Half Year Report Aegon Bank N.V. 1H 2020

Aegon Bank NV reports first half year 2020 results

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

Summary

- Underlying earnings before tax increased by 4% to EUR 19.7 million, as balance sheet growth more than offset a lower interest margin and higher expenses.
- In the first half of 2020, the bank generated a net loss of EUR 18.5 million. This was mainly driven by increased IFRS 9 loan loss provisions.
- The Core Tier-1 ratio of the bank improved from 19.8% on 31 December 2019 to 21.5% on 30 June 2020. The main drivers for the increase were the lower risk-weighting caused by redemptions in the unsecured loan portfolio, combined with alignment of the basis adjustment to the overall mortgage portfolio. This was partially offset by the negative impact from credit spread widening on the bond portfolio, and increases in the IFRS 9 loan loss provisions on unsecured retail loans.
- The bank maintained a strong liquidity position with a Liquidity Coverage Ratio (LCR) of 207%.
- From an operational perspective, Knab has dealt well with the fallout of the COVID-19 pandemic. Knab has benefitted from being a digital bank as we have continued to provide service to our customers at a high level despite working remotely.
- During the first half of 2020, Knab observed an increase in savings deposits of EUR 390 million, benefiting from an increase of 14,000 customers.

Financial performance

Net interest income and fee and commission income
In line with the growth of the bank, the net interest income and fee and commission income combined increased by EUR 9.8 million as compared with the first half of 2019.

The increase in interest income was driven by balance sheet growth, which more than offset a lower interest margin. The decrease in the interest margin resulted from higher interest paid on interest rate swaps and on wholesale funding due to the issuance of Senior Non-Preferred notes in June 2019, as well as from a lower margin on mortgages. These items more than offset the positive contribution to the interest margin from lower interest paid on savings.

The increase in fee income is mainly due to the growth in the number of customers for Knab.

Expenses
Total expenses increased by EUR 16.8 million to EUR 91.4 million. The expenses increased due to growth of the bank as compared with the first half of 2019, higher expenses resulting from regulatory projects, and expenses related to the integration of the Knab and Aegon Bank labels. As a consequence, the cost-to-income ratio slightly deteriorated from 79.7% to 80.5%.

Underlying earnings and Return on Equity
Underlying earnings before tax reflects our profit from underlying business operations and excludes components that relate to accounting mismatches that are dependent on market volatility, or relate to events that are considered outside the normal course of business. Underlying earnings before tax increased from EUR 19.0 million in the first half of 2019 to EUR 19.7 million in the first half of 2020, as higher net interest income more than offset higher expenses.

Return on Equity (ROE) is a function of net underlying earnings (which is defined as the after-tax equivalent of underlying earnings before tax) and average shareholders' equity excluding revaluation reserves over the period. The ROE decreased from 4.4% in the first half of 2019 to 4.1% in the first half of 2020. The lower ROE is mainly the result of higher average equity in the period as a result of capital injections in 2019.

Result from financial transactions
Result from financial transactions improved by EUR 18.8 million. Although hedge accounting is applied, an ineffective portion still remains in profit and loss due to the basis risk that the bank is exposed to. This basis risk led to a gain of EUR 23.6 million in the first half of 2020 (1H 2019: EUR 4.0 million).

Impairment Charges

As a result of the COVID-19 crisis, the bank has incurred impairment charges amounting to EUR 85 million related to the IFRS 9 loan loss provisions in the first half of 2020 (1H 2019: EUR 35 million), mainly on the unsecured SME and consumer loan portfolio. The deteriorated macro-economic outlook is the largest driver of the significant increase in provisions.

Net Income

The net loss for the period of EUR 18.5 million is mainly the result of impairment charges driven by increased IFRS 9 loan loss provisions.

Balance sheet

Credit risk

The bank's investment philosophy is to combine a mix of prime mortgage loans and debt securities with higher-yielding unsecured retail loans, with the remainder of the asset-side of the balance sheet composed of cash and amounts due from other banks. During the COVID-19 crisis, credit risk mainly materialized through impairments on unsecured SME and consumer loans. Credit risk has been managed through a number of actions. For new SME lending access to government guaranteed lending was secured. The pricing for unsecured lending was increased, resulting in lower volumes, and portfolio de-risking was applied by focusing on the higher rated unsecured retail loans.

The asset side of the balance sheet is dominated by our mortgage portfolio, of which over 73% is guaranteed by the Dutch state through the NHG scheme, and with an average Loan-to-Value of approximately 78% for the complete portfolio. The cash position decreased as a result of investments in mortgages and debt securities.

Liquidity risk

The bank continued to see net deposits from customers in the first half of 2020. However, given the potential impact of the COVID-19 crisis on its customer base, in particular the self-employed and small businesses, the bank has put contingency measures in place to be able to deal with potential increased liquidity needs. The bank set up a EUR 1.6 billion retained RMBS (SAECURE 19) in May 2020. The RMBS enables it to access additional liquidity lines in case liquidity needs arise from the COVID-19 pandemic. The LCR on 30 June 2020 equaled 207% compared to 212% at year-end 2019. The liquidity position remained well above the regulatory minimum of 100%, supported by net deposits in the first half of the year.

Capital position

During the COVID-19 crisis, the bank has maintained a solid capital position, withstanding credit losses. The Core Tier-1 ratio of the bank improved from 19.8% at year-end to 21.5% on 30 June 2020. The main drivers for the increase were the lower risk-weighting caused by higher redemption rates in the unsecured loan portfolio, as well as the alignment of the basis adjustment to the overall mortgage portfolio. The basis adjustment represents the fair value adjustment to mortgage loans designated in fair value interest rate hedging relationships. The risk weight assigned to this portion now matches the overall risk profile of the mortgage portfolio. This was partially offset by the negative impact from credit spread widening on the bond portfolio, and increases in the IFRS 9 loan loss provisions on unsecured SME and consumer loans.

Managing the impact of COVID-19

The COVID-19 outbreak is causing significant disruption to society, impacting our customers, employees, suppliers and operations. The health and wellbeing of our customers and employees is our foremost concern.

The purpose of Knab is to have our customers to feel at ease when it comes to their finances. Every day. As COVID-19 has caused significant uncertainty for many companies as well as individuals, this purpose has become even more relevant. In times like these, it is of the utmost importance to show our added value to our customers. Therefore, for the business customers of Knab, we created an overview of all arrangements of the Dutch government applicable to them. Useful articles, research reports and financial tips have been published in the Knab Library.

From an operational perspective, we are proud of the way our employees have maintained high standards of customer service while implementing our business continuity plans in a short timeframe.

The bank experienced a growth in savings, which was driven by deposits made by existing customers, as well as the addition of 14,000 new customers. On 30 June 2020 the bank had 675,000 customers.

The management of the bank is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its impact on the bank. The most significant risks the bank faces are related to credit risk and liquidity risk.

Innovation

As from October 2019, Knab established a safer way for new customers to confirm their identities via a passport scan using the NFC chip. This year, all customers from both labels are being asked to re-confirm their identities using this technique, and to answer additional questions. In that way we are improving our ability to meet our fiduciary duties by enhancing our knowledge of who our customers are, and where the money in their accounts comes from.

We also deployed iProov for the Knab label, a biometric facial authentication technology. Customers with a Knab account can now effortlessly authenticate themselves for a range of transactions using iProov's technology. Knab is the first bank in Europe using this technology. A key use is the re-binding process; when re-installing or updating our app, customers use it to re-verify their identities. With this new development we deliver an outstanding customer experience without compromising on the highest standards of security and compliance.

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

Amsterdam, 10 September 2020

Board under the articles of association
N.J.A. Klokke (CEO)
M.R. de Boer (CFO)
E.G. Negenman (CRO)

Key Figures – Unaudited

Income statement on IFRS basis			**unaudited**
EUR thousands	First half 2020	First half 2019	%
Net interest income	124,097	117,128	*6*
Net fee and commission income	9,589	6,671	*44*
Result from financial transactions	16,680	(2,168)	*n.m.*
Impairment charges	(85,206)	(35,366)	*141*
Expenses	(91,358)	(74,572)	*23*
Income before tax	**(26,199)**	**11,693**	***(324)***
Corporate income tax	7,653	(2,583)	*n.m.*
Net income / (loss)	**(18,546)**	**9,110**	***n.m.***

Financial overview			**unaudited**
EUR thousands	First half 2020	First half 2019	%
Underlying earnings before tax	19,675	18,992	*4*
Non-underlying earnings before tax	(45,875)	(7,299)	*529*
Income tax	7,653	(2,584)	*n.m.*
Net income / (loss)	**(18,546)**	**9,110**	***n.m.***

Ratios	First half 2020	Full year 2019	First half 2019
Return on equity (i)	4.1%	4.4%	4.4%
Cost-to-income ratio (ii)	80.5%	78.8%	79.7%
Common Equity Tier 1 ratio	21.5%	19.8%	21.4%
Total Capital Ratio	21.8%	20.0%	21.8%
LCR	207%	212%	161%
NSFR	135%	147%	148%
Leverage ratio	4.3%	4.6%	4.4%
Asset Encumbrance ratio	20.1%	19.5%	19.3%

(i) Return on equity is calculated as annualized Underlying earnings after tax (applying a nominal tax rate) divided by average IFRS equity excluding the revaluation reserve. There is no IFRS financial measure that is directly comparable to return on equity. The bank believes that return on equity provides meaningful information about the performance of the bank's business.

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

Consolidated Statement of Financial Position			**unaudited**
EUR thousands	30 June 2020	31 December 2019	%
Cash	1,367,160	1,904,003	*(28)*
Amounts due from banks	83,023	115,086	*(28)*
Mortgage loans and other loans	13,189,068	12,608,802	*5*
Financial assets measured at fair value through other comprehensive income	1,514,808	1,062,191	*43*
Derivatives	218,974	159,763	*37*
Other assets and receivables	101,106	68,643	*47*
Total assets	**16,474,138**	**15,918,489**	***3***
Savings deposits	11,925,415	11,535,813	*3*
Borrowings	2,740,588	2,730,934	*0*
Derivatives	824,424	561,575	*47*
Net deferred tax liabilities	80,905	74,579	*8*
Provisions	10,108	10,504	*(4)*
Other liabilities and accruals	180,712	266,660	*(32)*
Equity	**711,985**	**738,423**	***(4)***
of which revaluation reserve	*1,705*	*9,360*	*(82)*
Total equity and liabilities	**16,474,138**	**15,918,489**	***3***

Disclaimer

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

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

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

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

(3) changes in performance of financial markets;

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

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

(6) changes affecting interest rate levels;

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

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

(9) increasing levels of competition in the Netherlands;

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

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

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

(13) changes in credit ratings;

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

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

(16) inability to retain key personnel;

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

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

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

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