs who started a sole proprietorship, opened their business bank account with Knab. This is not only something I am tremendously proud of, the proof is in the eating: our customers have indicated that they are more satisfied than ever before. We ended the year with a business NPS of 42 in the last quarter, with 54% of new customers becoming customers on the recommendation of someone else.

Over the years, 'putting the customer first' has become a commonplace slogan for every self-respecting company. As CEO, I try to ensure that we actually live this promise every day. We do this by using the feedback from our customers as a basis for drawing up the roadmap for the products and features we develop or improve. We also frequently invite customers to our board meetings to really understand how they value our proposition and what we can improve. That is why in 2022, for example, we opened our investment product to self-employed individuals, introduced new types of business insurance and OVpay, and made preparations to be able to offer business loans in the course of 2023.

Our purpose is to make entrepreneurs feel at ease when it comes to their finances. We do so by providing them with easy-to-use products and services, but also by making them financially smarter. We continuously keep them up to date by providing the right information at the right time. In 2022, we added dozens of new articles to our 'Knab Bieb'. Our online library was consulted almost 2 million times during the year. And we organized live webinars that were visited by hundreds – sometimes thousands – of entrepreneurs.

We even took this a step further. Because we have access to an engaged community of self-employed individuals, we conducted numerous surveys on topics important to them, such as compulsory disability insurance. In this way, we strive to support the self-employed and give them a voice in the national media.

I am pleased to see that Knab is delivering on its promises every day. This gives me confidence for the future. I am proud of the net profit we have achieved and of our strategy, which provides compelling evidence that we have a rewarding business model for our stakeholders: our customers, employees, society and our shareholder. 2022 was a great year for Knab and, thanks to our customers we know exactly what we need to focus on in 2023. I can't wait to put that into practice.

Nadine Klokke, CEO of Knab

Knab at a glance

Introduced in 2012 and operating under Aegon Bank N.V.'s banking license, Knab was the first fully online bank in the Netherlands. In 2019, the strengths of the Aegon Bank brand and Knab brand were rolled into one digital bank. Although in 2022 Knab only sold Knab-labeled products and services, we still have a small number of clients with Aegon Bank-labeled products. They continued to be served and will be migrated to the Knab label in 2023.

Aegon Bank N.V. operates under the Knab brand and is hereinafter referred to as “Knab” or “the bank”. Aegon Bank N.V. is a wholly owned subsidiary of Aegon Nederland N.V. ("Aegon Netherlands"), based in The Hague, The Netherlands. Aegon Netherlands is a subsidiary of Aegon Europe Holding B.V. and its ultimate parent company is Aegon N.V. (together with its subsidiaries, “Aegon Group”).

Purpose

Knab's purpose is to make entrepreneurs feel at ease when it comes to their finances. Every day, Knab focuses on digital innovation, excellent customer service, and user friendliness.

Knab's strengths in 2022: customer growth and NPS

Customer growth

Despite global turbulence, Knab continued to grow in 2022. The bank's fee-paying customer base grew to a total of 346,000 (+44,000 customers) and total savings deposits increased by EUR 423m in 2022, thus continuing to support its growth strategy. Knab's customer base consists of 108,000 retail customers and 238,000 business customers. Growth was primarily achieved through the increase in new business account holders (+36,000), while retail also showed steady growth (+8,000). The Aegon Bank label had a total of 104,000 customers at the end of 2022.

Net Promotor Score

Knab's Net Promotor Score (NPS) remained at a high level. For 2022, Knab achieved an average relational NPS of 39 for its business customers and 30 for its retail customers. Knab will continue to listen to the feedback from its customers so as to offer them a superb digital and engaging experience with financial insights that enable them to make smarter financial decisions.

Ambition and propositions

Knab's ambition is to be the number one bank for entrepreneurs. The bank pursues this ambition by offering them an integrated experience, for both their business activities and their personal situation. As an online bank, Knab offers meaningful and understandable products and services within three propositions: convenience today, solutions for tomorrow and financial freedom in the future.

Convenience today is offered by providing easy-to-use products that give financial insights and reduce the administrative burden. In addition to 2021's Apple Pay release, Knab successfully launched Google Pay in May 2022, enabling business and retail customers to make payments with an Apple or Android smartphone – a long-cherished wish of Knab customers. Knab also introduced OVpay. Many more new features and services are in the pipeline, like Knab's own bookkeeping solution.

Knab offers **solutions for tomorrow** by relevant insurances and funding businesses through lending. In 2022 Knab has extended its existing value proposition by launching Business Travel insurance. Another important milestone has been prepared to go to market: since in the beginning of 2023 Knab's first Business lending solution is live.

Knab helps customers plan and achieve **financial freedom in the future** through savings, investment, and pension products. In 2022, the bank launched a new Box 1 savings product and Knab-managed investments for self-employed individuals.

Looking ahead

Engagement is Knab's core capability: digital with a human touch. While being an online bank, it is in Knab's DNA to offer customers a personal and friendly experience, irrespective of the means of communication. This is illustrated by the way in which customers are serviced: human, open, positive and entrepreneurial. In order to ensure and further strengthen its human touch going forward, Knab will continue to develop data and digital enabling competencies. That is to say, doing the right things in the best possible way in the interests of our customers.

Since 2022 Knab has been evolving its business model by diversifying its asset origination by third parties and building its own asset origination. As from 2023, Knab will offer loans, and a strategy will be formulated to offer mortgages for entrepreneurs. In addition to its own asset origination capabilities, Knab will differentiate between asset classes. These initiatives will support Knab's strategic growth by further optimizing and diversifying risk and return on the balance sheet.

The three drivers that will enable Knab to have a future-proof business model are to be the best place to work, to have the IT platform of the future, and conscious risk steering. Being the best place to work is a crucial asset which will help Knab to strengthen its capabilities in terms of talent, leadership, and organizational development even further, as well as maintaining its customer-centric culture. Knab has successfully built and modernized several future-proof components and micro-services of its IT platform. Looking forward, the future platform will be a modern, flexible and cloud-based IT stack, with improved stability and cost efficiency. Conscious risk steering will enable Knab to establish integrated, data-driven risk decision-making, enhance its risk capabilities, and optimizes capital allocation.

Our strategy identifies five medium-term KPIs, which are measured on a yearly basis:
- NPS: target +40 | Knab reached an average business NPS of 39 and ended the last quarter of 2022 with a business NPS of 42
- Customer growth: target 40,000 per year | In 2022 Knab welcomed 44,000 fee-paying customers and our base grew to a total of 346,000
- Cost-to-income ratio of 60% | The cost-to-income ratio of 2022 is with 69% on track with our ambition
- Return on capital of 9% | The return on capital of 2022 is with 6.8% on track with our ambition
- Employee engagement score of minimum 75% | The employee Engagement score improved by 4% compared to previous year to 68%. In 2023 we set this KPI on an ambitions level of 75%

a.s.r. combination

In October 2022, Aegon reached agreement with a.s.r. to combine its Dutch pension, life and non-life insurance, banking (including Knab), and mortgage origination activities with a.s.r.. The combination will create a leading Dutch insurance company. After closing, the management of a.s.r. and Knab will discuss the joint ambitions and plans for the future.

The integration process will be carried out whilst respecting the talents and strengths of the people working for the two organizations. It is expected to be largely completed within three years of the closing. Knab is currently working to disentangle its operations from the Aegon Group in order to keep doing the right things in the best possible way in the interests of our customers.

The proposed combination was approved by the shareholders of a.s.r. and Aegon at an extraordinary general meeting of both companies on January 17, 2023. The envisaged transaction is subject to the satisfaction or waiver (if applicable) of the customary conditions precedent, including receiving the necessary approvals from the Dutch Central Bank, the Dutch Financial Markets Authority, the European Central Bank, and the Dutch Authority for Consumers and Markets.

Turbulent financial markets

Russia's invasion of Ukraine in 2022 caused a humanitarian crisis and also impacted global financial markets, causing significant economic turbulence. Knab closely monitors financial and wider economic developments to understand its exposure to potential threats and works proactively to mitigate the associated risks.

As inflation rates increased significantly, so did interest rates compared to December 31, 2021. Additionally, credit spreads widened compared to December 31, 2021, affecting Knab's revaluation reserve negatively by EUR 55 million. The increase in interest rates led to an increase in the capital required for Interest Rate Risk in the Banking Book ('IRRBB') under Pillar 2. As a result, Knab increased its Total Capital Ratio ('TCR'). Despite these impacts, Knab was able to maintain a strong capital position in 2022, but decided not to distribute a dividend on its net income. Knab's management continuously monitors markets and the economic turbulence and their impact on the bank.

In 2020, during the COVID-19 crisis, credit risk mainly materialized through impairments of unsecured SME and consumer loans. In 2021 and 2022, we saw strong recovery of previously impaired loans as a result of borrowers migrating to government guaranteed lending (early pre-payment of pre-COVID loans), furlough/part-time schemes and tax breaks. Due to these developments, Knab recognized net recoveries of EUR 20 million related to the IFRS 9 loan loss provisions in 2022 (2021: EUR 62 million net recoveries). Please also refer to the financial information in this Management Board report and the loan allowance note in the financial statements.

Credit risk in relation to COVID-19 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 the 'Credit risk management' disclosure in the financial statements.

Given the current macro-economic situation, especially as regards inflation rates and house and energy prices, not all loan impairment models are able to incorporate all these elements. The Knab provisioning committee has therefore concluded that there is a need for a management overlay to compensate for the model performance in relation to these macro-economic uncertainties. Please refer to the chapter on macro-economic considerations in the risk management section of the financial statements.

Developments in Wholesale funding and credit agency ratings

Since November 2022, the Soft Bullet Covered Bond (SBCB) Program has been registered as a 'European Covered Bond (Premium) program' with the Dutch Central Bank ('DNB'), allowing Knab to issue new bonds in the future. Due to this update, no new CPTCB issuances are allowed anymore under the Conditional Pass-Through Covered Bond Program. The outstanding CPT covered bonds are compliant with Article 129 CRR and so are still eligible for LCR purposes.

S&P has revised its CreditWatch outlook for Aegon Bank N.V. from stable to negative because it considers Knab to have a non-strategic group status following Aegon's announcement that it will sell its Dutch-based operation to a.s.r.

Credit ratings	S&P
Knab (Aegon Bank N.V.)	A, negative outlook
SBCB Programme	AAA
CPTCB Programme	AAA
Senior Non Preferred	A, negative outlook
SAECURE 19 (Class A Notes)	AAA

Regulation and supervision

The Dutch financial services sector is subject to supervision under the Dutch 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. Supervision of financial institutions pursuant to the Wft rests with the Dutch Central Bank ('DNB') and the Dutch Financial Markets Authority ('AFM').

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

In 2019, DNB carried out an on-site inspection of the risk management practices related to Aegon Bank N.V.'s investments in loans originated via third-party lending platforms. The inspection led to an instruction ("*aanwijzing*") by DNB for Aegon Bank N.V. to improve its credit risk framework, including its policies and procedures for those loans. To deliver the required improvements, Aegon Bank N.V. developed a 1.5-year roadmap, including a set of defined milestones. The improvements to Knab's credit risk framework include policies and procedures for loans originated via third-party lending platforms. DNB published the instruction on its website on March 7, 2022. Following completion of the road map, Aegon Bank N.V. will continue to assess – and where possible improve – its risk management practices, and discuss these regularly with its supervisor in the ordinary course of business. During 2022, DNB carried out an on-site inspection to review the improvements Aegon Bank had made to its credit risk framework for loans originated via third-party lending platforms. Aegon Bank accepts the findings following the on-site inspection and has taken the decision to cease investing and to put its current unsecured loans through third-party lending into run off. During 2022, Knab divested its CACF and Auxmoney consumer loan portfolios. At December 31, 2022, the exposure on third party lending amounted to EUR 384 million (2021: EUR 867 million).

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

Composition of the Management Board and gender diversity

The Executive Board appointed under the Articles of Association ("Statutory Board") consists of:
- CEO (Nadine Klokke);
- CFO (Mike de Boer); and
- CRO (Tom van Zalen as of March 15, 2023).

They are accompanied on the Management Board by the:
- Daily Use Value Stream Lead (Maartje Cremers, as of April 1, 2022);
- Financial Freedom Value Stream Lead (Krista den Uijl);
- Lending Value Stream Lead (Joost Brouwer, as of April 1, 2022); and
- Chief Technology Officer (CTO) (Han Gerrits).

Statutory Board member and CRO Ebbe Negenman decided to leave Knab as of September 1, 2022. He was succeeded on a temporary basis by Arnoud Kuiper in the role of Management Board member. Knab has appointed Tom van Zalen as the new statutory CRO as of March 15, 2023. Don van Arem resigned as Daily Use Value Stream Lead on March 1, 2022. He was succeeded by Maartje Cremers. On April 1, 2022,Joost Brouwer took on the new role of Lending Value Stream Lead.

Key topics discussed during the 2022 Management Board meetings were Knab's quarterly results and annual report, its strategy, key business risks, IT (including cyber risk),origination and credit management capabilities, regulatory developments, sustainability, human resources, the war in Ukraine, and the inflation and interest rate environment.

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

Remuneration policy

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

Remuneration and scope

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

Variable compensation

On January 1, 2020, Knab abolished performance-related variable pay entirely. No performance-related variable compensation has been granted to members of the Management Board or other Knab employees since 2020. Former members of Knab's Management Board who had been granted variable compensation in the past received deferred shares that vested in 2022. Because of the rule that variable compensation in the form of shares should be deferred evenly over three 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. The vested shares of Identified Staff (granted before variable compensation was abolished) are subject to a 1-year holding period, except for shares withheld to cover payment of any taxes due in connection with the vesting of the shares.

Implementation of remuneration policy

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

The Supervisory Board acts in accordance with the principles laid down in the Regulation on Sound Remuneration Policies under the Financial Supervision Act 2011, the Banking Code, and Aegon N.V.'s Global Remuneration Framework Governance for Risk Alignment of Remuneration Policies and Practices. In 2022, none of the employees received a remuneration in excess of EUR 1 million. This amount is the threshold for reporting under the Dutch Act on Remuneration Policies for Financial Institutions.
For further information on the remuneration of the Statutory Board, please refer to the note Remuneration of the Statutory Board and Supervisory Board in the consolidated financial statements.

Governance

In accordance with Knab's remuneration policy, the Supervisory Board has the following duties and responsibilities: (i) adopt and maintain the remuneration policy; (ii) oversee its implementation to ensure it is fully operating as intended; (iii) approve material exceptions; (iv) propose and oversee the remuneration of the members of the Management Board taking into account the statutory rights of the Shareholder; (v) oversee the remuneration of the heads of internal control; and (vi) ensure that execution of the remuneration policy and procedures is duly and regularly assessed by an independent function.

Financial information

Developments during the year

In 2022, the net result amounted to EUR 32.2 million compared to a net result of EUR 81.6 million in 2021.The decrease in result is for a large part due to the high impairment reversals recorded in 2021 driven by improved forward-looking macroeconomic expectations in 2021 coupled with lower than expected defaults in 2021.

The operational result increased by EUR 28.7 million mainly due to increased fee margin and and interest margin driven by customer growth and increasing interest rates.

Amounts in EUR thousands	**2022**	2021
Operating income	222,239	196,238
Operating expenses	(153,369)	(156,035)
Operating result [1)]	**68,871**	**40,203**
Fair value items	(26,381)	21,979
Realized gains/(losses) on investments	(7,696)	4,317
Net impairment	20,491	62,044
Other income /(charges)	(11,899)	(16,422)
Non-operating Result/(losses) [1)]	**(25,485)**	**71,917**
Result before tax	**43,385**	**112,120**
Income tax	(11,193)	(30,519)
Net result	**32,192**	**81,601**
Return on capital [2)]	6.8%	4.2%
Cost-to-income ratio [3)]	69.0%	79.5%

1 Operating result reflects the profit from underlying business operations and excludes items relating to accounting mismatches that are dependent on market volatility or relating to events that are considered outside the normal course of business. Non-operating Result comprises earnings dependent on market volatility or relating to events that are considered outside the normal course of business. Knab is of the opinion that this non-IFRS-EU measures provides meaningful supplemental information about the operating results of Knab's business.

2 Return on capital is calculated as the operating result after tax (applying a nominal tax rate), divided by average IFRS capital excluding the revaluation reserve. There is no IFRS financial measure that is directly comparable to return on capital. Knab is of the opinion that return on capital provides meaningful information about the performance of its business.

3 The cost-to-income ratio is calculated as operating expenses divided by operating income as defined in the operating result before tax measure. There is no IFRS financial measure that is directly comparable to the cost-to-income ratio. Knab is of the opinon that this ratio provides meaningful information about the performance of its business.

General

The bank reported an increase in savings of EUR 0.4 billion, driven by the continuous growth of Knab's customer base. Borrowings increased by EUR 0.8 billion during 2022. Knab did not issue any new debt; the change in borrowings is related to the cash collateral received on interest rate derivatives, which increased significantly in value as a result of increased interest rates.

The unsecured loan portfolio decreased by EUR 0.4 billion mainly due to strong redemption levels across the portfolios. During 2022, Knab divested its CACF and Auxmoney consumer loan portfolios. Mortgages decreased by EUR 0.3 billion as a result of two offsetting effects: a decrease of EUR 1.1 billion relating to the effects of hedge accounting, driven by the increase in market interest rates during 2022, partly offset by an increase in volume of the mortgage portfolio by EUR 0.8 billion.

Operating income

Net interest income improved by EUR 19.8 million compared to 2021. The increase in interest income was mainly driven by changes in interest rates resulting in a higher income on our derivatives and cash positions. This is partly offset by lower income on mortgages and unsecured loans. Due to the organic growth in fee-paying Knab customers and price increases the fee margin increased by EUR 6.2 million.

Operating expenses

Total operating expenses decreased by EUR 2.7 million to EUR 153.4 million, primarily due to lower investment expenses as a result of the decrease in the unsecured loan portfolio.

Operating expenses include regulatory fees in relation to the Deposit Guarantee Scheme and the Single Resolution Fund. In 2022, these fees amounted to EUR 17.3 million (2021: EUR 18.2 million).

Overall, the cost-to-income ratio improved from 79.5% to 69.0%.

Fair value items

The result on fair value items decreased by EUR 48.4 million, mainly driven by the hedge ineffectiveness of our hedge accounting program. Although hedge accounting is applied, an ineffective portion remains recognized in profit and loss due to the basis risk to which Knab is exposed. For 2022, the fair value change of interest rate swaps in the hedging program amounted to EUR 1.1 billion (2021 EUR 0.3 billion); after hedge accounting this resulted in an ineffectiveness amounting to -/- EUR 16.2 million (2021 EUR 33.8 million).

Net impairments

Knab recorded a net impairment gain of EUR 20.5 million (2021: impairment gain of EUR 62.0 million), driven mainly by redemptions and good portfolio performance.

Operating result before tax reflects management's best estimate of the investment return on consumer loans and SME loan investments (net of expected impairments). Of the total IFRS 9 net impairment gain of EUR 3.4 million (2021: impairment gain of EUR 24.8 million), an impairment charge of EUR 17.1 million was reported under operating result (2021: EUR 37.2 million).

Other income/charges

Total other charges improved by EUR 4.5 million to EUR 11.9 million, driven by lower expenses for Knab's regulatory projects offset by higher expenses related to the building of Knab's lending business.

Regulatory requirements

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

	2022	2021
Common Equity Tier 1 ratio	22.0%	20.7%
Total Capital Ratio	22.3%	21.0%
LCR	223%	202%
NSFR	153%	142%
Leverage ratio	4.2%	4.5%
Asset Encumbrance ratio	16.9%	20.0%

Capital

In 2022, the company's total IFRS capital decreased by EUR 23.1 million driven by its net profit of EUR 32.2 million, offset by a EUR 54.8 million decrease in the revaluation reserve due to sharp increase in interest rates.

The Total Capital Ratio increased by 1.2%, driven by a decrease in total risk exposure (TREA) of EUR 321 million to EUR 3.2 billion. The decrease in TREA mainly resulted from lower exposures in the investment portfolio and a lower exposure to unsecured loans, partly offset by an increase in the mortgage portfolio. Tier 1 capital decreased by EUR 28.4 million to EUR 704.8 million.

The Common Equity Tier 1 ratio rose from 20.7% to 22.0%, while the Total Capital Requirement increased from 12.0% to 12.2% (on a consolidated level, on solo level the TCR remained 12.0%).

Leverage Ratio

The Leverage Ratio is a regulatory capital adequacy measure under CRD IV/CRR. Leverage is defined as the relative size of an institution's assets and off-balance sheet liabilities as compared to the institution's own funds. It is calculated as an institution's capital divided by its total non-risk weighted exposures, expressed as a percentage. Knab met the internal minimum requirement of 4% for 2022 and the external minimum requirements. At December 31, 2022, the leverage ratio was 4.2% (2021: 4.5%), driven by lower Tier 1 capital and lower leverage exposure, chiefly driven by the decrease in unsecured loans.

Funding and liquidity

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

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) is the requirement that banks must have enough (extremely) high-quality liquid assets in their liquidity buffer to cover the difference between the expected cash outflows and expected capped cash inflows over a 30-day stress period. The numerator of the LCR represents the liquidity buffer, i.e. the amount of adjusted liquid assets that a credit institution holds. The denominator of the LCR represents the net liquidity outflows over a 30-calendar day stress period, which is the sum of liquidity outflows reduced by the sum of capped liquidity inflows. The LCR increased from 202% to 223%, due to higher liquid assets, partly offset by higher expected net outflows. The LCR ratio remained above the external and internal limits.

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is the requirement that banks must have enough stable funding to support their assets and activities. The NSFR, based on a 1-year horizon, is calculated by dividing the available amount of stable funding by the required amount of stable funding. The NSFR increased by 11 percentage points to 153% mainly due to a decrease in the required amount of stable funding resulting from the decrease in unsecured loans.

Asset Encumbrance Ratio

An asset is treated by Knab as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn. The Asset Encumbrance Ratio (AER) is related to liquidity risk because elevated encumbrance means that there are fewer assets available for liquidation or capable of being pledged when needed. In 2022, the AER decreased by 3 percentage points to 17%, driven mainly by the increase in the Bank's balance sheet.

Main risks and uncertainties

General

Knab is exposed to a variety of risks, such as financial risks, non-financial risks (operational and compliance risks) and strategic risks, such as climate-related and environmental risks. However, as a financial institution offering banking services and thus from a financial perspective, Knab is primarily exposed to credit risk, interest rate risk, liquidity risk, and other market risks.

Risk framework

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

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

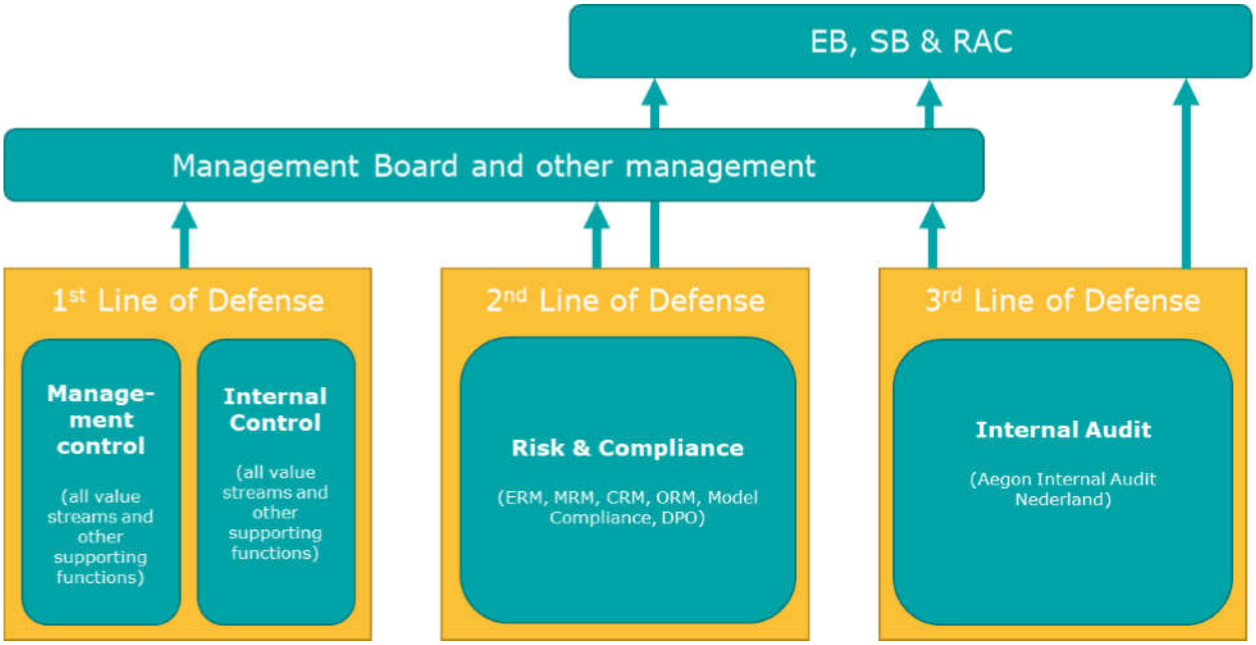
The ERM Framework is only effective when there is a sound and consistent risk culture in place throughout the whole organization. Knab therefore follows the guiding principles for an outstanding risk culture, as part of its purpose-led and value-driven organizational culture. Complementary to the ERM Framework, Knab's Risk Appetite Framework sets Knab's risk profile and forms part of the process of development and implementation of Knab's risk strategy and determination of the risks undertaken in relation to Knab's risk capacity.

Three Lines of Defense

The Chief Risk Officer (CRO) has primary responsibility within the Management Board for adopting, implementing and monitoring the overall risk policy. The overall policy on risk appetite and risk tolerance has been confirmed by the Management Board and approved by the Supervisory Board, and is reviewed and updated annually or earlier if necessary.

The Supervisory Board supervises the risk policy adopted by the Management Board. At a strategic level, it assesses 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 determines whether Knab's commercial activities are generally appropriate within the context of its risk appetite.

Knab's Risk Management function is embedded within the organization based on the 'three lines of defense' model. This includes the business as 'the first line of defense', the Risk & Compliance function as the 'second line of defense', and the internal audit function as the 'third line of defense'. Each line has a specific role and defined responsibilities such that the execution of tasks is separated from the control of those same tasks. At the same time, the lines of defense must work closely together to identify, assess, and mitigate risks.



First line of defense – the business teams

The first line at the bank has primary responsibility for performance, operations, compliance and effective control of risks affecting the business. Knab's business includes the origination of deposits and other products, such as buying portfolios of mortgages or consumer loans from other financial parties, within applicable frameworks and limits set by the Executive Board (and Supervisory Board). The first line knows the bank's clients well and is well-positioned to act in the clients' best interests without losing sight of the bank's own interests. Management within the first line is responsible for management control, consisting of activities to ensure that the behaviors and decisions of people within the teams are consistent with the organization's objectives and strategy.

The first line of defense consists of the business departments and value streams. The managers are responsible for managing the risks arising from the activities performed by their departments and for implementing internal controls. They own the business processes in their departments and are responsible for identifying the key risks in their departments and processes by performing Risk Control Self Assessments. Furthermore, they are responsible for drawing up process descriptions and work instructions and designing and executing controls and monitoring procedures to ensure that any residual risk (after implementation of the controls) remains within the risk appetite. They are also responsible for ensuring that controls are designed and implemented in line with Knab's policies.

Second line of defense – Risk & Compliance

The second line of defense consists of oversight functions with a major role for the risk management organization under responsibility of the Chief Risk Officer. The second line adopts an integrated, holistic approach to organization-wide governance, risk and compliance. This is to ensure that Knab acts ethically and in accordance with its risk appetite and internal policies and external regulations, by aligning its strategy, processes, technology and people and so to improve the bank's efficiency and effectiveness.

The purpose of Knab's risk management function is to support our ambition to help our clients protect and grow their businesses and wellbeing by offering meaningful, understandable, and easy-to-use products and services for convenience today and solutions for tomorrow.

Third line of defense – Internal Audit

The internal audit function is performed by Internal Audit Nederland (IAN), based on an outsourcing agreement and a service level agreement. The objective is to assist management in protecting Knab's assets, reputation and sustainability by independently and objectively evaluating the design, implementation and effectiveness of Knab's internal controls, risk management and governance processes. IAN annually prepares a risk-based audit plan and identifies and makes recommendations to ensure that any issues are effectively addressed.

IAN executes its duties freely and objectively in accordance with the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the Internal Auditors' International Standards (International Professional Practices Framework (IPPF), the Definition of Internal Auditing of the Institute of Internal Auditors (IIA), and Aegon's own policies and (global) audit procedures.

Knab's Internal Audit charter and annual audit program provide that a systematic audit function is conducted by IAN. IAN reports directly to Knab's Executive Board.

Risk governance

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

Risk Management at Knab is responsible for:

- Implementing and maintaining the ERM Framework;
- Identifying, monitoring, analyzing, measuring, managing and reporting on risks;
- Forming a holistic view on risks on an individual and consolidated basis;
- Challenging and assisting in the implementation measures by the business in order to ensure that the processes and controls in place are properly designed and operating effectively; and
- Establishing and maintaining policies and processes to manage risks and ensure compliance.

Compliance at Knab is responsible for:

- Monitoring compliance with legal requirements and internal policies;
- Providing advice on compliance to the Management Board and Supervisory Board, as well as other relevant staff; and
- Establishing and maintaining policies and processes to manage risks and ensure compliance.

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

The Risk Management & Compliance function can escalate a situation to the Supervisory Board if it considers that any particular business activities present unacceptable risks to Knab. The key risks resulting from the bank's business model are managed by dedicated and specific risk management teams under the responsibility of Lead Risk Managers reporting directly to the CRO. The following 2nd line risk teams are in place at Knab:

- Enterprise Risk Management;
- Market Risk Management;
- Credit Risk Management;
- Operational Risk Management;
- Model Risk Management;
- Compliance, and
- Privacy (Data Protection Officer).

Risk culture

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

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

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

Strategic risks

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

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

During 2022, several initiatives were launched to strengthen Knab's business model and to manage the a.s.r. integration, which is expected to be completed in the second half of 2023. Also, further risk identification, especially through scenario design and analysis, was performed in terms of climate policy and market sentiment risk, which could potentially impact Knab's reputation in the market space.

Knab was not itself involved in asset origination in 2022. Its asset strategy therefore focused on investing in mortgages (from Aegon Hypotheken and Robuust) and debt securities, whilst winding down the (3rd party platform) unsecured loan portfolio. By the end of 2022, Knab had completed the set-up of its business lending proposition, which went live in February 2023 and is intended to generate stable profits and improve the return on capital.

To enhance stable profitability, several initiatives continued into 2022, including operating cost reductions. Furthermore, investments were made and budgeted for in relation to programs to strengthen credit risk and IRRBB management and to continue the IT migration projects. In the long term, these investments are expected to lead to even further cost reductions, efficient IT and business operations, and more effective and efficient risk management.

Sustainability

Sustainability has been defined as a strategic risk category. Knab can play a vital role in the financial supply and demand for self-employed individuals and small and medium-sized enterprises (SMEs). Knab will also take appropriate action when business activities may have significant social or environmental impacts that are irreversible or unprecedented.

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

In 2022, Knab has implemented multiple measures and activities regarding climate-related and environmental risks (ECB's 13 expectations):

- As part of the wider regulatory & compliance track for sustainability, a project team was established to follow up on the ECB's guidance regarding climate-related and environmental (C&E) risk management;
- Reiterated and strengthened sustainability strategy, including communication workshops with game changers;
- Risk appetite limits for credit risk updated to reflect climate & environmental risk limits, as well Health Metrics (HM) and Key Result Indicators (KRIs);
- Risk analysis workshops to map C&E risk events in terms of likelihood and impact for C&E scenario design (introduced as part of the 2023 Supervisory Review and Evaluation Process); and
- Sustainability program governance strengthened by identifying regulatory/compliance (track 1) implementation and brand/company (track 2).
- Finally, a roadmap was drawn up with events and activities in 2023 designed to address each of these expectations.

Climate-related & environmental risks

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

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

Following the materiality assessment of climate & environmental (C&E) risk identification we identified the following severity for the key risk categories:

- Credit risk – low: Knab's primary C&E risks relate to credit risks created by Dutch retail mortgages (~74%), debt securities (~11%), and unsecured consumer & SME loans (~7%). In 2022, the mortgage portfolio had an average LTV of ~52%, and >57% of the portfolio is NHG-guaranteed. Due to this build-up of the mortgage portfolio, stress testing shows low impact, even with severe climate scenarios. The maturity of debt securities and unsecured loans averages 5 and 2 years, respectively, resulting in low expected credit risk, due to the longer time horizon over which climate risks are expected to materialize in terms of credit risk impact (5 to 10 years, and sometimes even longer).
- Reputational / liability risk – limited: The C&E risks in relation to reputation or liability are mainly expressed in relation to expectations from society and our customers. These risks mainly relate to the services we deliver to our clients (e.g. bank and savings accounts and business lending in 2023). Knab could potentially lose clients if we do not sufficiently meet their sustainability expectations. We are currently performing in line with market practices and so we have assessed the current risk to be low.
- Business model / strategic risk – limited: Knab's current strategy (towards 2025) is based on an asset & liability strategy to realize origination of assets. Because own origination will provide new business for Knab, we will inherently follow the risk committees and risk processes in which C&E drivers and related risks will be assessed and monitored. ESG factors are clearly an important strategic focus area for Knab, in relation to which we want to follow societal expectations for C&E factors and be more of a frontrunner with regard to social factors.
- Market risk – limited: Knab has limited exposure to debt securities which score low in terms of green investments. The general appetite in the market for such debt securities can become limited, which will impact Knab directly via Other Comprehensive Income.This issue will resolve itself when these securities reach maturity (expected time horizon of between 1 to 5 years).

Financial risks

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

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

Regarding IRRBB management, Knab aims for a neutral interest rate position, applying a straightforward hedging strategy using interest rate swaps. Knab uses derivatives for hedging purposes only, i.e. for its interest rate risk and foreign currency exposures. Hedge accounting is applied to minimize the IFRS P&L impact of using derivatives.

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

Non-financial risks

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

Compliance risks

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

The Compliance function's remit 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 how the organization is designed. With this approach, Compliance contributes to Knab's overall purpose – "Feel at ease when it comes to your finances. Every day". This means that the Compliance function must be pro-active, data-driven and in line with the business strategy. Its objective is to manage all compliance risks, more specifically by:

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

Operational risks and Fraud risk

Knab defines operational risk as the risk of losses arising from inadequate or failing internal processes and controls (including segregation of duties), people and systems, or external events. Within operational risk management, the focus lies on process risk, HR risk, IT risk and Third Party Risk Management. Knab's strategy of growing its business and strengthening its IT foundation by outsourcing non-differentiating IT activities necessarily means that the number of third parties will increase. For a relatively small organization such as Knab, with many activities being outsourced, the corresponding outsourcing risk remains a focus of attention. In parallel, a range of mitigating measures have been put in place to address this risk.

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

One of Knab's key priorities is to combat fraud. We annually perform a Systematic Integrity Risk Analysis (SIRA) to assess our vulnerabilities to fraud, amongst other things. The risk that Knab will become exposed to internal fraud is reduced through employee screening and training. Pre- and in-employment procedures ensure the integrity of our employees. Controls such as internal training and awareness are in place. The code of conduct is signed by each employee and periodically brought to their attention.

With regard to external fraud, the biggest risks we see for our customers are phishing and spoofing attempts. During 2022, we implemented various solutions to enable our clients to reduce the number of fraud cases (for example, customers are prevented from transferring while calling). In 2023, we will continue these efforts by implementing real-time fraud monitoring, which we expect will further minimize these risks.

To ensure further improvement in the area of monitoring and controlling operational risks in all operational risk areas, one of the focus points in 2022 was the selection and acquisition of a new governance, risk and compliance tool. The right GRC tool will support integrated risk management, enable us to aggregate risks, perform analyses, detect trends, and by doing so enable us to improve risk prioritization and mitigation. In 2023, the focus will shift to getting the selected tool implemented and working across the organization.

Pending litigation, portfolio and product-related issues

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

In the normal course of business, processes and procedures are reviewed to ensure that customers have been and will be 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.

Lawsuits have been brought against providers of securities leasing products ('aandelenlease producten'). Although sales of securities leasing products ended more than a decade ago, litigation relating to these products has resurfaced. In December 2020, Aegon Bank N.V. reached an agreement in principle on a settlement with Leaseproces B.V. for claims regarding "Vliegwiel" and "Sprintplan" customers represented by Leaseproces. On June 4, 2021, Aegon Bank N.V. and Leaseproces B.V. announced that they had finalized their agreement to settle these claims. On September 13, 2021, the parties announced that more than 90% of customers had agreed to the settlement, meaning that the last remaining threshold was met. By the end of the response period, 99.7% of "Vliegwiel" customers and 94.5% of "Sprintplan" customers had agreed to the proposed settlement. Full performance of the agreement ended in 2022. There are still some individual claims pending before the courts and the Dutch Institute for Financial Disputes (Kifid).

Corporate Governance

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

Supervisory Board

Composition and expertise

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

In July 2022, Eric Drok replaced Paul de Kroon as Chair of the Supervisory Board. Eric Drok also chairs the Nomination and Remuneration Committee. Gabrielle Reijnen stepped down as of January 9, 2023. Constant Korthout has temporarily been appointed as an independent member and chair of the Risk and Audit Committee.

Duties and working methods

The Supervisory Board's responsibilities and governance are set out in Knab's new Corporate Governance Charter. The Charter includes the regulatory governance requirements applicable to Knab as a bank, as well as the best practice provisions from the Dutch Banking Code and Dutch Corporate Governance Code. In 2022, the members of the Supervisory Board and Management Board took part in the Continuing Education program. This program covers national and international developments in the financial sector, corporate governance in general and in the financial sector in particular, ICAAP and ILAAP, the duty of care to customers, putting customers' interests first, integrity, risk management, and financial reporting and audits. The continuing education program for Supervisory Board members focuses on the following subjects:

- IT security;
- Three lines of defense;
- Anti money laundering and sanctions regulations;
- Outsourcing and the impact of behavior; and
- Sustainability.

The annual self-assessment performed by the Supervisory Board took place in December 2022. The Supervisory Board assessed the need to grow from 3 to 5 members in 2023. In November 2022, the Supervisory Board set up a new committee, the Nomination and Remuneration Committee, and amended the scope of the Audit Committee to that of a Risk Compliance and Audit Committee. Both Committees provide support to the Supervisory Board and prepare Supervisory Board decisions within their respective fields of responsibility.

Statutory Board appointed under the Articles of Association

Composition and expertise

Knab's Statutory Board appointed under the Articles of Association consists of the CEO (Chairman) and CFO (Financial Director). With their wide-ranging experience and skills, they together constitute a well-balanced and expert board. The CRO (Risk Director), who in this role is a member of the Statutory board, decided to leave Knab as of September 1, 2022. Knab has appointed Tom van Zalen as its new statutory CRO as of March 15, 2023.

Duties and working methods

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

Oath or pledge in the financial sector

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

Sustainability

At Knab we realize that, as a financial institute, we have a big impact on the lives of people and the world around us. We want to take responsibility and play a role in achieving the global sustainable development goals. Our sustainability objective is aligned with our strategy, purpose and values.

Our objective is: to make it a better place.

We want this for our own generation and generations to come. We do this by primarily focusing on social factors of the ESG-spectrum. This is in line with our origin story. We are built on the conviction that the financial world must do things differently. As Knab, we provide access to finance and easy-to-use daily banking and wealth propositions for a secure financial future.

To make the world a better place, we approach inclusion, equal access to financial services & literacy, and CO_2 reductions from three angles:
- Knab Internal;
- The Netherlands; and
- Global.

Knab – Internal

- Within Knab everyone feels accepted and valued and can be their true self -

Our people are who make us Knab. They help our customers via our app, over the phone, through our online chat platform, or share their knowledge in other ways. Knab's professionals come from different countries, have diverse cultural and educational backgrounds, identify with different genders (or don't) and have unique life stories. Not only do we believe that fostering a workplace where everyone can be their true self is the right thing to do; we also believe that this make us stronger as a company.

In 2022, we increased the percentage of women in leadership positions from 27% to 37% and focused our efforts on increasing the number of women in tech positions. Also, we implemented multiple initiatives to reduce hiring bias, for instance by discarding academic requirements for open vacancies. We also organized three ValYou days: a day away from our computer monitors and the daily grind. During those days, we focused on connecting with our colleagues and values and disconnecting from our daily work.

Make it a better place - The Netherlands

- Knab removes complexity for self-employed and small business owners in the Netherlands -

With personal service, clear information, and smart algorithms and products and services, Knab removes complexity for self-employed individuals and small business owners. We believe that armed with good insights into - and a firm grip on - their finances, entrepreneurs can make informed choices.

By constantly engaging with entrepreneurs Knab learns more about their situation, ideas and opinions on financial topics. We share the outcomes of our customer surveys with the wider public through the 'Knab Bieb' and publications. In this way, we make the voice of the entrepreneur heard. In 2022, 70 articles were added to the 'Knab Bieb', an online library with over a thousand articles. During the year, the library was consulted almost 2 million times.

Knab frequently organizes events, both online and offline, about a range of financial topics. Popular themes include tax brackets and rates, the government's budget plans ('Prinsjesdag'), and expert master classes.

Knab offers tools for this, such as the 'VAT savings' tool introduced in 2022, which allows entrepreneurs to automatically transfer their incoming VAT to a savings account. In addition, using the Smart Balance Management facility, customers can automatically withdraw excess funds from their checking account or settle an overdraft from their savings account.

We believe financial literacy is important for everyone and has to start at a young age. During the Dutch Money Week, Knab employees taught classes at primary schools to raise children's financial awareness around insurance and other financial topics.

On Volunteering Friday, Knab promotes volunteering work. These activities are all organized within local communities

Make it a better place - Global

- Knab aims to reduce carbon emissions from its own operations and its investments -

Knab believes in a concerted approach to tackling the climate-related and environmental issues the world is facing. Through its parent companies, Aegon Nederland and Aegon N.V., Knab has committed itself to several initiatives designed to combat environmental and climate change. Knab is an active member of Aegon Nederland's Responsible Investment Committee, which monitors Aegon Asset Management's investment portfolios and Aegon Hypotheken's mortgage portfolio. These portfolios include Knab's debt securities portfolio and mortgage portfolio. In 2022, Aegon Nederland redefined its targets for reducing the carbon footprint of all its investments (including Knab's). The main change in terms of target setting was the adjustment to use 2019 as base-year, consistent with Aegon N.V.'s strategy.

Carbon footprint of Knab's operations

As an online bank, Knab has a limited carbon footprint from its own operations. We operate from a single office in Amsterdam and have adopted a fully hybrid way of working, thereby reducing travel by our employees. Although our carbon footprint is limited, we are looking for ways to further reduce it.

Aegon N.V. monitors the carbon footprint of its own operations on a global level. Because it is not possible to decarbonize all of its operations locally, the company is participating in a number of projects to ensure that on aggregate our footprint is net zero. These offsetting projects are domiciled in Brazil, India, and Turkey.

Responsible business/investment policy

At Knab, we recognize our responsibility to ensure that our investments do not negatively impact society or the planet. We apply this ethos to our own proprietary investments and use our influence to encourage similar standards in the customer investment accounts we manage. By taking an active approach to responsible investment, we seek to minimize risks to our business and explore ways to serve the interests of our customers and society at large. Knab endorses Aegon's Responsible Investment Policy, recognizing a broad range of recurring sustainability and ESG topics, from climate change to health and corporate governance. This Responsible Investment Policy is updated on a regular basis to reflect new insights and our continuing strive to increase impact. In November 2021, our parent company, Aegon Nederland, took an important step when it committed itself to transitioning our investment portfolio to net-zero greenhouse gas emissions by 2050. In December 2022, Aegon Nederland followed through with its Climate Action Plan, detailing our approach to measuring, setting targets for, and taking action to reduce GHG emissions from our own operations as well as our investments.

Progressive insights gained by Aegon Asset Management, which handles our bond portfolios, through engaging with the companies we invest in and research together form the basis for narrowing down the scope of companies we want to invest in. Excluded investments include companies which derive some of their revenues from coal or tar and oil sands.

Carbon footprint of investments

At Knab, we believe it is important to measure our impact on the environment so that we can take positive steps to mitigate it. We are focusing our efforts on measuring and reducing the greenhouse gas emissions (and CO_2 emissions in particular) associated with our investments.

During the year, we continued to make progress in terms of measuring CO_2 emissions from our investments. As a bank, Knab holds significant investments. We believe it is important that we measure and disclose emissions that are indirectly associated with our investments. By measuring the greenhouse gas emissions associated with our investments, we hope to provide insights into the environmental impact of the various companies we help finance.

Working closely with Aegon Asset Management and Aegon Hypotheken, Knab has made further efforts to measure the carbon footprint of the investments on its balance sheet. To measure CO_2 emissions associated with our investments, we use the Partnership for Carbon Accounting Financials (PCAF) recommendations. We will continue to refine the methodologies for calculating GHG emissions from different asset classes, as new methodologies become available and we gain additional insights into the data. The analysis below covers around 84% of our balance-sheet assets as at December 31, 2022 (compared to 86% at December 31, 2021).

Asset class (unaudited)	Value	Carbon footprint (tCO_2e)	Coverage	Relative intensity (tCO_2e/ EURm)	Weighted-average carbon intensity (tCO_2e/ EURm revenue)
Cash	2,737	-	100%	-	-
Sovereign bonds	406	65,300	66%	240	180
Corporate credits	580	54,728	82%	115	242
Mortgages	11,638	189,900	96%	17	
Unmeasured assets	1,599		Not yet measured		
Total	**17,567**	**309,928**	**84%**	**21**	

Despite all the progress made in recent years, we are still not yet able to measure the CO_2 emissions for all our investments. Our goal is to further increase the proportion of investments whose CO_2 emissions can be measured in the coming years, as both industry measurement standards and our own capabilities continue to develop. Where needed and possible, we will also re-measure and re-state historical financial information to allow a more accurate comparison of changes in CO_2 emissions from one period to another.

Mortgages are by far Aegon Bank's largest asset class, consisting solely of residential Dutch mortgages. An energy efficiency label was available for 95% (2021: 96%) of the collateral. The carbon footprint of Aegon Bank's residential mortgage portfolio has been calculated on the basis of the energy label information available from the Netherlands Enterprise Agency (*Rijksdienst voor Ondernemend Nederland*) and average residential energy consumption. At December 31, 2022, the total footprint for mortgages was estimated to be 190,527 tCO_2e (2021: 191,032 tCO_2e), with an approximate average energy rating label of C (2021: C). In line with industry practice and based on PCAF agreed measures, we have adjusted the portfolio's footprint for the financed share of the invested amount (LtV). The overall energy label distribution for residential mortgages was as follows:

Energy Label	A	B	C	D	E	F	G
2022	21%	14%	29%	10%	8%	9%	10%
2021	20%	15%	30%	10%	8%	9%	10%

Outlook

Developments

In October 2022, Aegon N.V. announced that it had reached an agreement with a.s.r. to combine its Dutch pension, life and non-life insurance, banking, and mortgage origination activities with a.s.r. The combination will create a leading Dutch insurance company.

On January 17, 2023, the Extraordinary General Meeting of shareholders ("EGM") of Aegon N.V. has approved the proposed transaction. Furthermore, the works council of Aegon has rendered a positive advice in relation to the proposed transaction. The transaction is subject to customary conditions, including regulatory and antitrust approvals, and is expected to close in the second half of 2023. Aegon Nederland set up a program to disentangle its' operations from Aegon N.V. and to be able to operate Aegon Nederland and its' subsidiaries (including Knab) as a standalone company. Additionally, KNAB and a.s.r. will liaise on the impact and consequences of the new business combination on the entire value chain of Aegon Hypotheken, as soon as this is permitted according to regulatory restrictions.

Our strategic ambition is to become the number one bank for entrepreneurs. We plan to do so by offering an integrated experience for our customers, combining their business and private financial matters. Our value propositions will focus on 1) money management to help our customers control their finances, and 2) offering relevant products and services that meet customer needs (e.g. by offering relevant insurance and by funding businesses through lending).

In Q1 2023, our first Business lending solution went live with its first loan disbursements and an average loan size of around 20K per loan. Our current proposition focuses on existing Knab customers.

The financial sector has been undergoing major change over the last few years, due in part to economic developments, but also because of demands from customers, legislators and regulators. This trend is expected to continue in 2023. Our proposition will remain centered around Knab's core capability: digital with a human touch.

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

Post-reporting date events and expectations

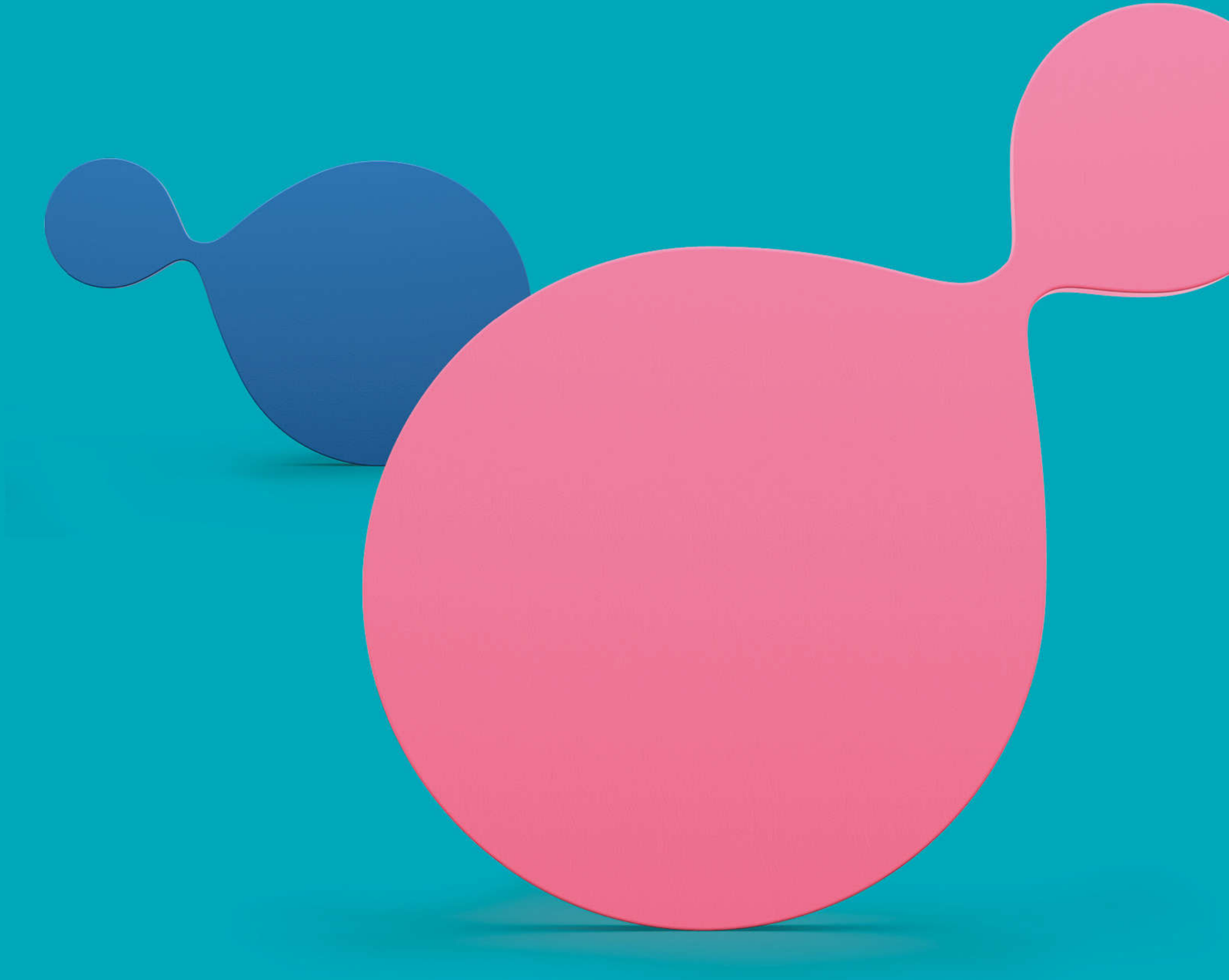
In March 2023 Orange Loans B.V. (a subsidiary of Knab) and Zopa bank reached a loan portfolio sale agreement. Based on the agreement Orange Loans sold the performing part of the Zopa portfolio for a consideration of EUR 43.6 million resulting in a small loss. The remaining part of the ZOPA portfolio amounted to EUR 0.7m as per March 31, 2023.

Amsterdam, April 20, 2023

Statutory Board:

Nadine Klokke
Mike de Boer
Tom van Zalen

Report of the Supervisory Board



Report of the Supervisory Board

Duties

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

Composition of the Supervisory Board

The current members of the Supervisory Board are Eric Drok, Constant Korthout and Wim van de Kraats.

Eric Drok was appointed as a new independent member and Chairman of the Supervisory Board in July 2022 to replace Paul de Kroon. Constant Korthout succeeded Gabrielle Reijnen as an independent member and Chair of the Risk Audit and Compliance Committee in February 2023. We are grateful to Gabrielle and Paul for their insights and important contributions to Knab and the Supervisory Board.

Activities of the Supervisory Board

During its regular quarterly meetings, the Supervisory Board discussed recurring topics such as managing the impact of Knab's strategy, capital, and funding (including ICAAP and ILAAP), risk and compliance, audit, finance, modelling, remuneration, KYC, governance, consumer loan platforms, credit and interest rate risk, security and fraud, the Supervisory Board communications, technology, data, and innovation. In addition, an update on major projects was provided at each meeting. These projects concerned matters relating to, for example, risk management, KYC, and IFRS9. Beyond the regular meetings, additional Supervisory Board meetings were held regarding regulatory topics, the annual report, dividend, composition, IRRBB, and the Supervisory Board's self-assessment. In addition, frequent bilateral meetings took place between Supervisory Board and Management Board members.

In 2022 the composition of the Executive Board was changed. Ebbe Negenman(CRO) left the company on September 1. Arnoud Kuiper was appointed as CRO on an interim basis. On March 15, 2023, Tom van Zalen was appointed as Knab's new CRO and Executive Board member. We thank Ebbe Negenman and Arnoud Kuiper for their contribution to the CRO domain and are looking forward to working with Tom van Zalen as our new CRO.

Risk Audit & Compliance Committee

The Risk Audit & Compliance Committee (RAC) comprises Constant Korthout (chair), Wim van de Kraats and Eric Drok.

The RAC performs the preparatory work for supervising the Management Board regarding the implementation, maintenance and operation of Knab's risk management systems and risk appetite, finance and external audits, internal audit, AML sanctions, and regulatory compliance. The Risk Audit & Compliance Committee also monitors compliance with laws and regulations and the procedures for preparing and adopting the financial statements. The RAC met five times in 2022.

Nomination & Remuneration Committee

In November 2022, the Supervisory Board established a Nomination & Remuneration Committee. Eric Drok was appointed as Chair, Wim van de Kraats and Gabrielle Reijnen were appointed as members. Constant Korthout replaced Gabrielle Reijnen as a member of the NRC in February 2023. The NRC assists the Supervisory Board in performing their responsibilities regarding remuneration, nomination and succession planning for Executive and Supervisory Board members.

The NRC has been tasked with ensuring that the remuneration policy is consistent with the principles in the Regulation on Sound Remuneration Policies under the Dutch Financial Supervision Act 2011 and remuneration requirements under the Capital Requirements Directive IV (CRD IV). In addition, the policy is in line with various remuneration guidelines, technical requirements and standards issued by the European Banking Authority and applicable to banks within the European Economic Area (EEA), as endorsed by the European Commission (EC).

Self-assessment

The Supervisory Board’s annual self-assessment took place in December 2022. The subjects reviewed included its performance, completion of the actions defined during the previous year's annual self-assessment, and observations regarding its composition, governance, stakeholder relations, functioning, and role regarding strategy. As a result, the Supervisory Board assessed that there is a need for expanding the Supervisory Board to be able to handle the increased workload, enhance diversity, and provide broader in-depth expertise to support Knab’s growth. The Supervisory Board will also increase its meeting frequency.

In 2022, the Supervisory Board took part in a continuous education program. This program covered a variety of subjects as set out in the Management Board report. The continuous education program was assessed and found to be helpful.

Appreciation for our staff and Management Board

The continued impact of COVID-19 in 2022 and Russia’s invasion of Ukraine more recently show that we live in extraordinary times. Under the stewardship of the Management Board, our employees have worked relentlessly to serve Knab’s customers and other stakeholders professionally, irrespective of the circumstances, never forgetting the core value of being human first and foremost. As reflected in this annual report, the team’s commitment to delivering results and its parallel strategic focus on offering long-term value propositions for its customers and communities will be critical drivers for the bank’s long-term success. As Supervisory Board, we take pride in serving such an inspiring team.

Amsterdam, April 20, 2023

Eric Drok
Constant Korthout
Wim van de Kraats

Aegon Bank N.V.'s Consolidated Financial Statements 2022

Consolidated Financial Statements

Consolidated statement of financial position

for the year ended December 31, 2022

Amounts in EUR thousands

	Note	31-12-2022	31-12-2021
Assets			
Cash	5	2,616,208	859,629
Amounts due from banks	6	120,570	130,030
Mortgage loans and other loans	7	11,977,021	13,042,215
Financial assets measured at fair value through other comprehensive income	8	1,069,068	1,772,421
Derivatives	9	1,636,101	211,860
Intangible assets	10	3,690	-
Other assets and receivables	11	144,389	133,976
Total assets		**17,567,048**	**16,150,130**
Equity and liabilities			
Savings deposits	12	12,009,165	11,586,074
Borrowings	13	3,805,062	2,988,586
Derivatives	9	799,675	477,076
Net deferred tax liabilities	14	57,719	80,744
Provisions	15	1,181	10,248
Other liabilities and accruals	16	182,125	272,167
Total liabilities		**16,854,926**	**15,414,895**
Equity	17	712,122	735,235
Total equity and liabilities		**17,567,048**	**16,150,130**

Consolidated income statement

for the year ended December 31, 2022

Amounts in EUR thousands	Note	2022	2021
Income			
Interest income calculated using the effective interest method	18	328,975	371,099
Interest expense calculated using the effective interest method	18	(69,563)	(73,997)
Other interest expenses	18	(42,741)	(79,228)
Net interest income		**216,671**	**217,874**
Fee and commission income	19	32,450	26,310
Fee and commission expense	19	(1,869)	(1,933)
Net fee and commission income		**30,581**	**24,377**
Result on financial transactions	20	(41,982)	17,563
Impairment (charges) / reversals	22	3,383	24,764
Total income		**208,653**	**284,579**
Expenses			
Employee expenses	21	56,941	53,716
Other operating expenses	21	108,327	118,742
Total expenses		**165,268**	**172,458**
Income / (loss) before tax		**43,385**	**112,120**
Income tax	23	(11,193)	(30,519)
Net income / (loss)		**32,192**	**81,601**
Net income / (loss) attributable to the parent company		**32,192**	**81,601**

Consolidated statement of comprehensive income

for the year ended December 31, 2022

Amounts in EUR thousands	2022	2021
Net income	**32,192**	**81,601**
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Gains / (losses) on financial assets measured at FVOCI	(83,028)	(9,627)
Gains / (losses) transferred to the income statement on disposal of financial assets measured at FVOCI	9,175	(3,172)
Aggregate tax effect of items recognized in other comprehensive income / (loss)	19,054	3,188
Other comprehensive income for the year	**(54,799)**	**(9,611)**
Total comprehensive income	**(22,608)**	**71,990**
Total comprehensive income attributable to the parent company	**(22,608)**	**71,990**

Aegon Bank N.V. had no financial assets measured at FVOCI without recycling of fair value changes to profit and loss as at December 31, 2022. 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, 2022

2022	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participa-tions	Total
At January 1	37,437	476,751	209,574	1,973	9,500	735,235
Net income / (loss) recognized in the income statement	-	-	32,192	-	-	32,192
Other comprehensive income / (loss)	-	-	-	(54,799)	-	(54,799)
Total comprehensive income / (loss)	**-**	**-**	**32,192**	**(54,799)**	**-**	**(22,608)**
Dividends paid on participations	-	-	(505)	-	-	(505)
Dividends paid on common shares	-	-	-	-	-	-
At December 31	**37,437**	**476,751**	**241,260**	**(52,827)**	**9,500**	**712,122**

2021	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participa-tions	Total
At January 1	37,437	476,751	173,447	11,584	9,500	708,719
Net income / (loss) recognized in the income statement	-	-	81,601	-	-	81,601
Other comprehensive income / (loss)	-	-	-	(9,611)	-	(9,611)
Total comprehensive income / (loss)	**-**	**-**	**81,601**	**(9,611)**	**-**	**71,990**
Dividends paid on participations	-	-	(475)	-	-	(475)
Dividends paid on common shares	-	-	(45,000)	-	-	(45,000)
At December 31	**37,437**	**476,751**	**209,574**	**1,973**	**9,500**	**735,235**

Consolidated cash flow statement

for the year ended December 31, 2022

Amounts in EUR thousands		2022	2021
Income / (loss) before tax		**43,385**	**112,120**
Adjustments for:			
- Result on financial transactions	20	41,982	(17,563)
- Amortization and depreciation	18	64,609	81,347
- Impairment losses / (reversals)	22	(3,383)	(24,764)
- Additions to / (releases from) provisions	15	1,035	1,633
Changes in:			
- Savings deposits	12	424,191	(953,768)
- Other assets and receivables	11	(10,414)	(18,272)
- Other liabilities and accruals	16	(90,042)	(108,585)
- intangible assets	10	(3,690)	
Purchase of mortgage loans and other loans	7	(2,079,435)	(1,824,430)
Sale and redemption of mortgage loans and other loans	7	1,973,029	2,150,399
Purchase of derivatives	9	(36)	170
Sale of derivatives	9	2,523	(40,475)
Purchase of financial assets measured at FVOCI	8	(584,154)	(702,425)
Sale and redemption of financial assets measured at FVOCI	8	1,191,672	358,117
- Tax (paid) / received	23	(38,193)	(3,592)
Net cash flows from / (used in) operating activities		**933,077**	**(990,087)**
Issuance of Covered Bond	13	-	493,485
Dividends paid on participations	13	(505)	(475)
LTRO allotment/ (repayment)	17	-	(105,000)
Increase/ (decrease) in group loans relating to collateral	13	814,547	(13,690)
Dividend payment	13	-	(45,000)
Net cash flows from financing activities		**814,042**	**329,320**
Net increase / (decrease) in cash and cash equivalents		**1,747,119**	**(660,766)**
Cash and cash equivalents at beginning of year		**989,659**	**1,650,425**
Cash and cash equivalents at end of year		**2,736,778**	**989,659**
Cash	5	2,616,208	859,629
Amounts due from banks	6	120,570	130,030
Total		**2,736,778**	**989,659**

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

Amounts in EUR thousands	2022	2021
Interest received	393,584	452,446
Interest income calculated using the effective interest method	393,584	452,446
Interest paid	112,304	153,225
Interest expenses calculated using the effective interest method	69,563	73,997
Other interest expenses	42,741	79,228

Reconciliation of liabilities arising from financing activities

During 2022, net cash flows from financing activities related to liabilities related to the posting of cash collateral for Interst rate swaps. In 2021, net cash flows from financing activities related to liabilities included the increase in long-term borrowings due to the issuance of the Soft Bullet Covered Bond in June 2021. In 2021, Aegon Bank N.V. paid a dividend of EUR 45.0 million (2022 no dividend). This movement is an equity movement, as explained in note 16 'Equity'. The carrying value of all balance sheet items related to financing activities is measured at amortized cost and so there are no effects from fair value movements.

Notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

1 General information

Aegon Bank N.V. ('Knab') is a public limited liability company organized and existing under Dutch law, registered with the Chamber of Commerce in Amsterdam under number 30100799.

Its registered address is at Thomas R. Malthusstraat 1-3, 1066 JR Amsterdam. Aegon Bank N.V. is a wholly owned subsidiary of Aegon Nederland N.V. ('Aegon Nederland'), established in The Hague. Aegon Bank N.V.'s ultimate holding company is Aegon N.V. established in The Hague.

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

2 Significant accounting policies

Presentation

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 2022 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 Executive Board and by the Supervisory Board on 20 April 2023. The financial statements will be put for adoption to the General Meeting of Shareholders. The shareholders meeting may decide not to adopt the financial statements but may not amend these during the meeting.

Going concern

Knab's financial statements have been prepared on a going concern basis, that is to say on the reasonable assumption that Knab is and will continue to be able to continue its normal course of business in the foreseeable future. Relevant facts and circumstances relating to the consolidated financial position as at December 31, 2022, were assessed in order to justify the going concern assumption. The main areas assessed were financial performance, capital adequacy, financial position, and flexibility, liquidity and solvency. On the basis of that assessment, management concluded that the going concern assumption for Knab is appropriate in preparing the consolidated financial statements.

Adoption of new EU-IFRS accounting standards

New standards and amendments to existing standards become effective at the date specified by EU-IFRS, however companies are allowed to opt for an earlier adoption date. In 2022, the following amendments to existing standards issued by the IASB became mandatory:

Accounting standard/ amendment/ interpretation	IASB effective date	Endorsed by EU	Impact on the entity
Covid-19- Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)	April 1, 2021	Yes	Low
Reference to the Conceptual Framework (Amendments to IFRS 3)	January 1, 2022	Yes	Low
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	January 1, 2022	Yes	Low
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	January 1, 2022	Yes	Low
Annual Improvements to IFRS Standards 2018–2020	January 1, 2022	Yes	Low

Interest rate benchmark reform

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

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

Future adoption of new EU-IFRS accounting standards

The following standards and amendments to existing standards, published prior to January 1, 2023, were not early adopted by Knab, but will be applied in future years:

Accounting standard/ amendment/ interpretation	IASB effective date	Endorsed by EU	Early adopted by the entity	Impact on the entity
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	January 1, 2023	Yes	No	Low
Definition of Accounting Estimates (Amendments to IAS 8)	January 1, 2023	Yes	No	Low
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	January 1, 2023	Yes	No	Low
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	January 1, 2024	Not yet	No	Low
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 1, 2024	Not yet	No	Low

[1] The amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, issued in September 2016, allow entities that issue insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 (and linked amendments 'Amendments to IFRS 9 Financial instruments on prepayment features with negative compensation'). The amendments to IFRS 4 are further explained below.

Use of estimates

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

Basis of consolidation

Subsidiaries

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

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

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

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

Foreign exchange translation

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

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

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

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

Offsetting of assets and liabilities

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

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.

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.

Financial assets

Initial recognition and measurement

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

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

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

Classification and subsequent measurement

Knab classifies its financial assets into the following measurement categories:

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

Amortized cost and effective interest rate

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

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

Interest income

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in 'Interest income calculated using the effective interest method'.

- Fair value through other comprehensive income ('FVOCI'): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses or reversals, interest revenue and foreign exchange gains and losses on the instrument's amortized cost, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI into profit or loss and recognized in 'Result on financial transactions'. Interest income from these financial assets is included in 'Interest income calculated using the effective interest method' using the effective interest rate method.

- Fair value through profit or loss ('FVPL'): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Result on financial transactions' in the period in which it arises. Interest income from these financial assets is included in 'Other interest income'.

Business model

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

Solely payment of principal and interest (‘SPPI’)

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

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

Impairment

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

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

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

Modification of loans

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

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

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

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

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

Derecognition other than on a modification

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

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

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

Collateral

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

Financial liabilities

Classification and subsequent measurement

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

Derecognition

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

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

Derivatives and hedging strategy

Definition

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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.

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities

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

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

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

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.

Intangible assets

Software and other intangible assets

Software and other intangible assets are recognized to the extent that the assets can be identified, are controlled by Knab, are expected to provide future economic benefits and can be measured reliably. Software and other intangible assets with finite useful lives are measured at cost. less accumulated amortization and any accumulated impairment losses. Amortization of the asset is over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The amortization period and pattern are reviewed at each reporting date, with any changes recognized in the income statement. An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its fair value less cost of disposal. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties. The valuation utilizes the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates. Impairment losses are charged to other comprehensive income to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement. Impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the asset's recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement. The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

Savings deposits

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

Borrowings

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

Provisions

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

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

Other liabilities and accruals

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

Equity

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

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

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

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

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.

Interest income and expense (and related fees)

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

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.

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.

Employee expenses and other operating expenses

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

Share-based payments

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

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

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

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

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.

Events after the reporting period

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

Critical accounting estimates and judgment in applying accounting

3 Critical accounting estimates and judgment in applying accounting policies

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

During 2021 and 2022 the world has seen substantial disruption caused by COVID-19. Furthermore the Russian invasion of Ukraine caused a humanitarian crisis and also impacted global financial markets and caused significant economic turbulence as from begining of 2022. 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 this turbulence, the assumptions about expected credit losses on loans, for example macro-economic scenarios, were updated during 2021 and 2022 to reflect the credit risk impact. These assumptions are considered critical accounting estimates. Please refer to 'Measurement of the expected credit loss allowance', note 'Credit risk management', and note 'Forward-looking information incorporated into the ECL models'. Management believes that this will have no impact on other judgments, estimates and assumptions.

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

Determination of control over investees

In determining whether Knab controls an investee, management analyzes whether Knab has power over the investee. The outcome of this analysis depends on the following criteria:
- The investee's purpose and design;
- What are the relevant activities (driving the investee's returns) and how are decisions about them taken; and
- Whether the investor's rights currently enable it to direct relevant activities.

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

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

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

Investment vehicle

An investment vehicle means any vehicle whose primary objective is to invest and manage its assets with a view to generating superior returns.

In order to determine whether Knab controls an investment vehicle, the overall relationship between the investor, the investee and other parties involved with the investee, in particular, are analyzed so as to determine whether they are an agent or a principal:
- The scope of its decision-making power over the investee;
- The rights held by other parties;
- The remuneration to which it is entitled in accordance with the remuneration agreement; and
- The decision-maker's exposure to variability of returns from other interests that it holds in the investee.

Structured entities

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

Determination of fair value and fair value hierarchy

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

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

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

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

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

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

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

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

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

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

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

Fair value of assets and liabilities

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

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

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

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

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

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

Debt securities

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

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

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

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

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

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

Knab's portfolio of debt securities can be subdivided into Sovereign debt, Residential mortgage-backed securities (RMBS), Commercial mortgage-backed securities (CMBS), Asset-backed securities (ABS), and Corporate bonds. The valuation methodology for these specific types of debt securities is explained in more detail below.

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

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

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

Corroboration

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

Mortgage loans, private loans and other loans

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

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

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.

Derivatives

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

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

Knab normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements, where practical, and ISDA1 master netting agreements to offset credit risk exposure. If no collateral is held by Knab or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

Embedded derivatives in bank products

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

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

Borrowings

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

Fair value hierarchy

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

2022	Level I	Level II	Level III	Total 2022
Assets carried at fair value				
FVOCI investments				
- Debt securities	171,254	897,815	-	1,069,068
FVPL investments				
- Derivatives	101	1,636,000	-	1,636,101
Total assets	**171,355**	**2,533,815**	**-**	**2,705,170**
Liabilities carried at fair value				
- Derivatives	-	798,841	-	798,841
- Derivatives (bifurcated)	-	-	834	834
Total liabilities	**-**	**798,841**	**834**	**799,675**

2021	Level I	Level II	Level III	Total 2021
Assets carried at fair value				
FVOCI investments				
- Debt securities	663,953	1,108,468	-	1,772,421
FVPL investments				
- Derivatives	-	211,860	-	211,860
Total assets	**663,953**	**1,320,327**	**-**	**1,984,281**
Liabilities carried at fair value				
- Derivatives	180	474,310	-	474,491
- Derivatives (bifurcated)	-	-	2,585	2,585
Total liabilities	**180**	**474,310**	**2,585**	**477,076**

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.

	As at '1-1-2022	Result income statement	Purchases	As at 31/12/2022	Result year-end
Liabilities carried at fair value					
- Derivatives (bifurcated)	2,585	(1,885)	134	834	(1,885)
Total liabilities	**2,585**	**(1,885)**	**134**	**834**	**(1,885)**

	As at '1-1-2021	Result income statement	Purchases	As at 31/12/2021	Result year-end
Liabilities carried at fair value					
- Derivatives (bifurcated)	5,154	(2,711)	142	2,585	(2,711)
Total liabilities	**5,154**	**(2,711)**	**142**	**2,585**	**(2,711)**

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

Significant transfers between Levels I/II and Level III

There were no significant transfers between Level I and Level II of the fair value hierarchy in 2022 or 2021.

There were no level III transfers in 2022 and 2021.

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

In 2022 Knab reported an amount of EUR 0.8 million (2021: EUR 2.6 million) in Level III bifurcated embedded derivatives. To determine the fair value of bifurcated embedded derivatives related to guarantees, a discount rate is used including Knab's own credit spread. An increase in its own credit spread results in a lower valuation of the embedded derivatives, while a decrease results in a higher valuation of the embedded derivatives.

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

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

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

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

2022	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy Level I	Level of fair value hierarchy Level II	Level of fair value hierarchy Level III	Valuation technique	Unobservable inputs
Assets							
Mortgage loans	11,637,940	10,936,563	-	-	10,936,563	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Consumer loans and SME loans	339,031	333,104	-	-	333,104	Discounted cash flow	Prepayments and discount spreads (including cost of capital, RMBS financing spread, expect default)
Other loans	50	50	-	50	-	Discounted cash flow	N/A
Liabilities							
Savings deposits	12,009,165	11,682,940	-	-	11,682,940	Discounted cash flow	Outflow rates, tracking and reversion parameters
Borrowings	3,805,062	3,497,292	3,497,292	-	-	Discounted cash flow	N/A

2021	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy Level I	Level of fair value hierarchy Level II	Level of fair value hierarchy Level III	Valuation technique	Unobservable inputs
Assets							
Mortgage loans	11,961,342	12,678,989	-	-	12,678,989	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Consumer loans and SME loans	783,455	816,727	-	-	816,727	Discounted cash flow	Prepayments and discount spreads (including cost of capital, RMBS financing spread, expect default)
Other loans	297,418	297,418	-	297,418	-	Discounted cash flow	N/A
Liabilities							
Savings deposits	11,586,074	11,731,111	-	-	11,731,111	Discounted cash flow	Outflow rates, tracking and reversion parameters
Borrowings	2,988,586	3,027,015	3,027,015	-	-	Discounted cash flow	N/A

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

Financial assets and liabilities valued at amortized cost

The table below shows the balance sheet items valued at amortized cost.

	31-12-2022	31-12-2021
Cash	2,616,208	859,629
Amounts due from banks	120,570	130,030
Mortgage loans and other loans	11,977,021	13,042,215
Intangible assets	3,690	-
Other assets and receivables	144,389	133,976
Total assets at amortized cost	**14,861,878**	**14,165,850**
Savings deposits	12,009,165	11,586,074
Borrowings	3,805,062	2,988,586
Other liabilities and accruals	182,125	272,167
Total liabilities at amortized cost	**15,996,352**	**14,846,828**

Measurement of the expected credit loss allowance

The expected credit loss allowance for financial assets measured at amortized cost or FVOCI is an area that requires using complex models and significant assumptions about future economic conditions and credit behavior (for example the likelihood of customers defaulting and the resulting losses). Significant judgment also has to be exercised in applying the accounting standards for measuring ECL, including:

- Determining criteria for significant increases in credit risk;
- Choosing appropriate models and assumptions to measure ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

As at December 31, 2022, the IFRS 9 ECL impact as a result of model overlay adjustments was EUR 0.7 million (2021: EUR 12.9 million).

The inputs, assumptions and estimation techniques applied to measure ECL are explained in more detail in note 'Credit risk management' which further sets outs specific and general management adjustments, and note 'Measuring ECL – Inputs, assumptions and estimation techniques', which also describes key sensitivities of the ECL to changes in these factors.

Risk management

4 Risk management

Governance and risk management structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital management and solvency

Pursuant to guidance issued by the Dutch Central Bank, the level of capital is subject to certain requirements. Knab's capital is reviewed against its on-balance sheet and off-balance sheet assets. These assets are weighted according to their risk level. The minimum total capital ratio is 8%. The table below shows the amounts at December 31, 2022 and December 31, 2021, calculated in accordance with the CRD IV requirements.

Capital management and solvency	**2022**	2021
Paid up capital instruments	37,437	37,437
Share premium	476,751	476,751
Retained earnings	209,575	173,448
Profit/(loss) attributable to parent company's owners of the parent	32,192	81,601
Dividend	(505)	(45,475)
Accumulated other comprehensive income	(52,827)	1,972
Adjustments to CET1 due to prudential filters	(3,574)	(1,968)
(-) Other intangible assets before deduction of deferred tax liabilities	(3,690)	-
CETI Capital	**695,358**	**723,766**
Additional Tier 1 Capital	9,500	9,500
Tier 1 Capital	**704,858**	**733,266**
Adjustments to CET1 due to prudential filters	3,574	1,968
(-) Other intangible assets before deduction of deferred tax liabilities	3,690	-
IFRS Capital	**712,122**	**735,235**
Risk- weighted assets	3,159,058	3,495,565
CET1 Ratio	**22.01%**	**20.71%**
Total Capital Ratio	**22.31%**	**20.98%**

Regulation and supervision

General

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

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

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

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

Financial supervision of credit institutions

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

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

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

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

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

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

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

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

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

IFRS sensitivities

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

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

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

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

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

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

Foreign exchange risk

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

Interest rate risk

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

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

According to the current IRRBB strategy, Aegon Bank hedges the market value of equity. The mortgage valuation methodology applied by Aegon Bank renders the value of its mortgage portfolio sensitive to movements in mortgage spreads. The instruments used to hedge interest rate risk (interest rate swaps) do not protect the value against movements in the mortgage spread. The DV01 limit of 2022 therefore consists of two components, namely a bandwidth for the DV01 of equity excluding the effect of mortgage spread fluctuations, and a bandwidth for the DV01 of equity including the effect of mortgage spread fluctuations. The maximum tolerated Price Value of a Basis Point excluding the effect of mortgage portfolio spread fluctuations has been set at +/-160 thousand DV01 on an aggregated level. The maximum tolerated Price Value of a Basis Point including the effect of the mortgage portfolio spread fluctuations has been set at +/-550 thousand DV01 equity. At December 31, 2022, the Price Value of a Basis Point amounted to EUR 454 thousand (2021: EUR 205 thousand).

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

	2022	2021	2020	2019	2018
3-month Euribor	2.13%	(0.57%)	(0.55%)	(0.38%)	(0.31%)
10-year Dutch government	2.91%	(0.04%)	(0.48%)	(0.06%)	0.38%

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

2022	**Note**	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Financial assets FVOCI	**8**	367,423	662,070	39,576	-	1,069,068
- Mortgage loans		673,562	1,086,214	2,467,866	7,410,298	11,637,940
- Loans to private individuals and Small and Medium Enterprise loans		49,609	289,422	-	-	339,031
- Other loans		-	-	50	-	50
Total loans	**7**	723,171	1,375,636	2,467,916	7,410,298	11,977,021
Total financial assets and loans		**1,090,594**	**2,037,705**	**2,507,492**	**7,410,298**	**13,046,089**

2021	**Note**	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Financial assets FVOCI	**8**	417,713	1,297,053	57,655	-	1,772,421
- Mortgage loans		769,008	1,407,741	1,972,618	7,811,975	11,961,342
- Loans to private individuals and Small and Medium Enterprise loans		40,136	682,884	14,798	45,636	783,455
- Other loans		297,356	-	62	-	297,418
Total loans	**7**	1,106,500	2,090,625	1,987,479	7,857,612	13,042,215
Total financial assets and loans		**1,524,213**	**3,387,678**	**2,045,133**	**7,857,612**	**14,814,636**

The category Loans to private individuals and small and medium-sized enterprises comprised EUR 286 million worth of SME loans (2021: EUR 399 million).

Sensitivity to interest rates

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

	2022		2021	
Parallel movement in yield curve	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	(617)	(14,502)	(977)	(38,062)
Shift down 100 basis points	747	15,125	1,213	40,151

Credit risk management

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

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

Macro economic considerations

The observed defaults and resulting credit losses on Knab's consumer and SME loans were largely mitigated in 2022 and 2021 by UK and German government support measures in the form of borrowers migrating to guaranteed lending (early prepayment of pre-COVID loans), furlough/part-time schemes, and tax breaks.

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

The decrease in ECL estimates was driven by strong redemption levels in the underlying portfolios. Furthermore the CACF and Auxmoney portfolios were sold during 2022 resulting in a decrease in ECL.

In 2022, a specific management adjustment was applied to UK government-guaranteed RLS Portfolio The adjustment was considered necessary due to the structure of the product and given that there was not enough historical data available. During 2023 the management adjustment will be replaced with a data-driven approach when enough historical datapoints are available.

Late 2022 knab also introduced an overlay driven by the current macroeconomic situation (high inflation, expected decline in house prices, war in Ukraine, rising energy prices), This overlay was deemed necessary as the IFRS 9 model uses outcomes of macro-economic predictions for unemployment rates and the development of housing prices for mortgages. Knab's provisioning committee concluded that the current macro economic situation is uncertain and more complex and therefore included an overlay in relation to current macro economic situation regarding inflation and energy prices.

In 2021, a specific management adjustment was applied to UK government-guaranteed CBILS (Coronavirus Business Interruption Loan Scheme) lending. The adjustment was considered necessary due to the structure of the CBILS product (no borrower payments required for the first 12 months) During 2022 this management adjustment has been removed due to the availability of enough historical data.

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

To manage concentrations of exposure to individual counterparties and groups of counterparties, and to encourage credit risk spreading in debt securities, Knab uses a policy of internal and external limits. Internal limits are set on the basis of the issuer's credit rating. At December 31, 2022, the credit limits applied by Knab in millions of euros were as follows:

2022 **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	-	-
Bx	-	-
CCC - CCx	-	-
Cx / Unrated	-	-

*No limits for domestic (Dutch) government bonds.

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

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

Expected credit loss measurement

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

1) A financial instrument that is not credit-impaired on initial recognition is classified into 'Stage 1' and has its credit risk continuously monitored by Knab.

a) If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. See note 'Significant increase in credit risk (SICR)' for a description of how Knab determines when a significant increase in credit risk has occurred.

b) If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. See note 'Definitions of default and credit-impaired assets' for a description of how Knab defines credit-impaired and default.

2) Financial instruments in Stage 1 have their ECL measured at a 12-month expected credit losses that result from default events possible within the next 12 months.

3) Financial instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. See note 'Measuring ECL – Inputs, assumptions and estimation techniques' 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 'Forward-looking information incorporated into the ECL models' includes an explanation of how Knab has incorporated this into its ECL models.

The following diagram summarizes the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

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

Knab employs separate models to calculate ECL on the following asset classes:
- Mortgage loans;
- Consumer loans;
- SME loans; and
- Debt securities.

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

Significant increase in credit risk (SICR)

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

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

Quantitative criteria

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

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

Qualitative criteria

For mortgage loans, Consumer loans and SME loans significant increase in credit risk is assumed when forbearance measures have been applied. Late 2022 Knab also introduced a methodology where for certain industries SME loans are directly allocated to stage 2.

For debt securities, the watch-list approach is applied as an additional qualitative criterion. The watch-list approach involves instruments on the watch-list being manually observed. The criteria for moving an instrument to the watch-list are:
- The value either falls to 80% and below (amortized) cost and stays there for six months; or
- The value falls by 20% over 3 months; or
- The value falls to 60% and below (amortized) cost.

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

Backstop

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

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

Definitions of default and credit-impaired assets

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

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

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

The definition of default has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given No Cure (LGN) throughout Knab’s expected loss calculations.

An instrument is considered to no longer be in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of three months, and an assessment has shown that the obligor is no longer unlikely to pay. When cured, the instrument will be moved from Stage 3 to Stage 2 or Stage 1. The three-month period has been determined on the basis of regulatory requirements which consider the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Measuring ECL – Inputs, assumptions and estimation techniques

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

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

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12-month PD), or over the remaining lifetime (lifetime PD) of the obligation;
- EAD is based on the amounts Knab expects to be owed at the time of default, over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD);

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

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

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

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

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

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

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

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

Forward-looking information incorporated into the ECL models

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

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

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

The SICR is assessed using the lifetime PD under each of the scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the entire financial instrument is in Stage 1, Stage 2, or Stage 3, and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, Knab measures ECL as either a probability-weighted 12-month ECL (Stage 1), or a probability-weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecast, the projections and likelihoods of occurrence are inherently subject to a high degree of uncertainty and so the actual outcomes may differ significantly from those projected. Knab considers these forecasts to represent its best estimate of the possible outcomes.

Variable economic assumptions

The most significant forward-looking considerations used for the ECL estimate as at December 31, 2022 are set out below. The “base”, “upside” and “downside” scenarios were used for all portfolios.

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

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

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

The weightings assigned to each economic scenario were as follows:

	Base	Upside	Downside
Mortgages	Base	Upside	Downside
At December 31, 2022	45%	29%	26%
Unsecured loans and debt securities	Base	Upside	Downside
At December 31, 2022	40%	30%	30%
Mortgages	Base	Upside	Downside
At December 31, 2021	45%	29%	26%
Unsecured loans and debt securities	Base	Upside	Downside
At December 31, 2021	40%	30%	30%

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

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

Mortgage loans portfolio

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

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

2022	Stress scenario	
	(10%)	+10%
House price index	50	(36)
	Stress scenario	
	(1%)	+1%
Unemployment rate	(183)	38
2021	Stress scenario	
	(10%)	+10%
House price index	99	(73)
	Stress scenario	
	(1%)	+1%
Unemployment rate	(176)	207

Consumer loans portfolio

- Unemployment rate, because of its impact on obligors' ability to meet their contractual repayments.

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

Zopa

2022	Stress scenario	
	(1%)	+1%
Domestic demand	130	(128)
2021	Stress scenario	
	(1%)	+1%
Domestic demand	192	(166)

SME loans portfolio

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

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

Funding Circle non-CBILS

2022	Stress scenario	
	(1%)	+1%
Gross domestic product	101	(104)
2021	Stress scenario	
	(1%)	+1%
Gross domestic product	382	(374)

Funding Circle CBILS

2022	Stress scenario	
	(1%)	+1%
Gross domestic product	213	(209)
2021	Stress scenario	
	(1%)	+1%
Gross domestic product	145	(123)

Funding Circle Core RLS

2022	Stress scenario	
	(1%)	+1%
Gross domestic product	70	(67)

Write-off policy

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

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

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

Modification of financial assets

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

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

Knab will continue to monitor whether there is a subsequent significant increase in credit risk in relation to those assets by using specific models for modified assets. A limited number of loans within Knab's mortgage portfolio were modified during 2022. There was no significant impact on the lifetime ECL from modifications of financial assets during 2022.

Loss allowance

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

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

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

Mortgage loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance at January 1, 2022	329	762	405	1,496
Stage transfers	41	501	(64)	478
New financial assets originated or purchased	173	241	7	421
Changes in PD/LGD/EAD	157	733	92	981
Changes to model assumptions and methodologies	-	-	-	-
Financial assets derecognized or redeemed during the year	(38)	(117)	(98)	(254)
Write-offs	-	-	-	-
Other movements	-	-	-	-
Loss allowance at December 31, 2022	**661**	**2,120**	**396**	**3,177**

Mortgage loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance at January 1, 2021	835	1,667	491	2,992
Stage transfers	204	(723)	(100)	(620)
New financial assets originated or purchased	52	50	19	121
Changes in PD/LGD/EAD	(652)	(33)	100	(584)
Changes to model assumptions and methodologies	-	-	-	-
Financial assets derecognized or redeemed during the year	(110)	(199)	(104)	(413)
Write-offs	-	-	-	-
Other movements	-	-	-	-
Loss allowance at December 31, 2021	**329**	**762**	**405**	**1,496**

Consumer loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance at January 1, 2022	6,801	6,196	17,183	30,180
Stage transfers	(3,554)	286	3,504	236
New financial assets originated or purchased	-	-	-	-
Changes in PD/LGD/EAD	4,322	(122)	345	4,545
Changes to model assumptions and methodologies	292	435	(364)	362
Financial assets derecognized or redeemed during the year	(6,662)	(6,076)	(8,029)	(20,766)
Write-offs	-	-	(3,234)	(3,234)
FX and other movements	(64)	(39)	(647)	(750)
Loss allowance at December 31, 2022	**1,136**	**681**	**8,757**	**10,573**

Consumer loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance at January 1, 2021	15,979	19,435	51,231	86,645
Stage transfers	(4,799)	(643)	6,196	755
New financial assets originated or purchased	218	47	158	422
Changes in PD/LGD/EAD	3,722	(27)	(974)	2,721
Changes to model assumptions and methodologies	(866)	(3,027)	9	(3,883)
Financial assets derecognized or redeemed during the year	(7,511)	(9,602)	(35,544)	(52,657)
Write-offs	-	-	(4,578)	(4,578)
FX and other movements	59	13	684	755
Loss allowance at December 31, 2021	**6,801**	**6,196**	**17,183**	**30,180**

SME loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance at January 1, 2022	2,198	18,773	33,925	54,895
Stage transfers	(1,339)	(3,107)	6,491	2,045
New financial assets originated or purchased	637	1,557	777	2,971
Changes in PD/LGD/EAD	1,854	1,498	2,787	6,138
Changes to model assumptions and methodologies	(351)	(1,293)	(939)	(2,582)
Financial assets derecognized or redeemed during the year	(1,072)	(9,597)	(5,449)	(16,117)
Write-offs	-	-	(11,060)	(11,060)
FX and other movements	(69)	(337)	(2,048)	(2,455)
Loss allowance at December 31, 2022	**1,858**	**7,495**	**24,482**	**33,836**

SME loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance at January 1, 2021	15,213	22,704	31,664	69,581
Stage transfers	(9,135)	10,639	11,729	13,234
New financial assets originated or purchased	297	54	45	396
Changes in PD/LGD/EAD	5,665	1,236	1,176	8,077
Changes to model assumptions and methodologies	(5,613)	(338)	(3,306)	(9,257)
Financial assets derecognized or redeemed during the year	(4,350)	(15,873)	(7,770)	(27,994)
Write-offs	-	-	(1,804)	(1,804)
FX and other movements	121	352	2,191	2,663
Loss allowance at December 31, 2021	**2,198**	**18,773**	**33,925**	**54,895**

Debt securities measured at FVOCI	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance at January 1, 2022	1,183	-	-	1,183
Stage transfers	-	-	-	-
New financial assets originated or purchased	195	-	-	195
Changes in PD/LGD/EAD	501	-	-	501
Changes to model assumptions and methodologies	-	-	-	-
Financial assets derecognized or redeemed during the year	(425)	-	-	(425)
Write-offs	-	-	-	-
Other movements	-	-	-	-
Loss allowance at December 31, 2022	**1,453**	**-**	**-**	**1,453**

Debt securities measured at FVOCI	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Loss allowance at January 1, 2021	272	-	-	272
Stage transfers	-	-	-	-
New financial assets originated or purchased	736	-	-	736
Changes in PD/LGD/EAD	-	-	-	-
Changes to model assumptions and methodologies	287	-	-	287
Financial assets derecognized or redeemed during the year	(111)	-	-	(111)
Write-offs	-	-	-	-
Other movements	-	-	-	-
Loss allowance at December 31, 2021	**1,183**	**-**	**-**	**1,183**

The loss allowance for debt securities measured at FVOCI of EUR 1.5 million (2021: EUR 1.2 million) did not reduce the carrying amount of these investments (which are measured at fair value) but gave rise to an equal and opposite gain in OCI.

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

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.

	2022	2021
Mortgage loans measured at amortized cost	1,681	(1,496)
Consumer loans measured at amortized cost	1,456	(6,834)
SME loans measured at amortized cost	(6,837)	(17,177)
Debt securities measured at FVOCI	270	911
Net impairment charge / (reversal) in income statement	**(3,429)**	**(24,596)**

Mortgage loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount at January 1, 2022	11,732,968	218,456	11,415	11,962,838
Stage transfers	(547,857)	546,260	1,597	-
New financial assets originated or purchased	1,791,314	86,304	308	1,877,926
Financial assets derecognized or redeemed during the year (other than write-offs)	(984,307)	(38,690)	(2,457)	(1,025,453)
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-	-
Other movements	(1,174,194)	-	-	(1,174,194)
Gross carrying amount at December 31, 2022	**10,817,924**	**812,330**	**10,863**	**11,641,117**

Mortgage loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount at January 1, 2021	11,484,515	483,789	13,185	11,981,489
Stage transfers	236,372	(235,932)	(440)	-
New financial assets originated or purchased	1,520,517	7,024	801	1,528,342
Financial assets derecognized or redeemed during the year (other than write-offs)	(1,157,688)	(47,850)	(2,985)	(1,208,523)
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-	-
Other movements	(350,749)	11,426	854	(338,470)
Gross carrying amount at December 31, 2021	**11,732,968**	**218,456**	**11,415**	**11,962,838**

Other movements mainly includes the movement of the basis adjustment and the amortization thereof. Please refer to Note 9 derivatives.

Consumer loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount at January 1, 2022	354,240	31,807	28,392	414,439
Stage transfers	(4,991)	1,390	3,601	-
New financial assets originated or purchased	-	-	-	-
Financial assets derecognized or redeemed during the year (other than write-offs)	(295,470)	(30,011)	(17,966)	(343,448)
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	(3,182)	(3,182)
FX and other movements	(3,228)	(130)	(797)	(4,156)
Gross carrying amount at December 31, 2022	**50,551**	**3,055**	**10,048**	**63,654**

Consumer loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount at January 1, 2021	584,022	94,136	84,903	763,061
Stage transfers	14,441	(14,598)	156	-
New financial assets originated or purchased	46,135	341	177	46,652
Financial assets derecognized or redeemed during the year (other than write-offs)	(298,787)	(48,206)	(53,171)	(400,165)
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	(4,514)	(4,514)
FX and other movements	8,429	134	842	9,405
Gross carrying amount at December 31, 2021	**354,240**	**31,807**	**28,392**	**414,439**

SME loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount at January 1, 2022	300,190	102,805	51,096	454,091
Stage transfers	(69,899)	58,741	11,158	-
New financial assets originated or purchased	57,242	8,507	1,595	67,343
Financial assets derecognized or redeemed during the year (other than write-offs)	(141,489)	(21,202)	(12,160)	(174,851)
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	(11,060)	(11,060)
FX and other movements	(5,129)	(7,588)	(3,021)	(15,738)
Gross carrying amount at December 31, 2022	**140,915**	**141,263**	**37,608**	**319,786**

SME loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount at January 1, 2021	364,300	99,275	41,345	504,919
Stage transfers	(34,329)	15,351	18,978	-
New financial assets originated or purchased	75,763	4,465	223	80,452
Financial assets derecognized or redeemed during the year (other than write-offs)	(127,959)	(18,777)	(10,926)	(157,662)
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	(1,804)	(1,804)
FX and other movements	22,415	2,491	3,280	28,186
Gross carrying amount at December 31, 2021	**300,190**	**102,805**	**51,096**	**454,091**

Debt securities measured at FVOCI	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount at January 1, 2022	1,772,421	-	-	1,772,421
Stage transfers	-	-	-	-
New financial assets originated or purchased	584,154	-	-	584,154
Financial assets derecognized or redeemed during the year (other than write-offs)	(1,191,672)	-	-	(1,191,672)
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-	-
Other movements	(95,835)	-	-	(95,835)
Gross carrying amount at December 31, 2022	**1,069,068**	**-**	**-**	**1,069,068**

Debt securities measured at FVOCI	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Gross carrying amount at January 1, 2021	1,456,140	-	-	1,456,140
Stage transfers	-	-	-	-
New financial assets originated or purchased	702,425	-	-	702,425
Financial assets derecognized or redeemed during the year (other than write-offs)	(358,117)	-	-	(358,117)
Modification of contractual cash flows from financial assets	-	-	-	-
Write-offs	-	-	-	-
Other movements	(28,027)	-	-	(28,027)
Gross carrying amount at December 31, 2021	**1,772,421**	**-**	**-**	**1,772,421**

Other movements mainly relate to fair value movements and amortization.

Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment

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

Mortgage loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit-impaired)	Stage 3 (Lifetime ECL credit-impaired)	Total
Investment grade (NHG-guaranteed)	6,089,796	532,112	6,418	6,628,326
Investment grade (Non-NHG-guaranteed)	4,728,128	278,314	661	5,007,104
Standard/Special monitoring	-	1,904	3,784	5,687
Gross carrying amount	**10,817,924**	**812,330**	**10,863**	**11,641,117**
Loss allowance	661	2,120	396	3,177
Net carrying amount at December 31, 2022	**10,817,263**	**810,211**	**10,467**	**11,637,940**

Mortgage loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit-impaired)	Stage 3 (Lifetime ECL credit-impaired)	Total
Investment grade (NHG-guaranteed)	7,536,194	154,543	5,131	7,695,868
Investment grade (Non-NHG-guaranteed)	4,196,774	63,424	464	4,260,661
Standard/Special monitoring	-	489	5,820	6,309
Gross carrying amount	**11,732,968**	**218,456**	**11,415**	**11,962,838**
Loss allowance	329	762	405	1,496
Net carrying amount at December 31, 2021	**11,732,639**	**217,694**	**11,010**	**11,961,342**

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

Consumer loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit-impaired)	Stage 3 (Lifetime ECL credit-impaired)	Total
Days in arrears				
0-30	50,551	2,813	119	53,482
31-60	-	118	43	161
61-90	-	124	119	243
> 90	-	-	9,768	9,768
Gross carrying amount	**50,551**	**3,055**	**10,048**	**63,654**
Loss allowance	1,136	681	8,757	10,573
Net carrying amount at December 31, 2022	**49,415**	**2,374**	**1,292**	**53,081**

Consumer loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit-impaired)	Stage 3 (Lifetime ECL credit-impaired)	Total
Days in arrears				
0-30	354,240	28,394	4,204	386,839
31-60	-	2,604	787	3,391
61-90	-	707	242	949
> 90	-	102	23,159	23,260
Gross carrying amount	**354,240**	**31,807**	**28,392**	**414,439**
Loss allowance	6,801	6,196	17,183	30,180
Net carrying amount at December 31, 2021	**347,439**	**25,611**	**11,209**	**384,259**

SME loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit-impaired)	Stage 3 (Lifetime ECL credit-impaired)	Total
Days in arrears				
0-30	140,915	139,418	2,636	282,969
31-60	-	1,234	375	1,608
61-90	-	612	866	1,479
> 90	-	-	33,730	33,730
Gross carrying amount	**140,915**	**141,263**	**37,608**	**319,786**
Loss allowance	1,858	7,495	24,482	33,836
Net carrying amount at December 31, 2022	**139,057**	**133,768**	**13,125**	**285,950**

SME loans measured at amortized cost	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit-impaired)	Stage 3 (Lifetime ECL credit-impaired)	Total
Days in arrears				
0-30	300,190	100,401	8,624	409,214
31-60	-	1,708	553	2,261
61-90	-	697	722	1,418
> 90	-	-	41,198	41,198
Gross carrying amount	**300,190**	**102,805**	**51,096**	**454,091**
Loss allowance	2,198	18,773	33,925	54,895
Net carrying amount at December 31, 2021	**297,992**	**84,033**	**17,172**	**399,196**

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

Debt securities measured at FVOCI	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit-impaired)	Stage 3 (Lifetime ECL credit-impaired)	Total
AAA	91,031	-	-	91,031
AA	438,595	-	-	438,595
A	350,467	-	-	350,467
BBB	188,975	-	-	188,975
BB	-	-	-	-
B	-	-	-	-
CCC or lower	-	-	-	-
Carrying amount	**1,069,068**	**-**	**-**	**1,069,068**
Loss allowance (recorded in OCI)	1,453	-	-	1,453
Net carrying amount at December 31, 2022	**1,069,068**	**-**	**-**	**1,069,068**

Debt securities measured at FVOCI	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit-impaired)	Stage 3 (Lifetime ECL credit-impaired)	Total
AAA	342,953	-	-	342,953
AA	752,779	-	-	752,779
A	462,081	-	-	462,081
BBB	214,609	-	-	214,609
BB	-	-	-	-
B	-	-	-	-
CCC or lower	-	-	-	-
Carrying amount	**1,772,421**	**-**	**-**	**1,772,421**
Loss allowance (recorded in OCI)	1,183	-	-	1,183
Net carrying amount at December 31, 2021	**1,772,421**	**-**	**-**	**1,772,421**

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

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

	Maximum exposure to credit risk	Master netting agreements	**Total collateral**	**Net exposure**
Cash and amounts due from banks	2,736,778	-	-	2,736,778
Derivatives	1,636,101	1,613,392	1,613,392	22,709
Other financial assets	144,389	-	-	144,389
At December 31, 2022	**4,517,269**	**1,613,392**	**1,613,392**	**2,903,877**
	Maximum exposure to credit risk	Master netting agreements	**Total collateral**	**Net exposure**
Cash and amounts due from banks	989,659	-	-	989,659
Derivatives	211,860	211,860	211,860	-
Other financial assets	88,691	-	-	88,691
At December 31, 2021	**1,290,210**	**211,860**	**211,860**	**1,078,350**

Collateral and other credit enhancements

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

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

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

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

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

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

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

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

2022	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Mortgage loans	10,863	396	10,467	10,863
Consumer loans	10,048	8,757	1,292	-
SME loans	37,608	24,482	13,125	-
At December 31	**58,519**	**33,635**	**24,884**	**10,863**

2021	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Mortgage loans	11,415	405	11,010	11,389
Consumer loans	28,392	17,183	11,209	-
SME loans	51,096	33,925	17,172	-
At December 31	**90,903**	**51,512**	**39,391**	**11,389**

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

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

Mortgage portfolio - LTV distribution	**2022**	2021
Lower than 50%	350	627
50 to 60%	86	493
60 to 70%	1,280	777
70 to 80%	3,190	2,693
80 to 90%	4,514	3,813
90 to 100%	1,443	2,631
Higher than 100%		381
At December 31	**10,863**	**11,415**

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

	2022	2021
ABSs- Collateralized Debt Obligations (CDOs)	64,762	84,577
Residential mortgage backed securities (RMBSs)	18,013	50,024
Total investments in unconsolidated structured entities	**82,775**	**134,600**
Financial - Banking	298,831	403,581
Financial - Other	49,805	60,059
Industrial	428,167	458,148
Utility	38,237	52,080
Sovereign exposure	171,254	663,953
Total	**1,069,068**	**1,772,421**
Of which past due and / or impaired assets	-	-

Credit risk concentration – mortgage loans

Fair value of the mortgage loan portfolio:	**2022**	2021
Fair value of mortgage loans	10,936,563	12,678,989
The LTV was approximately	51.5%	55.1%
The portion of the portfolio that is government guaranteed	57.0%	64.4%
Delinquencies in the portfolio (defined as 60 days in arrears)	0.1%	0.1%
Impairments (reversals) during the year	1,681	(1,496)

Credit risk concentration - mortgage loans	**2022**	2021
Residential apartment	1,626,264	1,482,230
Residential house	10,671,910	10,024,081
Other	183	-
Total	**12,298,358**	**11,506,311**
Of which past due and / or impaired assets	61,290	55,250

Unconsolidated structured entities

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

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

2022	Number of entities	Carrying amount
EUR 0 < 10 million	10	19,899
> EUR 10 < 25 million	2	31,135
> EUR 25 < 50 million	1	31,741
> EUR 50 < 75 million	-	-
> EUR 75 < 100 million	-	-
At December 31	**13**	**82,775**
2021	Number of entities	Carrying amount
EUR 0 < 10 million	13	52,010
> EUR 10 < 25 million	3	43,523
> EUR 25 < 50 million	1	39,067
> EUR 50 < 75 million	-	-
> EUR 75 < 100 million	-	-
At December 31	**17**	**134,600**

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

	2022			
Type of interest in unconsolidated entity	Interest income	Total gains and losses	Total	Investments
Residential mortgage backed securities	343	290	633	18,013
Commercial mortgage backed securities	-	-	-	-
Asset Backed Securities	60	5	65	64,762
ABS's - Other	-	-	-	-
Total	**403**	**295**	**698**	**82,775**

	2021			
Type of interest in unconsolidated entity	Interest income	Total gains and losses	Total	Investments
Residential mortgage backed securities	366	641	1,007	50,024
Commercial mortgage backed securities	-	-	-	-
Asset Backed Securities	1,287	(56)	1,231	84,577
ABS's - Other	11	(136)	(126)	-
Total	**1,663**	**449**	**2,112**	**134,600**

Currency risk

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

	2022			2021		
in €, unrounded	Exposure	Hedging instruments	Net exposure	Exposure	Hedging instruments	Net exposure
Assets/ liabilities						
Sterling	358,159			591,784		
Total Exposure	358,159	360,023	(1,864)	591,784	595,874	(4,091)

Equity market risk and other investment risks

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

Derivatives risk

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

Liquidity risk

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

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

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

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

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

Knab issued SAECURE 19 (S19) in 2021. Knab subsequently purchased all the notes issued under S19. The notes are ECB-eligible retained notes and so generated increased liquidity for Knab.

As at December 31, 2022, Knab held EUR 171 million (2021: EUR 664 million) worth of sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. In addition, Knab holds funds at the Dutch Central Bank which it can immediately draw upon. As at December 31, 2022, these funds amounted to EUR 2.557 million (2021: EUR 855 million). Knab expects to be able to continue to meet its commitments on the basis of its operating cash flows and revenues from financial assets.

Maturity analysis of assets – (Other than derivatives)

The tables below show the residual maturities for each financial asset class at December 31, for 2022 and 2022. 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.

2022	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10	Total
Cash	2,616,208	-	-	-	-	2,616,208
Amounts due from banks	120,570	-	-	-	-	120,570
Investments	-	1,248,821	4,165,296	3,260,358	4,371,614	13,046,089
Other assets	11,692	132,689	-	-	8	144,389
Total	**2,748,470**	**1,381,511**	**4,165,296**	**3,260,358**	**4,371,622**	**15,927,256**

2021	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10	Total
Cash	859,629	-	-	-	-	859,629
Amounts due from banks	130,030	-	-	-	-	130,030
Investments	-	1,676,235	5,568,204	3,236,846	4,333,351	14,814,636
Other assets	10,866	123,102	-	-	8	133,976
Total	**1,000,525**	**1,799,336**	**5,568,204**	**3,236,846**	**4,333,359**	**15,938,270**

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

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

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

2022	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10	Total
Borrowings	-	1,314,426	1,996,499	-	494,137	3,805,062
Savings deposits	9,167,433	570,404	1,257,653	616,437	397,237	12,009,165
Other financial liabilities	11,303	172,002	-	-	-	183,306
Total	**9,178,737**	**2,056,833**	**3,254,152**	**616,437**	**891,374**	**15,997,533**

2021	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10	Total
Borrowings	-	126	2,002,783	491,975	493,703	2,988,586
Savings deposits	8,333,390	613,940	1,635,246	678,949	324,549	11,586,074
Other financial liabilities	19,552	262,863	-	-	-	282,415
Total	**8,352,942**	**876,929**	**3,638,029**	**1,170,924**	**818,252**	**14,857,076**

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

Maturity analysis – derivatives (contractual cash flows)

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

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

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

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

2022	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10	Total
Cash inflows	-	312,236	1,254,982	1,005,691	723,439	3,296,348
Cash outflows	-	(267,072)	(877,860)	(690,456)	(524,106)	(2,359,494)

2021	On demand	< 1 year	1 < 5 years	5 < 10 years	> 10	Total
Cash inflows	-	46,725	135,932	199,954	225,959	608,569
Cash outflows	-	(120,302)	(281,362)	(259,023)	(231,258)	(891,945)

Other risks

Legislation and regulations

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

Climate risks

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

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

At Knab, we recognize our responsibility to ensure that our investments do not negatively impact society or the planet. We apply this ethos to our own proprietary investments and use our influence to encourage similar standards in the customer investment accounts we manage. By taking an active approach to responsible investment, we seek to minimize risks to our business and explore ways to serve the interests of our customers and society at large. Knab endorses Aegon’s Responsible Investment Policy, recognizing a broad range of recurring sustainability and ESG topics, from climate change to health and corporate governance. This Responsible Investment Policy is updated on a regular basis to reflect new insights and our continuing strive to increase impact. In November 2021, our parent company, Aegon Nederland, took an important step towards achieving our commitment to transition our investment portfolio to net-zero greenhouse gas emissions by 2050. In December 2022 Aegon Nederland followed through with the Climate Action Plan. In this Plan Aegon Nederland details our approach to measurement, target setting and taking actions in reducing the GHG emissions from both our own operations, as well as through our investments.

Progressive insights from Aegon Asset Management, which handles our bond portfolios, through engaging with companies we invest in, and research performed, is the basis for narrowing down the scope of companies we want to invest in. Excluded investments include companies which derive a portion of their revenues from coal, or tar and oil sands.

During the year, we continued to make progress in terms of measuring the CO_2 emissions of our investments. As a bank, Knab holds significant investments. We believe it is important to measure and disclose the emissions that are indirectly associated with our investments. By measuring the greenhouse gas emissions associated with our investments, we hope to provide insights into the environmental impact of the various companies we help to finance.

Notes to the consolidated financial statements

5 Cash

Cash includes cash and demand balances held with the Dutch Central Bank. The Dutch Central Bank requires Knab to place an equivalent of 1% of its customer deposits with agreed maturities or savings accounts (without restrictions to withdraw their money) in an account with the Dutch Central Bank. This so-called minimum reserve is renewed each maintenance period, which consists of approximately 6 weeks. An interest of 2.0% is paid on the minimum reserve as per year end 2022 (ye 2021; 0%). The average minimum required balance on deposit with the Dutch Central Bank was EUR 81.6 million (2021: EUR 73.5 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. The carrying amounts disclosed reasonably approximate the fair values at year-end.

	2022	2021
Cash	2,616,208	859,629
Average balance on deposit with DNB at year-end	197,817	764,654
Average minimum required balance on deposit by DNB for year-end period	81,606	73,517

6 Amounts due from banks

	2022	2021
Bank accounts	120,570	130,030
Total	**120,570**	**130,030**

Amounts due from banks comprise receivables from banks in the Netherlands and abroad and cash collateral provided. Of the amounts due from banks, EUR 57.2 million (2021: EUR 39.3 million) related to cash positions placed in a DNB account held by the participating instant payment facilitating banks, which facilitate overnight instant payments. Furthermore, amounts due from banks comprised an amount of EUR 39.3 million (2021: EUR 49.0 million) held by consolidated securitizations.

Amounts due from banks also included restricted bank accounts at an amount of EUR 7.0 million (2021: 15.3 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.

	2022	2021
Loans to the private sector		
- Mortgage loans	11,637,940	11,961,342
- Loans to private individuals and Small and Medium Enterprise loans	339,031	783,455
- Other loans	50	297,418
Total	**11,977,021**	**13,042,215**
Fair value	11,269,717	13,793,133
Current	1,118,562	1,539,437
Non-current	10,858,459	11,502,778
Total	**11,977,021**	**13,042,215**

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 lower carrying value of EUR 660 million (2021: higher carrying value EUR 455 million).

The mortgages structured through covered bonds amounted to EUR 2.898 million (2021: EUR 2.908 million).

As per year end 2021 Loans to private individuals and SMEs of EUR 783 million partly related to the consumer loans portfolio purchased in 2013. The loans were structured through a securitization (Kigoi), which was consolidated by Knab. During 2022 Kigoi was put in liquidation and the related consumer loans portfolio was sold. Also the Auxmoney portfolio was sold during the 4th quarter of 2022.

Other loans included in 2021 for EUR 294 million a loan to Aegon Derivatives N.V. and Aegon N.V. The loan to Aegon Derivatives related to cash collateral posted for derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Knab. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values of derivatives and is settled daily. Due to the sharp increase in market value of Knab's derivatives during 2022 this position is accounted under borrowings as per year end 2022. See note 'Borrowings' for this disclosure.

In 2021 the Aegon N.V. loan relates to collateral for foreign exchange transactions. The loan represented a receivable of EUR 3.3 million receivable.

Loans allowance account

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

	Mortgage loans	Loans to private individuals and SMEs	Other	Total
At January 1, 2022	1,495	85,075	1,071	87,641
Addition charged / (reversal) to income statement	1,681	(5,381)	46	(3,653)
Amounts written off	-	(15,459)	(282)	(15,741)
Other	1	(19,827)	-	(19,827)
At December 31, 2022	**3,177**	**44,409**	**834**	**48,420**
At January 1, 2021	2,992	156,225	1,581	160,798
Addition charged / (reversal) to income statement	(1,496)	(24,011)	(169)	(25,676)
Amounts written off	-	(7,320)	(342)	(7,662)
Other	-	(39,819)	-	(39,819)
At December 31, 2021	**1,495**	**85,075**	**1,071**	**87,641**

Loans that are written off but are still subject to enforcement amount to EUR 17.5 million (2021: 22.1 million)

8 Other financial assets

Other financial assets exclude derivatives. Please refer to note 'Derivatives' and to note 'Summary of all financial assets and financial liabilities at fair value through profit or loss'.

	2022	2021
Financial assets measured at fair value through other comprehensive income	1,069,068	1,772,421
Total financial assets, excluding derivatives	**1,069,068**	**1,772,421**

2022	FVOCI	Total	Fair value
Debt securities	1,069,068	1,069,068	1,069,068
At December 31	**1,069,068**	**1,069,068**	**1,069,068**

2021	FVOCI	Total	Fair value
Debt securities	1,772,421	1,772,421	1,772,421
At December 31	**1,772,421**	**1,772,421**	**1,772,421**

	2022	2021
Current	130,260	136,798
Non-current	938,809	1,635,623
Total financial assets, excluding derivatives	**1,069,068**	**1,772,421**

Investments in unconsolidated structured entities

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

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

9 Derivatives

	Derivative asset		Derivative liability	
	2022	2021	**2022**	2021
Derivatives not designated in a hedge	34,466	28,772	15,229	21,331
Derivatives designated as fair value hedges	1,601,636	183,088	784,446	455,745
Total	**1,636,101**	**211,860**	**799,675**	**477,076**

	2022	2021
Current	7,699	(9,802)
Non-current	828,727	(255,414)
Total net derivatives	**836,426**	**(265,216)**

Please refer to note 'Summary of all financial assets and financial liabilities at fair value through profit or loss', and note 'Offsetting, enforceable master netting agreements, and similar arrangements' for more information.

Derivatives not designated in a hedge

	Derivative asset		Derivative liability	
	2022	2021	**2022**	2021
Derivatives held as an economic hedge	34,466	28,772	14,395	18,746
Bifurcated embedded derivatives	-	-	834	2,585
Total	**34,466**	**28,772**	**15,229**	**21,331**

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

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

Hedge accounting

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

For the year ended 31 December 2022, Knab recognized -/- EUR 1,105.9 million in fair value changes on mortgage loans under fair value hedge accounting under the EU carve-out in the income statement (2021: EUR -/- 309.5 million).

These amounts were offset by EUR 1,089.7 million fair value changes recognized on derivatives used as hedging instruments (2021: EUR 342.8 million). This offset is possible only when using the EU carve-out on hedge accounting because otherwise the hedge would not be “highly” effective as required by IFRS. In 2022, the amortization charge on the basis adjustment was EUR -/- 9.4 million (2021: EUR -/- 11.9 million).

The total net accounting ineffectiveness recognized in the income statement was EUR -/- 16.2 million in 2022 (2021: EUR 33.9 million). As at December 31, 2022, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR 817.2 million, presented in the statement of financial position as EUR 784.5 million within liabilities and EUR 1,601.6 million within assets (2021: minus EUR 272.7 million, EUR 455.7 million within liabilities and EUR 183.1 million within assets).

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

2022 Fair value hedges	Carrying amount Notional	Carrying amount Assets	Carrying amount Liabilities	Balance Sheet line item(s)	Change in fair value used to asses hedge ineffective-ness
Interest rate					
Macro fair value hedge	5,048,569	1,601,636	784,446	Derivatives	1,089,676
2021 Fair value hedges					
Interest rate					
Macro fair value hedge	5,031,569	183,088	455,745	Derivatives	343,654
Micro fair value hedge	-	-	-	Derivatives	(809)

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

2022 Fair value hedges	Carrying amount of hedged item	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Accumulated amount of fair value adjustments on the hedged item	Balance Sheet line item(s)	Change in fair value of hedged item to assess ineffectiv-ness
	Assets	Liabilities	Assets	Liabilities		
Interest rate						
Macro fair value hedge	11,637,940	-	(660,418)		Mortgage loans and other loans	(1,105,886)
Micro fair value hedge	-	-	-	(1,079)	Borrowings	-

Amounts reclassified from reserves to P&L as:

Fair value hedges	Gains / (loss) recognized in OCI	Hedge ineffective-ness recognized in P&L	P&L line item that includes hedge ineffective-ness	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	(16,210)	Result on financial transactions	N/A	N/A	N/A
Micro fair value hedge	N/A	-	Result on financial transactions	N/A	N/A	N/A

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

2021 Fair value hedges	Carrying amount of hedged item	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Accumulated amount of fair value adjustments on the hedged item	Balance Sheet line item(s)	Change in fair value of hedged item to assess ineffectiv-ness
	Assets	Liabilities	Assets	Liabilities		
Interest rate						
Macro fair value hedge	11,961,342	-	455,031	-	Mortgage loans and other loans	(309,474)
Micro fair value hedge	-	-	-	(1,158)	Borrowings	497

Amounts reclassified from reserves to P&L as:

Fair value hedges	Gains / (loss) recognised in OCI	Hedge ineffective-ness recognised in P&L	P&L line item that includes hedge ineffective-ness	Hedged cash flows will no longer occur	Hedged item affected P&L	P&L line item that includes reclassified amount
Interest rate						
Macro fair value hedge	N/A	34,180	Result on financial transactions	N/A	N/A	N/A
Micro fair value hedge	N/A	(312)	Result on financial transactions	N/A	N/A	N/A

10 Intangible assets

Cost	Software
At January 1, 2022	-
Additions	3,690
Other movements	-
At December 31, 2022	**3,690**

During the 4th quarter of 2022 Knab capitalized expenses in relation to software development. As per year end 2022 the software is not in use.

11 Other assets and receivables

	2022	2021
Receivables	81,653	82,255
Accrued income	62,736	51,721
Total	**144,389**	**133,976**

Receivables

	2022	2021
Investment debtors	80,723	36,326
Current account with group companies	-	45,283
Other	930	646
Total	**81,653**	**82,255**
Current	81,645	82,247
Non-current	8	8
Total	**81,653**	**82,255**

Current accounts with group companies compromised a payable to Aegon Nederland N.V. of EUR 82.1 million (2021: EUR 45.3 million receivable). Refer to note 'Other liabilities and accruals' for the disclosure on the payable to Aegon Nederland N.V.

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

Accrued income

	2022	2021
Accrued interest	62,736	51,721
At December 31	**62,736**	**51,721**

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

12 Savings deposits

	2022	2021
At January 1	11,586,074	12,539,843
Deposits	21,376,287	19,006,119
Withdrawals	(21,008,938)	(20,018,103)
Interest credited	55,742	58,216
At December 31	**12,009,165**	**11,586,074**
Current	9,737,838	8,947,330
Non-current	2,271,327	2,638,744
Total	**12,009,165**	**11,586,074**

Savings deposits comprised EUR 1,076 million of savings related to 'Bankspaarhypotheken' (2021: EUR 1,040 million). Deposits received for 'Bankspaarhypotheken' are directly invested in a subparticipation of the customer's mortgage. The subparticipations in the mortgages and the related deposits are shown as gross amounts in the financial statements, as there is no intention to (directly) offset the mortgage against the deposit.

13 Borrowings

	2022	2021
Borrowings	3,805,062	2,988,586
At December 31	**3,805,062**	**2,988,586**
Current	1,314,426	126
Non-current	2,490,636	2,988,460
Total	**3,805,062**	**2,988,586**
Fair value	3,497,292	3,027,015

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

Issue	Issue date	Par value	Maturity date	Interest rate
Conditional Pass-Through Covered Bond Program				
Cobo 2	May-16	500	May-23	0.25%
Cobo 3	Jun-17	500	Jun-27	0.75%
Cobo 4	Nov-17	500	Nov-24	0.38%
Cobo 5	Nov-20	500	Nov-25	0.01%
Soft Bullet Covered Bond Program				
Cobo SB 1	Jun-21	500	Jun-36	0.38%
Other issues				
SNP	Jun-19	500	Jun-24	0.63%

Covered bond (Cobo)

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

Senior Non Preferred Notes (SNP)

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

Other loans

Other loans mainly consits of a loan amounting to EUR 807 million (2021: EUR 294 million receivable) to Aegon Derivatives related to cash collateral posted for derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Knab. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values of derivatives and is settled daily.

Aegon Bank has granted Aegon N.V. a loan in relation to collateral for foreign exchange transactions. The loan represented a payable of EUR 7.3 million in 2022 (2021: EUR 3.3 million receivable).

14 Net deferred tax liabilities

	2022	2021
Net deferred tax liabilities	57,719	80,744
Total net deferred tax liability / (asset)	**57,719**	**80,744**

Movements in deferred tax

Financial assets	**2022**	2021
At January 1	**80,744**	**84,810**
Charged to income statement	(3,971)	(878)
Charged to equity	(19,054)	(3,188)
At December 31	**57,719**	**80,744**

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

The future change in Dutch corporate income tax rates had a negative impact of EUR 4.6 million in 2021, which was processed through deferred taxes. No tax rate changes were introduced by the Dutch government in 2022.

15 Provisions

	2022	2021
Other provisions	1,181	10,248
Total	**1,181**	**10,248**
Current	1,181	10,248
Non-current	-	-
Total	**1,181**	**10,248**

The provisions mainly relates to pending claims and litigations. Aegon Bank was involved in claims for compensation and the cancellation or nullification of contracts concerning the Vliegwiel product, a variation on securities leasing products. In prior years proceedings took place at 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 2021, Aegon Bank reached an agreement in principle with Leaseproces B.V. for the settlement of claims filed by Leaseproces regarding Vliegwiel and Sprintplan products. The settlement was confirmed and became final on September 13, 2021. Full performance of the agreement ended in 2022. There are still some individual claims pending before the courts and the Dutch Institute for Financial Disputes (Kifid).

Movements in provisions

	2022	2021
At January 1	**10,248**	**49,054**
Additions charged / (reversal) to income statement	(248)	2,115
Used during the year	(8,819)	(40,921)
At December 31	**1,181**	**10,248**

16 Other liabilities and accruals

	2022	2021
Other liabilities	140,328	212,036
Accruals	41,797	60,132
Total	**182,125**	**272,167**

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

Other liabilities

	2022	2021
Investment creditors	4,907	8,075
Income tax payable	13,163	38,193
Social security and taxes payable	5,913	16,581
Current account with group companies	82,051	113,737
Other creditors	34,294	35,449
Total	**140,328**	**212,036**
Current	140,328	212,036
Non-current	-	-
Total	**140,328**	**212,036**

Current accounts with group companies comprised a payment obligation to Aegon Hypotheken B.V. of EUR 42.9 million (2021: EUR 113.7 million) resulting from the originated loans by Aegon Hypotheken B.V. around year-end and a payble to Aegon Nederland of EUR 39.1 million.

Accruals

	2022	2021
Accrued interest	41,797	60,132
Total	**41,797**	**60,132**
Current	41,797	60,132
Non-current	-	-
Total	**41,797**	**60,132**

Accrued interest relates to the outstanding interest to be paid on Saving products and Borrowings.

17 Equity

	2022	2021
Share capital	37,437	37,437
Share premium	476,751	476,751
Revaluation reserves	(52,827)	1,973
Retained earnings	209,068	127,973
Participations	9,500	9,500
Net income / (loss)	32,192	81,601
Total	**712,121**	**735,234**

In 2022, Knab did not pay a dividend (2021: EUR 45.0 million). Distributed dividend in 2021 per share outstanding amounts to EUR 500.

The revaluation reserve and other legal reserves cannot be freely distributed. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts. An 'Other legal reserves' is recognized in the standalone financial statements. This reserve relates to software that has been capitalized (accounted for under 'Intangibles')

Share capital

	2022	2021
Authorized share capital	90,000	90,000
Not issued	52,563	52,563
Total	**37,437**	**37,437**

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

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

Revaluation reserves

	2022	2021
At January 1	**1,972**	**11,583**
Gross revaluation	(83,299)	(10,539)
Net (gains) / losses transferred to income statement	9,445	(2,260)
Tax effect	19,054	3,188
At December 31	**(52,827)**	**1,972**

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

Participations

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

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

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, 2022, Aegon Bank had issued 1,900 participations with a corresponding value of EUR 9.5 million (2021: 1,900 participations with a corresponding value of EUR 9.5 million).

18 Interest income and expense

Interest income

Interest income calculated using the effective interest method	2022	2021
Amounts due from banks	8,181	-
Mortgage loans and other loans	319,658	370,668
Debt securities	1,135	432
At December 31	**328,975**	**371,099**

	2022	2021
Financial assets measured at FVOCI	1,135	432
Amortized cost	327,840	370,668
Total	**328,975**	**371,099**

Mortgage loans and other loans comprised EUR 264.9 million (2021: EUR 280.3 million) in mortgages, EUR 21.5 million (2021: EUR 46.5 million) in consumer loans and EUR 33.2 million (2021: EUR 43.8 million) in SME loans.

Interest expense

Interest expenses calculated using the effective interest method	2022	2021
Cash	4,314	5,511
Savings deposits	51,231	54,862
Covered bonds and SNP notes	13,979	13,161
Other	38	463
Total	**69,563**	**73,997**

Other interest expenses	2022	2021
Derivatives	42,741	79,228
Total	**42,741**	**79,228**

	2022	2021
Amortized cost	69,563	73,997
Financial liabilities measured at FVPL	42,741	79,228
Total	**112,304**	**153,225**

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

19 Fee and commission income and expense

Fee and commission income

	2022	2021
Revenue from customer transactions	32,450	26,310
Total	**32,450**	**26,310**

Revenues from customer transactions includes for EUR 6.5 million (2021: EUR 6.2 million) fees charged to Aegon Hypotheken B.V. in relation to the 'Banksparen' mortgage product. The Revenue from customer transactions is comprised of fee charged to Knab customers for monthly package fees.

Fee and commission expense

	2022	2021
Commissions	1,869	1,933
Total	**1,869**	**1,933**

20 Result on financial transactions

	2022	2021
Net fair value change of guarantees	1,885	2,711
Net fair value change of derivatives	(36,171)	10,535
Realized gains / (losses) on mortgage loans	-	361
Realized gains / (losses) on consumer loans and SME loans	1,479	784
Realized gains / (losses) on financial assets measured at FVOCI	(9,175)	3,172
Total	**(41,982)**	**17,563**

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

21 Employee expenses and other operating expenses

Employee expenses

At December 31, 2022, Aegon Netherlands employed 383 FTEs (2021: 386 FTEs) who carried out work for Knab or its subsidiaries. All staff are based in the Netherlands. The salaries, social security contributions and pension contributions for staff employed by Aegon Netherlands are recharged to Knab. The total staff costs including intra-group charges are shown in the table below.

	2022	2021
Salaries	28,337	26,254
Post-employment benefit costs	5,577	5,220
Social security charges	3,382	3,310
Other personnel costs	19,646	18,933
Total	**56,941**	**53,716**

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

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

Other operating expenses

	2022	2021
IT and consultancy fees	26,264	24,056
Investment expenses	33,484	34,785
Recharged costs of support organizations	12,074	13,568
Other expenses	36,504	46,333
Total	**108,327**	**118,742**

Operating expenses decreased primarily driven by lower expenses for Knab's regulatory projects and lower investment expenses offset by higher expenses related to the building of Knab lending business.

Independent auditor's fee

PricewaterhouseCoopers Accountants N.V. were Knab's independent external auditors during 2022 and they have audited these financial statements. Under Section 382a.3 of Book 2 of the Dutch Civil Code, the fees for services rendered to Knab do not need to be disclosed in this Annual Report. The aggregate fees for professional services and other services rendered by PricewaterhouseCoopers Accountants N.V. to the Aegon Group as a whole are disclosed in Aegon N.V.'s Annual Report.

For the period to which the statutory audit 2022 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 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 of the soft bullet covered bond;
- Review report on Q3 and Q4 finrep reports;
- ISAE 3402 reporting on Deposit Guarantee System;
- Assurance report on "Netto Havenpensioen";
- Agreed upon procedures on asset coverage test and liquidity reserve test for the covered bond programs.

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).

	2022	2021
Members of the Board of Directors		
Gross salary and social security contributions	868,446	936,886
Pension premium	7,652	9,126
Other benefits	150,568	138,273
Total	**1,026,666**	**1,084,285**

Mortgage loans to Statutory Board

On the reporting date, no members of the Statutory Board had mortgage loans from a company associated with Knab (2021: EUR 784,000 at variable interest rates ranging from 1,54% to 4,55% in line with the terms and conditions available to Knab employees). During 2022, the amount in mortgages decreased by EUR 784,000 (2021: decrease of EUR 33,000). There were no other loans, guarantees or advance payments.

Variable Compensation Plans

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

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

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

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

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

Variable compensation for members of the Statutory Board

The following table shows the rights granted for active plans.

Variable compensation plan for year:	Conditionally granted shares	Actual shares granted	Transferred in period
2022	N/A	N/A	N/A
2021	N/A	N/A	N/A
2020	N/A	N/A	N/A
2019	11,235	6,441	2020-2023
2018	8,256	8,163	2019-2022

On January 1, 2020, Knab abolished the variable pay system in its entirety and so no shares were granted in 2022 or 2021.

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

Movements during the year	**2022**	2021
Unvested at January 1	5,842	8,394
Reversal conditionally granted		
Number of shares conditionally granted *	N/A	N/A
Number of shares allocated		
Number of shares vested	(1,394)	(2,552)
Unvested at December 31	**4,448**	**5,842**

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
2022	N/A	N/A
2021	N/A	N/A
2020	N/A	N/A
2019	2,741 to 3,737	4.162
2018	4,143 to 5,054	5.848

Unvested shares by plan year	**2022**	2021
2021	N/A	N/A
2020	N/A	N/A
2019	4,448	4,754
2018	-	1,088
Unvested at December 31	**4,448**	**5,842**

Remuneration of (former) Supervisory Board members

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

The remuneration of current and former supervisory directors charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code was EUR 66.994 (2021: EUR 111.439), consisting entirely of gross pay and the employer's share of social security contributions.

22 Impairment losses

	2022	2021
Impairment charges comprise:		
- Financial assets measured at fair value through other comprehensive income	270	911
- Loans	(3,653)	(25,676)
Total	**(3,383)**	**(24,764)**

The impairment result regarding loans in 2022 is positive due to net reversals of impairments on SME loans by EUR 6.8 million (2021: EUR 17.2 million net reversal) off set by impairment losses on mortgages by EUR 1.7 million (2021: EUR 1.5 million reversal) and impairment losses on consumer loans by EUR 1.5 million (2021: EUR 6.8 million net reversal) . See note 'Loss allowance'.

23 Income tax

	2022	2021
Current tax		
- current year	15,165	32,179
- adjustments to prior year	-	(782)
Deferred tax		
- origination / (reversal) of temporary differences	(3,971)	(4,149)
- changes in tax rates / bases	-	2,489
- adjustments to prior years	-	782
Income tax for the period (income) / charge	**11,193**	**30,519**

The weighted average applicable statutory tax rate for Knab in 2022 was 25.8% (2021: 25.0%) The newly enacted tax rate (from 25% to 25.8%) had a negative impact of EUR 2.5 million in 2021, which was processed through deferred taxes.

Reconciliation between standard and effective income tax

	2022	2021
Income / (loss) before tax	43,385	112,120
Income tax calculated using weighted average applicable statutory rates (income) / charge	11,193	28,030
Difference due to the effects of:		
- changes in tax rates / bases	-	2,489
Income tax for the period (income) / charge	**11,193**	**30,519**

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

24 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.

	2022		2021	
	Trading	Designated	Trading	Designated
Derivatives with positive values	34,466	1,601,636	28,772	183,088
Total financial assets at FVTPL	**34,466**	**1,601,636**	**28,772**	**183,088**
Derivatives with negative values	15,229	784,446	21,331	455,745
Total financial liabilities at FVTPL	**15,229**	**784,446**	**21,331**	**455,745**

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

	2022		2021	
	Trading	Designated	Trading	Designated
Net gains and losses	**12,643**	**(23,763)**	**(52,610)**	**24,545**

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).

25 Commitments and contingencies

Investments contracts

Knab has entered into commitments under investment purchase and sales transactions in the normal course of its business, most of which were to be performed in 2022. The amounts shown represent the future cash outflows and inflows from these investment transactions that are not reflected in the statement of financial position. Mortgage loan commitments represent undrawn mortgage loan facilities provided and outstanding mortgage proposals. Sales of mortgage loans relate to pre-announced redemptions on mortgage loans.

Purchases	2022	2021
Loans to private individuals and SME loans	-	23,821
Mortgage loans	949,312	782,374

Purchases for mortgages include the outstanding amount of construction deposits In the Netherlands, mortgage customers can take a construction deposit for home construction and improvements as part of their mortgage. Undrawn amounts of construction deposits are netted against the outstanding total mortgage loans. At December 31, 2022, an amount of EUR 165 million (2021: EUR 137 million) of construction deposits is undrawn.

Sales	2022	2021
Mortgage loans	15,169	21,914

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

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

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

Knab's financial services include distributing investment funds that operate on the retail market. These assets are held by customers and, accordingly, are not reported in Knab's statement of financial position. The total amount of assets related to these services was EUR 318 million (2021: EUR 372 million).

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

The Dutch Ministry of Finance and the DNB created a fund to finance the Deposit Guarantee Scheme. Under the funding method, banks pay risk-weighted ex-ante contributions into the DGS. This new policy took effect on 1 January 2016.

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

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

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

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

In the normal course of business, Knab may be involved, among other things, in the following transactions:
- Transferred financial assets that are not derecognized in their entirety:
  - Securities lending, whereby Knab transfers legal (but not the beneficial) ownership of assets and receives cash and non-cash collateral. The assets transferred are not derecognized. The obligation to repay the cash collateral is recognized as a liability. The non-cash collateral is not recognized in on the statement of financial position; and
- Transferred financial assets that are derecognized in their entirety and in which Knab does not have a continuing involvement (normal sale).

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

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

Assets pledged

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

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

The value of the collateral posted was EUR 1,179 million (2021: EUR 1,433 million). The difference between the collateral value and ECB loans is available as an additional credit facility (2022: EUR 1,179 million; 2021: EUR 1,433 million).

As part of Knab's mortgage loan funding program, EUR 2.9 billion (2021: EUR 2.9 billion) has been pledged as security for notes issued (See to note 'Borrowings').

27 Offsetting, enforceable master netting agreements, and similar arrangements

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

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

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

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

2022	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statements of financial position Financial instruments	Related amounts not set off in the statements of financial position Cash collateral received (excluding surplus collateral)	Net amount
Derivatives	1,636,106	-	1,636,106	798,845	814,547	22,714
At December 31, 2022	**1,636,106**	**-**	**1,636,106**	**798,845**	**814,547**	**22,714**

2021	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statements of financial position Financial instruments	Related amounts not set off in the statements of financial position Cash collateral received (excluding surplus collateral)	Net amount
Derivatives	211,860	-	211,860	211,860	-	-
At December 31, 2021	**211,860**	**-**	**211,860**	**211,860**	**-**	**-**

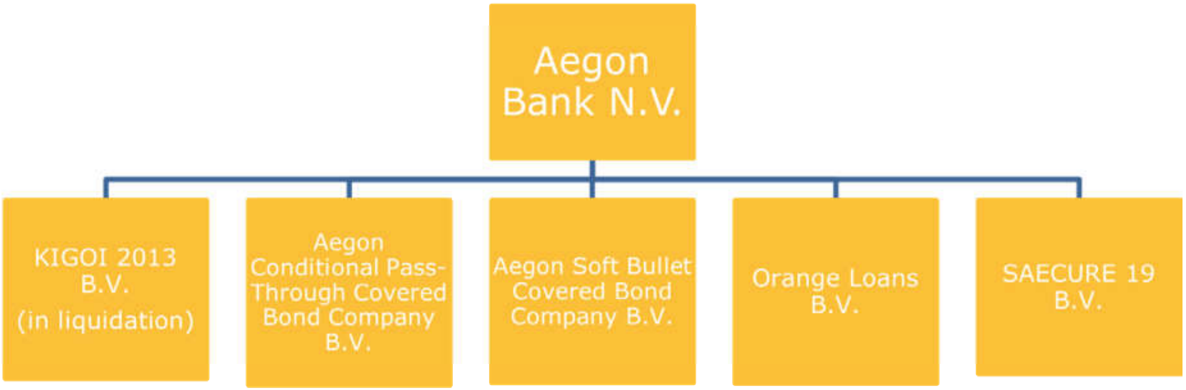
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2022	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assetss set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statements of financial position Financial instruments	Related amounts not set off in the statements of financial position Cash collateral received (excluding surplus collateral)	Net amount
Derivatives	798,845	-	798,845	798,845	-	-
At December 31	**798,845**	**-**	**798,845**	**798,845**	**-**	**-**

2021	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statements of financial position Financial instruments	Related amounts not set off in the statements of financial position Cash collateral received (excluding surplus collateral)	Net amount
Derivatives	474,491	-	474,491	211,860	297,356	(34,725)
At December 31	**474,491**	**-**	**474,491**	**211,860**	**297,356**	**(34,725)**

28 Group companies

Orange loans B.V., Knab's principal subsidiary, and the following structured entities have been consolidated at year-end 2022 :



Wholly owned subsidiaries

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

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

Investments in structured entities

Aegon Conditional Pass-Through Covered Bond Company B.V., Aegon Soft Bullet Covered Bond Company B.V. and SAECURE 19 B.V are not subsidiaries of Aegon Bank N.V. Because Aegon Bank N.V. has control over the structured entities, the special purpose entities have been consolidated as group companies (see also note 'Basis of consolidation').

The structured entities were set up for the purpose of securitizing mortgage loans and private loans. The contracts with these entities do not include provisions pursuant to which Aegon Bank N.V. could be required to provide financial support in certain circumstances. Aegon Bank N.V. has not provided, nor does it intend to provide, financial or other support without having a contractual obligation to do so.

As per 1st of October 2022 KIGOI 2013 B.V. was put in liquidation and the related consumer loans portfolio were sold.

29 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 Aegon entities as related parties:
- Aegon N.V.;
- Aegon Nederland N.V.;
- Aegon Levensverzekering N.V.;
- Aegon Hypotheken B.V.;
- Aegon Investment Management B.V.;
- Aegon Derivatives N.V.;
- Aegon Custody B.V.

Aegon N.V.

Aegon Bank N.V. is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax group as if it were an autonomous taxpayer. Aegon Bank N.V. is jointly and severally liable for all tax liabilities of the entire tax group.

Aegon Bank has granted Aegon N.V. a loan in relation to collateral for foreign exchange transactions. The loan represented a payable of EUR 7.3 million in 2022 (2021: EUR 3.3 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 terms and conditions of these products are the same for key management personnel and other staff.

Aegon Bank N.V. offers products to employees of Aegon Nederland N.V., including key management personnel of Aegon Bank N.V. itself, on the same terms and conditions as for other members of staff.

Aegon Nederland N.V. provides Aegon Bank N.V. with administrative support and facilities at cost. All transactions with group companies pass through Aegon Bank N.V. and are accounted for in the current account with Aegon Bank N.V. Total recharged expenses in 2022 were EUR 12.1 million (2021: EUR 13.5 million).

At the end of the year, Aegon Bank N.V. had a current account liability to Aegon Nederland N.V. of EUR 39.1 million (2021: EUR 45.3 million asset). EUR 0.0 million (2021: 0.5 million) of interest on the intercompany current account was charged through the income statement in 2022.

Aegon Bank N.V. paid no dividend to Aegon Nederland N.V. in 2022 (2021: EUR 45.0 million).

Aegon Hypotheken B.V.

Mortgages held by Aegon Bank N.V. are managed and administered by Aegon Hypotheken B.V. The recharge for these services was EUR 21.1 million (2021: EUR 20.2 million).

Aegon Hypotheken originated mortgages for Aegon Bank for a total amount of EUR 1.896 million (2021: EUR 1.646 million). In 2022 Aegon Hypotheken sold a mortgage portfolio to Aegon Bank for EUR 90.7 million (2021: EUR 0 million).

At the end of the year, Aegon Bank N.V. had a current account liability to Aegon Hypotheken B.V. of EUR 42.9 million (2021: liability EUR 113.7 million). No interest is charged regarding this account liability.

Aegon Bank N.V. offers a 'Banksparen' mortgage product in cooperation with Aegon Hypotheken B.V.. Aegon Hypotheken B.V. paid Aegon Bank N.V. EUR 6.5 million for this service in 2022 (2021: EUR 6.2 million). The recharges are on normal commercial terms.

Aegon Investment Management B.V./Aegon Derivatives N.V./Aegon Custody B.V.

Investment and derivative activities are undertaken through Aegon Investment Management B.V. and Aegon Derivatives N.V. and securities custody through Aegon Custody B.V. Costs are recharged on normal commercial terms. In 2022, the recharge was EUR 1.0 million (2021: EUR 1.3 million). Aegon Bank N.V. has received cash collateral on derivative positions via Aegon Derivatives N.V., see also note 'Amounts due from banks'.

Aegon Bank has granted a loan amounting to EUR 807 million (2021: EUR 294 million receivable) to Aegon Derivatives related to cash collateral posted for derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Knab. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values of derivatives and is settled daily.

30 Events after the statement of financial position date

In March 2023 Orange Loans B.V. and Zopa bank reached a loan portfolio sale agreement. Based on the agreement Orange Loans sold the performing part of the Zopa portfolio for a consideration of EUR 43.6 million resulting in a small loss. The remaining part of the ZOPA portfolio amounted to EUR 0.7 million as per March 31, 2023.

Approval of the consolidated financial statements

Knab's consolidated financial statements for the year ended 31 December 2022 were approved by the Board of Directors and the Supervisory Board on April 20, 2022.

The consolidated financial statements will be submitted for adoption to the General Meeting of Shareholders. General Meeting of Shareholders may decide not to adopt the consolidated financial statements, but cannot amend them at the meeting.

Supervisory Board:

E.D. Drok

C. Korthout

W. van de Kraats

Statutory Board:

N.J.A. Klokke

M.R. de Boer

T. van Zalen

Aegon Bank N.V.'s Company Financial Statements 2022

Aegon Bank N.V.'s Company Financial Statements

Report of the Management Board

See Report of the Management Board of the consolidated Financial Statements.

Statement of financial position

for the year ended 31 December 2022

(before profit appropriation)

Amounts in EUR thousands	Note	31-12-2022	31-12-2021
Assets			
Cash	3	2,616,208	859,629
Amounts due from banks	4	93,321	81,308
Mortgage loans and other loans	5	11,919,145	13,027,090
Group companies	6	57,343	40,433
Financial assets measured at fair value through other comprehensive income	7	1,069,068	1,772,421
Derivatives	8	1,636,101	211,860
Intangible assets	9	3,690	-
Other assets and receivables	10	141,790	135,255
Total assets		**17,536,667**	**16,127,997**
Equity and liabilities			
Savings deposits	11	12,009,165	11,586,074
Borrowings	12	3,805,062	2,988,586
Derivatives	8	799,675	477,076
Net deferred tax liabilities	13	57,719	80,744
Provisions	14	1,181	10,248
Other liabilities and accruals	15	151,745	250,034
Total liabilities		**16,824,546**	**15,392,762**
Equity			
- Share capital		37,437	37,437
- Share premium		474,013	476,751
- Revaluation reserves		(52,827)	1,973
- Retained earnings		209,068	127,973
- Participations		9,500	9,500
- Other legal reserves		2,738	
- Net income / (loss)		32,192	81,601
Total equity	16	**712,122**	**735,235**
Total equity and liabilities		**17,536,667**	**16,127,997**

Income statement

for the year ended 31 December 2022

Amounts in EUR thousands	2022	2021
Income		
Interest income calculated using the effective interest method	297,828	319,407
Other interest income	-	-
Interest expense calculated using the effective interest method	(69,539)	(73,915)
Other interest expenses	(42,741)	(79,228)
Net interest income	**185,548**	**166,264**
Fee and commission income	32,450	26,310
Fee and commission expense	(1,869)	(1,933)
Net fee and commission income	**30,581**	**24,377**
Result on financial transactions	(37,913)	17,520
Impairment losses	(1,433)	7,651
Total income	**176,783**	**215,812**
Expenses		
Employee expenses	56,941	53,716
Other operating expenses	99,246	107,705
Total expenses	**156,187**	**161,421**
Income / (loss) before tax	**20,596**	**54,391**
Income tax	(5,314)	(16,087)
Net income attributable to the parent company	**15,282**	**38,304**
Net income / (loss) group companies	16,910	43,297
Net income / (loss)	**32,192**	**81,601**

Notes to the companies financial statements

1 General information

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

Aegon Bank N.V. and its group companies specialize in developing, selling and servicing savings and investment products to help their customers accumulate wealth and to make savings and investing more tangible, relevant and easy – all the things our customers need for a carefree financial future

2 Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Dutch accounting principles as embodied in Part 9 of Book 2 of the Dutch Civil Code. Based on Section 2:362.8 of the Dutch Civil Code, the valuation principles applied are based on International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and used for the preparation of Knab's consolidated financial statements.

For information on the accounting policies, see note 'Significant accounting policies' in the consolidated financial statements. These also apply to the company financial statements, unless stated otherwise.

For disclosures on risk management, see to note 'Risk Management' in the consolidated financial statements.

Group companies

The group companies are stated at their net asset value, measured in accordance with IFRS as applied to the Group's consolidated financial statements. When the net asset value of a group company is negative, the result for the period that cannot be attributed to the group company's net asset value will be attributed to its loan receivables. Any positive results in subsequent periods will first be attributed to the net asset value of the loans before the profit is attributed again to the subsidiary's net asset value. When the measurement of a group company based on its net asset value is negative, it will be carried at nil value.

3 Cash

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

4 Amounts due from banks

	2022	2021
Bank accounts	93,321	81,308
Total	**93,321**	**81,308**

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

	2022	2021
Loans to the private sector		
- Mortgage loans	11,637,940	11,961,342
- Loans to private individuals and Small and Medium Enterprise loans	-	238,436
- Other loans	281,205	827,311
Total	**11,919,145**	**13,027,090**
Fair value	11,217,768	13,758,533
Current	1,350,108	2,039,545
Non-current	10,569,037	10,987,544
Total	**11,919,145**	**13,027,090**

During 2022 Knab sold its Auxmoney and Kigoi portfolios. These portfolios were held by the company and accounted in the line item loans to private individuals and Small and Medium Enterprise loans.

On May 28, 2020, Knab sold EUR 1.7 billion of mortgage loans to an SPE and purchased all of the debt securities issued by the SPE (SAECURE 19 B.V.). Knab controls the SPE, which is therefore consolidated by Knab. Substantially all of the risks and rewards were retained by Knab. Because interest rate risk and credit, late payment and prepayment risks were not transferred (or not fully), the mortgage loans transferred were not derecognized in the company financial statements.

6 Group companies

	2022	2021
At January 1	40,433	-
Net income / (loss) for the financial year attributed to group company	16,909	40,433
Total	**57,343**	**40,433**

For a list of group companies, see note ‘Group Companies’ to the consolidated financial statements.

7 Other financial assets

	2022	2021
Financial assets measured at fair value through other comprehensive income	1,069,068	1,772,421
Total financial assets, excluding derivatives	**1,069,068**	**1,772,421**

2022	FVOCI	Total	Fair value
Debt securities	1,069,068	1,069,068	1,069,068
At December 31	**1,069,068**	**1,069,068**	**1,069,068**

2021	FVOCI	Total	Fair value
Debt securities	1,772,421	1,772,421	1,772,421
At December 31	**1,772,421**	**1,772,421**	**1,772,421**

	2022	2021
Current	130,260	136,798
Non-current	938,809	1,635,623
Total financial assets, excluding derivatives	**1,069,068**	**1,772,421**

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

	Debt securities FVOCI	Mortgage loans	CL SME loans and other loans	Total
At January 1, 2022	1,772,420	11,961,343	1,065,747	14,799,510
Acquisitions	584,154	1,988,589	100	2,572,843
Redemptions and sales	(1,191,672)	(1,145,196)	(773,589)	(3,110,457)
Unrealized gains and losses	(73,854)	(1,105,886)	-	(1,179,739)
Amortizations through income statement	(12,536)	(59,229)	(353)	(72,118)
Realized gains and losses	(9,175)	-	1,479	(7,696)
Impairment (losses) / reversals	(270)	(1,681)	518	(1,433)
FX and other movements	-	-	(12,697)	(12,697)
At December 31, 2022	**1,069,068**	**11,637,940**	**281,205**	**12,988,213**

	Debt securities FVOCI	Mortgage loans	CL SME loans and other loans	Total
At January 1, 2021	1,456,139	11,978,497	1,762,254	15,196,891
Acquisitions	702,425	1,685,034	3,483	2,390,942
Redemptions and sales	(358,117)	(1,322,132)	(771,525)	(2,451,774)
Unrealized gains and losses	(12,799)	(309,474)	-	(322,273)
Amortizations through income statement	(17,488)	(72,440)	(509)	(90,438)
Realized gains and losses	3,172	361	-	3,533
Impairment (losses) / reversals	(911)	1,496	7,066	7,651
FX and other movements	-	-	64,979	64,979
At December 31, 2021	**1,772,420**	**11,961,343**	**1,065,747**	**14,799,511**

8 Derivatives

See note 'Derivatives' to the consolidated financial statements.

9 Intangible assets

See note 'Intangible assets' of to the consolidated financial statements.

10 Other assets and receivables

Receivables

	2022	2021
Investment debtors	80,723	36,326
Current accounts with group companies	-	54,309
Other	930	646
Accrued income	60,137	43,975
Total	**141,790**	**135,256**
Current	141,782	135,247
Non-current	8	8
Total	**141,790**	**135,255**

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

11 Savings deposits

See note 'Savings deposits' to the consolidated financial statements.

12 Borrowings

	2022	2021
Borrowings	3,805,062	2,988,586
At December 31	**3,805,062**	**2,988,586**
Current	1,314,426	126
Non-current	2,490,636	2,988,460
Total	**3,805,062**	**2,988,586**
Fair value	3,497,292	3,027,015

	2022	2021
At January 1	2,988,586	2,612,894
Acquisitions	816,601	493,485
Disposals	-	(116,853)
Amortization	(126)	940
At December 31	**3,805,062**	**2,988,586**

For more information, see note 'Borrowings' to the consolidated financial statements.

13 Net deferred tax liabilities

See note 'Net deferred tax liabilities' to the consolidated financial statements.

14 Provisions

See note 'Provisions' to the consolidated financial statements.

15 Other liabilities and accruals

	2022	2021
Other liabilities	109,947	189,902
Accruals	41,797	60,132
Total	**151,745**	**250,034**

Other liabilities

	2022	2021
Investment creditors	1,211	374
Income tax payable	7,284	23,761
Current accounts with group companies	61,246	113,737
Social security and taxes payable	5,913	16,581
Other creditors	34,294	35,449
Total	**109,947**	**189,902**
Current	109,947	189,902
Non-current	-	-
Total	**109,947**	**189,902**

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

Accruals

	2022	2021
Accrued interest	41,797	60,132
Total	**41,797**	**60,132**
Current	41,797	60,132
Non-current	-	-
Total	**41,797**	**60,132**

This item comprises interest payable and is classified entirely as a current liability. The carrying amounts disclosed reasonably approximate the fair values at year-end.

16 Equity

	2022	2021
Share capital	37,437	37,437
Share premium	474,013	476,751
Revaluation reserves	(52,827)	1,973
Retained earnings	209,068	127,973
Participations	9,500	9,500
Other legal reserves	2,738	-
Net income / (loss)	32,192	81,601
Total	**712,122**	**735,234**

Share capital

	2022	2021
Authorized share capital	90,000	90,000
Not issued	52,563	52,563
Total	**37,437**	**37,437**

The authorized share capital is EUR 90 million, divided into 90,000 common shares with a par value of EUR 1,000.00 each, 37,437 shares of which have been issued and fully paid. There have been no changes since the previous financial year. In 2022, Aegon Bank N.V. paid no dividends to Aegon Nederland N.V. (2021: EUR 45 million),

Statement of changes in equity after profit appropriation

2022	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participa-tions	Other legal reserves	Total
At January 1, 2022	37,437	476,751	209,574	1,973	9,500	-	735,234
Net income / (loss) recognized in the income statement	-	-	32,192	-	-	-	32,192
Other comprehensive income / (loss)	-	-	-	(54,799)	-	-	(54,799)
Total comprehensive income / (loss)	**-**	**-**	**32,192**	**(54,799)**	**-**	**-**	**(22,608)**
Dividends paid on participations	-	-	(505)	-	-	-	(505)
Dividends paid on common shares	-	-	-	-	-	-	-
Transfers	-	(2,738)	-	-	-	2,738	
At December 31, 2022	**37,437**	**474,013**	**241,260**	**(52,827)**	**9,500**	**2,738**	**712,122**

2021	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participa-tions	Other legal reserves	Total
At January 1, 2021	37,437	476,751	173,447	11,584	9,500		708,719
Net income / (loss) recognized in the income statement	-	-	81,601	-	-		81,601
Other comprehensive income / (loss)	-	-	-	(9,611)	-	-	(9,611)
Total comprehensive income / (loss)	**-**	**-**	**81,601**	**(9,611)**	**-**	**-**	**71,990**
Dividends paid on participations	-	-	(475)	-	-	-	(475)
Dividends paid on common shares	-	-	(45,000)	-	-	-	(45,000)
At December 31, 2021	**37,437**	**476,751**	**209,574**	**1,973**	**9,500**	**-**	**735,235**

Please refer to note 'Equity' of the consolidated financial statements for more information on equity.

17 Employees

Please refer to note 'Employee expenses and other operating expenses' of the consolidated financial statements for information on employee expenses and number of FTEs employed.

18 Income tax

Refer to note 'Income tax' of the consolidated financial statements for information on the weighted average applicable statutory tax rate for Knab.

19 Remuneration of the Statutory Board and Supervisory Board

Refer to note of the consolidated financial statements for information on the remuneration of the Statutory Board and Supervisory Board.

20 Independent Auditor's fees

Please refer to note 'Employee expenses and other operating expenses' of the consolidated financial statements for information on the fees paid to the independent Auditor.

21 Related party transactions

Orange Loans B.V. invests in UK-originated consumer loans and SME loans on behalf of Aegon Bank N.V. These investment activities are funded through an intercompany loan between Aegon Bank N.V. and Orange Loans B.V. At year-end 2022 the net asset value of the loan amounted to EUR 281 million (2021: EUR 530 million). The loan is rolled forward on a (bi-)monthly basis. The coupon of the loan is based on a one-month compounded SONIA + 100 basis points.

See note 'Related party transactions' of the consolidated financial statements for information on the related party transactions.

22 Commitments and contingencies

See note 'Commitment and contingencies' of the consolidated financial statements for more information.

23 Events after the statement of financial position date

In March 2023 Orange Loans B.V. and Zopa bank reached a loan portfolio sale agreement. Based on the agreement Orange Loans sold the performing part of the Zopa portfolio for a consideration of EUR 43.6 million resulting in a small loss. The remaining part of the ZOPA portfolio amounted to EUR 0.7m as per March 31, 2023.

24 Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to appropriate the result for the financial year as follows:

To be added to the retained earnings	32.192
Net result	**32.192**

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

Amsterdam, April 20, 2023

Supervisory Board

E.D. Drok

C. Korthout

W. van de Kraats

Statutory Board

N.J.A. Klokke

M.R. de Boer

T. van Zalen

Other information

Statutory provisions regarding profit appropriation

Any profit will be appropriated in accordance with article 23 of Aegon Bank N.V.'s Articles of Association. The relevant provisions read as follows:

- The profit made in any financial year will be at the disposal of the Annual General Meeting.
- The profit will be distributed after adoption of the financial statements showing this to be permissible.
- The Annual General Meeting may decide to pay an interim dividend if the requirements are met, as evidenced by an interim statement of net assets pursuant to Section 2:105 (4) of the Dutch Civil Code.
- The Annual General Meeting may decide to make interim and/or other distributions and charge them to a reserve of the company.
- Distributions on shares may only take place up to the amount of the distributable equity.

Independent auditor's report

To: the general meeting and the supervisory board of Aegon Bank N.V.

Report on the financial statements 2022

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 2022 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 2022 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 2022 of Aegon Bank N.V., Amsterdam. The financial statements comprise the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the following statements for 2022: the consolidated income statement, the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2022;
- the company income statement for the year then ended; and
- the notes, comprising a summary of the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

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The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Aegon Bank N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

We designed our audit procedures with respect to the key audit matters, fraud and going concern, and the matters resulting from that, in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The information in support of our opinion, such as our findings and observations related to individual key audit matters, the audit approach fraud risk and the audit approach going concern was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Overview and context

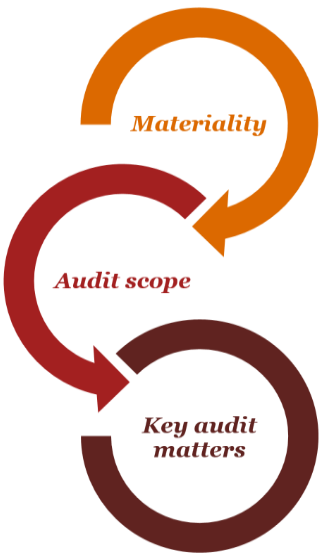
Aegon Bank N.V. is a bank that provides payment, savings and investment products. The Group invests primarily in mortgage loans and to a lesser extent in small and medium enterprise ('SME') loans and debt securities. Following the Bank's revised strategy and risk appetite, management sold part of its consumer lending portfolio before year-end. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. Note 3 'Critical accounting estimates and judgment in applying accounting policies' of the consolidated financial statements of the Group describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risk of material misstatement in the expected credit loss allowance for mortgage loans and other loans, we particularly considered this to be a key audit matter as set out in the section 'Key audit matters' of this report. Furthermore, we identified the application of macro fair value hedge accounting as key audit matter due to the detailed, formal and technical requirements in relation to the application of hedge accounting and the significance of the Group's exposure under hedge accounting.

Aegon Bank N.V. assessed the possible effects of climate change on its financial position, as well as their targets and KPIs as part of their sustainability efforts, in the sections 'Strategic risks' and 'Sustainability' in the report of the management board and the section 'Climate-related & environmental risks' in the financial statements. We discussed Aegon Bank N.V.'s assessment thereof with the management board and evaluated the potential impact on the financial position including underlying assumptions and estimates in respect of, amongst others, the expected credit loss allowance of mortgage and other loans and the valuation of debt securities. Considering the limited impact on the Group's current financial position, the impact of climate change is not considered a separate key audit matter.

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

The outline of our audit approach was as follows:



Materiality

- Overall materiality: €7,100,000

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 ('ECL') for mortgage loans and other loans
- Application of macro fair value hedge accounting

Materiality

The scope of our audit was influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€7,100,000 (2021: €7,300,000).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 1% of equity.
Rationale for benchmark applied	We performed a stakeholders' analysis that includes the perspective of the parent company, customers, creditors and regulators for assessing suitable benchmarks and thresholds for determining overall materiality. We consider, as a point of reference, that (average) profit before tax is the preferred materiality benchmark as it generally is seen as best representing the common interests of the stakeholders. However, we believe the Group's profit before tax over the past few years does not consistently reflect the underlying performance of the Group, mainly as a result of volatility of the results due to several one-off results and transactions. Therefore, we evaluated this benchmark and looked at alternatives. For the purpose of our audit, we concluded that equity is a meaningful benchmark that represents the interests of the stakeholders and is also reflective of the overall performance of the Group and its overall financial position. To ensure we determine an appropriate level of materiality, we assessed this benchmark against other benchmarks such as: interest margin, profit before tax and total assets. Based on the above considerations, we consider €7.1 million to be the appropriate overall materiality level.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them any misstatement identified during our audit above €350,000 (2021: €365,000) 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, 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 €8.7 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 28 'Group companies' of the consolidated financial statements form an integral part of the financial statements of Aegon Bank N.V. As a result, the group audit team also performed the audit work on the respective components. In doing so, the audit team selected specific balances and transactions within the Group for which audit procedures were considered necessary. Consequently, all the material and relevant line items, comprising underlying balances and transactions, were in scope of our audit.

Banks in general depend heavily on the reliability and continuity of their information technology (IT) environment. We engaged our IT specialists to assist us in assessing the ITGCs at the Group to the extent relevant and for the purpose of our audit.

This included the assessment of policies and procedures applied by the Group to ensure IT operates as intended and provides reliable data for financial reporting purposes. Furthermore, our IT specialists supported us in our key report testing and IT application controls testing.

Our approach was also tailored towards the fact that the Group makes use of several service organisations in its day-to-day operations amongst others with respect to the consumer and SME loan processing and administration services. We obtained evidence over the controls performed by the service organisations through, amongst others, obtaining and assessing ISAE 3402 reports from other auditors. These reports were issued by external auditors of whom we have assessed their independence, capability and objectivity. We concluded that we could rely on the work of these auditors for the purpose of our audit, supplemented by our own procedures. In addition, with respect to the consumer and SME loan portfolios, we reconciled the balances and positions to the service reports received from the external parties and reconciled a sample of individual loans to the underlying contracts.

By performing the procedures above, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Audit approach fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the Group and its environment and the components of the internal control system. This included the management board's risk assessment process, the management board's process for responding to the risks of fraud and monitoring the internal control system and how the supervisory board exercised oversight, as well as the outcomes. We refer to section 'Operational risks and Fraud risk' of the management report for management's fraud risk assessment.

We evaluated the design and relevant aspects of the internal control system with respect to the risks of material misstatements due to fraud and in particular the fraud risk assessment of management, as well as amongst others, the code of conduct, whistle blower procedures and incident registration and follow-up. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls designed to mitigate fraud risks. Further, we performed an assessment of matters reported as part of the complaints procedures and results of management's investigation of such matters.

We asked members of the management board as well as the internal audit department, legal affairs, compliance department and the supervisory board whether they are aware of any actual or suspected fraud. This did not result in signals of actual or suspected fraud that may lead to a material misstatement.

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 whether these factors indicate that a risk of material misstatement due to fraud is present. As described in the auditing standards, management override of controls and risk of fraud in revenue recognition are presumed risks of fraud. Based on our considerations of various factors, such as the high volume of individually small transactions, non-complex calculations, and our assessment of the inherent risk at the assertion level, the engagement team concluded that the risk of fraud in revenue recognition does not rise to the level of a significant risk for any of the revenue streams of the Group.

Based on the procedures described above we identified 'management override of controls', including the risk of management bias when setting assumptions, as a fraud risk and performed the following specific procedures:

Identified fraud risks	*Our audit work and observations*
Management override of controls In accordance with Standard 240.32, the risk of management override of controls is always considered to present a significant risk of fraud that cannot be rebutted. Methods by which management could override controls include, but are not limited to, the following: • Manipulation of the financial reporting process by recording inappropriate or unauthorized journal entries. • Intentional misstatement of accounting estimates that involve subjective inputs and assumptions. • Entering into significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual, that have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.	To the extent relevant to our audit, we have reviewed the design of internal controls to mitigate the risk of override of internal control and tested the effectiveness of the controls in the processes for generating and processing journal entries and making estimates. We also paid specific attention to the restricted access in IT systems and the possibility that segregation of duties is not enforced. We identified significant assumptions and tested these against the Group's underlying information and rationales applied. For details we refer to the key audit matter on the expected credit loss allowance ('ECL') for mortgage loans and other loans, which is an example of our approach related to an area of higher risk due to an accounting estimate where management makes significant judgements. We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We selected journal entries based on risk criteria and performed specific audit procedures on these respective journals. We identified no significant transactions outside normal business operations. Our work did not lead to specific indications of fraud or suspicions of fraud with regard to the override of internal control by management.

We incorporated an element of unpredictability in our audit. We reviewed lawyer's letters and correspondence with regulators. During the audit, we remained alert to indications of fraud. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance of laws and regulations. Whenever we identify any indications of fraud, we re-evaluate our fraud risk assessment and its impact on our audit procedures.

Audit approach going concern

As disclosed in section 'Presentation' of the notes to the consolidated financial statements, the management board performed their assessment of the Company's ability to continue as a going concern for the foreseeable future and has not identified events or conditions that may cast significant doubt on the Company's ability to continue as a going concern (hereafter: going concern risks).
Our procedures to evaluate management's going concern assessment include, amongst others:

- Considering whether management's going concern assessment includes all relevant information of which we are aware as a result of our audit, inquire with management regarding management's most important assumptions underlying their going concern assessment;
- evaluated the developments in respect of funding, liquidity and solvency of the Group and, where applicable, assessed these in the context of the prudential requirements imposed by the Dutch Central Bank;
- evaluated the Group's medium-term planning and budget process (including the Group's balance sheet planning 2023-2025), specifically for the next twelve months; and
- performing inquiries of the management board as to its knowledge of going concern risks beyond the period of the management board's assessment.

Our procedures did not result in outcomes contrary to management's assumptions and judgments used in the application of the going concern assumption.

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

There is an industry risk that emerging compliance or litigation areas have not been identified and addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory matters.

In our audit, a distinction is made between those laws and regulations which have a direct effect on the determination of material amounts and disclosures in the financial statements and those that do not have a direct effect but where compliance may be fundamental to the operating aspects of the business, to the Group's ability to continue its business or to avoid material penalties.

We identified that the risk of non-compliance with laws and regulations relates mainly to the laws and regulations that have an indirect impact on the financial statements, such as for example anti-money laundering and anti-terrorist financing regulations, as well as regulations linked to the banking specific operating licenses (including the Financial Supervision Act ('Wet op het financieel toezicht')). We inquired of management and the supervisory board as to whether the Group is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities. Furthermore, we specifically assessed management's follow-up on the DNB on-site report and relevant implications on our audit, such as our work performed on the financial statement elements related to credit risk.

We refer to the section 'Regulation and supervision' of the report of the management board and in the notes to the consolidated financial statements for the disclosure with respect to the instruction received from the Dutch Central Bank, the on-site on credit risk framework executed in 2022 and management's assessment and follow-up.

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. The key audit matters remain unchanged compared to prior year.

Key audit matter	*Our audit work and observations*
Expected credit loss allowance ('ECL') for mortgage loans and other loans *Refer to 'Financial assets' on page 39 of the summary of significant accounting policies, 'Measurement of the expected credit loss allowance' on page 57 of the critical accounting estimates and judgement in applying accounting policies, 'Credit risk management' on page 64, 'Expected credit loss measurement' on page 65, 'Significant increase in credit risk (SICR)' on page 66, 'Definitions of default and credit-impaired assets' on page 67, 'Measuring ECL – Inputs, assumptions and estimation techniques' on page 67, 'Forward-looking information incorporated in the ECL models' on page 68, 'Write-off policy' on page 71, 'Modification of financial assets' on page 71, 'Loss allowance' on page 71 and note 7 'Mortgage and other loans' on page 86.* As at 31 December 2022, the mortgage loans and other loans amount to €11,977 (2021: €13,042 million) and the total ECL amounts to €48.4 million (2021: €87.6 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.	*Control design and operating effectiveness* Our audit procedures over the expected credit loss allowance for mortgage loans and other loans started with gaining an understanding of the Group's internal controls over the credit risk management and impairment processes. We evaluated the governance framework over the development, validation, calibration, and implementation of the impairment models. We assessed the model validation procedures, and related findings, that were performed by the model validation team of the Group. We assessed the ISAE 3402 type 2 reports of the service organisations with respect to the consumer and SME loan processing and administration services as described in the section 'The scope of our group audit'. *Assessment of model-based ECL* With support of our internal credit modelling experts, we performed the following substantive procedures on the model-based ECL is as at 31 December 2022: • evaluation of the reasonableness of the applied model methodology (including the assumptions regarding PD, LGD, LGN and EAD, applied criteria for significant increase in credit risk, assumptions for the measurement of ECL, and the number and relative weightings of forward-looking scenarios) in line with EU-IFRS and market practice; • evaluation of the definition of default by assessing the conceptual soundness of management's approach; • evaluation of the macro-economic scenarios and macroeconomic variables applied by challenging these with relevant and available 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

The Group built separate ECL models for the mortgage loans and consumer/SME loans, taking into account the differences in their characteristics such as credit risk and collateral (type). As at 31 December 2022, the mortgage loans represented a gross carrying amount of €11,641 million (loan loss allowance of €3.2 million) and the consumer and SME loans represented a gross carrying amount of €383 million (loan loss allowance of €44.4 million). Considering the limited (remaining) credit risk in other loans (ECL of €0.8 million), they are not included in the scope of this key audit matter.

As the management board currently considers the impact of climate risk to be limited on the Group's loan portfolio based upon the stress tests and self-assessment performed, they did not increase the ECL level for transitional or physical climate change at year-end 2022.

Model methodology and inputs

In the ECL models the Group utilises, amongst other factors, probability of default (PD), loss-given default (LGD), loss-given no-cure (LGN) and exposure at default (EAD). For the definition of these variables, refer to the paragraph 'Measuring ECL – Inputs, assumptions, and estimation techniques' (page 67) of the consolidated financial statements.

The critical data elements that are inputs for these models were retrieved from the service organisations or source systems. Also, three global macroeconomic scenarios ('base', 'upside' and 'downside') were incorporated into the models with the probability of these scenarios being weighted in order to determine the expected credit losses.

Judgements and estimation uncertainty

The judgements and estimation uncertainty in the loan-loss allowance of mortgage loans and consumer and SME loans are primarily linked to the following aspects:

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- establishing groups of similar financial assets for the purposes of measuring ECL; and
- challenging management on the reasonableness of provided explanations and evidence supporting the key model parameters by benchmarking these to other market participants.

We challenged management on the implications of the macro-economic circumstances on the ECL provision by performing the following:

- enquiries with management, the modelling department, and the finance and control department in relation to the changes made and reasoning applied;
- we verified whether changes were needed and whether appropriate changes were made to the models and underlying assumptions following the implications of the macro-economic circumstances, if and where relevant;
- reconciled assumptions underlying the management overlay applied to supporting documentation from the service organisation;
- we reconciled the applied macro-economic scenarios to the latest publications of external parties; and
- we assessed the sensitivity analysis performed by management related to, amongst others, the applied macro-economic forecasts.

We paid attention to the potential impact of physical and transitional climate-related risks on the allowance for expected credit losses. In this context, we assessed stress tests and self-assessments performed by management including the evaluation of the risks and any risk mitigating measures present within the Group. Given the composition of the loan portfolio as at 31 December 2022, the impact of physical and transitional climate-related risks currently have no material impact on the measurement of the mortgage loans and other loans.

Based on the above we assessed the methodology and inputs to be in line with market and industry practice.

Furthermore, we assessed the adequacy of the disclosures, including disclosures on estimation uncertainty and judgements, and observed that the disclosures comply with the disclosure requirements included in EU-IFRS.

Key audit matter	*Our audit work and observations*
• the uncertainties related to the incorporation of the implications of macro-economic circumstances in the ECL models (macro-economic scenarios and predictions, model performance, etc.) and in the overlay applied for the uncertainties in the macro-economic environment on amounting to a net effect of €0.7 million. The complexity of the models, the assessment of the limitations of the models to reflect the current macro-economic environment, the significance of the assumptions applied, and judgements made by management and the overlay adjustment applied, all increase the risks of material misstatement. Therefore, we consider this a key audit matter in our audit.	
Application of macro fair value hedge accounting *Refer to 'Derivatives and hedging strategy' on page 42 of the summary of significant accounting policies, note 7 'Mortgage and other loans' on page 86, note 9 'Derivatives' on page 88 and note 20 'Result on financial transactions' on page 96 of the consolidated financial statements.* The Group has designated derivatives used as fair value hedges on interest rate risk in its mortgage portfolio. For 2022, the Group recognised a €1,106 million fair value change on the mortgage portfolio that were offset by the fair value change in the derivatives designated for hedging for an amount of €1,090 million. Due to the application of macro fair value hedge accounting under EU-IFRS and 'highly' effective hedging relations, the total net ineffectiveness is recognised in the income statement, which amounts to €16.2 million negative (2021: €33.9 million positive). The cumulative fair value adjustment (net of amortisation) on the mortgage loans designated in the hedging relationship is €660 million as at 31 December 2022, resulting in a lower carrying value. See also description in note 7 'Mortgage loans and other loans' on page 86 of the consolidated financial statements.	*Control design and operating effectiveness* Our audit procedures performed on the Group's application of macro fair value hedge accounting included testing of the internal controls over the monthly preparation of the hedging documentation and calculation of the fair value changes. We determined that we could rely on these controls for the purpose of our audit. *Substantive audit procedures* With the assistance of our hedge accounting specialists, our substantive audit procedures on hedge accounting included, amongst others, evaluation whether the hedge accounting methodology applied by the Group is in accordance with EU-IFRS. For a sample of the monthly hedge documentation, we assessed: • whether the hedge documentation was in line with the requirements included in EU-IFRS; • management's prospective and retrospective effectiveness testing to determine whether the hedge relationships were effective and whether the hedge effectiveness has been calculated accurately; and • the reconciliation of the net amount of hedge accounting ineffectiveness to the hedge adjustment recorded in the income statement. We found the effectiveness testing to be accurately applied, the inputs reconcile to the source systems and the methodology applied and hedge documentation is in line with the technical requirements.

Key audit matter	*Our audit work and observations*
As required by EU-IFRS, the Group has to comply with a number of requirements, including: • documenting the hedge relationship in formal hedge documentation; • performing prospective and retrospective (quantitative) effectiveness testing; and • recording any resulting ineffectiveness in the income statement. 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.	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.

Report on the other information included in the annual report

The annual report contains other information. This includes all information in the annual report in addition to the financial statements and our auditor's report thereon.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains all the information regarding the directors' report and the other 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 the understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those procedures performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Aegon Bank N.V. on 15 May 2013 by the supervisory board. This followed the passing of a resolution by the shareholders at the annual general meeting held on 15 May 2013. Our appointment has been renewed annually by shareholders and now represents a total period of uninterrupted engagement of 9 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 or its controlled entities, for the period to which our statutory audit relates, are disclosed in note 21 to the consolidated financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the management board and the supervisory board for the financial statements
The management board is responsible for:
- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the management board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the Company's ability to continue as a going-concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so. The management board should disclose in the financial statements any event and circumstances that may cast significant doubt on the Company's ability to continue as a going concern.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 20 April 2023
PricewaterhouseCoopers Accountants N.V.

Original has been signed by C.C.J. Segers RA

Appendix to our auditor's report on the financial statements 2022 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.

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