

Half Year Report Aegon Bank N.V. 1H 2023



Knab reports first half year 2023 results

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

Summary

Customer and business developments

- In the fourth quarter of 2022, a.s.r. announced a conditional agreement for a business combination with Aegon N.V. The agreement incorporates all insurance activities, including mortgage origination and servicing operations, distribution and service entities, as well as the banking business of Aegon Nederland N.V. The transaction was closed on July 4th, 2023, and Knab is thereafter owned, through Aegon Nederland N.V., by a.s.r.
- During the first half year of 2023, the number of Knab customers grew by 24,000 to a total of 369,000. Satisfaction among customers remains high. The NPS among business customers is above target at +41. Especially the ease of use and price-quality ratio are perceived as positive.
- Growth of the customer base and increased usage of value-added services (e.g. bookkeeping solution) led to a 27% growth in fee income compared with the first half year of 2022.
- During the first half year of 2023, Knab launched a business loans proposition, allowing entrepreneurs to finance their business (growth) via Knab. In 2023 Knab sold the Zopa portfolio and the non-performing part of the Funding Circle portfolio.

Financial performance

- In the first half of 2023, Knab generated a net profit of EUR 64.5 million, compared with a net profit of EUR 16.2 million in the first half of 2022. The ROC increased from 2.8% in the first half of 2022 to 22.0% in the first half of 2023.
- Knab remains well capitalized, with a Total Capital Ratio of 23.5%, while the liquidity position remained robust with a Liquidity Coverage Ratio (LCR) of 187% as per June 30, 2023.
- Knab repaid the second issuance of its Conditional Pass-Through Covered Bond Program, and launched a successful issuance of a Covered Bond from the Soft Bullet Covered Bond program.

Organization

- Since March 2023, Tom van Zalen has been strengthening Knab's Management Board as Chief Risk Officer. Tom came over from ING and brings a lot of experience with data-driven risk management to Knab.
- In August 2023, CFO Mike de Boer announced that, after a tenure of almost 13 years, he will pursue opportunities outside of Knab starting early 2024. Mike has been responsible for the financial area from the very beginning and has contributed to the strong position the bank currently has.
- Following the a.s.r. combination Wim van de Kraats stepped down as a member of the Supervisory Board. Rozan Dekker was appointed as successor of Wim. Rozan is CRO and member of the Management Board of a.s.r..

Customer and business developments

Customer growth

A record number of customers opened accounts with Knab in the first half of 2023. 369,000 customers now manage their money matters through Knab, which is an increase of 23,000 customers in the first half of the year. 261,000 of them have a business account. Satisfaction among customers remains high. The NPS among business customers is above target at +41. Especially the ease of use and price-quality ratio are perceived as positive.

Ambition and propositions

Knab's ambition is to be the number one bank for entrepreneurs, for their business and their private financial matters. This is pursued by offering meaningful and understandable products and services within three propositions: convenience today, solutions for tomorrow and financial freedom in the future.

In the past half year, Knab has expanded the product range with two strategically important products. To offer more convenience for today, the Knab Accounting Package was launched and for solutions for tomorrow Knab Business Loans was introduced. At the same time, preparations are processing

well to add two other important products later this year: Pension Investments for the self-employed and the Knab disability insurance.

Financially smarter

Knab is committed to making its customers financially smarter. Not only does this contribute to happier customers, but this is also how Knab - among other things - gives meaning to its social role. 43% of the business customers indicate that Knab succeeds in making them financially smarter. Knab's webinars are proving to be one of the key enablers used to make customers financially smarter. In this half year, five webinars were organized for self-employed, with over 10,000 viewers in total. Another important enabler is the Knab Bieb. In the first half year of 2023, the informative articles in this online library were read more than 1 million times. Articles, focused specifically on self-employed topics, were read 30% more than in the same period last year.

Financial performance

In the first half year of 2023, Knab generated a net profit of EUR 64.5 million, compared with a net profit of EUR 16.2 million in the first half of 2022. The increase of net profit is mostly driven by the changes in the interest rate environment, resulting in improved spread. It is partly offset by lower interest income on the unsecured loans portfolio due to a lower outstanding balance and a larger negative hedge effectiveness.

Net interest income

Interest income increased by EUR 87.1 million compared with the first half of 2022. This was mostly driven by a EUR 22.6 million increase in interest income on mortgages mainly, due to maturing of amortization schedules by EUR 16.6 million. Furthermore, interest income on mortgages increased due to increase in the portfolio and increased interest rates, offset by lower income on mortgage prepayment penalties. Interest income on deposits increased by EUR 27.1 million following the increase in interest rates. Interest income on consumer loans and SME loans decreased by EUR 9.6 million due to the decrease in the portfolio, higher redemptions and the sale of unsecured lending portfolios. Interest charges decreased by EUR 50.7 million. This was mainly driven by an increase in interest on derivatives by EUR 70.4 million compared to first half year 2022. In addition, due to the higher interest rates on Knab's savings products, the interest charges increased by EUR 10.6 million, compared with the first half of 2022.

Net fee and commission income

In line with Knab's growth strategy, it achieved a 27% increase of the fee and commission income compared with the first half of 2022. This resulted from an expansion of the customer base, increases in fee rates and growth in the use of value-added services.

Expenses

Total operating expenses increased by EUR 9.8 million to EUR 91.4 million. The expenses increased as a result of regulatory tracks and IT implementation. 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.

Result from financial transactions

The result from financial transactions declined by EUR 11.0 million to a negative result of EUR 22.2 million. This decrease is mainly due to two drivers: firstly, although hedge accounting is applied, an ineffective portion remains in the profit and loss account due to the basis risk to which Knab is exposed. In the first half of 2023 this led to a negative result of EUR 18.4 million compared to a negative result of EUR 2.4 million in the first half of 2022. Secondly, in the first half of 2022 Knab sold a part of its government bonds, leading to a realized negative result of EUR 7.3 million. Whereas in the first half of 2023 the realized result on the sale of debt securities and unsecured loans amounted to EUR -/- 2.4 million.

Impairment charges

Knab's impairment reversals decreased by EUR 5.0 million to recoveries of EUR 0.8 million in the first half of 2023. In 2022 Knab sold the CACF and Auxmoney portfolios, as well as the Zopa portfolio and the non-performing part of the Funding Circle portfolio in 2023. These divestments, combined with repayments and prepayments in the unsecured loan portfolio were the main drivers for the further decrease of the provisions and the related impairment reversals, and were sold close to book value.

Operating result and return on capital

The operating result before tax reflects Knab's profit from underlying business operations and excludes components that relate to accounting mismatches that are the result of market volatility or relate to events that are considered outside the normal course of business. The operating result before tax increased from EUR 14.1 million in the first half of 2022 to EUR 118.1 million in the first half of 2023 mainly due to the increased net interest income.

Return on capital (ROC) is calculated as the annualized operating result after tax (applying a nominal tax rate) divided by average shareholders' equity, excluding revaluation reserves over the period. The ROC increased from 2.8% in the first half of 2022 to 22.0% in the first half of 2023, which is primarily due to the higher operating result and increased shareholders' equity excluding the revaluation reserve.

Balance sheet

Knab's balance sheet amounted to EUR 17.1 billion per half year of 2023. Although the balance sheet size decreased by 3% the overall composition remained comparable, where Knab executed its strategy on the asset side to reduce exposure to third party unsecured loan portfolios and to start its SME Lending under the Knab label. On the funding side, Knab saw an outflow of savings as result of its pricing position on savings and increased outflows to the tax authority. Deposit outflow of Knab customer to the tax authority increased from 1.23 billion in 1H 2022 to 1.75 billion in 1H 2023. This is primarily driven by postponed VAT payment and Covid support now being paid back by Knab's customers and an increased turnover of businesses in general.

Credit risk

Knab's investment philosophy is to combine a mix of prime mortgage loans and debt securities, which are complemented with a small allocation to higher-yielding unsecured SME loans. The remainder of the asset-side of the balance sheet is composed of cash and amounts due from other banks. The exposure to unsecured SME and consumer loans decreased over first half 2023 by EUR 385 million. As of June 2023, the remaining portfolio of unsecured loans had a size of EUR 229 million of which 87% contained a guarantee by the UK government. The run-off nature in combination with performance of these portfolios primarily drove the EUR 0.8 million release of impairments in the earnings over first half of 2023. During the first half of 2023, Knab originated the first SME loans under its Knab label to its own customers.

Knab expanded its mortgage portfolio in the first half of 2023 by EUR 414 million through a combination of new origination and existing customers increasing their mortgages. The asset side of the balance sheet mainly consists of mortgages, which represent 69% of the total assets. Of these mortgages, 56% are guaranteed by the Dutch state through the NHG scheme, and the portfolio has an average Loan-to-Value of approximately 60% as per June 30, 2023.

Liquidity risk

Knab maintained a strong liquidity position with an LCR of 187% per June 2023, which is well above the regulatory requirement of 100%. Knab was able to steer its LCR to a more efficient level as result of an improved access to new mortgage origination in combination with a net decrease in its savings deposits during first half 2023.

Capital position

Over the first half of 2023, Knab's Own Funds increased by EUR 53 million due to the EUR 47 million added to Own Funds from net result in 1H 2023. Furthermore, other comprehensive income ('OCI') increased by EUR 8 million due the sale of debt securities and existing debt securities showing a pull to par where the market value moves back towards the accounting value towards maturity of the instruments. Per June 2023, OCI amounted to EUR 44.7 million deficit in Own Funds. Over the upcoming years, the negative revaluation will normalize to zero when the securities are held till maturity and fully redeem at their maturity date.

The capital position remained solid with a Total Capital Ratio of 23.5% per June 2023, compared to 22.3% per year end 2022. Also leverage ratio remained strong at 4.6% per June 2023, compared to 4.2% per year end 2022. Per June 2023, Own Funds was EUR 756 million and Shareholder Equity EUR 783 million.

Amsterdam, September 1 2023

Statutory Board

N.J.A. Klokke (CEO)
M.R. de Boer (CFO)
T. Van Zalen (CRO)

Key Figures – Unaudited

Income statement on IFRS basis			unaudited
<i>EUR thousands</i>	First half 2023	First half 2022	%
Net interest income	181,851	94,763	92
Net fee and commission income	17,910	14,124	27
Result from financial transactions	(22,244)	(11,291)	97
Impairment reversals / (charges)	833	5,879	(86)
Expenses	(91,449)	(81,678)	12
Income before tax	86,902	21,797	299
Corporate income tax	(22,421)	(5,624)	299
Net income	64,481	16,174	299
Financial overview			unaudited
<i>EUR thousands</i>	First half 2023	First half 2022	%
Operating result before tax	118,076	14,139	735
Non-operating result before tax	(31,174)	7,658	(507)
Income tax	(22,421)	(5,624)	299
Net income / (loss)	64,481	16,174	299
Ratios			
	First half 2023	Full year 2022	First half 2022
Return on capital (i)	22.0%	6.8%	2.8%
Cost-to-income ratio (ii)	39.5%	69.0%	85.0%
Common Equity Tier 1 ratio	23.2%	22.0%	19.5%
Total Capital Ratio	23.5%	22.3%	19.8%
LCR	187%	223%	223%
NSFR	148%	153%	149%
Leverage ratio	4.6%	4.2%	4.1%
Asset Encumbrance ratio	17.4%	16.9%	17.2%

Consolidated Statement of Financial Position			unaudited
<i>EUR thousands</i>	30 June 2023	31 December 2022	%
Cash	1,957,197	2,616,208	(25)
Amounts due from banks	114,111	120,570	(5)
Mortgage loans and other loans	12,358,307	11,977,021	3
Financial assets measured at fair value through other comprehensive income	969,776	1,069,068	(9)
Derivatives	1,514,441	1,636,101	(7)
Intangible assets	7,354	3,690	99
Other assets and receivables	201,069	144,389	39
Total assets	17,122,255	17,567,048	(3)
Savings deposits	11,566,676	12,009,165	(4)
Borrowings	3,786,373	3,805,062	(0)
Derivatives	747,321	799,675	(7)
Net deferred tax liabilities	49,615	57,719	(14)
Provisions	2,235	1,181	89
Other liabilities and accruals	185,564	182,125	2
Equity	784,471	712,122	10
<i>of which revaluation reserve</i>	<i>(44,664)</i>	<i>(52,827)</i>	<i>(15)</i>
Total equity and liabilities	17,122,255	17,567,048	(3)

(i) Return on capital is calculated as annualized Operating result after tax (applying a nominal tax rate) divided by average IFRS equity excluding the revaluation reserve. There is no IFRS financial measure that is directly comparable to return on capital.

(ii) Cost-to-income ratio is calculated as Operating expenses divided by Operating income as defined in Knab's measure of Operating result before tax. There is no IFRS financial measure that is directly comparable to the cost-to-income ratio.

Disclaimer

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

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

- (1) changes in economic conditions in Knab's core markets, general economic conditions or the performance of its investments;
- (2) the effects of the COVID-19 pandemic and response measures, such as lockdowns and travel restrictions, on Knab's business and operations and on its customers, suppliers and employees;
- (3) changes in performance of financial markets;
- (4) consequences of Brexit or other European Union countries leaving the European Union and a potential (partial) break-up of the euro;
- (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally such as changes in borrower and counterparty creditworthiness;
- (6) changes affecting interest rate levels;
- (7) changes in customer behavior and public opinion in general related to, among other things, the type of products Knab sells, including legal, regulatory or commercial necessity to meet changing customer expectations;
- (8) customer responsiveness to both new products and distribution channels;
- (9) increasing levels of competition in the Netherlands;
- (10) changes in the policies of central banks and/or governments;
- (11) litigation or regulatory action that could require Knab to pay significant damages or change the way the bank does business;
- (12) technological developments;
- (13) changes in the implementation and execution of IT systems and/or outsourcing;
- (14) competitive, legal, regulatory, or tax changes that affect profitability, the distribution cost of or demand for Knab's products;
- (15) changes in credit ratings;
- (16) the impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items and the ability to achieve projected operational synergies;
- (17) system disruptions or failures, breaches of security or data privacy, cyber-attacks, human error, or inadequate controls including in respect of third parties with which Knab does business and other operational risks;
- (18) inability to retain key personnel;
- (19) changes in accounting regulations and policies or a change by Knab in applying such regulations and policies, voluntarily or otherwise, which may affect Knab's reported results or regulatory capital adequacy levels; and
- (20) catastrophic events, either manmade or by nature, including acts of terrorism, acts of war and pandemics.

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

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.