Annual Report 2019

VAN LANSCHOT KEMPEN

NOTES TO THE READER

Unrounded figures

Amounts in the annual report may not add up due to being rounded up or down. The total amounts may therefore deviate from the sum of the parts. Percentage changes are based on the unrounded figures.

Changes to comparative figures

Some amounts differ from previously published reports, reflecting changes that result from the accounting changes related to provisions for pensions.

Disclosure of Non-financial Information Act

The Disclosure of Non-financial Information Act is a Dutch regulation that made reporting on a number of non-financial themes compulsory for companies that qualify as large public-interest entities (*grote organisatie van openbaar belang*) with more than 500 employees. These themes comprise environmental, social and employee issues, as well as anti-corruption, bribery and human rights. For each of these themes, companies are obliged to report on the relevant policies, results, risks (including management of these risks) and non-financial key performance indicators. The regulation also requires companies to describe their business models in their annual reports. We provide all of the information required in the relevant parts of this annual report. For transparency purposes only, the reference table in "Our value creation story" provides additional guidance on where to find this information.

Global Reporting Initiative

Communicating transparently on our policies and results is an important element of CSR. To ensure this, our annual report has been prepared in accordance with the GRI Standards: "Comprehensive option". See the GRI content index on our website for further details: vanlanschotkempen.com/responsible/external-assessment.

External assessment

Van Lanschot Kempen's CSR performance is assessed by a variety of external organisations. For more information, see vanlanschotkempen.com/responsible/external-assessment.

Contents

CHAIRMAN'S MESSAGE

Dear shareholders and other stakeholders,

I would like to begin by thanking you for your support during the course of 2019. My colleagues and I are very grateful.

Like most years, 2019 had its own set of challenges but on the whole we have fared reasonably well financially and in the execution of our strategy. The numbers speak for themselves so I am not going to dwell on it for too long except to express my gratitude to our clients and my colleagues who made it possible. While we have achieved a great deal in the transformation of the firm from a universal bank to a wealth management house over the last seven years – including a total return of more than two times shareholders' investment – challenges remain.

I would, if I may, like to focus on our strategy, our obligations to our stakeholders and the challenges we face in that context – not just in 2020 but in the years ahead.

Economic environment
From our perspective, the continuing trade wars and mercantilism by certain nation states does not bode well for the global economy, and in particular for trading nations such as the Netherlands. Further, we expect the economic impact of the coronavirus on China and the rest of the world to be meaningful. While the exact nature and the extent of the impact is unclear, I would like to reassure our clients and shareholders that we will take all necessary measures to minimise potential negative impact.

Furthermore, I would like to draw your attention to the impact of a low-yield environment and negative interest rates on our business model and inherent profitability. We are of the view that the low-yield environment will remain for a while, driven in part by the glut in savings and the lack of reasonable investment opportunities. Several respected wealth management houses have observed the same challenge and many have suggested a recourse to credits to offset the negative carry aspect of a long liability model. We are exploring it ourselves, and indeed we have used it opportunistically to support our entrepreneurial client segment, albeit within our risk appetite and strategy.

Needless to say, we will be careful in our deployment of capital to avoid the trap of credit risks. We ran down our business banking credit book for a reason: in short, we are well aware of the risks and the potential pitfalls. But the current environment behoves us to look for credible opportunities in credit assets to meet the objectives of reducing and/or minimising the impact of negative rates.

Managing costs
Over the last six or seven years we have reduced costs substantially, yet our cost line has remained largely flat. In truth, all our cost savings were consumed by incremental regulatory costs and compensation for our staff. Indeed, this is both a managerial and a strategic challenge. We believe that the best and the most sustainable way to absorb and reduce our cost base is through redesigning processes, automation and increased usage of technology in all our activities. Although we initiated this process several years ago, you may expect that we will accelerate this process further in 2020 and beyond.

Notwithstanding the above, our cost base has an element of size; to this end, we will continue to focus on organic and inorganic AuM growth. No change of policy here but simply to reconfirm our approach towards acquisition of assets in the future. As in the past, we weigh several factors, including capital and our capacity to absorb without taking undue operational risks.

Shareholder rights
We would also like to draw your attention to a developing challenge with respect to how shareholders exercise their votes. The portfolio managers and ESG teams at institutional investors are often not aligned – reflecting the complexity of the world we live in with various interests and several stakeholders. We, of course, live in the hope that the dilemmas will be resolved to the benefit of all concerned. We sincerely value our ability to have a direct dialogue with our shareholders and we hope that this will continue in the future.

Sustainability
We see the issue of climate change as an existential threat to the world, and consequently doing something about it is a moral imperative for us all. With respect to ESG, specifically climate and sustainability, we will continue to broaden and deepen our engagement as a firm. In practical terms, this implies continuing towards carbon neutrality with respect to our carbon footprint as a firm, but also in our investment policies and in our product offering. We are convinced that the wealth we create or preserve for our clients will only retain its real value in a sustainable future world. We have taken several steps in this regard but it would be reasonable to expect that we will accelerate this process further. Needless to say, we will work with our clients (within the confines of the regulations) to seek opportunities for a sustainable future.

We also expect considerable regulation and regulatory pressure in the coming months and in the years to come. It is not clear yet what shape and form these will take; we have therefore prudentially initiated our own steps and measures. We will follow the law and our own moral compass to guide us through the process.

Gatekeepers
I would like to address the subject of money laundering and tax evasion. This topic has emerged as a key topic for our industry given our role as *poortwachters* (gatekeepers). As a house, we believe that wealth creation, stable societies and taxation are interlinked. Therefore, it is in our individual and collective interests that taxes are paid on wealth generated. The entire concept of *samenleven* (living together) rests on this basic principle. We, as a firm and a member of our industry, are vested by the government and society at large to act as *poortwachters*. We recognise and understand the importance of this role. Accordingly, we have done everything that we reasonably can to ensure that taxes are paid. Please know that we will never aid nor abet money laundering in the carriage of our responsibility, but it is virtually impossible for us to guarantee that someone will not try to abuse our systems. Having said that, I want to be clear that we have done and will continue to do what is necessary to perform our responsibilities.

Transformation of the workforce
Finally, I would like to address the subject of Human Resources and people. In 2019, we achieved two important milestones in the strategic transformation of the firm: simplification of the organisational structure through a legal merger of the various legal entities, and harmonisation of employee conditions across the entire firm. The next step in the transformation of the workforce involves retraining and streamlining the workforce to meet the future needs of our clients and other stakeholders. It is noteworthy that we are moving in a direction that involves considerable usage of data and advanced analytics to drive, and indeed underpin, our decisions. In the end, this must be visible in a tangible form in our work environment, assessed through our engagement survey, client satisfaction and eventually in our income statement.

My colleagues and I would like to thank you again for your support in driving the firm forward.

‘s-Hertogenbosch, the Netherlands, 20 February 2020

Karl Guha
Chairman of the Statutory Board

2019 HIGHLIGHTS

In 2019, we focused on new solutions for our clients, digitalisation and advanced analytics, and our transition from a responsible to a sustainable wealth manager. An overview of Van Lanschot Kempen's highlights in 2019 is presented below.

2019

JANUARY

Launch of European Private Equity Fund
The European Private Equity Fund offers private clients the opportunity to invest in private equity, an in-demand asset class given current markets. The fund was created exclusively for clients of Van Lanschot Kempen.

FEBRUARY

Sale of AIO II and VLC & Partners
Van Lanschot Kempen sold its stakes in AIO II (Medsen) and in insurance intermediary VLC & Partners, in keeping with our strategic focus on wealth management. Total book profits amounted to €53 million.

APRIL

Launch of online payment platform and outsourcing of payment services
Our new payments platform and payments app were launched for our Private Banking clients. We started outsourcing our payment services to German fintech company Fidor.

JUNE

Sustainable AuM
Our Private Banking clients' interest in sustainability is rising. The assets under management invested sustainably in Private Banking exceeded €1.5 billion halfway through the reporting year.

JUNE

Launch of Groenhypotheek
This special "green mortgage", offered at a discounted interest rate, aims to encourage our Private Banking clients to make their homes more sustainable.

JULY

Climate Agreement
Together with banks, pension funds, insurers and asset managers, Van Lanschot Kempen signed the financial sector commitment to the Dutch Climate Agreement to support the goal of reducing greenhouse gas emissions by 49% by 2030 compared with 1990.

SEPTEMBER

New mandate in the UK
Kempen Asset Management won the mandate for a UK pension fund, which underlines our commitment to the UK as a second home market and helps build momentum for further growth.

NOVEMBER

Capital raise of €150 million for Arima
Kempen Merchant Banking supported Arima Real Estate SOCIMI SA for the third time in a row over the course of a year. In November, we introduced an anchor investor, who allowed us to raise €150 million, thereby taking the total raised capital to approximately €300 million.

NOVEMBER

Infrastructure for advanced analytics
We laid the foundation for a modern, cloud-based infrastructure for advanced analytics to enable faster development.

DECEMBER

Capital return
€1.50 per share, totalling over €60 million, was returned to shareholders. Since 2016, a total of over €330 million has been paid out to our shareholders.

2020

WHO WE ARE AND WHAT WE DO

Van Lanschot Kempen is the oldest independent financial institution in the Netherlands. Our history is deeply intertwined with the history of the Low Countries and the people that represent them. Founded originally in Antwerp in the 17th century, Van Lanschot Kempen has brought several entities together over time; the common thread that links us all is trade.

Our purpose is the preservation and creation of wealth, in a sustainable way, for our clients and the societies we serve.

We believe that wealth is not just about financial assets; essential as these may be, wealth is about all the things that we value in life. In a broader sense, wealth represents the collective wisdom of a society and the cultural norms and values that sustain it. Although our primary objective is to help our clients with the financial aspects of wealth, we endeavour to serve their broader objectives as well. We do this through our Foundation, our sponsorships and our work on sustainability issues.

As a company, we believe that the generation of wealth – and its re-distribution through taxation – are critical to the process of creating and maintaining stable, successful societies. Given that societal cohesion necessitates that wealth creation, we believe that wealth management cannot be the preserve of a few but is a necessity for all.

This view is reflected in our approach to our clients. As a company, we serve clients across the social spectrum and in several segments – private, institutional and corporate – with a singular purpose: to be a trusted partner and to assist them in preserving and creating wealth sustainably. We believe that serving the long-term interests of our clients helps create a platform for responsible investing and societal stability.

Our values

Values are essential to any successful enterprise. We are no exception. These values drive our decision-making process and our code of conduct. In turn, they define who we are and what we stand for. As a company, we believe in the following core values:

Entrepreneurial spirit
- We look for opportunities, even when there appear to be none
- We believe in and pursue our goals
- We accept failure as part of the process and are not defeated by it
- We are able to connect the dots and make things work

Specialisation
- We accept that one cannot be good at everything
- Specialisation helps us to make choices and to focus
- We believe in expertise
- We appreciate each other's specialist knowledge and employ this optimally

Craftsmanship
- We believe in the pursuit of excellence
- We have the tenacity and relentlessness to get things right
- We strive to be true professionals – knowing our craft inside out
- We do not accept second best as the outcome in our search for excellence

Dedication
- We believe in the conscious act of committing one's emotional, intellectual and physical capabilities to one's objectives
- We are intrinsically motivated to work hard in providing our services in order to exceed clients' expectations
- We believe genuine dedication enables us to create value for the long term

Discretion
- We understand that notions of privacy are changing in this era of social media and digital transformation
- We believe in the importance of privacy at an individual, institutional and societal level
- We do our utmost to protect and secure our clients' sensitive information in order to truly be their trusted partner

These values define what we do, and help us to serve our clients best.

Key reasons for clients, employees and investors to choose Van Lanschot Kempen

As a wealth manager, Van Lanschot Kempen builds on the experience of its core activities, operating under the strong brand names Van Lanschot, Evi van Lanschot and Kempen.

Reliable reputation and rich history

- Clear choice for wealth management, targeting private, institutional and corporate clients
- Tailored, personal and professional service
- Mutually reinforcing core activities, each with its own distinct culture and positioning as a niche player
- High level of interaction between business lines to create innovative solutions for clients

True specialist

- In-house, specialist asset manager with multiple differentiating investment strategies and fiduciary expertise
- Conviction-based, active investor, focusing on the long term with the aim to achieve significant impact via clients' assets
- Relatively small-scale organisation and high level of executive involvement
- Strong focus on corporate social responsibility and ambition to move from responsible to sustainable investing
- Inspiring and professional work environment

Sound financial and risk management

- Strong capital position and balance sheet
- Strong track record in transformation processes and de-risking of the company
- Increased focus on core activities, creating opportunities for further growth

Key figures	2019	2018
Net result (€ million)	98.4	80.3
Underlying net result[1] (€ million)	108.8	103.0
Dividend per share (€)	1.45[2]	1.45
Efficiency ratio, excluding special items (%)	75.5	79.4
CET 1 ratio (%)	23.8	21.1
Return on average CET 1 based on underlying net result (%)	10.5	9.8
Balance sheet total (€ billion)	14.3	14.0
Total loan portfolio (€ billion)	8.6	8.6
Client assets (€ billion)	102.0	81.2
Total assets under management (€ billion)	87.7	67.0
Employees (FTEs at year-end)	1,560	1,621

VAN LANSCHOT KEMPEN

Van Lanschot

Van Lanschot Private Banking

- Tailored, proactive and transparent personal wealth management services
- For entrepreneurs, family businesses, high net-worth individuals, business professionals and executives, healthcare professionals, foundations and associations
- Discretionary asset management, investment advice, financial planning, savings and deposits, structured products and lending
- Assets under management: €24.7 billion
- Savings and deposits: €8.9 billion; loans: €8.1 billion
- 655 FTEs
- Offices in the Netherlands, Belgium and Switzerland

evi

Evi van Lanschot

- Online wealth management services for the mass affluent and Millennials
- Online wealth management solutions, discretionary asset management, savings and pension solutions
- Assets under management: €1.0 billion
- Assets under management client base c. 17,000
- Savings: €0.5 billion
- 23 FTEs
- Focus on the Netherlands and Belgium

Kempen

Kempen Asset Management

- Comprehensive fiduciary wealth management services
- Long-term focused niche investment strategies: high dividend equities, small-caps, real estate, infrastructure, credits, government bonds, sustainable value creation, funds of hedge funds and private markets
- Focus on European clients: institutional, wholesale distribution, family offices and endowments
- Assets under management: €62.0 billion
- Assets under monitoring and guidance: €3.1 billion
- 264 FTEs
- Offices in the Netherlands, the UK and France

Kempen

Kempen Merchant Banking

- Equities research and trading, capital market transactions, corporate finance and debt advisory services for corporate and institutional clients
- Focus on European corporates and worldwide institutional clients; sectors covered are real estate, life sciences & healthcare, financial institutions & fintech, infrastructure, maritime & offshore, as well as our local alpha coverage
- 127 FTEs
- Offices in the Netherlands, Belgium, the UK and the US

1 The underlying net result is the net profit adjusted for one-off charges related to the costs incurred for the Strategy 2020 investment programme and restructuring.
2 Proposed dividend per share for 2019.

HOW WE CREATE VALUE IN THE LONG TERM

Wealth enables our clients to achieve their business, personal and social goals. Wealth generation is essential to create and maintain stability in our society. This requires a long-term focus in which economic, social, environmental and governance factors all need to be taken into account.

Our value creation

Our value creation model on page 10 provides an overview of our impact and the value we create in the long term. As a wealth manager Van Lanschot Kempen attracts various types of capital:
- **Financial capital**: Our clients entrust us with their investments, savings and deposits, while our capital providers invest in our shares and bonds.
- **Human and intellectual capital**: Our employees and external parties bring in their knowledge and experience.
- **Social capital**: The network we have as an organisation and the trust that other stakeholders place in us – our licence to operate.
- **Manufactured capital**: Our physical inputs, such as offices, energy, IT and transport.

Our purpose

We are convinced that our purpose – to preserve and create wealth in a sustainable way – can only be fulfilled in a sustainable world. We also believe that, via the generation of wealth and its re-distribution through taxation, we can contribute to creating and maintaining a stable and successful society.

Our management approach

In line with our purpose, we proactively strive to:
- Embed our core values – entrepreneurial spirit, specialisation, craftsmanship, dedication and discretion – in everything we do.
- Operate as a trusted adviser for our clients and cooperate with other stakeholders.
- Contribute to a stable society. We create wealth, economic growth, jobs and tax income via our services to entrepreneurs, as well as contributing to the realisation of societal goals via the preservation and creation of wealth for asset owners, including pension funds.
- Prevent and mitigate negative impacts for all stakeholders, wherever we can – for example, via our responsible and sustainable investment policies, our CSR lending policy and our carbon reduction policy.
- Increase positive long-term financial and non-financial value by developing new solutions – such as the Kempen Global Impact Pool and Van Lanschot Groenhypotheek – in close cooperation with our stakeholders.

Our **positive outcomes** can also be defined according to the various forms of capital:
- Financial capital is our biggest output. We invest client assets in companies and other organisations (e.g. governments), assist entrepreneurs when raising funds, provide investment returns to our own clients and investors, pay salaries to our employees and pay taxes to society.
- We contribute to human capital via the training and development of our employees.
- We preserve and create wealth, growth and job opportunities for society (social capital) by passing on financial capital to companies and other organisations.
- We increase natural and social capital by investing client assets in sustainable and impact funds.

Our **negative outcomes** in terms of types of capital comprise the following:
- Financial capital: Potential negative returns on our assets under management and poor share performance.
- Human and intellectual capital: Work-related illness and possible redundancies of our employees.
- Social and natural capital: Remaining negative impacts on labour rights, human rights and nature in our supply chains, resulting from investment of client assets and our lending activities.

We can already partly quantify our impact on financial capital. For the other forms of capital, we still lack solid methodologies and data. In the short-term future, we will strive to develop these, together with our stakeholders.

Our contribution to the UN Sustainable Development Goals

A long-term focus on a sustainable society is what the Sustainable Development Goals (SDGs) are all about. As a wealth manager with a focus on the long term, we support and encourage all these goals. Of the 17 SDGs, there are six to which we contribute specifically via our core activities:
- **SDG 3**: Ensure healthy lives and promote well-being for all at all ages.
- **SDG 7**: Ensure access to affordable, reliable, sustainable and modern energy for all.
- **SDG 8**: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- **SDG 12**: Ensure sustainable consumption and production patterns.
- **SDG 16**: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels.
- **SDG 17**: Strengthen the means of implementation and revitalise the global partnerships for sustainable development.

For more details on value creation, see "Our value creation story". Information about our contributions to the SDGs can be found at vanlanschotkempen.com/responsible.

OUR VALUE CREATION

INPUT

€101,515
—
Financial capital

AuM	€87,700
Savings and deposits	€9,500
Funding by bondholders	€2,600
Capital of shareholders	€1,200
Paid fees and interest	€515

€To be determined
—
Human and intellectual capital

Internal employees (FTEs)	1,560
External employees (FTEs)	201
Knowledge, experience and diversity	
Consultancy and information providers' fees	€30

€To be determined
—
Social capital
Reputation and trust
Stakeholders' expectations

€To be determined
—
Manufactured capital
Energy, water, offices, IT, transport

BUSINESS MODEL

VAN LANSCHOT KEMPEN
Van Lanschot · Kempen · evi

Purpose
Creation and preservation of wealth in a sustainable way

Approach to sustainability
Prevent and mitigate negative impacts
Increase positive impacts

Values
Entrepreneurial spirit – Specialisation
Craftsmanship – Dedication – Discretion

OUTPUTS AND OUTCOMES*

€107,432
—
Financial capital (+)

+ Loans provided to clients	€8,700
+ Funding arranged for Merchant Banking clients	€7,000
+ Capital for investees (companies, government)	€87,700
+ Investment return for clients, 3-year average	€3,600
+ Interest paid to clients (savings and deposits)	€26
+ Salaries	€251
+ Coupons for bondholders	€20
+ Total shareholders' return, 3-year average (market performance, dividend, capital return)	€115
+ Taxes paid	€21

€To be determined
—
Human and intellectual capital
+ Engaged, healthy employees (via Vitality Programme)
+ Skilled employees and interns (via training and development)
+ Investment in career starters and people at a disadvantage in the labour market

- Work-related illness, redundancies due to technological changes

€To be determined
—
Social capital
+ Good relations with clients and other stakeholders
+ Contribution to a stable society
  • Our services to entrepreneurs contribute to economic growth, jobs, tax income and wealth creation
  • By preserving and creating wealth for asset owners (including pension funds) we help to realise societal goals
+ Positive contribution via sustainable and impact investing

- Negative human rights and labour impact (via lending and investing activities)
+ Reduced negative impacts via active ownership

€To be determined
—
Natural capital
+ Positive contribution via sustainable and impact investing

- Negative climate impact via lending and investing activities
+ Reduced negative impacts via active ownership

OUR SDG CONTRIBUTION

Financial capital: 8 DECENT WORK AND ECONOMIC GROWTH; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Human and intellectual capital: 8 DECENT WORK AND ECONOMIC GROWTH
Social capital: 3 GOOD HEALTH AND WELL-BEING; 8 DECENT WORK AND ECONOMIC GROWTH; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS; 17 PARTNERSHIPS FOR THE GOALS
Natural capital: 7 AFFORDABLE AND CLEAN ENERGY; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Amounts are in € millions unless otherwise stated

** For various stakeholder groups*

+ Increase in capital - Decrease in capital

2019 figures

OUR STRATEGY

In light of our purpose – to preserve and create wealth in a sustainable way – we have defined our wealth management strategy. Taking into account trends and developments as well as the expectations of our clients and other stakeholders, we have set our ambitions. We've defined four strategic pillars that enable us to deliver on our ambitions. And in order to monitor our progress, we've defined a number of financial and non-financial key performance indicators (KPIs) that are grouped into five value creation themes.

Trends and developments p. 12

Economic and regulatory environment

Contribution to the environment and society

Evolving client needs

Competitive environment

Stakeholders' expectations p. 15

- Clients
- Shareholders
- Employees
- Government/regulators
- Other stakeholders

Our ambitions p. 17

- Continue our wealth management strategy
- Be a leading player in our markets
- Shift from responsible to sustainable investing
- Meet our 2023 targets

Strategic pillars p. 17

How we steer our business p. 18

Targets on five themes that all contribute to our purpose

Financial and risk management

Client-centricity

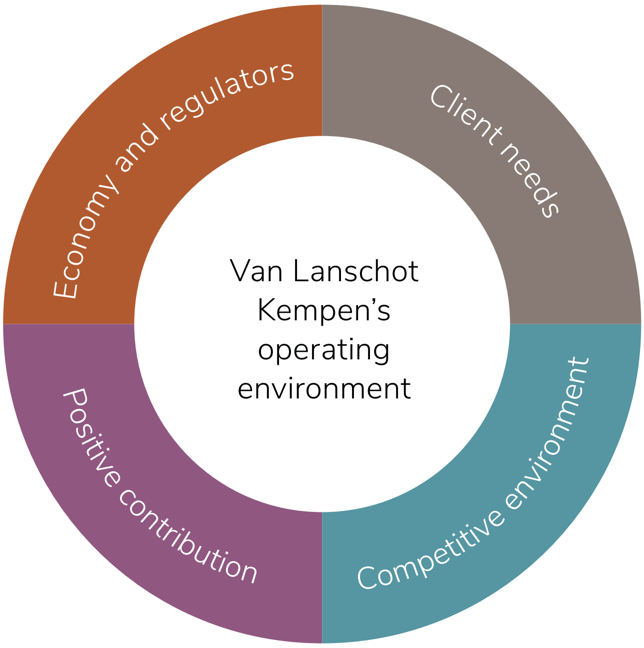
Ethics and integrity

Sustainability

Employees

TRENDS AND DEVELOPMENTS

Market trends, new technologies and services are reshaping our society, our economy and the financial sector. We highlight the most relevant developments in our operating environment below. We take these developments into account when executing our strategy.



Economic and regulatory environment

Economic environment
Despite considerable uncertainties, economic sentiment in 2019 was more positive than anticipated. And in general, we were able to generate high returns for our clients on their investment portfolios. However, while the fear of a recession still looms, clients are reluctant to invest. This economic uncertainty, combined with the low interest rate environment and increasing tax on personal wealth, presents a challenge for many of our clients.

Regulatory environment
A large number of regulations are expected to come into force between now and 2022, and we've been preparing for these in 2019. Regulators are increasingly focusing on the challenges of new technology, the impact of the transition to renewable energy on the financial sector, and the role of financial institutions in the prevention of financial crime such as money laundering. At the same time, the number of requests for data, as well as the level of detail of those requests, is increasing rapidly and continues to pose a challenge for our organisation. Basel IV, benchmark regulations and so on all represent major challenges for us going forward.

For more details on these developments and their impact on Van Lanschot Kempen, see "Our economic and regulatory environment" on page 21.

Contribution to the environment and society

Climate change
As awareness of climate change grows, organisations are expected to significantly reduce their environmental footprints. To achieve this, they need to be able to determine what their negative contribution is per activity. Unfortunately, this data is not all readily available. Within the financial sector, joint initiatives have already led to improved data availability and quality, as well as the ability to benchmark products based on carbon emissions.

Impact on society and the environment
Organisations are increasingly expected to generate positive value for society and the environment. Positive value is hard to define as it is a broad concept that can take various forms. However, since the launch of the Sustainable Development Goals by the United Nations in 2015, we've seen an increase in organisations committing to, and reporting on, the generation of positive impact.

For more details on these developments and their impact on Van Lanschot Kempen, see "Our contribution to the environment and society" on page 23.

Evolving client needs

Digital savviness
At the same rapid pace that digitalisation and technology are developing, our clients' abilities to handle these changes are also evolving. However, they are not all developing their skills at the same rate and do not all share the same digital preferences, which creates challenges in designing the perfect client experience. This experience therefore needs to be made up of various complementary parts, each of which can be selected by the individual client.

A similar shift is occurring in the institutional sector, in which the services needed by individual institutional clients also vary. Asset managers are required to move towards a more flexible service model, in which they are able to offer each client the set of services they require. As the number of institutional clients is limited, this creates a challenge for asset managers, who have to reach a certain level of efficiency to remain profitable.

Insights into the future
Both prospective and existing clients, in every demographic, are looking for confirmation that they are making the right choices regarding their financial future. To enable data-driven decision-making, financial organisations are providing their clients with online, easy-to-access tools to give them insight into the expected growth of their wealth over time, as well as educating clients about wealth management.

For more details on these developments and their impact on Van Lanschot Kempen, see "Our clients" on page 22.

Competitive environment

Competition for client assets

As regulatory pressure increases and margins are squeezed by low-cost propositions, the consolidation within the financial and wealth management sector continues. In addition, the overall growth of wealth in Western Europe is expected to be moderate, resulting in continued strong competition for client assets among new and established players. As the current global business cycle is past its peak, an important part of new assets originates from entrepreneurs selling their businesses.

For more details on our approach to this, see "Our ambitions" on page 17.

Competition for talent

All professional services companies rely on the knowledge, experience and professionalism of their employees. Attracting, developing and retaining a high-quality workforce is essential. As the financial sector adapts to the rapid changes in digitalisation and technology, new skills are required, which are also in high demand within other sectors. Competition for talent is therefore fierce.

For more details on these developments and their impact on Van Lanschot Kempen, see "Our people" on page 26.

KEY RISK THEMES FOR VAN LANSCHOT KEMPEN

In addition to the trends and developments that impact our operating environment, as a wealth manager we face specific risks associated with our sector. In 2019, we identified the following key risk themes:

- Rising geopolitical and economic uncertainty
- Low interest rate environment
- Technological transition and cybercrime

See the "Risk and capital management" section (page 59) for more details.

PUSHING THE DEBATE FORWARD

Since 2010, I've been 100% focused on sustainability at Van Lanschot Kempen. For the first few years I was pretty much "alone". But the world (and our company) has changed a lot in the last decade. Today, it's no longer just me pushing for more sustainability. The number of colleagues engaged in the debate has risen dramatically. But I still believe we can be more ambitious.

That's why we've been holding stakeholder events annually since 2011: to bring our diverse stakeholders together in the same room with our own people to really listen to the discussion. I spend a lot of time talking to external parties – clients, environmental groups, human rights groups, ratings and benchmarking agencies, and so on – translating their expectations into our internal policies and products to ensure what we're doing is both sustainable and profitable. We've made a lot of progress over recent years, but the debate is complicated and change can take time.

I personally believe that a lot of sustainability is just common sense, and it's in people's best interests to take steps towards it. Governments seem to have a similar view nowadays, and they stepped up further in 2019: a lot of regulations will come our way in the years ahead, driven especially by the EU. This will definitely push us all further in the right direction.

Sander Boleij – Manager Corporate Social Responsibility

STAKEHOLDERS' EXPECTATIONS

We work with consideration for future generations, the environment, and the financial requirements of clients and shareholders. An essential part of this approach is an active, continuous dialogue with our stakeholders.

We identify five main stakeholder groups: clients, shareholders, employees, government/regulators and other stakeholders, including all those who might be affected by the decisions and activities of Van Lanschot Kempen (e.g. society at large, suppliers and competitors). The interests and expectations of the different stakeholder groups vary, and may lead to potential conflicts of interest. Van Lanschot Kempen weighs up its stakeholders' interests, and incorporates these into decision-making processes and the development of strategic targets.

Our various stakeholder groups have different expectations regarding Van Lanschot Kempen. The overview below[1] outlines our assessment of these expectations.

Clients

Excellent client experience, strong personal relationships, holistic advice, tailored solutions and risk-rewarding returns

Shareholders

Solid performance, attractive returns and sustainable – preferably growing – dividend

Employees

Inspiring and professional work environment, competitive salary, development and growth opportunities, and personal autonomy

Government/regulators

Practices within the letter and the spirit of the law (e.g. duty of care, anti-money laundering, client due diligence and privacy regulation) and positive contribution to society and environment

Other stakeholders

Fair business opportunities and positive contribution to society and environment

Topics that are material to our stakeholders

To determine which topics are valued most by our stakeholders, we conduct a survey among stakeholders every two years. Our most recent survey was conducted in 2019. For 25 topics relevant to our business, stakeholders were asked to assess the extent to which each topic influences the decisions they make regarding Van Lanschot Kempen.

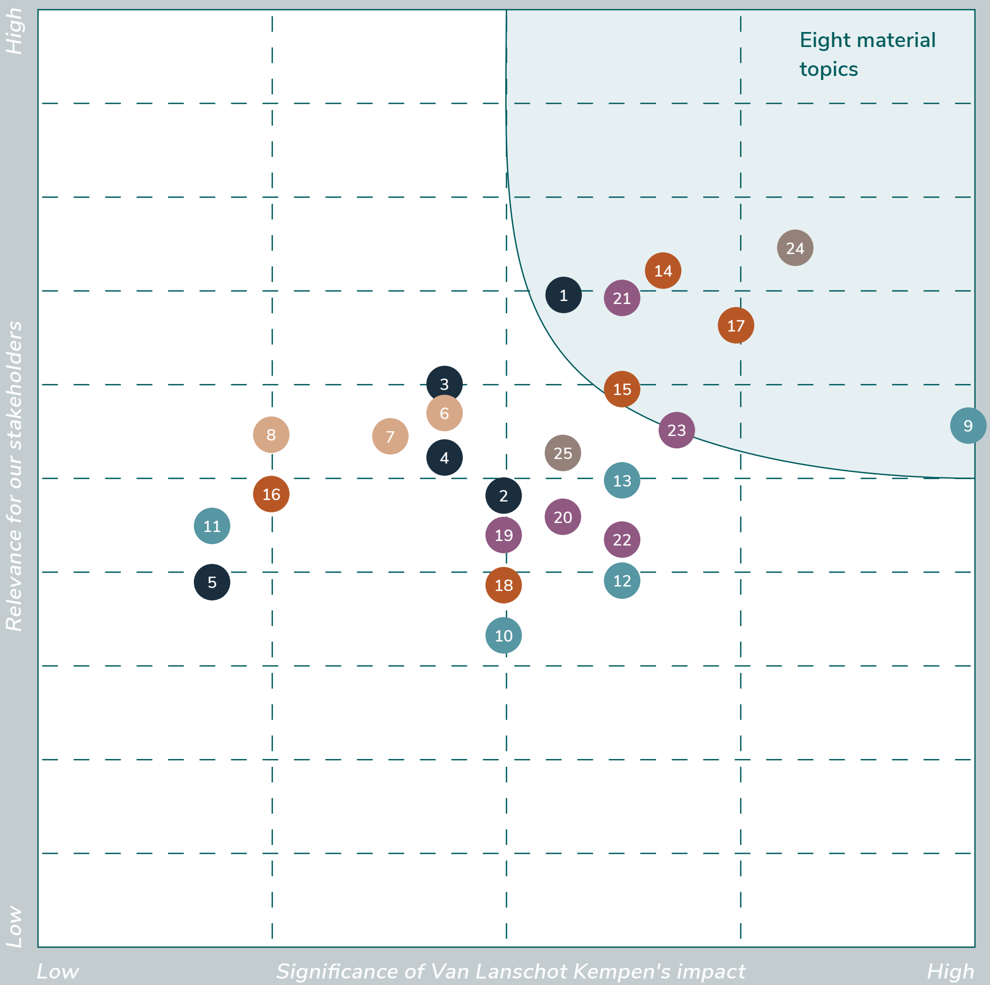
In addition, our Executive Board and a panel of external sustainability experts determined the significance of the impact Van Lanschot Kempen has via each of the 25 topics. Impact refers to positive impact and prevention of negative impact, and may be economic, environmental or social in nature.

The table below and the matrix overleaf show the eight most material topics (out of the 25 in total), based on those topics rated as "significantly important" by our stakeholders, and on which Van Lanschot Kempen has "significant impact". Further details on the materiality matrix can be found in the document "Our value creation story".

Topic number	Material topic	Description
1	Profitability and cost effectiveness	Return on equity, efficiency ratio, and ability to keep costs under control
9	Impact via client assets (investments)	Maximisation of positive environmental and social impact, and elimination of negative impact, by investing the assets of our clients in a responsible and sustainable manner
14	Superior client experience	Relevant, easy-to-access, seamless customer journeys via various channels (e.g. app, face-to-face, phone) and providing clients with relevant solutions at the right time
15	High-quality, tailored solutions	Development of innovative solutions that answer evolving, individual client needs. Added value of our advisory services (quality, suitability and execution power)
17	Contribution to clients' wealth via investments	Positive contribution to the wealth of our clients via our investment solutions (financial performance)
21	High-quality workforce	Attraction and retention of talented employees who have the relevant expertise and the required skillset
23	Development and training of staff	Opportunities for employees to develop themselves to increase their employability and extend their skillset
24	Ethics and integrity	Company culture and moral compass by which employees are encouraged to behave ethically and with integrity

1 See "Our value creation story" for further details.

Our materiality matrix



A Financial and risk management
1. Profitability and cost effectiveness
2. Growth and market position
3. Risk management
4. Capital position
5. Dividend and capital return

B Licence to operate
6. Regulatory compliance
7. Transparent reporting
8. IT systems and platforms

C Sustainability
9. Impact via client assets (investments)
10. Impact via lending activities
11. Impact via our own organisation
12. Impact via partnerships and cooperation
13. Stakeholder involvement

D Client-centricity
14. Superior client experience
15. High-quality, tailored solutions
16. Access to a broad range of solutions
17. Contribution to clients' wealth via investments
18. Contribution to clients' wealth via lending activities

E Employees
19. Balanced reward policy
20. Healthy staff
21. High-quality workforce
22. Diverse and inclusive workforce
23. Development and training of staff

F Ethics and integrity
24. Ethics and integrity
25. Discretion

OUR AMBITIONS

Van Lanschot Kempen is a well-capitalised, profitable wealth manager with a strong specialist position in the market. We believe that our knowledge and experience, our personal, client-focused approach, our unique combination of activities and our track record set us apart from the competition in our selected market segments, while offering growth opportunities.

Supported by our strong client relationships, we aim to be a leading player in our relevant markets and geographies. This means being:
– A leading wealth manager in the Benelux region;
– The number one online wealth management alternative for the mass affluent in selected markets;
– A prominent, active investment manager that delivers alpha in illiquid markets, as well as in income-generating strategies and ESG across Europe;
– The leading fiduciary manager in the Netherlands, and a challenger in the UK fiduciary market;
– The preferred trusted adviser in selected niches in merchant banking across Europe.

With our history as a principled, active investor, focusing on the long term, we want to move – together with our clients – from responsible investing towards sustainable investing. In addition to our focus on preventing negative impacts for all stakeholders, this means that we will also aim to create positive long-term financial and non-financial value. Our prevention of negative impacts will focus, at a minimum, on the four UN Global Compact themes: human rights, labour rights, the environment (including climate) and anti-corruption. In addition, controversial weapons and tobacco production are taken into account. When aiming for positive impact, we follow the UN Sustainable Development Goals (SDGs), especially SDG 3 (good health and well-being), SDG 7 (affordable and clean energy), SDG 8 (decent work and economic growth), SDG 12 (responsible production and consumption), SDG 16 (peace, justice and strong institutions) and SDG 17 (partnerships for the goals). Although we expect to achieve the most significant social and environmental impact via our clients' investments, we also take our balance sheet and our own organisation into account.

We have set our financial targets for 2023:
– CET 1 ratio: 15-17%;
– Return on CET 1: 10-12%;
– Efficiency ratio: 70-72%;
– Dividend policy: 50-70% of underlying net result attributable to shareholders.

We will maintain our solid risk profile with a moderate risk appetite. Over the years, we've developed a strong capital base. Our CET 1 ratio currently stands at 23.8%, well above our target level. We aim to optimise our capital base, while leaving room for potential acquisitions. In addition, we'll consider paying out excess capital to our shareholders. Since 2016, we have returned around €330 million to our shareholders.

Strategic pillars

Economic and regulatory changes, evolving client needs, societal change, advanced technology and increased competition all impact our operating environment. We need to respond to these changes in order to deliver on our ambitions. For this purpose, we have defined four strategic pillars that are interlinked and that mutually reinforce each other:

Accelerate growth organically and inorganically

To remain relevant for our clients and accelerate our organic growth, we believe that we have to truly understand our clients, anticipate their needs and help them to fulfil these needs in a sustainable manner. Instead of searching for a single product or a specific brand, which entails a product-led approach, clients are looking for solutions that fulfil multiple needs.

In recent years, we've successfully expanded our activities through selective bolt-on acquisitions, partnerships and hiring teams. Our high post-acquisition client retention rates show that clients value our proposition. We aim to engage in further bolt-on acquisitions and larger acquisitions in order to accelerate our growth, increase our scale and benefit from revenue, cost and/or funding synergies. We will focus on acquisition opportunities that support our positioning as a specialist player, and will consider acquisitions in existing and contiguous markets.

Activate our full potential

In order to unlock the full potential of our solutions-led organisation for our clients, we must be able to offer solutions that build on the knowledge and expertise of the entire group as well as our open architecture platform. We believe that by providing clients access to the full range of services and products across our business lines, we'll be able to meet client needs in a sustainable manner. Acting as one allows us to benefit from knowledge sharing, to make optimum use of resources across the organisation, and to reduce overlap.

Advance through digitalisation and analytics

Changes in clients' needs and economic developments require us to react quickly. Technology and digitalisation will allow us to improve our productivity and service, by speeding up processes, reducing operational errors and improving the availability and quality of data. Digital interaction is key as it offers both clients and employees increased flexibility in terms of means of communication and the time needed to communicate. To grasp the full potential of patterns in internal and external data, tooling is being developed that helps end-users to interpret data and use it for data-driven decision-making in commercial processes, investment processes and operational processes.

Adapt the workforce

Our people's knowledge, experience and professionalism are key to the way we operate. Investing in our people will enable them to embrace new technology and adopt a more data-driven way of working and decision-making. We will facilitate and encourage development and training of our existing workforce. Together, we need to optimise the use of advanced analytics, to embrace new technology and to work in a more agile manner. We will also hire new people with the requisite skills and capabilities to help drive our development and the changes needed to adapt.

How we steer our business

In order to monitor whether we're on track to deliver on our ambitions and create long-term value, we define financial and non-financial KPIs and targets. These are based on industry trends and developments, stakeholder expectations, client needs and strategic relevance. Our KPIs can be grouped into five themes, which all contribute to our purpose:

- **Financial and risk management**: These are key to our organisation, as all stakeholders benefit from a solid capital position and sustainable performance.
- **Client-centricity**: We differentiate ourselves from our competitors through our personal approach, in which we focus on long-term client relationships and on aspiring to be a trusted guide for our clients. We aim to improve our client experience by further digitalising our operations, processes and communication channels.
- **Ethics and integrity**: We operate in an ethical manner, and encourage our employees to behave ethically and with integrity.
- **Sustainability**: We see clear opportunities to create positive economic, environmental and social impact by investing the wealth of our clients responsibly and sustainably. Clients are increasingly looking for these types of investments, and we will expand our range of sustainable investment solutions accordingly.
- **Employees**: We aim to be an attractive employer. As our employees are key to the success of our organisation, we invest in their inspiration, training, development and health.

All themes contribute to our purpose:

- **Preservation and creation of wealth**: We preserve and create wealth for our clients and society, in a sustainable way, which requires our wealth management solutions to deliver positive, long-term performance.

For 2019, our performance on these themes and our purpose is measured via 59 financial and non-financial KPIs, of which 15 are reported externally. These 15 KPIs have been selected for external reporting as they represent our material topics well. Moreover, our other KPIs are used for our internal management information and steering. Some of these internal KPIs reflect sensitive information from a competition perspective.

Adjustments in our KPIs and targets compared to 2019

As mentioned on page 15, a new materiality matrix was developed in 2019. The results of the materiality matrix have been used to review and adjust our financial and non-financial KPIs for 2020 and 2021.

- Two new KPIs have been added to the Client-centricity theme, focusing on our Merchant Banking clients:
  - Number of repeat Corporate Finance clients, measured over a three-year period (target: 60-70%);
  - Bundled commission paid by repeat Securities clients (target: > 80%).
- Under the Ethics and integrity theme, the wording of the KPI has been improved and now reads: "Percentage of employees who positively evaluate our culture regarding ethical behaviour and integrity". The underlying input and approach have not changed.
- To underline our commitment to move from responsible to sustainable investing, two new KPIs have been added under the Sustainability theme:
  - Percentage of internal and external fund managers on the approved list that meet the sustainability criteria (target: > last year);
  - Engagement for change trajectories for which at least one milestone has been reached in the past year (target: 10-15 trajectories).

  These KPIs replace one of the 2019 KPIs:
  - Asset Management: Percentage increase in (internal and external) fund managers on our approved list that are scored on their overall sustainability profile.
- To monitor the development and training of our staff in terms of new skills, a new KPI has been added under the Employees theme:
  - Percentage of the total number of training courses followed to develop new skills in order to adapt the workforce (e.g. technical, digital, adaptability) (target: > 25%).

Themes	KPIs	Target	Material topics covered
Financial and risk management	1. CET 1 ratio	15-17%	1. Profitability and cost effectiveness
	2. Return on equity (CET 1)	10-12%	
	3. Efficiency ratio	70-72%	
Client-centricity	4. Net Promoter Score (NPS) a. Private Banking b. Evi c. Asset Management	 a. 10 b. 10 c. 20	14. Superior client experience
	5. Merchant Banking: number of repeat Corporate Finance clients (three-year period)	60-70%	
	6. Merchant Banking: bundled commission paid by repeat Securities clients	> 80%	
	7. Asset Management: average Morningstar rating of investment strategies (institutional share class)	> 3.5	15. High-quality, tailored solutions 17. Contribution to clients' wealth via investments
	8. Three-year relative performance of discretionary management mandates a. Private Banking b. Evi	 a. > benchmark b. > benchmark	
Ethics and integrity	9. Percentage of employees who positively evaluate our culture regarding ethical behaviour and integrity[2]	> industry average	24. Ethics and integrity
Sustainability	10. Private Banking sustainability ambition AuM invested in sustainable and/or impact investment wealth management solutions	last year +10%	9. Impact via client assets (investments)
	11. Asset Management sustainability ambition a. Percentage of internal and external fund managers on the approved list that meet the sustainability criteria b. Engagement cases with companies that our funds invest in per year c. Engagement for change trajectories for which at least one milestone[3] has been reached in the past year	a. > last year b. 80-100 cases c. 10-15 trajectories	
	12. Decrease in carbon emissions a. Direct emissions of our own organisation b. Indirect emissions via our balance sheet (mortgage portfolio)	 a. –2.5%/FTE per year b. CO_2/€ < last year	n/a
Employees	13. Employee engagement score	> 80%	21. High-quality workforce
	14. Employer Net Promoter Score (eNPS)	> 10	
	15. Gender balance in management positions	> 30% male > 30% female	
	16. Percentage of total number of training courses followed to develop new skills in order to adapt the workforce (e.g. technical, digital, adaptability)	> 25%	23. Development and training of staff

2 The score for this KPI is based on responses to the following statements in the employee engagement survey:
- In my experience, all employees are held to the same standards of ethical behaviour;
- This organisation operates with integrity in its internal dealings (i.e. with employees);
- I think I could report instances of dishonest or unethical practices to the appropriate level of authority without fear of reprisal.

3 An engagement trajectory consists of four stages. If an engagement moves to the next stage, a milestone has been achieved.

INVESTING FOR IMPACT

Together with my co-portfolio manager, Narina Mnatsakanian, we launched the Kempen Global Impact Pool in 2018 after two years of research. It came about because we wanted to offer impact investing solutions to meet demand from clients – not only our institutional clients but also our Private Banking clients. So we suggested our clients pool their capital to create more impact – after all, together we're stronger.

The fund has grown from €25 million in AuM in January 2018 to €100 million by the end of 2019 – this huge increase in less than two years shows the sheer demand from our clients wanting to invest for impact. And it's a no-brainer: impact investing means contributing something to the world and making a difference at the same time as investing financially. For example, one of our targets is around responsible production and consumption, so we've invested in a manufacturer of biodegradable plastics. Another target works towards affordable, good-quality healthcare, so one of our funds has invested in a pharmacy chain in Kenya that offers access to high-quality, affordable medicines to low-income, under-served people there.

Essentially, the Kempen Global Impact Pool creates a bridge between social and environmental problems that need solving and the capital contributions available. I'm extremely proud of our clients for wanting to do this, and of my colleagues for all their expertise in setting it up.

Marjoleine van der Peet – Senior Portfolio Manager, Kempen Asset Management

OUR BUSINESS THEMES

Our business is impacted by our economic environment, as well as by social and environmental factors. In turn, our operations have an impact on our clients, our employees, our society and the world around us. Our responses to the most relevant developments are covered by our business themes. For more details on the external trends that shape our strategy, see "Trends and developments" on page 12.

Our economic and regulatory environment

Financial markets are heavily influenced by the economic and regulatory environments at any given period, and these shift constantly. All our business lines are significantly affected by the economy – both in Europe and globally. And we're obliged to comply with a set of rules and principles that govern the financial services industry.

Economic trends

From an investment perspective, the economy in 2019 was more positive than many people expected given the situation at the end of 2018. However, the global economy started to cool down as 2019 progressed – especially in the manufacturing sector. Towards the end of the year, we started to see signs of the service sector slowing down, and Chinese growth was also slower than previously. Meanwhile, there has still been no inflationary pressure in either Europe or the US, with bond yields collapsing and central banks lowering interest rates in the second half of the year.

Politically, the situation remains tumultuous. Escalating trade wars between China and the US mask an underlying technology war. This has been disruptive to the economy as a whole – not just to import and export tariffs. And the impact of this is already being felt in Europe. Meanwhile, uncertainty caused by Brexit is having an impact as well: German export volumes to the UK have already fallen substantially as a result.

Impact on our clients

After the sharp correction in equity markets during the last quarter of 2018, financial markets went up across the board in 2019 – meaning generally high returns for our clients. Some of our Private Banking and Evi clients were hesitant to invest because of economic uncertainty. And in many cases, we're seeing a shift in focus from the creation of wealth to the preservation of wealth. But many of our Private Banking and Asset Management clients had a year that was perhaps better than they might have anticipated in the final quarter of 2018. Although the earnings growth of most companies declined during 2019, so too did the cost of capital – which meant the net result turned out positive for equity markets. However, with interest rates historically low, it's a very challenging environment for savers, such as our Private Banking and Evi clients. On the flip side, these low interest rates represent a positive opportunity for real estate markets in general. For Dutch pension funds, though, liabilities went up more than assets, while solvency ratios have declined.

All of this means that the demand for high-yield products in the Netherlands is high. Investment-grade credit strategies are doing well, as are alternative and illiquid strategies. Real estate, infrastructure, private equity, hedge funds and so on offer favourable returns for our clients in the current environment. For more details on the markets and how these have impacted each of our client groups in 2019, please read the sections about each business line on pages 42-55.

Regulatory environment

The process of transitioning from a principles-based system to a rules-based system is continuing apace in Europe, coupled with a shift towards more intense and data-driven supervision. The attention of regulators is moving towards the challenges of new technology, the impact of the transition to renewable energy on the financial sector, and banks' role in the prevention of financial crime such as money laundering. At the same time, the number of requests for data, as well as the level of detail of those requests, is increasing rapidly. Overall, the efforts required to operate in compliance with regulatory requirements continue to grow and are putting a strain on financial and human resources – especially in smaller organisations like ours.

As a financial services company, complying with laws and regulations is a priority for Van Lanschot Kempen. During 2019, many further requirements and regulatory expectations were formulated, such as in the guidelines from the European regulators EBA and ESMA. We also spent much of the year preparing for the implementation of large numbers of regulations that will come into force between now and 2022. At present, we are preparing for the Basel IV package of reforms, compliance with the Capital Requirements Directives V (CRD V) and Capital Requirements Regulation II (CRR II), and applying the principles of the targeted review of internal models (TRIM) guidelines as a bank that follows the internal ratings-based (IRB) approach. In addition to financial regulation, new legislation on sustainability is currently being prepared by the European Commission: the approach is broad in scope, and the thousands of pages of regulatory proposals will make an impact on – and present an opportunity for – our business when turned into law in the coming two years. In 2020, our focus will be on continuing to prepare for this new raft of regulations to ensure that they have all been implemented by 2022. For more information, please see the "Risk and capital management" section on page 59.

Brexit preparations and impact

All of Van Lanschot Kempen's business lines are prepared for Brexit. We have contracts and procedures in place to ensure that the business impact will be manageable and limited. We've also created the possibility to move our derivatives trading activities from London to hubs in other European countries. However, Brexit is still a risk: at national level, the UK is a large trading partner for the Netherlands so there is significant potential for indirect fallout. Depending on further political and regulatory developments, it remains to be seen what the actual impact will be, particularly on our business activities in the UK.

Financial crime prevention
Financial institutions are indispensable parties in protecting and supporting healthy and strong financial markets. And they have been mandated by society to play an important role in the prevention and detection of money laundering, terrorist financing and other financial crimes. Banks' roles as so-called gatekeepers are codified in anti-money laundering legislation that addresses detailed organisational and operational requirements that need to be fulfilled. We fully understand our role in preventing financial crime, and undertake continuous efforts to further develop and optimise our control arrangements.

Private Banking has clearly defined processes in place, including client due diligence, client acceptance, transaction monitoring and sanction screening processes to ensure compliance. In 2019, we initiated a project to improve the general level of control for the whole organisation by implementing the best practices of Private Banking in the existing processes of the other business units. In the reporting year, the Dutch Authority for the Financial Markets (AFM) started an investigation regarding specific parts of Kempen & Co. The investigation focuses on compliance with the Money Laundering and Terrorist Financing (Prevention) Act (Wwft). We expect to receive more information from the AFM concerning the potential consequences of the investigation in the course of 2020.

Privacy and discretion
One of Van Lanschot Kempen's core values is discretion. This means that acting in accordance with privacy regulations comes naturally to us – it's not just a regulatory requirement but an integral part of the way we do business. We therefore handle all client data extremely carefully. Together with our Privacy Committee and in accordance with our privacy framework, our Privacy Officer operates a programme designed to monitor compliance of the processing and protection of personal data with applicable rules and regulations. The Privacy Officer regularly reports to the Privacy Committee and to the Compliance and Operational Risk Committee. We have procedures in place to handle and record complaints, information requests and any breaches of client data. We have not registered any material complaints from clients or regulators relating to this in 2019.

Our clients

Our clients are our most important group of stakeholders – without them, we cannot operate. At Van Lanschot Private Banking, our clients are high net-worth individuals, entrepreneurs, family businesses, business professionals and executives, healthcare professionals, and foundations and associations. At Evi, our clients include first-time investors and Millennials, with an increasing focus on mass-affluent individuals. At Kempen Asset Management, we serve institutional clients such as pension funds and insurance companies, as well as providing investment strategies for Van Lanschot Private Banking clients. And at Kempen Merchant Banking, we serve corporate and institutional clients across our focus sectors – real estate, life sciences & healthcare, financial institutions & fintech, infrastructure, maritime & offshore, as well as in our local alpha coverage. Although we count many target groups as our clients, we are first and foremost specialists. Our knowledge and experience, our track record and our personal approach enable us to best serve these clients in selected market segments. Van Lanschot Kempen is a specialist wealth manager, dedicated to offering our clients expertise and solutions tailored to their needs. And of course, these needs change over time. It's our job to anticipate these developments and ensure we're there for our clients as a guide in all phases of their journey with us.

Wealth management solutions
Under the current economic circumstances, many of our clients are more focused on the preservation of wealth than on creating wealth, due to recent developments in taxation and persistently low interest rates. This is a crucial way in which we can help our clients, by providing advice and by offering new products and services to fulfil their needs. For example, our Private Markets Fund (launched in 2018) and our European Private Equity Fund (launched in 2019) offer clients opportunities to invest in illiquid, alternative investment classes such as private equity, infrastructure, land and private real estate.

Many of our clients are also looking for sustainable investment solutions. That's why our sustainable assets under management at Private Banking reached a new milestone of over €2 billion by the end of 2019. It's also why we started offering the Van Lanschot Groenhypotheek: a "green mortgage" that helps clients finance renovations to make their homes more sustainable at a lower interest rate. And finally, that's why environmental, social and governance (ESG) criteria are integrated into the services we offer our fiduciary clients as well as in our investment strategies at Kempen Asset Management.

Digital technology
Digital technologies continue to develop rapidly. Many of our clients expect to be able to access their portfolios and get personal advice at any time, on any device. We've therefore invested heavily in multiple initiatives that support this personalised service. Our strategic investment programme at Van Lanschot Private Banking was completed in 2019 – the results of which included the launch of a new payments platform and payments app for our clients, a new online portal and a sophisticated investment app.

By activating our full potential, we are able to improve efficiency and service between our different business lines. For example, the digital tools developed for our Private Banking clients can be adapted for our Evi clients, while Evi's online marketing capabilities can be deployed at Van Lanschot. These synergies allow us to better serve both sets of clients. In addition, Kempen Asset Management and Kempen Merchant Banking are using data-driven analytics to improve our products and services to clients as well as to increase efficiency.

Customer loyalty
We are privileged that so many of our clients are loyal to Van Lanschot Kempen, year after year. We measure customer loyalty on a regular basis – including via the Net Promoter Score (NPS) – and use the results to improve our wealth management solutions and service to clients.

For more information on the many and varied ways in which we served our clients in 2019, as well as on the NPS they awarded us, please see the sections on each of our business lines in the "Progress report" on pages 42-55.

Priorities for 2020

In 2020, we will continue to look for solutions that serve all our client groups. This means collaborating even more closely between business lines to activate our full potential, and offering our clients seamless service, however they choose to interact with us.

Our contribution to the environment and society

Climate change has taken on even greater importance in 2019, with mass protests dominating the global media. We see society at large – including a proportion of our clients – becoming increasingly focused on the environment and the effects of global warming. Human rights issues, especially labour conditions in supply chains, also continue to be a focus within our society. Investing for the long term is no longer just about looking for the greatest returns by a future date; it's also about ensuring the liveability of the planet by the time that future date arrives. We are convinced we can achieve social and environmental impact by advising our clients on sustainable investment decisions. Our aim is thereby to move from responsible investing to sustainable investing.

Demand from clients and regulators

Many of our clients, whether private individuals or institutional investors, find sustainable investment more and more important. Equally, governments and regulators are stepping up their sustainability requirements. For instance, the OECD Guidelines for Multinational Enterprises require us to have specific due diligence processes in place in order to identify, prevent and mitigate negative social and environmental impacts. For more information on these guidelines and our compliance with them, visit vanlanschotkempen.com/responsible. Another key regulation is the European Commission Action Plan on Sustainable Finance that was launched in 2018, and which aims to encourage financial markets to re-orient capital towards sustainable economic activities and growth, thereby contributing to the goals of the Paris Agreement and the SDGs. One result of this Action Plan is that we will be required to discuss sustainability priorities with all our clients (suitability assessments) and to base our investments on their behalf on these priorities. The plan will also result in a European standard ("taxonomy") for sustainable activities and climate transition benchmarks. It's our job to be prepared for these regulations and implement them in our client solutions.

In July 2019, Van Lanschot Kempen – along with many organisations in the financial sector, including banks, pension funds and insurers – signed the financial sector commitment to the Dutch Climate Agreement. This requires financial services companies to measure, report on and execute action plans to meet the goals of the Paris Agreement, including carbon reduction targets for investments and loans. Some years ago, we started to improve our carbon measuring processes year on year, so that we're ultimately able to meet the goals of the Paris Agreement with our investments and loans.

Making Private Banking more sustainable

At Van Lanschot Private Banking, assets under management invested in sustainable and/or impact investment wealth management solutions grew to over €2 billion in 2019 (2018: €1.3 billion). Our plan to make wealth management entirely sustainable by 2023 is showing good progress. The plan aims to make sustainable investing the default option (meaning that clients no longer need to "opt in" to being sustainable) as well as to gradually raise the sustainability bar across all our investment propositions (meaning that funds will have to apply more sustainability criteria to be part of our investment offering).

In 2019, 33% of new clients' AuM was already invested in Van Lanschot Private Banking's sustainable discretionary management proposition, Duurzaam+. In 2019, we started to report on ESG factors in our sustainable discretionary portfolio management proposition and in our advisory investment proposition for our Private Banking clients. In addition to investment solutions, we also offer other sustainable products – such as the Van Lanschot Groenhypotheek, launched in 2019. This "green mortgage" helps clients finance renovations to make their properties more sustainable at a lower interest rate.

DUURZAAM+
We've been offering our clients a sustainable discretionary management solution, Duurzaam+, since 2017. Duurzaam+ is based on a list of exclusion criteria (tobacco, conventional and controversial weapons, alcohol, gambling, nuclear energy, adult entertainment and so on), a best-in-class approach (selecting the most sustainable companies per sector), and an environmental focus (selecting companies with below-average carbon footprints).

Making Asset Management more sustainable

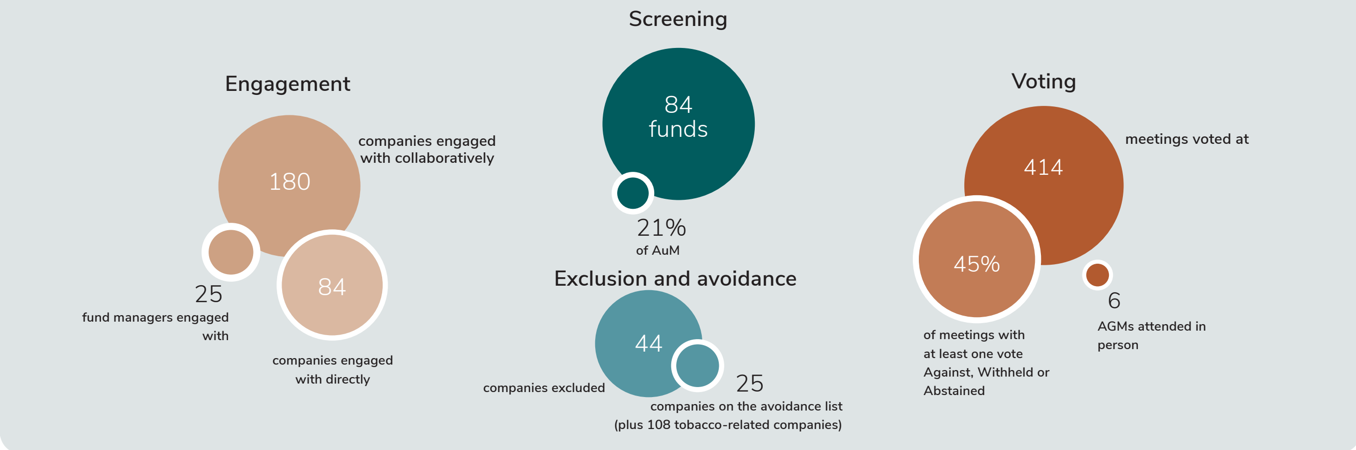
All Kempen Asset Management's clients are investing in responsible funds by default, and we have several sustainable fund options across different investment strategies: Small-caps, Value Creation and Credits. Available to both institutional and Private Banking clients, the Kempen Global Impact Pool targets positive impact across four themes that relate to the SDGs, and invests across listed and non-listed asset classes. The fund reached €100 million in AuM in 2019.

Screening and engagement

We have an extensive responsible investment policy (in line with the Principles for Responsible Investment - PRI) that translates international guidelines into ESG criteria, on the basis of which we screen our investments. Via our engagements and voting, we aim to improve the ESG practices of companies and investment funds in which we invest. Companies that do not show improvement may be excluded.

In 2019, we screened 84 funds against ESG criteria (2018: 53 funds), accounting for 21% of our AuM. We also engaged with 264 companies on ESG issues (2018: 299 companies). Of those engagements, 84 were directly with companies, 180 were collaborative engagements with companies, and 25 were dialogues with external fund managers. In addition, we voted at 414 meetings, or 92% of all votable meetings (2018: 461 meetings, 93%).

Responsible investment dashboard



Visibility
In the reporting year, we made further improvements in our external communications about sustainability as well as in our internal engagement on the topic. We launched new, dedicated ESG landing pages on our websites, and held several client events and webinars relating to sustainable and responsible investing. We also published quarterly thought leadership newsletters, monthly articles relating to sustainability, and various white papers on active management and impact investing.

Carbon footprint
As carbon emissions are considered to be the biggest driver of climate change, we report on our carbon footprint annually. Due to the small size of our company relative to the magnitude of the assets we manage, our biggest contribution is via our client investments.

In 2019, the aggregate carbon footprint of our clients' managed assets was 4.7 million tonnes (2018: 3.8 million tonnes). We carried out a climate scenario analysis on one of our strategies to assess the impact on our investment portfolios. We are further investigating how we can best integrate the results of this analysis into our portfolios.

The total carbon footprint of the assets on our balance sheet amounted to 37,747 tonnes in 2019 (2018: 43,344 tonnes[1]). In our own organisation, our absolute carbon emissions totalled 4,220 tonnes, or 2.40 tonnes per FTE (2018: 4,680 tonnes, or 2.54 tonnes per FTE), which means we are on track to meet our reduction target of 2.5% per FTE per year. As of 2019, we have also committed to offset all the carbon emissions from our own organisation.

For further information, see our disclosure on vanlanschotkempen.com/responsible/environment in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Awards and rankings
We were recognised with several awards, rankings and labels during the reporting year for our contribution to the environment and society:
- Platform Living Wage Financials, of which Kempen Asset Management is an active member, won the PRI Active Ownership Award.
- Kempen Asset Management's responsible investment process was rated A+ by PRI for strategy and governance, as well as ESG integration in manager selection and monitoring. The other modules received an A rating.
- Four of Kempen Asset Management's funds were awarded the Belgian Febelfin sustainability label, and one of them – Kempen (Lux) Euro Sustainable Credit Fund – was awarded the ISR sustainability label, meaning they meet certain stringent criteria for sustainable investment.
- Van Lanschot Kempen kept its high ratings in several other rankings, such as those from Sustainalytics, ISS Oekom, Transparency Benchmark and CDP.

Priorities for 2020
Sustainability will remain a priority in 2020. High on our agenda will be the further execution of our 2023 plan for Van Lanschot Private Banking, our continued ESG focus at Kempen Asset Management, and extensive preparations for the upcoming new regulations.

Carbon footprint of our assets under management[2]

CO_2 assets under management	Absolute footprint (in million tCO_2)	Relative footprint (tCO_2/€ m invested)	Carbon intensity (tCO_2/€ m sales)	Coverage (CO_2 based on % AuM)
Private Banking (incl. Evi)	1.3	114.5	–	45%
Asset Management	3.4	124.9	180.4	44%
Total	**4.7**	**121.8**	–	**44%**

1 The 2018 figure has been revised.
2 CO_2 figures based on 2017 data (scope 1 and 2); the coverage in 2018 was 50%.

GOING ENERGY-EFFICIENT

I've worked in testing and quality management for 15 years, starting at Van Lanschot Kempen in 2016. My team – the Service Centre Data Management (SCDM) department – is responsible for loading data from various sources into our data warehouse. From there, we extract data and create reports for our clients. There's a lot to do in a short timeframe: internal and external reporting, dealing with rapidly changing regulations, and incorporating new sources of data. And the only way to deliver more software at a higher quality is to get it right first time. Automating processes, testing early in the development phase, and eliminating any mistakes as soon as possible are essential to this.

When I'm not working on testing our software, my wife and I are busy building our own sustainable house. It's designed to be very energy-efficient, with no gas, no (or very few) thermal bridges, thick insulation, triple-glazed windows, and very high-quality window frames and doors. In addition, we're installing a heat pump to heat and cool the house as needed, solar panels to generate the energy that we do need to use, and a balanced ventilation system that brings fresh air into the house and removes stale air. We're aiming for our new home to be finished in March 2020, and we're already very excited about moving in!

Gijs Kuiper – Test Manager, Service Centre Data Management

Our people

Rapidly evolving client needs and ever-changing technologies present challenges that our workforce needs to meet proactively by adding to their skillset to maintain our competitive advantage. While Van Lanschot Kempen's positive results in 2019 have mostly led to high employee engagement, there have been several large restructurings as part of our strategy. To attract, develop and retain the right people to execute that strategy, our own HR practices need to stay agile, resilient and competitive in the labour market as a whole so that our businesses continue to win.

Integrated HR practices

Our aim is to ensure that our employment processes and policies are fit for purpose – both now and in the future. Our strategy to activate our full potential needs to be reflected in all aspects of the business – including our HR practices. Where previously each business line had its own HR policies, procedures and ways of working, in 2019 we transitioned to one harmonised HR process for all our people. The goals of this major integration project were threefold: to remain competitive in our labour markets; to reduce complexity and make our processes more efficient; and to achieve greater equality and transparency through harmonisation.

Some highlights of the project include:

- **Job and career framework**: We have identified nine different job families that each reflects the skills and competencies that are crucial to the company's future. The framework gives employees insights about what they need to do to develop into future roles, as well as clarity on accountability.
- **Salary framework**: To remain competitive and attractive as an employer, we have aligned our salary structure with the three (external) labour markets in which we operate: financial services, asset management, and investment banking and capital markets.
- **Modernisation based on employee preference scan**: We asked all our employees what they valued about their current employment conditions and what they missed. Listening to their responses, we gave them a flexibility budget based on their preferences as of 2020. These include benefits such as care leave, opportunities to take a sabbatical and flexible working hours.
- **Pension plan**: We transitioned to a single pension plan that's both competitive and fully aligned with the Dutch pension agreement.

Employee engagement

Shortly after our preference scan, we also carried out our bi-annual employee engagement survey. This received a response rate of 71% (2017: 82%) and showed a sustainable engagement score of 82% (2017: 81%), which is fully in line with industry benchmarks. While we were pleased with the results, there is still room for improvement. In general, we see the need to continue translating our vision and purpose into concrete action plans. We also need to further improve our internal processes and conditions in the workplace to ultimately better serve our clients. Perhaps unsurprisingly, survey results differed across the different business lines, and each department is responsible for its own follow-up priorities; communication and monitoring will be crucial.

It is interesting to note that health and well-being scored well in the 2019 survey: 58% of respondents felt the company is effective at encouraging employees to improve their health and well-being – an increase of 11 percentage points on 2017. Our focus on the Vitality Programme over the last couple of years is clearly appreciated by our employees, and we intend to continue with the activities offered.

Attracting and developing talent

Working at Van Lanschot Kempen means not being a small cog in a big wheel, but getting a broader and deeper level of responsibility straight away. In September 2019, we launched a revamped, streamlined version of our recruitment website (workingatvanlanschotkempen.com) that covers all areas of our business. Instead of looking for individual talent on a case-by-case basis, our aim is to create a continuous flow of new talent. Our strategy is to be an attractive employer for all talent sources available in the labour market. We continue to recruit from university campuses to fill our talent pool.

In April 2019, we launched the Private Banking Academy: an externally accredited organisation run by professionals both within and outside the company, whose aim is to train and educate the private bankers of the future. The Academy's ambition is for Van Lanschot's private bankers, specialists and relationship managers to be seen as the best there are in the market. We therefore want to offer everyone from junior employees to high-level executives the opportunity for continuous development.

Diversity and inclusion

Globally, diversity and inclusion have become an increasingly critical element of workforce culture to deliver business strategy on a sustainable basis. A highly inclusive and diverse workforce helps to drive business performance and innovation, workforce agility and resilience, as well as positive social and environmental impact. Diversity at Van Lanschot Kempen is not just about filling quotas: our ambition is for the inflow of each department to be more diverse than the outflow. For example, if an employee leaves or more headcount becomes available, we aim to increase diversity by hiring someone who brings something new to the team. Whether that's gender, age, nationality, background or anything else – we want to recruit people from all talent pools to create a more diverse company in the longer term.

Key talent metrics

Key staff data	2019	2018
Employees (FTEs at year-end)	1,560	1,621
Absenteeism (%)	3.0	2.7
Investment in training (€ million)	2.8	4.5
Training hours (total number of hours, individually and collectively)	80,026	125,361
Male/female ratio (%)	65/35	64/36

Staff per business line at year-end	2019		2018	
	Number	FTEs	Number	FTEs
Private Banking	698	655	804	754
Evi	23	23	28	28
Asset Management	274	264	228	221
Merchant Banking	129	127	111	110
Other (support functions)	521	491	536	508
Total	**1,645**	**1,560**	**1,707**	**1,621**

The total number of FTEs has decreased by approximately 60. There are a few reasons for this: Private Banking has seen restructuring in the fields of digital and innovation, investment office and marketing, resulting in fewer employees. In addition, the number of FTEs at Private Banking has decreased due to the outsourcing of payments. Asset Management has increased its workforce, mainly as a result of inflow from Private Banking employees in client solutions.

Education and training

We facilitate and encourage the development and training of our existing workforce. In 2019, we invested €2.8 million (2018: €4.5 million) in education and training programmes, with an increased focus on developing the digital and analytical skills of our employees in line with our strategy to adapt the workforce. In 2018, the higher spend was driven by the one-off costs of setting up the Private Banking Academy and the rollout of the Advanced Leadership Programme. Whereas in 2019, the focus was on launching a revamped learning management system – Train Your Brain – and promoting customised programmes, such as our Young Professionals Programme, Experienced Professionals and Joint Graduate Programme. We also created freely available content in-house, such as presentation skills training, Agile Scrum Foundation workshops, the Finance Academy and our corporate Van Lanschot Kempen workshop. The number and quality of training programmes available to our employees continues to be a key priority in adapting our workforce for the future.

Priorities for 2020

In 2020, we will continue to refine our HR practices to support our strategic objective: to attract, develop, retain and reward talent. Specifically, we will work on our employer branding, strategic workforce management, and job and career framework. This will enable us to better analyse equal pay per job level, better define the roles we need in the future, and better identify how to fill them through recruitment of new talent and development of our existing talent. We will work on updating our performance management system and leadership programme to bring these further into line with our strategy. Plus, we will actively encourage our workforce to focus on developing new skills.

ETHICAL BEHAVIOUR

The financial sector is built on trust, and a healthy culture and ethical behaviour are needed to sustain this trust with all our stakeholders. Van Lanschot Kempen has various policies in place to encourage an ethical culture and to ensure that we act with integrity. We also have various measures to help to prevent unethical behaviour that could result in significant reputational damage and/or financial losses.

BANKING CODE, CODE OF CONDUCT AND BANKER'S OATH

The Banking Code, with which we comply, sets out principles for sound and controlled business operations, corporate governance, risk management policies, and audit and remuneration policies. Its scope includes the integrity of the organisation (for more information, see page 91). As stated in the Banking Code, the Statutory and Supervisory Boards are responsible for developing and maintaining standards of integrity and ethical behaviour. Our Code of Conduct, to which every employee must adhere, goes further than complying with relevant legislation. It includes guidelines on how employees should act with integrity and balance the interests of all stakeholders. Our Code also includes the Banker's Oath, which all our employees are required to sign. For more information, see vanlanschotkempen.com/en/governance. There were no ethical incidents in 2019.

MECHANISMS FOR ADVICE AND CONCERNS ABOUT ETHICS

Employees have various avenues for seeking advice or raising concerns about ethical issues – for example, via their managers and the Compliance department. We have a whistleblower policy and a complaints procedure in place; we have also appointed a confidential adviser who employees can turn to.

VAN LANSCHOT KEMPEN FOUNDATION

We aim to support community projects that help create a better world for future generations. The Foundation saw a good third year in 2019. An important feature of our Foundation activities is that we always seek to combine a financial donation with the – pro bono – deployment of Van Lanschot Kempen staff. By doing so, we hope to make a positive impact on society as well as on our employees. Participation in Foundation activities connects our staff to new people and unfamiliar situations, resulting in new experiences and energy. Over the year, 248 employees participated in 19 different projects.

The activities of the Foundation focus on four themes: financial education and talent development, health, art and culture, and social cohesion via sport. The aim is to make the largest possible positive impact on people who need our support. To ensure these activities are carried out professionally, we prefer to cooperate with specialist partners, such as JINC, Hartstichting, Humanitas, De Zonnebloem, Amsterdam Cares, IMC Weekendschool, Scholenstrijd and many others.

The Foundation has a board, comprising six employees, as well as a large group of ambassadors throughout the organisation. In 2019, Godfried van Lanschot, who was a member of the Supervisory Board until 2018, succeeded Richard Bruens as chairman of the Foundation. For further details on the Foundation and its annual report, see vanlanschotkempen.com/en/vlkf.

1737 VAN LANSCHOT KEMPEN Foundation

SPONSORSHIP

Arts sponsorship is an integral part of our market positioning as a wealth manager. The support we give to the arts, artists and museums helps to both preserve and expand our cultural heritage. Sports are also an important driver of well-being in society, and as such are a secondary focus of our support. Our main sponsorship activities in 2019 were as follows:

- Van Lanschot Kempen is the main sponsor of The Concertgebouw in Amsterdam. This five-year partnership fits with our focus on preserving and creating wealth in the broadest sense of the word.
- The Van Lanschot Kempen Art Prize is presented annually to a mid-career contemporary artist whose work best conveys the spirit of the age to future generations.
- Van Lanschot Private Banking will become the main partner of the Van Gogh Museum starting in 2020. This new three-year partnership is the result of successful collaboration between the museum and our company over the last five-and-a-half years.
- Evi has sponsored the women's beach volleyball duo Madelein Meppelink and Sanne Keizer since 2017.
- Kempen is the principal sponsor of the Nereus student rowing club in Amsterdam.

After reviewing all our sponsorships and to leverage those of Van Lanschot Kempen as a whole, we have decided to end our partnerships with the Nieuwe Kerk in Amsterdam, Holland Festival and Justdiggit.

BIOLOGY MEETS FINANCE

While my background is in biology, my interest in finance brought me to Kempen as a management trainee in 2013. I wanted to work in several departments and learn about how all the different stakeholders are involved in the financial industry. But in the end, life sciences within Merchant Banking is the perfect combination for me – it's where biology and finance come together. And I work with a great team of people – many of whom are also scientists, and who come from all over the world. The healthcare sector often has a high risk-reward ratio: we see abrupt changes in share prices, frequent capital raises, big pharmaceutical companies acquiring small biotech firms – it's very dynamic. There's always something happening, which makes every day exciting.

It's been a gratifying year, as we've become the one-stop shop for investors when it comes to brokerage services in European life sciences. In 2019, we also completed a record number of capital raises for companies to help them reach the next stage in their future development. And the healthcare sector of the future goes hand in hand with sustainability – society needs affordable healthcare so that people can get the treatments they need. Investing in companies in this sector delivers not only investment returns but also funds research into new therapies and medicines to bring to patients. It's a win-win.

Suzanne van Voorthuizen – Securities Head of Life Sciences, Kempen Merchant Banking

PERFORMANCE

Financial and non-financial KPIs

Our financial and non-financial KPIs reflect both the interests of our stakeholders and our ambitions as a wealth manager. Please refer to pages 31-32 for additional background information on our KPIs. An overview of our performance on the KPIs that we report externally is shown in the table below.

Themes and mission	KPIs	Target		Score 2019	Score 2018
Financial and risk management	1. CET 1 ratio	15-17%		23.8%	21.1%
	2. Return on equity (CET 1)	10-12%		10.5%	9.8%
	3. Efficiency ratio	70-72%		75.5%	79.4%
Ethics and integrity	4. Percentage of employees who feel the responsibility to act and behave ethically	> industry average: 81%		77%	n/a[1]
Client relations	5. Net Promoter Score (NPS)				
	a. Private Banking	10		23	2
	b. Evi	10		10	–20
	c. Asset Management	20		31	44[2]
Responsibility and sustainability	6. Private Banking: AuM invested in sustainable and/or impact investment wealth management solutions	> last year		2019: €2,046m + €728m	2018: €1,318m + €180m
	7. Engaging with companies in which our funds invest	80-100 engagements		84	91
	8. Asset Management: percentage of (internal and external) fund managers on our approved list that are scored on their overall sustainability profile	> last year		2019: 98%	2018: 37%
	9. Decrease in carbon emissions:				
	a. Direct emissions of our own organisation	–2.5%/FTE per year		–5.6%	–8.1%
	b. Indirect emissions via our balance sheet (mortgage portfolio)	CO_2/€ < last year		–2.0%	–11.3%[3]
Employees	10. Employee engagement score	> 80%		82%	81%[2]
	11 a. Employer Net Promoter Score (eNPS)[4]	> 10	n/a	n/a	n/a
	b. Employees who recommend Van Lanschot Kempen as a good place to work	> 80%		83%	82%[2]
	12. Gender balance in management positions	> 30% female > 30% male		21% female 79% male	20% female 80% male
Mission: Preservation and creation of wealth	13. Private Banking: 3–year relative performance of discretionary management mandates	> benchmark		–0.4%	–0.1%
	14. Evi: 3–year relative performance of discretionary management mandates	> benchmark		–0.9%	–0.4%
	15. Asset Management: average Morningstar rating of investment strategies (institutional share class)	> 3.5		3.9	4.0

KPI more than achieved · KPI achieved · KPI almost achieved · KPI not achieved · KPI far from achieved

1 An employee engagement survey is conducted once every two years. In 2017 these questions were not included.
2 Measured once every two years, score for 2017.
3 A method of data cleaning has been applied retroactively to ensure that figures are comparable. This led to an adjustment of the 2018 score.
4 In 2019 and 2017, no official eNPS was measured. Instead, the employee engagement survey included a comparable question. Please refer to KPI 11b.

Financial and risk management
Financial performance and risk management are key to our organisation, as all direct stakeholders benefit from a solid capital position and sustainable performance. In 2019, our CET 1 ratio increased to 23.8% and our return on CET 1 rose to 10.5%. Our efficiency ratio amounted to 75.5%. As of 2019, we have adjusted our target for the efficiency ratio to 70-72%. We believe this target aligns with our profile as a wealth manager and with the economic environment in which we operate. More information on the developments underlying these ratios is provided on pages 35 and 39.

Ethics and integrity
We strive to operate in an ethical manner and we encourage our employees to behave ethically and with integrity. We monitor the ethical behaviour of our employees by focusing on this in our employee engagement survey. In 2019, an employee engagement survey was conducted with questions on standards of ethical behaviour, operating with integrity in internal dealings, and reporting dishonest or unethical practices without fear of reprisal. The outcome was benchmarked against other financial services firms and shows a marginal negative deviation from the industry average (81%), which was primarily caused by the response on standards of ethical behaviour. We have initiated several actions to do better. In 2019, we harmonised our policies on performance and reward practices, providing greater transparency on the standards we set ourselves. To help us close the gap, we are stressing the importance of each activity within our value chain to achieve our goals. In addition, we are organising sessions to elaborate on our core values and engage in an active dialogue with our employees on these topics. As we conduct our employee engagement survey every two years, we plan on doing an extra “pulse check” on this important topic during 2020 to keep track of our development.

Client relations
The relationship with our clients is one of our most important assets. To measure their satisfaction and loyalty, we use the Net Promoter Score (NPS), which gives insight into client loyalty and the number of promoters of the organisation. The score lies within a range of -100 to 100 points, the higher the better. The formula is as follows: NPS = % promoters - % detractors. Promoters give the organisation a score of 9 or 10, whereas detractors award a score of between 0 and 6. The NPS that we measure is also known as Relationship NPS.[5] We measure this two times a year for Private Banking, once a year for Evi, and once every two years for Asset Management.

In 2019, our Private Banking clients awarded us an NPS of 23, well above our target of 10 and the 2 scored in 2018. This significant uptick can be attributed to better investment returns as well as our proactive approach to client contact – be it in person, by phone/email or via our apps. Clients indicated that they appreciate our personal contact and the level of expertise they receive from us. NPS for Evi increased to 10, which is on target, compared with -20 in 2018. Clients at Evi value the improved app, better market performance and the webinars offered to them since 2019. For Asset Management, we measure NPS once every two years, as the relationships with – and solutions provided to – institutional clients do not change as quickly as can be the case with private clients. The NPS of 31 awarded by clients of Asset Management in 2019 is above our target of 20, although lower than the 44 scored in 2017. The decrease is due to more clients being passively satisfied rather than being promoters. Improved performance, more proactivity and more tailor-made communication that fits the client's background and needs would lead to more active recommendations.

Responsibility and sustainability
We can achieve the most significant economic, environmental and social impact by investing the wealth of our clients in a responsible and sustainable manner. Private Banking assets under management invested in sustainable (Duurzaam+) and impact investment (Impact Investing) rose to €2,046 million in 2019, from €1,318 million in 2018. In 2019, we undertook 84 engagements for change and awareness, which means we met our annual target of 80–100 cases. In 2018, we started rating internal and external fund managers on our approved list, with the ultimate aim to rate them all. In 2019, we ended up with 91 rated fund managers on our approved list, which means that 98% of the funds in scope[6] on the approved list have been scored, compared with 37% at year-end 2018. In addition, we reduced the carbon emissions caused by our mortgage portfolio by 2.0%, reflecting the fact that the Netherlands is moving towards making its homes more sustainable. The score for 2018 has been retroactively adjusted as a result of data cleaning, to ensure that figures are comparable. The method of data cleaning concerns removing mortgages without CO_2 data in a certain year, so that it will not lead to an increase or decrease of CO_2 emissions, if the data is available in another year. The 5.6% fall in emissions per FTE caused by our own organisation is mainly the result of less business air travel and the decision to increase our green gas use in the Netherlands to 100%.

Employees
As a wealth manager, Van Lanschot Kempen depends on hiring and retaining knowledgeable, experienced and professional staff. That means we are highly motivated to create an attractive work environment for our workforce and to invest in our people. In 2019, an employee engagement survey was conducted that showed an employee engagement score of 82%. This survey did not measure an official eNPS. Instead, there was a question on recommending Van Lanschot Kempen as a good place to work, with a target of > 80%, on which we scored 83%. In 2019, the percentage of female employees in management positions marginally increased, to 21%. Internally, we have developed and are monitoring KPIs that reflect our ambition to encourage aspects of diversity within our organisation that go beyond gender alone (including nationality, for example).

Mission: preservation and creation of wealth
As our mission is to preserve and create wealth for our clients in a sustainable way, our wealth management solutions should deliver positive performance in the long term, and our investment strategies should perform well against their benchmarks. In 2019, the three-year

5 Relationship NPS differs from Transactional NPS, which is also commonly used. Transactional NPS measures client satisfaction after a single transaction and tends to lead to a higher score than Relationship NPS.

6 Asset classes covered by our ESG scorecard are listed equities, government bonds (developed and developing), corporate bonds (investment grade and high yield) and listed real estate. Funds with no material asset allocation are not in scope for rating.

performances of Private Banking and Evi discretionary management mandates relative to their benchmarks stood at -0.4% and -0.9% respectively. At Asset Management, the average Morningstar rating of our investment strategies is 3.9, well above our target of 3.5.

Results

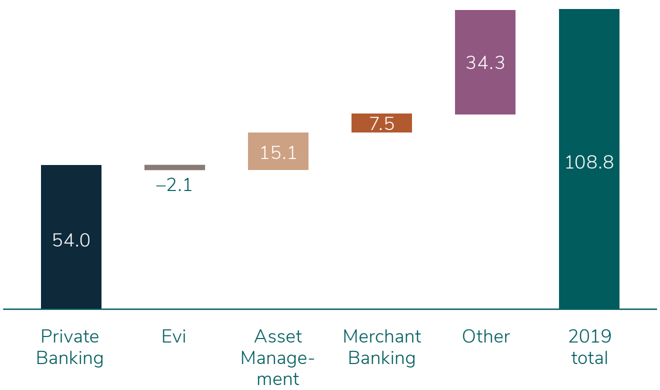
Net profit increased by €18.1 million to €98.4 million. This net result, coupled with an underlying net result of €108.8 million, allows us to propose a dividend of €1.45 per share. Excluding exceptional items, the effects of the sale of our stake in AIO II and VLC & Partners and an impairment of goodwill, net profit rose 22%, mainly due to lower operating expenses and higher securities commission. At the same time, persistently low interest rates are putting pressure on our interest result. Client assets grew to €102.0 billion from €81.2 billion, while our assets under management were up 31% to €87.7 billion. This growth was driven by a net inflow of €9.9 billion and positive market performance.

Results (€ million)	2019	2018	
Commission	290.4	293.2	–1%
– Of which securities commissions	*241.8*	*238.5*	*1%*
– Of which other commissions	*48.6*	*54.7*	*–11%*
Interest	175.3	175.6	0%
Income from securities and associates	50.5	31.1	62%
Result on financial transactions	–7.4	–0.8	–
Income from operating activities	**508.7**	**499.2**	**2%**
Staff costs	238.5	244.4	–2%
Other administrative expenses	127.9	146.8	–13%
– Of which regulatory levies and charges	*11.6*	*10.5*	*10%*
Depreciation and amortisation	17.7	5.2	–
Operating expenses	**384.1**	**396.4**	**–3%**
Gross result	**124.7**	**102.8**	**21%**
Addition to loan loss provision	–12.1	–12.7	–5%
Other impairments	34.9	–0.9	–
Impairments	**22.9**	**–13.7**	**–**
Operating profit before tax of non–strategic investments	37.8	17.8	–
Operating profit before special items and tax	**139.6**	**134.3**	**4%**
Strategic investment programme	11.1	22.0	–50%
Amortisation of intangible assets arising from acquisitions	6.2	8.3	–25%
Restructuring charges	2.8	8.3	–67%
Operating profit before tax	**119.5**	**95.8**	**25%**
Income tax	21.1	15.5	37%
Net result	**98.4**	**80.3**	**23%**
Underlying net result	**108.8**	**103.0**	**6%**

Underlying net result (€ million)	2019	2018	
Net result	**98.4**	**80.3**	**23%**
Strategic investment programme	11.1	22.0	–50%
Restructuring charges	2.8	8.3	–67%
Tax effects	–3.5	–7.6	–54%
Underlying net result	**108.8**	**103.0**	**6%**

All operating activities made a positive contribution to the underlying net result, with the exception of Evi. The underlying net result for 2019 is the net result adjusted for costs associated with the strategic investment programme and restructuring charges (€11.1 million and €2.8 million gross respectively).

Underlying net result by segment
(€ million)



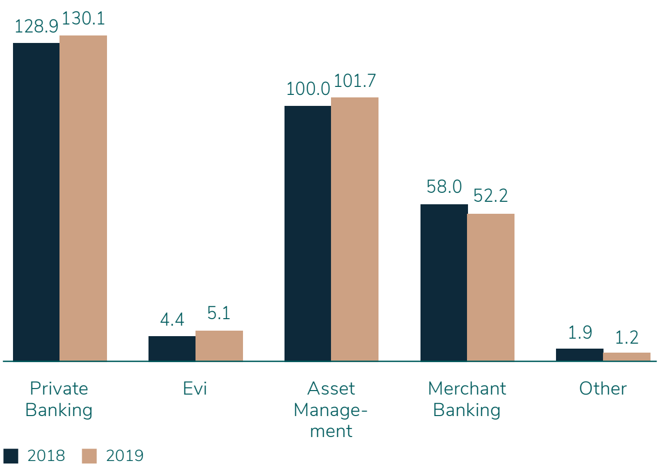
As of 2019, we have integrated our remaining Corporate Banking activities into our Private Banking segment. The underlying net result of the Other segment includes the book profits of AIO II (€36.0 million), VLC & Partners (€17.1 million) and the impairment of goodwill related to Merchant Banking activities (€35.0 million).

Commission

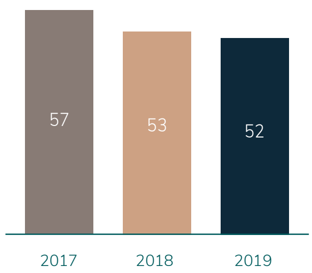
Commission (€ million)	2019	2018	
Securities commissions	241.8	238.5	1%
– *Management fees*	219.7	215.2	2%
– *Transaction fees*	22.1	23.4	–6%
Other commissions	48.6	54.7	–11%
Commission	**290.4**	**293.2**	**–1%**

Commission income accounted for 57% of our total operating income. Securities commissions increased by 1% due to higher management fees, which grew 9% in H2 2019 compared with H1 2019, and which reflect the growth in assets under management at Private Banking, Evi and Asset Management during the year. Other commissions fell, mainly due to lower commissions at Merchant Banking.

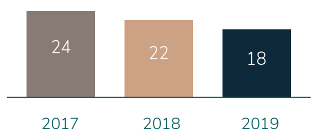
Commission income by segment
(€ million)



AuM margin – Private Banking
(bps)



AuM margin – Asset Management
(bps)



Private Banking's total commission income rose by €1.2 million compared with 2018 on the back of the growth in assets under management. Private Banking's margins on assets under management are fairly stable. The decrease from 2017 to 2018 was caused by relatively high transaction volumes in 2017 and by the acquisition in H2 2017 of the Dutch private banking activities of UBS, which had comparatively lower margins. Commission income on payments went down, mainly as a result of the further run-off of our Corporate Banking activities.

Evi's commission income went up by €0.6 million to €5.1 million on the back of growth in assets under management and less cash incentives for new clients offered as part of a marketing campaign as compared to 2018.

Asset Management's 2019 commissions increased by €1.7 million compared with 2018. This growth was mainly driven by an increase in commissions from new fiduciary mandates. Average margins fell from 22 basis points in 2018 to 18 basis points in 2019, due to a change in the composition of assets under management, as inflow was mainly achieved in fiduciary management: €9.1 billion out of total inflow of €9.8 billion.

Merchant Banking performed well in 2019, but commission income declined by €5.7 million to €52.2 million (2018: €58.0 million), reflecting the fairly high level of commission income in 2018. 2019 saw a slight decrease in all types of commissions, despite an increase in realised ECM fees.

Interest

Interest (€ million)	2019	2018	
Gross interest margin	186.9	186.9	0%
Interest income and charges on hedge derivatives	–2.1	–6.0	–66%
Interest equalisation	–16.9	–13.8	22%
Clean interest margin	**167.9**	**167.0**	**1%**
Miscellaneous interest income and charges	4.9	5.9	–16%
Loan commission	2.4	2.6	–7%
Interest	**175.3**	**175.6**	**0%**

Total interest income in 2019 was comparable with that in 2018. The gross interest margin includes the one-off effect of a positive revaluation of interest claim to the tune of €3.9 million, to be received from DSB Bank NV.[7] If this payment is stripped out, the gross interest margin fell by 2%. The current interest rate climate continues to put pressure on our interest income, while the run-off of Corporate Banking loans has also led to lower interest income. The Corporate Banking loan portfolio contracted by €0.2 billion to €0.3 billion.

In comparison with year-end 2018, the interest margin[8] fell by two basis points to an average of 119 basis points. The "clean interest margin" also declined by two basis points compared with its level at the end of 2018, to 113 basis points at the end of 2019.

The balance of interest income and charges on hedge derivatives improved from a negative €6.0 million in 2018 to a negative €2.1 million in 2019. As of Q4 2018, some previously discontinued interest rate hedges have been fully amortised.

Miscellaneous interest income and charges went down from €5.9 million to €4.9 million. Implementation of IFRS 16 Leases has impacted interest income in 2019, by –€0.9 million, as it requires recognising finance costs in profit and loss due to the unwinding of the discount on lease liabilities.

Income from securities and associates

Income from securities and associates (€ million)	2019	2018	
Dividend	7.7	3.2	–
Capital gains	24.0	15.5	55%
Valuation gains and losses	18.9	12.5	51%
Income from securities and associates	**50.5**	**31.1**	**62%**

Income from securities and associates relates to investments of our equity investment company Van Lanschot Participaties and our investment in Bolster Investments Coöperatief UA. We also take positions in our own investment funds, for instance by providing seed capital or in order to be aligned with our clients' interests.

The 2019 capital gains of €24.0 million were related to the sale of our 49% stake in VLC & Partners and the sale of our stake in Marfo Food Group. The sale of our stake in VLC & Partners generated a book profit of €17.1 million, which includes the expected value of the agreed earn-out. The capital gain from the Marfo Food Group sale amounted to €6.5 million.

Dividend income rose to €7.7 million, from €3.2 million in 2018. Valuation gains and losses rose, with positions in our own investment funds in positive territory.

2019 saw particularly high income from securities and associates. Over the last decade, this income has, on average, amounted to €25-€30 million a year.

Result on financial transactions

Result on financial transactions (€ million)	2019	2018	
Result on securities trading	3.5	–0.7	–
Result on currency trading	8.9	8.0	11%
Result on investment portfolio	0.6	1.9	–68%
Result on hedges	–13.2	–2.6	–
Other income	–7.3	–7.5	–3%
Result on financial transactions	**–7.4**	**–0.8**	–

Result on financial transactions decreased by €6.6 million. The €3.5 million result recorded on securities trading reflects a positive performance of the trading book. Trading activities are the result of client facilitation only, mainly providing liquidity to clients.

The result on currency trading was relatively stable compared with 2018. In 2019, a couple of bonds from the hold-to-collect-and-sell portfolio were sold, with a positive result that is reflected in the result on investment portfolio.

Result on hedges fell in comparison with 2018, by €10.6 million, mainly due to adverse results on futures – which hedge the positions in our own investment funds (the income from which is reported in income from securities and associates) – and on the hedge of our Kempen Dutch Inflation Fund. This is an alternative fund that invests in Dutch leasehold contracts, primarily in connection with residential real estate, to create an investment in long-term inflation-linked cash flows. We have also chosen to apply a more prudent valuation to one of the commercial contracts in this fund, resulting in a charge of €2.1 million in H1 2019.

In H1 2019, our valuation model for structured products was found to contain an inaccuracy, with H1 2019 seeing a negative adjustment of €2.7 million, recognised under Other income. The interest charges on medium-term notes are also included in Other income.

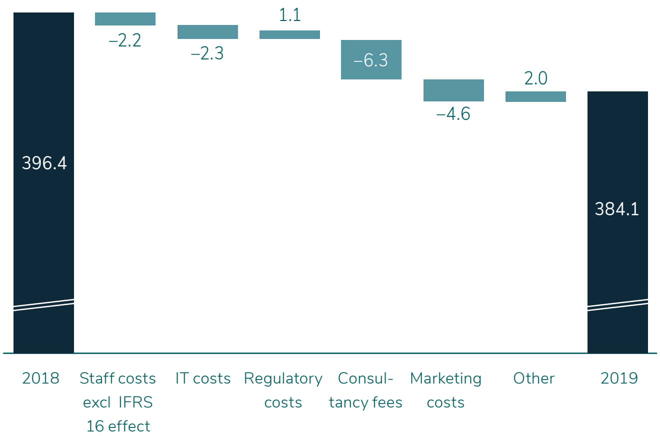
Operating expenses

Operating expenses (€ million)	2019	2018	
Staff costs	238.5	244.4	–2%
Other administrative expenses	127.9	146.8	–13%
– Of which regulatory levies and charges	*11.6*	*10.5*	*10%*
Depreciation and amortisation	17.7	5.2	–
Operating expenses	**384.1**	**396.4**	**–3%**

Total operating expenses were down 3% to €384.1 million (2018: €396.4 million) and stayed within our target of around €390 million in 2019. Despite the regulatory costs in the first half-year, total expenses in H2 2019 increased in comparison with H1 2019 as a result of redundancy costs and IT project costs. With the completion of the investment programme, more capacity went to regular IT projects. Costs are expected to increase in 2020 due to a new pension agreement and harmonisation and modernisation of employment conditions.

7 DSB Bank NV was a Dutch bank that failed in 2009. All Dutch banks contributed to the deposit guarantee scheme to indemnify DSB savers.
8 The interest and clean interest margin are calculated on the basis of a 12-month moving average and exclude the one-off DSB Bank NV effect.

Operating expenses
(€ million)



Staff costs
At €238.5 million, staff costs were 2% down on 2018. As well as a 4% staff reduction, this also reflected a higher level of training costs in 2018, driven by the one-off costs of setting up the Private Banking Academy and the rollout of the Advanced Leadership Programme. Pension costs also decreased as a result of a plan amendment to Kempen pensions, which compensated for higher redundancy costs. The implementation of IFRS 16 Leases for car leases led to €3.6 million being shifted from staff costs to depreciation.

At the end of 2019, we employed 1,560 full-time equivalent staff (FTEs), excluding employees at our non-strategic investments. This was 61 FTEs fewer than at year-end 2018 (1,621) and was largely the result of staff reductions at Private Banking, partly due to the outsourcing of payments.

Other administrative expenses
Other administrative expenses amounted to €127.9 million in 2019, 13% below the figure for 2018 (€146.8 million). Implementation of IFRS 16 Leases for rental property led to €9.1 million being shifted from other administrative expenses to depreciation. The decrease was also related to lower consultancy fees, as well as marketing costs and IT project costs. IT project expenses, excluding our strategic investment programme, amounted to €19.8 million (2018: €21.8 million).

Depreciation and amortisation
Depreciation and amortisation was up by €12.5 million, mainly as a result of the implementation of IFRS 16 Leases. Costs shifted to this item from staff costs (€3.6 million) and other administrative expenses (€9.1 million).

Efficiency ratio
The efficiency ratio, i.e. the ratio of operating expenses (excluding costs incurred for our strategic investment programme, amortisation of intangible assets arising from acquisitions and restructuring charges) to income from operating activities, improved to 75.5% in 2019 from 79.4% in 2018. This improvement was partly driven by a book profit from the sale of our stake in VLC & Partners and lower costs. Excluding the book profit from this sale, the efficiency ratio would work out at 78.1%.

Impairments

Impairments (€ million)	2019	2018	
Private Banking	-11.2	-13.8	-19%
– Of which Corporate Banking loans	-4.3	-10.6	-60%
Other	-0.9	1.0	–
Addition to loan loss provision	**-12.1**	**-12.7**	**-5%**
Impairment on investments and participating interests	34.9	-0.9	–
Other impairments	**34.9**	**-0.9**	–
Impairments	**22.9**	**-13.7**	–

Addition to loan loss provision
A total of €12.1 million was released from loan loss provisions in 2019. Private Banking loans accounted for a release of €6.9 million. As in 2018, the favourable economic climate contributed to the release from loan loss provisions, while a few large files have developed positively.

In 2019, the release from loan loss provisions relative to average risk-weighted assets worked out at 27 basis points, equal to the figure for 2018.

Other impairments
The impairment on investments and participating interests relates to the write-down of goodwill involved in the acquisition of Kempen & Co in 2007, and more specifically to its Merchant Banking activities, and is prompted by an adjustment in the discount rate and flattening growth expectations for these activities (€35 million).

Non-strategic investments
After disposal of AIO II, we currently have majority stakes in two non-strategic financial investments, Holonite (Holowell BV) and Allshare. Our aim is to divest our shareholdings in these non-strategic investments over time. Our stake in AIO II was sold in the first quarter of 2019, and generated a book profit of €36.0 million. The operating profit (before tax) from non-strategic investments amounted to €37.8 million in 2019, up from €17.8 million in 2018 (of which €16.3 million related to AIO II). Excluding the book profit and operating result of AIO II, the non-strategic investments in 2019 contributed to €1.8 million against €1.5 million in 2018.

Special items
We recognised €20.1 million in special items in 2019 compared with €38.5 million in 2018, due to lower costs of the strategic investment programme and lower restructuring charges.

Special items (€ million)	2019	2018	
Strategic investment programme	11.1	22.0	-50%
Amortisation of intangible assets arising from acquisitions	6.2	8.3	-25%
Restructuring charges	2.8	8.3	-67%
Special items	**20.1**	**38.5**	**-48%**

Strategic investment programme

As part of our strategy update, we launched our strategic investment programme in April 2016. Between mid-2016 and the end of 2019, we planned to invest €60 million in developing an omni-channel Private Banking model, outsourcing our mortgage servicing and payment services, and completing the transformation of our IT landscape. At the end of 2019, we finished the programme with a total spend of €61.8 million. A total of €11.1 million was invested in 2019.

Good progress has been made on the development of our omni-channel service for our clients: we have continued to expand client functionality in the client portal and investment apps, merged two investment apps into one, launched a significant upgrade of our log-in app and rolled out digital tooling to a wider audience within Private Banking.
In addition, we have launched our new payments platform and all clients can now use our new payments app. With the introduction of the new platform, we were able to switch off the mainframe. The outsourcing of our mortgage administration to Stater also formed part of the strategic investment programme and was completed on schedule in September 2017.

Our investment programme was completed at year-end 2019. As of 2020, IT investments, including further development of our omni-channel service, will be included in our regular operational cost base.

Other special items

Amortisation of intangible assets arising from acquisitions came down by €2.0 million, as a proportion of this is now fully amortised.

In the course of 2018, management took several cost-saving measures. These led to a restructuring charge in 2018 and an additional restructuring charge of €2.8 million in 2019 due to higher than expected costs for the 2018 restructuring.

Income tax

Income tax for 2019 amounted to €21.1 million (2018: €15.5 million), which translates to an effective tax rate of 17.7% compared with 16.1% in 2018. Our effective tax rate is lower than the general Dutch tax rate of 25% due to income covered by equity exemption rules, for example on the sale of our stakes in VLC & Partners and AIO II. The impairment on goodwill is not deductible.

Earnings per share

Earnings per share (€ million)	2019	2018
Net result	98.4	80.3
Share of non–controlling interests	–0.4	–5.7
Share of holders AT1 capital securities	–5.1	–
Net result for calculation of earnings per ordinary share	92.9	74.6
Earnings per ordinary share (€)	2.27	1.82
Underlying net result for calculation of earnings per ordinary share	103.3	97.3
Underlying earnings per ordinary share (€)	2.52	2.37
Weighted number of outstanding ordinary shares (x 1,000)	40,974	41,005

The line item Share of holders AT1 capital securities relates to the coupon of the €100 million Additional Tier 1 bond we issued in March 2019. The coupon on this bond is 6.75%. These securities count as Tier 1 qualifying capital when determining capital adequacy. Profit attributable to non-controlling interests of €0.4 million in 2019 largely relates to the management investment plan for selected staff at Kempen (Kempen MIP). As a result of the merger of Van Lanschot NV and Kempen & Co NV into Van Lanschot Kempen Wealth Management NV, Kempen MIP has been discontinued as of 2020. The decrease relative to 2018 is due to the sale of our 72% stake in AIO II.

We will propose to pay a 2019 cash dividend to Van Lanschot Kempen shareholders of €1.45 per share, with a result of a pay-out ratio of 57% based on the underlying net result attributable to shareholders (2018: €1.45, pay-out ratio of 61%). The pay-out ratio based on the net result attributable to shareholders amounts to 64% (2018: 80%).

Client assets

Total client assets had risen by 26% to €102.0 billion at year-end 2019, driven by growth in assets under management of €20.7 billion, mainly at Asset Management.

Client assets (€ billion)	31/12/2019	31/12/2018	
Client assets	102.0	81.2	26%
Assets under management	87.7	67.0	31%
Savings and deposits	9.5	9.1	5%
Assets under monitoring and guidance	3.1	3.4	–8%
Assets under administration	1.6	1.7	–6%
Client assets	102.0	81.2	26%
Private Banking	34.5	30.6	13%
Evi	1.5	1.4	8%
Asset Management	65.2	48.2	35%
Other	0.8	0.9	–20%

Client assets (€ billion)	Private Banking	Evi	Asset Management	Other	Total
Client assets at 31/12/2018	30.6	1.4	48.2	0.9	81.2
Assets under management in/outflow	0.1	0.0	9.8	0.0	9.9
Savings and deposits in/outflow	0.4	0.0	0.1	–	0.5
Market performance of assets under management	3.3	0.1	7.3	0.0	10.8
Change in assets under monitoring and guidance	–	–	–0.3	–	–0.3
Change in assets under administration	0.1	–	–	–0.2	–0.1
Client assets at 31/12/2019	34.5	1.5	65.2	0.8	102.0

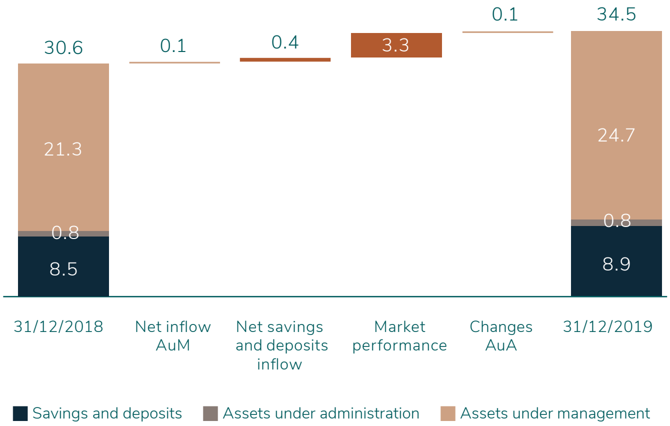
Van Lanschot Private Banking

Client assets at Private Banking grew by 13%, mainly on the back of positive market performance and net inflow of savings and deposits.

Our Private Banking clients showed some reluctance to invest in the wake of the adverse stock market climate in the fourth quarter of 2018, and political and economic uncertainty throughout 2019, while a number of clients also took profits after the steep price rises at the beginning of 2019. As a result, savings and deposits showed a net inflow of €0.4 billion. Net inflow of assets under management amounted to €0.1 billion, mainly realised in Belgium and Switzerland.

At the end of 2019, assets under discretionary management made up 55% of total assets under management (year-end 2018: 56%). Total discretionary assets under management stood at €13.6 billion (year-end 2018: €11.8 billion) and total non-discretionary assets under management amounted to €11.2 billion (year-end 2018: €9.4 billion).

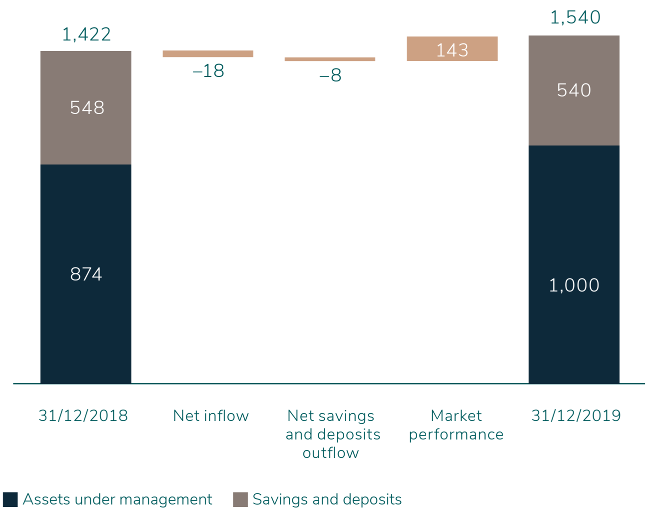
Client assets at Private Banking
(€ billion)



Evi van Lanschot

Assets under management grew by €0.1 to €1.0 billion in 2019, on the back of positive market performance. We are currently working on several initiatives to support the next phase of growth for Evi. Our focus is on mass-affluent clients and we are leveraging our experience at Private Banking to further strengthen the proposition and increase efficiency.

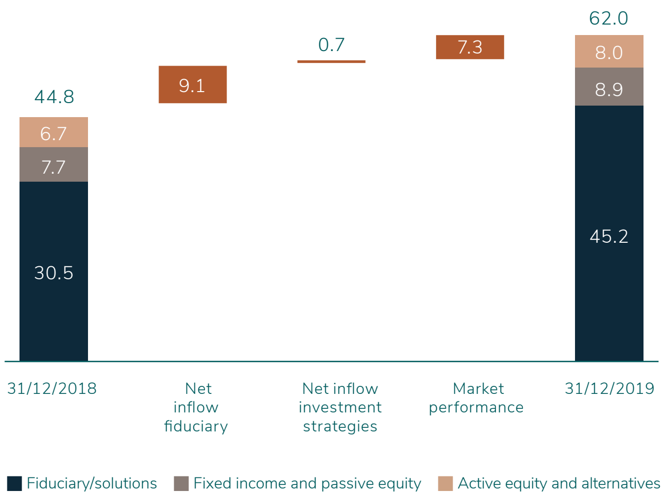
Client assets at Evi
(€ million)



Kempen Asset Management

Assets under management at Asset Management rose to €62.0 billion, with positive market performance of €7.3 billion. Fiduciary mandates showed a strong inflow, thanks to the €9.0 billion mandate for Stichting Pensioenfonds PostNL. We also saw an inflow of €0.7 billion from investment strategies. Total client assets at Asset Management stood at €65.2 billion at year-end (2018: €48.2 billion).

AuM Asset Management
(€ billion)



In addition to third-party funds, Asset Management also manages our Private Banking discretionary management mandates and the Evi Beleggen products, with total assets under management of €11.1 billion at the end of 2019 (this amount is not included in Asset Management's total assets under management of €62.0 billion).

Statement of financial position

Statement of financial position and capital management (€ million)	31/12/2019	31/12/2018	
Equity attributable to shareholders	1,211	1,244	–3%
Equity attributable to AT1 capital securities	102	–	–
Equity attributable to non-controlling interests	4	12	–67%
Savings and deposits	9,545	9,091	5%
Loans and advances to clients	8,598	8,561	0%
Total assets	14,319	13,983	2%
Funding ratio (%)	111.0	106.2	5%
Return on assets (%)	0.76	0.74	3%

Loan portfolio

Loan portfolio (€ million)	31/12/2019	31/12/2018	
Mortgages	5,885	5,756	2%
Other loans	1,906	1,793	6%
Private Banking loans	**7,791**	**7,550**	**3%**
Corporate Banking loans	318	523	–39%
Mortgages distributed by third parties	553	602	–8%
Total	**8,662**	**8,674**	**0%**
Impairments	–64	–113	–44%
Total	**8,598**	**8,561**	**0%**

Our loan portfolio remained stable at €8.6 billion. The run-off of Corporate Banking loans resulted in a decrease of €0.2 billion in this portfolio, but this was offset by growth in both Private Banking loan categories.

Van Lanschot Private Banking loans
The Private Banking loan portfolio breaks down into mortgages and other loans. Private Banking mortgages increased to €5.9 billion (2018: €5.8 million). Part of the mortgages item comprises a value adjustment for fair value hedge accounting, which increased by €73 million. Private Banking mortgages make up 68% of our loan portfolio, primarily to high net-worth individuals.

The weighted average loan-to-value (LTV) ratio (based on foreclosure value) remained stable at 76%.

Other Private Banking loans comprise loans to high net-worth individuals as well as business loans that fit into the Private Banking relationship model. These other loans increased to €1.9 billion (year-end 2018: €1.8 billion), driven by an increase in Lombard loans and current accounts, and including credit provided to the family office Reggeborgh for the VolkerWessels transaction.

Van Lanschot Corporate Banking loans
At the end of 2019, Corporate Banking loans totalled €0.3 billion (year-end 2018: €0.5 billion) and accounted for 4% of our total loan portfolio. Risk-weighted assets came down by €0.2 billion and worked out at €0.3 billion.

The collateral assets against which the loans are secured are typically located in the Randstad conurbation, comprising the cities of Amsterdam, Rotterdam, The Hague and Utrecht.

Mortgages distributed by third parties
The portfolio of mortgages distributed by third parties consists of regular Dutch mortgages and is intended to supplement our investment portfolio and enable us to generate attractive returns on available liquidity. It accounts for 6% of our total loan portfolio, with a volume of €0.6 billion.

Provisions
We take provisions for the impaired loans in our loan book. Impaired loans totalled €234 million at the end of 2019. The Stage 3 provisions for these loans amounted to €54 million, working out at a coverage ratio of 23%.

The total impaired ratio improved from 3.8% to 2.7% at the end of 2019 and the total coverage ratio fell from 31% to 23%. The impaired ratio of other Private Banking loans fell from 6.2% to 3.8% as a result of our decision to write off €31 million in residual debts. These had been under management of our Credit Restructuring & Recovery department for a long time, with virtually no prospect of recovery, and were fully provisioned. The coverage ratio is also impacted by this decision.

The coverage ratio for mortgages decreased from 12% to 10%. The impaired ratio for Corporate Banking loans increased to 31.6% (year-end 2018: 29.8%). The coverage ratio of Corporate Banking loans fell to 13% (year-end 2018: 15%). The relatively low coverage ratio is explained by the sufficiently high quality of the collateral pledged to secure these loans.

Provision 31/12/2019 (€ million)	Loan portfolio	Impaired loans	Provision	Impaired ratio 31/12/2019	Coverage ratio 31/12/2019	Impaired ratio 31/12/2018	Coverage ratio 31/12/2018
Mortgages	5,885	60	6	1.0%	10%	1.1%	12%
Other loans	1,906	73	36	3.8%	49%	6.2%	62%
Private Banking loans	**7,791**	**133**	**42**	**1.7%**	**31%**	**2.3%**	**44%**
Corporate Banking loans	318	101	13	31.6%	13%	29.8%	15%
Mortgages distributed by third parties	553	0	0	0.1%	0%	0.0%	3%
Total	**8,662**	**234**	**54**	**2.7%**	**23%**	**3.8%**	**31%**
Provision	–64						
Total	**8,598**		**54**				
ECL stage 1 and 2 (IFRS 9)			9				
Total ECL (IFRS 9)			**64**				

Capital and liquidity management

Our Common Equity Tier 1 ratio (CET 1 ratio) recorded a strong increase to 23.8% from 21.1% in 2018. The robust capital position enabled us to pay a capital return to shareholders of €1.50 per share in December 2019. A total of over €330 million has now been paid out, in the form of both dividends and capital returns since 2016. In the future, we will continue to optimise our capital base, while leaving room for potential acquisitions. When possible, we will also consider paying out excess capital to shareholders, subject to approval by the regulator.

Capital and liquidity management (€ million)	31/12/2019	31/12/2018	
Risk-weighted assets	4,205	4,588	–8%
Common Equity Tier 1 ratio (%) [9]	23.8	21.1	–
Tier 1 ratio (%) [9]	25.0	21.1	–
Total capital ratio (%) [9]	26.9	23.2	–
Leverage ratio (%)	7.3	6.9	–

Capital management

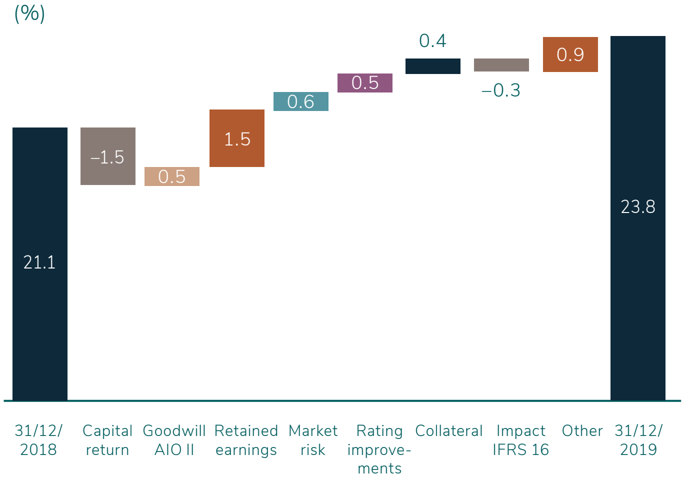
Our CET 1 ratio improved again in 2019, to 23.8%. The available CET 1 capital increased by €31 million, despite the capital return of €61 million in December, mainly due to retained earnings (with an impact of 150 basis points on the CET 1 ratio). As a result of the sale of our stake in AIO II, goodwill will no longer be deducted from CET 1 capital (a change that impacts the CET 1 ratio by 48 basis points).

Risk-weighted assets declined by 8% to €4.2 billion in 2019 (year-end 2018: €4.6 billion) as a result of changes in market risk, rating improvements and the run-off of Corporate Banking loans. The changes in market risk stem from improved netting of hedges related to structured products. The implementation of IFRS 16 led to a slight increase in risk-weighted assets. Note that the improvements in RWA will influence the relative impact of future regulation, such as the relative impact of the minimum risk weights for residential mortgages (as announced by De Nederlandsche Bank – DNB).

In the autumn of 2020, DNB will introduce a minimum risk-weight floor for residential mortgage loan portfolios. We currently expect the proposed measure to increase total RWA by around 15%. This assessment is based on our current balance sheet, estimates and models. The relative impact is slightly higher than previously disclosed due to a current lower level of absolute total RWA and the further rating improvements in our residential mortgages portfolio. DNB has indicated that the new measure will not be in addition to the new Basel IV framework, which means we expect early absorption of the Basel IV impact for Van Lanschot Kempen. Taking Basel IV and the proposed risk weight floor into account, we expect our CET 1 ratio to remain above our target range of 15-17%.

The total capital ratio strengthened to 26.9% (year-end 2018: 23.2%), mainly due to our successful placement of a €100 million additional Tier 1 security in March.

Common Equity Tier 1 ratio
(%)



9 Full-year 2019 and 2018 including retained earnings.

We hold regulatory capital to be able to mitigate Pillar 1 and Pillar 2 risks. Part of this capital consists of Common Equity Tier 1, which comprises share capital, share premium, retained earnings including current year profit, and other reserves less net long positions in own shares and after other capital deductions (e.g. goodwill, deferred tax assets, IRB shortfall). Certain adjustments are made to IFRS-based results and reserves, as legally required. The other components of our regulatory capital consist of Additional Tier 1 and Tier 2 capital instruments, including subordinated long-term debt.

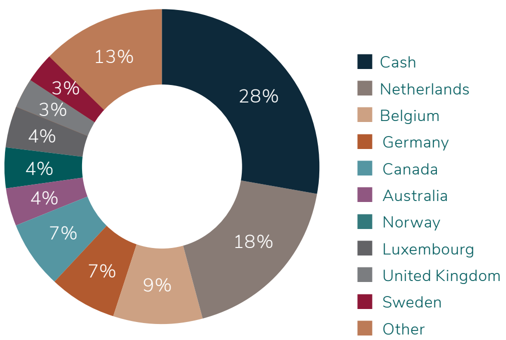
Regulatory capital (€1,000)	31/12/2019	31/12/2018
Risk-weighted assets	4,204,916	4,588,025
Common Equity Tier 1	1,000,439	969,739
Required Common Equity Tier 1	500,385	521,888
Tier 1	1,051,642	969,739
Required Tier 1	563,459	521,888
Total capital	1,131,729	1,063,950
Required total capital	647,557	682,469

IFRS 16
IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and will result in almost all leases being recognised on the balance sheet. The ultimate impact of applying IFRS 16 as of 1 January 2019 resulted in a decrease of 0.3 percentage points on our CET 1 ratio.

Investment portfolio and cash
The total investment portfolio and cash[10] amounted to €4.4 billion at the end of 2019 (year-end 2018: €3.9 billion). Cash held with central banks stood at €1.2 billion. Financial assets at fair value through other comprehensive income increased by €0.6 million to €2.4 million.

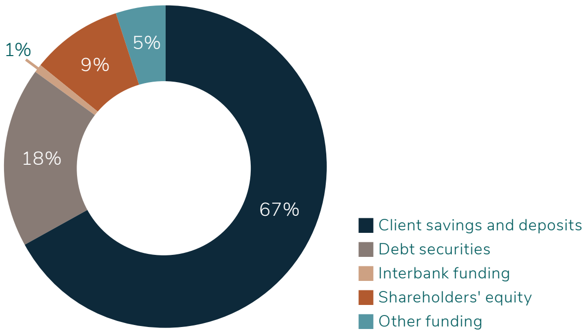
The investment portfolio is primarily held for asset and liability management purposes, and mainly comprises low-risk and highly liquid instruments.

Investment portfolio and cash by country at 31/12/2019
(100% = €4.4 billion)



Funding
We aim to retain access to both retail and wholesale markets through diversified funding. At the end of 2019, our funding ratio had increased by 4.8 percentage points to 111.0% (year-end 2018: 106.2%).

Funding mix at 31/12/2019
(100% = €14.3 billion)



Ratios
The Net Stable Funding Ratio and the Liquidity Coverage Ratio under the EU's Capital Requirements Regulation (CRR) were as follows:

Ratios	31/12/2019	Requirement	31/12/2018
Liquidity coverage ratio (%)	156.9	> 100	140.6
Net stable funding ratio (%)[11]	154.4	> 100	129.6

Events after the reporting period
On 1 January 2020, the legal merger between Van Lanschot NV and Kempen & Co NV was finalised and the company's name was changed to Van Lanschot Kempen Wealth Management NV. This merger has no impact on the 2019 figures.

10 Investment portfolio and cash comprises the balance of financial assets at fair value through other comprehensive income, other financial assets at amortised cost, financial assets designated at fair value through profit or loss, cash withdrawable on demand from central banks, and highly liquid (cash) investments.

11 2018 figures are based on Basel III rules.

MAKING CHOICES TO SAVE OUR PLANET

Since 2007, I've been working for Van Lanschot's clients in the philanthropic sector. My own personal interests (governance and sustainability) connect perfectly with those of my clients (foundations). In my team of ten, we offer our clients investment solutions to meet their societal goals in a way that fits both their risk/return profile and their social ambitions.

Clients in this sector tend to be further ahead when it comes to social responsibility and sustainability; their licence to operate is closely linked to their societal goals. In future, my ambition is to link their financial assets even more to their own specific goals. Recently, pension funds and private clients have been closing the gap when it comes to sustainability, and more of Van Lanschot's clients are becoming interested in sustainable and impact investments.

Over the past year, I've noticed awareness of sustainability issues rising quickly – not just at business level but also at personal and (inter)national levels. Our planet has limited resources, and we all need to make choices if we want to meet the Paris Climate Agreement and protect our planet for our children. I've become more conscious of my own carbon footprint, and have been trying to reduce it through the choices I make about food, travel and energy. I'm convinced that together we have the obligation and ability to save our planet, and that we can manage this without giving up too much. By promoting and implementing sustainability in my clients' investments, I hope to justify my own "licence to operate".

Ruud van de Ven – Banker Foundations and Associations, Van Lanschot Private Banking

VAN LANSCHOT PRIVATE BANKING

Financial performance

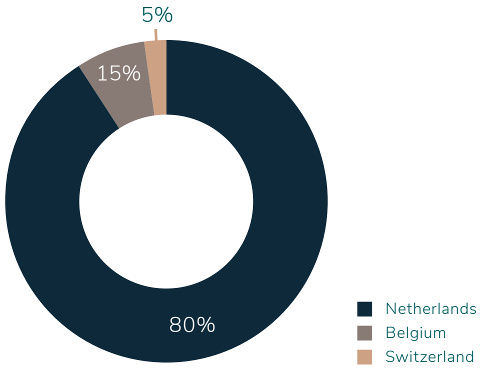
Private Banking (€ million)	2019	2018	
Commission	130.1	128.9	1%
Interest	154.0	159.3	–3%
Other income	1.2	1.1	16%
Income from operating activities	**285.3**	**289.2**	**–1%**
Staff costs	92.7	100.0	–7%
Other administrative expenses	55.4	48.4	14%
Indirect costs	69.5	71.5	–3%
Depreciation and amortisation	1.6	1.0	65%
Operating expenses	**219.1**	**220.9**	**–1%**
Gross result	**66.2**	**68.3**	**–3%**
Impairments	–11.2	–13.8	**19%**
Operating profit before special items and tax	**77.4**	**82.1**	**–6%**
Strategic investment programme	11.1	22.0	–50%
Amortisation of intangible assets arising from acquisitions	4.7	4.8	–4%
Restructuring charges	2.3	4.2	–45%
Operating profit before tax	**59.3**	**51.1**	**16%**
Income tax	15.3	13.0	17%
Net result	**44.0**	**38.1**	**16%**
Underlying net result	**54.0**	**57.7**	**–6%**

Van Lanschot Private Banking is an independent private wealth manager, which aims to be a (financial) guide for our clients in every phase of their lives. Our 2019 underlying net result at Private Banking was slightly lower than the previous year. Net inflow in assets under management amounted to €0.1 billion (2018: €0.5 billion). Meanwhile, our client assets increased by 13% to €34.5 billion. Although we have seen an increase in fee income compared with 2018, this has not been sufficient to offset the low interest rates that have inevitably had a negative impact on our net interest income.

Despite markets recovering in the first quarter of 2019, it's been a challenging year for Private Banking. Clients were either hesitant to make investments or switched from AuM to cash, believing that markets are reaching the end of an up-cycle. We were able to generate high returns in absolute terms on our clients' investment portfolios, while performing just below the benchmark. Meanwhile, both savers and clients renewing their mortgages are seeing interest rates at historically low levels.

We continue to serve our defined target groups – high net-worth individuals, entrepreneurs, family businesses, business professionals and executives, healthcare

Assets under management: by country (€24.7 billion)



professionals, and foundations and associations – within our markets in the Netherlands, Belgium and Switzerland. In 2019, we saw more traction among ultra-high net-worth clients via our new Family Solutions team. Plus, we are focusing more on the next generation: attracting our clients' children to Van Lanschot and Evi. For all our target groups, we use a structured sales management process that gives us a high level of insight into our activities and effectiveness. These insights are available to both our bankers and management.

Solutions for clients

With challenging market sentiment, in 2019 it was more important than ever to execute our strategy to provide solutions to our clients' needs. Our Private Markets Fund (launched in 2018) and European Private Equity Fund (launched in 2019) are good examples of offering clients opportunities to invest in alternative asset classes. The Private Markets Fund covers four sectors – private equity, infrastructure, land and private real estate – giving clients the chance to invest in a well-diversified private markets combination. By year-end, our Private Markets Fund had attracted €113 million, while our European Private Equity Fund had already reached capacity at €193 million in investments. In 2019, we also saw further growth in mortgages and tailored loans for our Private Banking clients.

Meanwhile, our sustainable discretionary management offering, Duurzaam+, continues to be popular with our private clients, especially our younger target groups. In 2019, assets invested sustainably exceeded €2 billion – a milestone for Private Banking. We also organised a climate event, which hundreds of clients attended to learn more about the ways in which we can help them make their portfolios, homes and businesses more sustainable. By 2023, our ambition is for sustainability to be the default position in all our investment solutions, and for our clients to have better insights into the social and environmental impact of their investments.

Another example of how we meet our clients' needs is our Family Solutions proposition. Launched at the end of 2018 and designed to serve the wealthiest 50 families in the Netherlands and Belgium, Family Solutions works across all our business lines to cater to any financial need of these families.

Family Solutions is deliberately broad in scope, and may include direct non-listed investments, tailored loans, reporting, asset management and so on.

Lastly, Van Lanschot Private Service offers access to a range of services: lifestyle, travel, concierge, healthcare and a wine circle, as well as to our trusted advisers. In 2018, we started giving our advisory clients access to Private Service, and in 2019 we rolled this out to all our discretionary portfolio management clients as well. Clients can access Private Service via our investment app, email or phone.

Strategic investment programme

Our €60 million strategic investment programme was successfully finalised after four years in 2019, meaning that our Digital XL programme, outsourcing of our mortgage administration to Stater and outsourcing of our payment services to Fidor are all completed. Going forward, new IT projects and innovations will be funded from our regular change budget.

Digital tools

We continued to develop and refine our digital tools for our clients over the course of the year. A new payments app has been introduced as part of our new payments platform, and a new login app allows customers to access their accounts more easily without a special device. In addition, we've launched an identification app that allows us to verify clients' IDs without them physically needing to visit one of our branches. The *Vermogenshorizon* (goal monitoring and scenario analysis) tool is now also available in a "light" version for clients to use at home. Bankers have a more extensive version that they can use with their clients to walk them through various scenarios to plan their future.

Migration to Fidor

Our project to outsource our payment services to German fintech company Fidor saw all our clients migrated to the new payments platform over the course of 2019. While most clients experienced no disruption at all, unfortunately some encountered migration issues. Functionalities of the platform and app will continue to be further developed in 2020.

Using data and advanced analytics

In 2019, we transitioned from gathering data and insights to using those insights to predict the behaviour and interests of our clients so as to better serve them. With the ambition to be a data-driven company, we are using data more and more in our decision-making process and in improving our internal processes. This requires a different way of working from our employees – something we monitor intensively and offer training on. We will continue to step up our use of data and advanced analytics in 2020.

Private Banking Academy

In 2019, in line with our ambition to become the preferred private banking employer in the Netherlands, we launched the Private Banking Academy. Its aim is to train and educate employees on three aspects: technical knowledge of private banking, skills such as presentation and communication, and capabilities such as digital proficiency. The Academy works with the universities of Amsterdam and Tilburg, as well as in-house trainers, to ensure that all types and levels of private banking professionals are up to speed. The Academy's Certified Private Banking Programme is also externally accredited by TIAS School for Business and Society in Tilburg.

Client satisfaction

In 2019, we asked our clients (with at least €500,000 in assets under management) how likely they are to recommend Van Lanschot Private Banking to others. Based on their responses, our Net Promoter Score (NPS) increased from 2 in 2018 to 23 in 2019. This significant upswing can be attributed to better investment returns as well as our proactive approach to client contact – be it in person, by phone/email or via our apps. Clients indicated that they appreciate our personal contact and the level of expertise they receive from us.

Private Banking in Belgium

In Belgium, our Private Banking business saw strong organic growth in assets under management at 7% – the same as in 2018 – driven by new clients and additional investments by existing clients. Highlights in the reporting year in Belgium included launching our Family Solutions proposition in tandem with the Dutch Private Banking business in October. In addition, our entire discretionary product offering (which represents almost 60% of our total business in Belgium) is now fully sustainable. During the reporting year, we received sustainability certifications from both Forum Ethibel and Febelfin. One of our internal priorities in 2019 was the migration of our back-office systems to the same IT infrastructure as the Dutch Private Banking business. Unfortunately, this process was more complex and time-consuming than anticipated, which means we're now expecting the migration to be finalised in the first half of 2020. However, once completed it will allow us to offer our Belgian clients a better digital experience, with all the tools and channels that our Dutch clients value as well.

Priorities for 2020

In 2020, we will continue working on many of the initiatives that have already started – including our Family Solutions proposition, client solutions, digitalisation and advanced analytics – to build demand and increase uptake. Having developed several apps to better serve our clients, in the coming year we'll work on paring these down to two apps – a daily banking app and an investment/wealth management app – to consolidate and simplify services for our clients.

NO ONE-SIZE-FITS-ALL SOLUTION

I started at Evi in April 2018 as part of an online marketing traineeship, and then stayed on in a permanent role. My job is all about keeping our existing clients happy – whether that's through dialogue, online marketing or events. For instance, I create email campaigns through a data management platform that we use to send tailored, personalised messages to our clients. I also write a monthly newsletter to update them on news that's relevant to them. And I organise webinars, seasonal promotions and client events. Whatever I do, it's all in the service of building client retention through loyalty.

In 2019, we've been working hard on client journey orchestration. It's not a one-size-fits-all solution – it's an individual solution for each client. To give an example: after a client has been with Evi for a year, they receive an email thanking them and asking them to give us feedback about our products and services. In return, a week later we send them personal investment insights and tips that are relevant to them at their particular phase of their journey.

We also communicate with our clients about sustainability. Kempen is our asset manager, and they're continually working to make Evi's investments more sustainable. So we made a video about how sustainable Evi is and how sustainability works in the investment world, so that our clients know that we're serious about it.

Lynn Hagen – Dialogue Marketeer, Evi

EVI VAN LANSCHOT

Financial performance

Evi (€ million)	2019	2018	
Commission	5.1	4.4	14%
Interest	3.2	2.5	25%
Other income	–	–	–
Income from operating activities	**8.2**	**6.9**	**18%**
Staff costs	3.5	4.2	–17%
Other administrative expenses	5.4	9.1	–40%
Indirect costs	2.2	2.9	–23%
Depreciation and amortisation	0.0	0.0	–60%
Operating expenses	**11.1**	**16.1**	**–31%**
Gross result	**–2.9**	**–9.2**	**68%**
Impairments	–	0.0	–
Operating profit before special items and tax	**–2.9**	**–9.2**	**69%**
Restructuring charges	–	0.1	–
Operating profit before tax	**–2.9**	**–9.3**	**69%**
Income tax	–0.8	–2.6	68%
Net result	**–2.1**	**–6.7**	**69%**
Underlying net result	**–2.1**	**–6.6**	**69%**

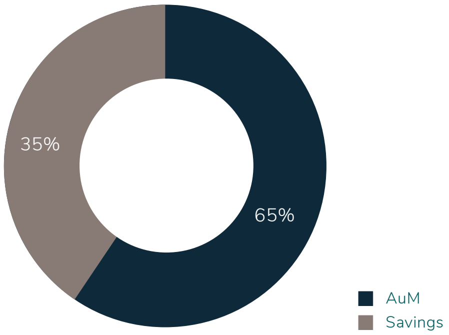
Evi is Van Lanschot Kempen's online investment coach in the Netherlands and Belgium. Evi's underlying net result in 2019 was better than the previous year. Assets under management grew from €0.9 billion in 2018 to €1.0 billion in 2019. While we saw a slight inflow of new clients, some of our existing clients withdrew their savings and assets from Evi due to fears of a market downturn. Overall, this made it a challenging year to grow in terms of net inflow. Total client assets stood at €1.5 billion at year-end (2018: €1.4 billion).

Geopolitical developments, including uncertainties caused by trade wars and Brexit, resulted in volatility in the market. While 2019 was a strong year economically, smaller investors, savers and starters were skittish about investing. This is a trend we're seeing across other areas of the company as well as at our competitors, although Evi's target segment is particularly sensitive to market movements. We made it a priority to inform Evi's clients about the realities of the strong global stock markets and low interest rates, but inevitably there was some attrition among our clients.

Focusing on the mass-affluent market

Since the start of 2019, we have been increasing our focus on mass-affluent individuals. Market developments such as low interest rates and pension changes are expected to drive increasing demand for wealth management solutions from this group of clients. Evi is able to offer these solutions online and in an easily accessible way. This shift in focus means that, during the reporting year, we've seen a lower number of new clients, but with an average of 26% higher volumes to invest with Evi.

Client assets by product (€1.5 billion)



Finding synergies with Private Banking

Our additional focus on the mass-affluent market also ties in with our collaboration with our colleagues at Private Banking: mass-affluent clients at Evi may grow to become Private Banking clients, while the children of our Private Banking clients may become Evi clients. More importantly, combining the digital tools and online marketing capabilities that we've developed separately for Evi and Van Lanschot Private Banking in the past enables us to serve all target groups better. For example, wealth management tools that we've developed for our Private Banking clients can be adapted for our Evi clients, while Evi's online marketing capabilities can be deployed at Van Lanschot.

Sharing both a market approach and our complementary online and offline skills in this way fulfils a dual purpose: on the one hand, these synergies allow us to better serve both sets of clients; on the other, they deliver cost savings in our operations and IT. Activating our full potential to make use of the tools and capabilities that we already have can deliver significant advantages at limited additional costs.

Setting goals

In 2019, we introduced an early retirement tool – available via our website – to help Evi investors match their specific future needs to investment solutions. The online tool enables them to set goals, such as an annual retirement income, second home or travel plans, and then calculates what they need to do now and in the years to come to accomplish those goals by a specified future date. So far, we've noticed that the tool is being widely used, especially during the orientation phase – and this insight enables us to help our clients better. We've also made it possible for clients to speak directly to one of the Evi coaches via the tool.

Client satisfaction

In November 2019, we measured client satisfaction as well as our Net Promoter Score (NPS). Our clients gave Evi an average rating of 7.9, up from 7.3 in 2018. Our NPS was 10 in 2019, a steep rise from –20 in 2018. These increases can be attributed to improvements in the client experience as well as the good performance of clients' investment portfolios in 2019. Evi also maintained its five-star review on comparison website Finner.

Priorities for 2020

In 2020, we will work on further extending our offering to mass-affluent individuals by collaborating with our colleagues at Private Banking. Much of the reporting year was spent on improving the client experience by making the customer journey simpler and more intuitive, and this will continue to be a focus in the coming year. And last but not least, we will continue to work on improving our cost-income ratio.

THE THREE Ps

Together with two colleagues, I joined the company back in 2006. At the time, we transformed an existing fund into the Kempen European High Dividend Fund, and in 2007 we launched the Kempen Global High Dividend Fund. In layman's terms, we talk about the three Ps: participation, protection and pickup. That means that when markets go up, we want to participate; when markets go down, we try to protect our clients' capital; and every quarter, we've paid a dividend of at least 1% for our clients.

But of course there are another three Ps that are more widely known: people, planet and profit. And when it comes to social and environmental sustainability, ensuring good governance is the bedrock. My role is to organise the team's way of working so we take individual responsibility as well as adding to the results of the team as a whole – good governance is all about people. We also engage with the companies we work with, raising awareness of ESG issues and using our influence in a smart way to encourage change.

On a personal note, I turned 50 in 2019 – a milestone worth celebrating. Through the Vitality Programme, I've been setting (and meeting) goals to make sure I'm as healthy and active for the next 25 years of my life as I have been for the past 25 years. And speaking of longevity, our team has now been working together for over 12 years. There's something pretty sustainable about that!

Jorik van den Bos – Head of Dividend Team, Kempen Asset Management

KEMPEN ASSET MANAGEMENT

Financial performance

Asset Management (€ million)	2019	2018	
Commission	101.7	100.0	2%
Interest	0.1	–0.0	–
Other income	–0.7	–0.2	–
Income from operating activities	**101.1**	**99.8**	**1%**
Staff costs	49.9	43.6	15%
Other administrative expenses	16.3	23.5	–31%
Indirect costs	13.3	12.8	3%
Depreciation and amortisation	0.1	0.1	–19%
Operating expenses	**79.6**	**80.1**	**–1%**
Gross result	**21.5**	**19.7**	**9%**
Impairments	–	–	–
Operating profit before special items and tax	**21.5**	**19.7**	**9%**
Amortisation of intangible assets arising from acquisitions	0.8	0.8	–5%
Restructuring charges	– 0.1	2.5	–
Operating profit before tax	**20.8**	**16.3**	**27%**
Income tax	5.6	4.4	28%
Net result	**15.2**	**11.9**	**27%**
Underlying net result	**15.1**	**13.8**	**9%**

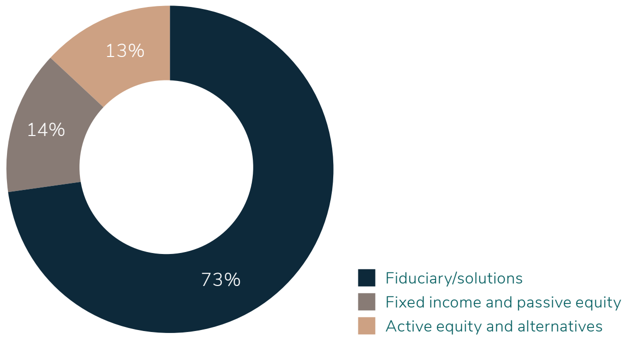
Kempen Asset Management, trading as Kempen Capital Management (KCM), is a high-quality boutique asset manager focusing on niche investment strategies and fiduciary management solutions. In 2019, our assets under management grew to €62.0 billion (2018: €44.8 billion) thanks to net inflows of €9.8 billion in the reporting year on the back of several new mandates and net inflows in our investment strategies.

Markets were positive for the asset management industry in 2019, which also helped us increase revenues. For our institutional clients, such as pension funds and insurance companies, funding ratios are under pressure and demand for yield and illiquid/private strategies has risen. From a fiduciary perspective, we're seeing the same trend. On both sides of our business, clients are looking for asset categories such as credit, structured credit, private equity, real estate and land.

Our fiduciary management business

In 2019, we on-boarded several new clients that we'd won in 2018, as well as making some significant new wins. This resulted in strong growth for Kempen Asset Management, both as a direct fiduciary manager and via Het nederlandse pensioenfonds. Highlights included the on-boarding of Stichting Pensioenfonds PostNL as a client, after winning the €9.0 billion mandate in 2018, as well as the on-boarding of PNO Media (won in 2018). The reporting year also saw a new UK fiduciary mandate come in. And via Het nederlandse pensioenfonds, we won a new mandate from Pensioenfonds OWASE and were re-appointed as fiduciary manager for Pensioenfonds Randstad.

AuM breakdown by asset class (€62.0 billion)



Our investment strategies

Our investment strategies produced inflow across our core markets in 2019. Our Euro Credit strategy was successful during the reporting year, to the point that we have almost reached capacity. We've also seen healthy wins and a strong pipeline in our Global Small-caps strategy, with AuM up to €779 million by year-end. As a follow-up to our successful Private Markets strategy, we launched the European Private Equity Fund, and 2019 also saw the start of the Global Listed Infrastructure Fund. The former had its fourth closing in the last quarter of the year, with committed capital up to €193 million. The latter is leveraging both our knowledge of the infrastructure sector at Kempen Merchant Banking and the big-data approach of our Global Listed Property team.

Our distribution strategies

The reporting year has seen a breakthrough in our international distribution. While we're still going strong in our home region of the Benelux, we've been focusing our attention elsewhere in Europe as well: the UK, France, the Nordics, Switzerland and Germany. And we're starting to see these efforts pay off. In the UK, following the review by the Competition Market Agency (CMA) in 2018, the pipeline has opened up and enabled us to win a new mandate as a result. In France, we're in the process of signing distribution partners, and have seen strong inflows from our Sustainable and Euro Credit strategies. In the Nordics, Germany and Switzerland, we're already starting to see new inflow and are initiating collaboration with distribution partners.

Moreover, we have been investing in databases to generate flows enabling clients to find us (rather than only vice versa). Data infrastructure – including data-driven distribution systems – is a key part of our strategy; in Europe, we use databases such as Evestment and Murano. Our Morningstar ratings of four or five stars for the majority of our investment funds, plus our two Gold ratings, also put us in an excellent position when it comes to distribution – which benefits from our highly active investment approach.

Kempen Asset Management's added value

Kempen Asset Management's four-pronged approach has resulted in continued strong growth momentum in 2019.

Investment performance

Our investment performance was solid in 2019, with very strong results in investment grade credits, high-yield and structured credit. Two of our strategies, Global Small-caps and Global Listed Property, reached their five-year track records. Both teams delivered very strong investment performance over those five years, leading to top-quartile results within their peer groups. Performance was more dispersed in our Large-cap strategies: our Sustainable Value funds performed very well, while the Dividend strategies had a more difficult year because of their value investment style, which underperformed growth stocks during 2019. Although 2019 was a good year for Sustainable European Small-caps, the three-year track record has not yet improved. Our newly launched Global Listed Infrastructure Fund had a very strong first year.

Meanwhile, our fiduciary clients can look back on a year with very high returns due to a sharp rise in share prices and a sharp fall in interest rates. On the back of these lower interest rates, however, the funding ratios of our pension fund clients are under pressure. Returns for institutional fiduciary clients in general are reasonably in line with the benchmark.

Innovation

Our Private Markets Fund and European Private Equity Fund, now together worth €305 million and funded almost exclusively by our Private Banking clients, are successful examples of innovative investment solutions that provide access to illiquid strategies for our clients.

In 2012, our Property team started building a global database of all underlying properties. We now have all the data we need to determine the value of these 300,000 buildings, enabling us to successfully run a global portfolio from one location in Amsterdam. In 2018, we started expanding this to all the other portfolio management teams. In every team, data science and advanced analytics are being used to find inefficiencies in the markets. We're using artificial intelligence in our investment and distribution processes, as well as in product development. The long-term challenge is to find the right balance between human talent and artificial intelligence. We are therefore investing significantly in recruiting, retaining and developing talent at both junior and senior levels so that we can nurture the financial analysts of the future.

Sustainability

Environmental, social and governance (ESG) priorities are becoming increasingly important to clients, and they represent opportunities not just to “do good” but also to generate returns. For this reason, these criteria are fully integrated into the services we offer for our fiduciary clients as well as our investment strategies. Because of our high-conviction strategies and our relatively limited investment universe – we work with only around 400 companies – we take a very personal approach to selecting and engaging with the management teams of these companies. While we do exclude companies on the basis of their ESG standards, in general we seek to make a positive impact by engaging with our portfolio companies. And our portfolio managers are directly involved in this engagement – we work with management teams on long-term dialogue to make improvements to our portfolio companies' sustainability standards.

We're also seeing a lot of demand for our Kempen Global Impact Pool, which we co-created in 2018 with our clients – in 2019, AuM invested in the fund reached €100 million. For more information, read "Our contribution to the environment and society" on page 23.

Service

Through Van Lanschot Kempen's unique combination of business lines, Kempen Asset Management is able to create and maintain very close relationships with our institutional clients, wholesale clients and Van Lanschot Private Banking clients. Uniquely, we can offer the latter direct access to our portfolio management teams, enabling entrepreneurial clients to literally co-create their own investment strategies with our portfolio managers. In 2019, more than 100 clients engaged with these teams to invest in the strategies that are most interesting to them.

Client satisfaction

Satisfaction levels among Kempen Asset Management's clients are high. In 2019, 95% of clients were satisfied with the service they received, giving us an even higher average score than in 2017: up from 8 to 8.3. Our Net Promoter Score (NPS) decreased from 44 in 2017 to 31 in 2019. However, the results still reflect a high client retention rate: 36% of clients are active promoters of Kempen Asset Management (48% in 2017), while the number of passive promoters has risen from 49% in 2017 to 59% in 2019.

Awards and rankings

During the reporting year, Kempen Asset Management was again recognised with several awards and high rankings. In addition to those relating to sustainability (see page 24), these included the following:

- We won five Lipper awards: Kempen Oranje Participaties, Kempen Global High Dividend Fund, Kempen European High Dividend Fund and Kempen (Lux) Global Small-cap Fund were all named best investment funds, calculated over a period of three years. The Kempen Global High Dividend Fund also came out on top when calculated over a period of ten years.
- Kempen Asset Management was nominated as one of the three outstanding investment houses in Europe by Morningstar, and the Kempen (Lux) Euro Credit Fund received the prestigious Morningstar Gold rating.
- Kempen Asset Management was awarded Best Multi-Strategy No Bias Fund in three categories by the BANCO Swiss Hedge Fund Awards.
- Kempen (Lux) Euro Credit Fund won the award by newspapers *De Tijd* and *L'Echo* for Best Fund on the Belgian market in the credits category for the fifth time.
- Kempen Asset Management was awarded “Best Fiduciary Manager of the Year” by Financial News in the UK.

Priorities for 2020

In 2020, we will continue to work on customised and tailored solutions, in particular to meet the needs of our Private Banking clients, including highly active and private markets strategies. We will also take the next steps in developing our distribution network in Europe. In response to the trend towards individualisation and consolidation of pension-related platforms in the Netherlands and the UK, we will look for additional platform partners. We will invest in technology and data, transforming to an agile way of working, and will keep up our focus on ESG as the investment priority of the long-term future. Responding to increasing demand for transparency from both clients and regulators, we will endeavour to increase the speed with which we can deliver data. And finally, we will work on inclusive leadership – including through our mentorship programme, which already has a high level of participation – as well as other development programmes for our employees.

Selection of Kempen investment strategies

	AuM overview (€ million)	Performance overview[1] vs. benchmark (3-year horizon, %): Kempen strategy	Benchmark
Dutch Small-caps	346	12.6	13.4
European Participations[2]	758	12.7	10.0
Sustainable European Small-caps	669	6.7	9.6
Global Small-caps	779	11.5	7.8
European Dividend	580	7.1	7.5
Global Dividend	2,275	8.6	10.3
Global Sustainable Equity	95	12.2	10.3
Euro Credit	4,761	3.2	2.4
Euro Credit Plus	488	3.4	2.4
Euro Sustainable Credit	638	3.0	2.4
Euro Government Bonds	2,388	2.6	2.4
European Real Estate	796	12.2	9.8
Global Real Estate	444	8.9	6.1
Global Diversified Hedge Fund Solutions[2]	434	0.5	–1.2
Global Non-Directional Hedge Fund Solutions[2]	450	1.8	–1.2

Kempen strategy
Benchmark

1 Annualised performance based on a representative account gross of fees until end of December 2019.
2 Performance figures net of fees.

SUSTAINABILITY IS HERE TO STAY

I started my career as a corporate finance analyst in Barcelona, working for a year at a small boutique firm. I came to the Netherlands in 2016 to study for a Master's in Finance & Investments at Rotterdam School of Management. Afterwards, I got in touch with Kempen Merchant Banking and instantly felt a click: it's not too small and not too big, with plenty of opportunities to learn, as well as big international transactions to work on. Plus, there are lots of young people with a very entrepreneurial spirit – it's competitive but everyone is willing to help each other out.

I started in the Real Estate team in 2017, but in 2019 I moved to the Debt Advisory team – I was eager for an opportunity to work with lots of different companies in different sectors. At Kempen Merchant Banking, we're typically very focused on the equity side, but almost every company has debt – it's been an interesting new challenge for me to help companies raise capital to fund their operations or finance acquisitions.

In the loan and bond market, we're seeing that investors are increasingly interested in investing in products that offer sustainability as well as making financial returns. We're talking to a lot of our clients about sustainable alternatives that help make the world a better place but also have economic benefits, such as cheaper rates or access to a diversified pool of investors. And it's a trend that's here to stay.

Albert Marsal – Corporate Finance Associate, Kempen Merchant Banking

KEMPEN MERCHANT BANKING

Financial performance

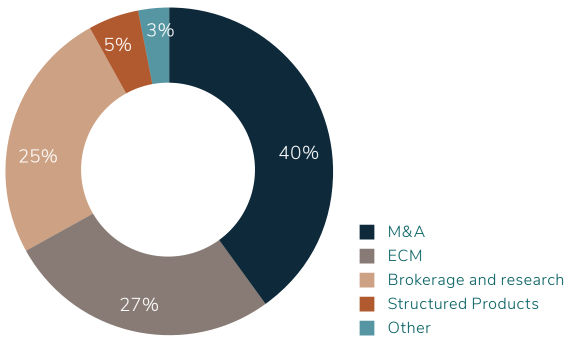
Merchant Banking (€ million)	2019	2018	
Commission	52.2	58.0	–10%
Interest	–0.1	–0.0	–
Other income	2.6	1.0	–
Income from operating activities	**54.7**	**58.9**	**–7%**
Staff costs	25.3	26.2	–3%
Other administrative expenses	8.8	9.1	–4%
Indirect costs	10.2	9.9	4%
Depreciation and amortisation	0.0	0.0	10%
Operating expenses	**44.4**	**45.2**	**–2%**
Gross result	**10.4**	**13.7**	**–24%**
Impairments	–	–0.0	–
Operating profit before special items and tax	**10.4**	**13.7**	**–24%**
Restructuring charges	–	0.1	–
Operating profit before tax	**10.4**	**13.6**	**–24%**
Income tax	2.9	3.1	–5%
Net result	**7.5**	**10.5**	**–29%**
Underlying net result	**7.5**	**10.6**	**–30%**

Kempen Merchant Banking is a specialist boutique investment bank that combines Corporate Finance and Equity Capital Markets (ECM) with a Securities franchise. Our business is particularly sensitive to volatile economic markets. After the significant dip in the final quarter of 2018, business picked up across all sectors to deliver a solid year for Kempen Merchant Banking. Despite Brexit uncertainty, trade wars and the looming threat of economic slowdown, we were able to achieve fairly good results overall due to our strong focus on our selected sectors and markets. In 2019, our commission income decreased to €52.2 million compared with €58.0 million in a very strong 2018. In Corporate Finance and ECM, we successfully completed €7 billion in M&A, debt advisory and ECM transactions for our clients in 12 countries (2018: €37 billion in ten countries).

Focus sectors

We made good progress across all our focus sectors – real estate, life sciences & healthcare, financial institutions & fintech, infrastructure, maritime & offshore, as well as in our local alpha coverage – during the reporting year. To support this, we continued to invest in our employees at all levels in the organisation, including a development programme for senior members of staff. We were particularly successful in the real estate and life sciences sectors – for examples, see the transactions mentioned in the following two sections.

Commission income by type of transaction (€52.2 million)



Within the infrastructure sector, we are increasingly focusing on renewable energy – such as wind and solar power – as a niche. Renewables present an opportunity for Kempen Merchant Banking: there is both a growing need for them, and they are a natural fit with our focus on sustainability. Developments in this industry enable us to capitalise in both our Securities and Corporate Finance businesses.

We also announced some high-profile deals in the fintech sector in the reporting year. We have been acting as financial adviser to Switzerland-based dacadoo, a leading insurtech and health-tech company, on its Series C capital increase.

Geographical markets

In 2019, we continued to focus on the markets we've entered more recently, including the US, UK, Spain and Scandinavia. The latter is a particular target for us because both investors and corporates in Scandinavia show appetite for more European access. Companies there are becoming increasingly interested in a sector-based approach, which offers us a good opportunity to provide our services to companies operating in our sectors. Two examples in the region are healthcare companies for which we were joint bookrunner in 2019: Nordic Nanovector in Norway and Oncopeptides in Sweden.

In the US, we worked on seven transactions, including three initial public offerings (IPOs) during the reporting year. One was the US IPO of Danish company Genmab for which we were co-manager, raising $582 million. Genmab is the largest independent biotech company in Europe, and the deal was the largest IPO of any Europe-based biotech firm in the last 20 years.

Key Corporate Finance and ECM transactions

We completed 37 Corporate Finance and ECM transactions in 2019 (2018: 38), a few of which are highlighted above. In addition, we were particularly proud of our role as the sole financial adviser in the sale of the large Dutch residential portfolio owned by Round Hill Capital to housing company Heimstaden for €1.4 billion in the first quarter of the year.

In the healthcare sector, we were also the lead manager for the $557 million global accelerated bookbuild offering of argenx shares listed on Nasdaq. Lastly, we are advising Reggeborgh on its proposed de-listing of Koninklijke VolkerWessels. This transaction, which is expected to close in the first half of 2020, is a good example of our strategy to activate our full potential, as Van Lanschot Kempen has provided Reggeborgh with debt financing for this transaction. For full details of Kempen Merchant Banking's transactions in 2019, see page 55.

Digitalisation

Digitalisation and data-driven analytics are an ongoing focus area for us, and 2019 saw these efforts start to pay off. Implementing and making use of the possibilities that data and digitalisation have to offer creates opportunities for both Corporate Finance/ECM and Securities to improve not only productivity but also our service to our clients. To give one example, we have built and introduced a tool that makes optimum use of the client data we have within Kempen Merchant Banking in order to better serve our clients. In 2020 and beyond, we will continue to integrate this and other tools better into our daily work.

Structured Products

In our Structured Products business in 2019, we closed a total of 103 deals worth €327 million in new notional (2018: 143 deals worth €181 million). In line with equity markets, structured notes showed strong positive returns for investors in 2019. Demand for structured investments remained strong in the reporting year as private investors were searching for alternatives to earn a positive yield in the current low interest rate environment. Our Structured Products desk further optimised capabilities to issue notes on third-party paper to adapt to the lower funding needs of Van Lanschot Kempen. And we further diversified our client base in the Netherlands and Belgium for both securitised and non-securitised structured business.

In our Structured Products platform, we made significant improvements to our risk framework, as well as to the digitalisation of the information flow to and from the platform. The Structured Products desk invested heavily in hardware and dashboards to gain a better view of our exposures so as to manage our risks more effectively. In the first half of 2019, a valuation model used by Structured Products was found to contain an inaccuracy. We corrected the model, but saw a negative adjustment of the Structured Products P&L of €2.7 million as a result in the first half of the year.

Priorities for 2020

In 2020, we anticipate a continuation and further improvement of our current activities. Particular areas of focus include the implementation of our digital tools and data analytics, as well as keeping up to date with the new regulations that are in the pipeline. We aim to expand further in Scandinavia, attracting clients across all our focus sectors. And last but not least, attracting, retaining and developing talented people will continue to be an important focus going forward.

Kempen Merchant Banking transactions in 2019

dacadoo (It's all about you.)	Capital Increase	Undisclosed	Financial Adviser	Kempen December 2019
SBB	Rights Issue	SEK 1.5 billion	Joint Bookrunner	Kempen December 2019
CRFP8	Secondary offering of shares in ARGAN	€79.7 million	Sole Bookrunner	Kempen December 2019
TINC	Rights Issue	€113 million	Joint Bookrunner	Kempen December 2019
Befimmo	Accelerated Bookbuild Offering	€69.0 million	Joint Bookrunner	Kempen December 2019
Mill Panel (wood panel technology)	Sale to H2 Equity Partners	Undisclosed	Sole Financial Adviser	Kempen November 2019
ARIMA	Accelerated Bookbuild Offering	€150 million	Joint Global Coordinator Joint Bookrunner	Kempen November 2019
Reggeborgh / VolkerWessels	Public takeover financing	€400 million	Mandated Lead Arranger	Kempen November 2019
argenx	Global Accelerated Bookbuild Offering	$557 million	Lead Manager	Kempen November 2019
WDP	Accelerated Bookbuild Offering	€200 million	Joint Global Coordinator Joint Bookrunner	Kempen November 2019
Merus	US Public Offering	$79.2 million	Co-Manager	Kempen November 2019
XIOR Student Housing	Rights Issue	€206 million	Co-Lead Manager	Kempen October 2019
ProQR	US Public Offering	$57.5 million	Co-Manager	Kempen October 2019
BIONTECH	Initial Public Offering	$158 million	Co-Manager	Kempen October 2019
ADO Berlinsiders	Sale of Berlin Residential Portfolio	€920 million	Sole Financial Adviser	Kempen September 2019
MDxHealth	Accelerated Bookbuild Offering	€9.0 million	Sole Bookrunner	Kempen September 2019
Celyad	Global Offering on Nasdaq and Euronext Paris, Brussels	$20.0 million	Co-Manager	Kempen September 2019
Genmab	Initial Public Offering on NASDAQ	$582 million	Co-Manager	Kempen July 2019
Waterland / Baltisse	Secondary Placing of Fagron shares	€116 million	Joint Bookrunner	Kempen July 2019
transgene	Rights Issue	€48.7 million	Joint Bookrunner	Kempen July 2019
BCP Brack Capital Properties N.V.	Sale of German DIY portfolio to REDOS acting on behalf of Union Investment	€129 million	Sole Financial Adviser	Kempen June 2019
oncopeptides	Accelerated Bookbuild Offering	SEK 727 million	Joint Bookrunner	Kempen June 2019
Retail Estates	Accelerated Bookbuild Offering	€56.7 million	Joint Bookrunner	Kempen June 2019
Tritax EuroBox	Capital Increase	€135 million	Joint Global Coordinator Joint Bookrunner	Kempen May 2019
aedifica (housing with care)	Rights Issue	€418 million	Co-Lead Manager	Kempen May 2019
HOOKIPA Pharma	Initial Public Offering on NASDAQ	$84.0 million	Co-Manager	Kempen April 2019
ARIMA	Accelerated Bookbuild Offering	€40.0 million	Co-Lead Manager	Kempen April 2019
argenx	Block trade in argenx shares	$130 million	Sole Block Placing Agent	Kempen April 2019
UnifiedPost	Acquisition of Fitek	Undisclosed	Financial Adviser	Kempen April 2019
BCP Brack Capital Properties N.V.	Sale of German retail portfolio to a real estate private equity firm	€175 million	Sole Financial Adviser	Kempen March 2019
Round Hill Capital	Sale of Dutch residential portfolio to Heimstaden	€1.4 billion	Sole Financial Adviser	Kempen March 2019
medsen apotheek / cebon	Sale to bencis	Undisclosed	Sole Financial Adviser	Kempen February 2019
d.s.i. de nederlandse verzekeringsmaatschappij voor alle verzekeringen	Increase of stake in Human Total Care	Undisclosed	Financial Adviser	Kempen February 2019
sequanamedical	Initial Public Offering	€27.5 million	Joint Global Coordinator Joint Bookrunner	Kempen February 2019
Deutsche Wohnen	Secondary Offering via ABB in Deutsche Wohnen shares (4.7%)	€698 million	Co-Lead Manager	Kempen January 2019
Nordic Nanovector	Accelerated Bookbuild Offering	NOK 222 million	Joint Bookrunner	Kempen January 2019
BIOCARTIS	Accelerated Bookbuild Offering	€55.5 million	Joint Bookrunner	Kempen January 2019

PRIVATE EQUITY INVESTMENTS

Over the years, Van Lanschot Kempen has been active in private equity in three different ways: acquiring and managing minority holdings, managing non-strategic investments, and managing interests in private equity funds.

MARKET VALUE
At year-end 2019, our total portfolio of private equity investments reflected a market value of circa €90 million (2018: over €170 million). The decrease mainly reflects the sales of our 72% stake in AIO II and our 37.5% stake in Marfo Food Group.

Acquiring and managing minority holdings

Van Lanschot Kempen holds a number of minority holdings, both indirectly via Bolster Investments Coöperatief U.A. since 2017, and directly via our Van Lanschot Participaties portfolio that was built up over the years prior to 2016.

Bolster. INVESTMENT PARTNERS

Bolster Investment Partners invests in well-managed Dutch companies with strong market positions and compelling growth strategies. Bolster can take both majority and minority shareholdings in private companies, and it pursues a flexible, long-term investment horizon. An integral part of the due diligence Bolster undertakes before acquiring an interest in a company involves assessing whether that company meets specific environmental, social and governance criteria.

The fund, Bolster Investments Coöperatief U.A., manages €160 million in committed capital. In addition to Van Lanschot Kempen, which holds a significant minority interest, other investors mainly comprise Van Lanschot Private Banking clients. In 2019, one new investment was added to the fund: Giesen Coffee Roasters. In the coming years, Bolster Investment Partners will strive to put the capital raised to work by making additional investments.

Van Lanschot Kempen has built a portfolio of direct minority holdings over the years, focusing on entrepreneurs and owner-directors: both existing Van Lanschot Private Banking clients and entrepreneurs who are potential clients. We have provided growth capital, facilitated management buy-outs, and acquired shareholdings from existing shareholders. Our portfolio of direct minority holdings comprised six companies on 31 December 2019. In July 2019, we sold our stake in Marfo Food Group for a book profit of around €6 million. In August 2019, we sold our stake in Kraan Bouwcomputing.

No new holdings will be added to this portfolio, but we may make follow-on investments in existing minority holdings. We maintain our long-term investment horizon, and potential divestments will be driven mostly by the strategic development of the companies. This portfolio continues to be managed by Bolster Investment Partners.

In February 2019, Van Lanschot Kempen sold its 49% stake in VLC & Partners to De Goudse Verzekeringen (VLCMP), generating a net book profit of around €17.1 million. VLC & Partners is a Dutch intermediary in the fields of risk management, absenteeism, pensions and private insurance, and also provides insurance solutions to our Private Banking clients. Van Lanschot Kempen and VLC & Partners will continue to collaborate on the services provided to Private Banking clients.

Direct minority holdings[1]

OGD ict-diensten | PLOEGER OXBO GROUP | GERCO
Movares | TECNOTION THE LINEAR MOTOR COMPANY | Quint Wellington Redwood

1 For more information on our investments in associates using the equity method, see page 189.

Managing non-strategic investments

We hold a number of companies classified as non-strategic investments; these are typically majority interests arising from debt-for-equity swaps we agreed in the past. Our aim is to divest our shareholdings in such non-strategic investments over time. We currently hold two non-strategic interests: Holonite and Allshare. Holonite, in which we hold a 93% stake, makes high-quality composite stone products and finishing elements. Allshare, in which we hold a 99.8% stake[2], develops software for the financial sector and is a key supplier to Van Lanschot Kempen.

In February 2019, Van Lanschot Kempen effectuated the sale of its non-strategic stake in AIO II (Medsen) to funds under management of Bencis, locking in a net book profit of €36 million. AIO II is the holding company of pharmacy chain Medsen and wholesale chemist Ceban. Van Lanschot Kempen had held an equity stake in AIO II since 2009, when it acquired an interest through a debt-for-equity swap.

Managing interests in private equity funds

We built a portfolio of interests in private equity funds before 2010. As most of these funds are being liquidated, these interests are gradually being wound down.

In line with our ambition to move from responsible to sustainable investing, we've made commitments to invest in funds that aim to make a positive contribution to the environment and society. At the end of 2019, Van Lanschot Kempen made a commitment to the newly launched Borski Fund that aims to provide growth capital to companies that are founded and/or managed by female entrepreneurs or are focused on gender innovations. In March 2018, Van Lanschot Kempen also made a commitment to the Healthy Ecosystems Impact Fund (HEIF) of the “Put Your Money Where Your Meaning Is Community” (Pymwymic). The Pymwymic is a community of wealthy families, philanthropists and private investors. The HEIF invests in companies that aim to solve problems related to environmental pollution, climate change and poor living conditions.

2 Over the course of 2019, we bought out a number of shareholders who had a small stake in Allshare, increasing our stake from 97.1% to 99.8%.

BRINGING PEOPLE TOGETHER

Although I've been working at Van Lanschot Kempen for over 20 years, the Family Solutions team was just formed in 2019. The team works out of our Amsterdam office and it serves one of the most interesting client groups – a perfect fit for me. I love being creative and connecting people, so bringing together private banking, asset management and merchant banking services under one family-focused team was the ideal combination. Over the last year, I've learned a lot about what all my colleagues in different departments can offer to the top 50 families in the Netherlands and Belgium.

Sustainability is of course something we discuss with the families we serve – but it carries a different meaning for each of them. It could be about climate change, addressing poverty, the treatment of women... it depends on their family values. But they all have one thing in common: a desire to do something worthwhile with the wealth that's transferred from one generation to the next. More and more of our families are creating charitable foundations, for example.

This ties in with my role as Board member of the Van Lanschot Kempen Foundation. Many of our clients and employees are looking to take part in charitable activities or volunteer work. I focus on our external and internal communications for the Foundation, so it's my role to bring people together to create the most impact.

Jacobine Gratama – Wealth Manager, Family Solutions

RISK AND CAPITAL MANAGEMENT

Key risk themes for Van Lanschot Kempen

Risk	Actions
Rising geopolitical and economic uncertainty The 2019 financial year was characterised by growing geopolitical and economic uncertainties. As a business, we were affected in three ways. Firstly, geopolitical uncertainty influenced clients' investment decisions, which impacted our asset management activities. Some investors used the strong rebound of equity markets in Q1 2019 to take profits, and kept higher portions of their assets in cash. Secondly, the ongoing trade war between the United States and China, as well as other economic developments, caused a slowdown in the global economy, with the growth rate of the German economy around zero for part of the year. The Dutch economy was not significantly affected in 2019, while service activities and consumer confidence remained high. But forward-looking indicators point to somewhat lower levels of economic growth in the Netherlands as well, which could present a potential risk for a financial institution providing loans. Lastly, Brexit has a potential direct effect on Van Lanschot Kempen: we have some activities in the UK (Kempen Asset Management and Kempen Merchant Banking) and use services provided by financial institutions in London.	**Actions** We continued to give investment advice to our clients – incorporating the difficult, sometimes contradictory, signals from financial markets and the real economy. We also continued to offer (new) investment solutions, in response to the changing economic climate, for example. During the second half of 2019, we saw significant interest in our niche investment strategies. One of the main risks for a financial institution is providing loans late in the economic cycle. The winding down of our Corporate Banking loan book resulted in much lower exposure to loans that are significantly influenced by the economic cycle. Moreover, we have strict credit acceptance and monitoring procedures, which have been proven to work in more ominous economic environments as well. We are therefore continuing to provide new loans to our target groups, provided they fulfil the acceptance criteria. All of Van Lanschot Kempen's business units are prepared for the impact of Brexit. We have contracts and procedures in place to ensure that the impact of our business will be both manageable and limited. We have made arrangements for our activities in the UK; (back-up) contracts have been closed with UK financial institution subsidiaries in mainland Europe; and the impact on the offering of funds and instruments to our clients has been assessed. Alternative routes, bypassing the UK, have also been implemented for settlement activities. We believe that we have taken – and continue to take – the necessary steps to mitigate risks for our organisation and for our clients.
Low interest rate environment Monetary authorities have reacted to the economic uncertainty by expanding their already loose monetary policies (ECB) or by reversing their paths of increasing interest rates back to initial rate cuts (FOMC in the United States). As a result, the already low interest rates declined even further. In general, longer-term interest rates have decreased more than short-term rates, causing yield curves to flatten. Euro swap rates are now in negative territories for most maturities. And expectations are that the current situation will persist for longer than previously anticipated. The current interest rate environment has consequences for our net interest income, mainly due to the implicit 0% floor in client interest rates for savings and current accounts, although we do charge negative interest rates for significant savings balances. In addition, the flat yield curve limits the pick-up that can be earned from the interest rate mismatch position in our balance sheet. In 2019, margins on new and repricing mortgages showed a positive trend initially. However, in the second half of the year, mortgage margins decreased somewhat, particularly after the ECB's announcement in September that it would resume its asset purchasing programme. Yields and credit spreads on new investments in our liquidity portfolio remained low, predominantly driven by the same ECB asset purchasing programme.	**Actions** Our interest rate risk oversight and steering is carried out by the Asset & Liability Committee (ALCO), which monitors and discusses balance sheet risks and financial market developments on a monthly basis. We are continuously balancing the risks and benefits of our interest rate mismatch position, with a keen eye on potential changes in client behaviour. In doing so, we analyse a variety of scenarios, such as the impact of the implicit 0% client rate floor for most of our savings and current accounts, recalibration of interest rate sensitivities for savings and current accounts, and potential pick-up improvements in the event of steepening yield curves.
Technological transition and cybercrime The technological shift within the financial sector continues at a rapid pace. Clients expect real-time information about their accounts, transfers, investment opportunities and the performance of their portfolios. Moreover, technological innovation results in increasing productivity by automating tasks and production processes, and providing better and faster insight into client activities. Technological developments such as cloud computing and the internationalisation of internet crime make it increasingly complex to monitor and manage these risks. The deep embedding of social media into people's lives adds another layer of vulnerability. Protective measures evidently need to keep pace with the increasing threats, and we put an emphasis on security awareness and on preparing the organisation to act quickly to any incidents. In 2019, Van Lanschot Kempen was a target for only a small number of phishing attacks, and there were no other serious cybercrime issues in 2019. However, risk in this area is considered to be permanently high, while developments are moving very fast, and the impact of DDOS attacks, payment fraud and identity fraud can be significant.	**Actions** In 2019, we outsourced our payments system for Van Lanschot Private Banking and provided our clients with useful new insights into their financial situation and transactions via our mobile apps. We further improved the analytics functionality of our investment app. Many departments moved to advanced dashboards for better management and risk information. Extra attention was paid to end-user computing and managing complex transition projects. Several steps were taken to further enhance the level of sophistication of Van Lanschot Kempen's cyber defence. Our countermeasures taken during the phishing fraud incidents proved to be adequate, and the financial damage to our clients was very limited. Van Lanschot Kempen has strengthened its governance on IT security, and continued its security awareness and staff training.

Risk management

Risk profile and risk appetite

Historically, we have sought to achieve a solid risk profile – expressed in transparent risk levels coupled with a robust liquidity and capital position. The risks we face are outlined in the following sections. More detailed descriptions can be found in the financial statements, where these risks are also quantified, wherever possible, in terms of their impact on Van Lanschot Kempen.

We evaluate our risk appetite annually, and this is then communicated in a risk appetite statement containing both qualitative and quantitative elements. Our risk appetite represents our willingness to accept the risk of particular losses or decreasing buffers, and as such sets our operating boundaries. We use the loss absorption capacity (maximum acceptable level of losses) for the calibration of these boundaries. The statement is prepared by the Statutory Board and is subject to the Supervisory Board's approval.

Targets and risk limits are more dynamic and may occasionally be reviewed, at least annually. That said, we do not change the key principles that underlie our risk appetite and that create the framework within which we operate:
- We only take risks that we understand and can explain;
- We only take risks that – directly or indirectly – serve our strategic objectives;
- The sum of all risks taken should not exceed our risk-bearing capacity;
- When taking risks, we take the requirements and expectations of all stakeholders into account;
- We do not take any risks that could materially harm our reputation;
- Our risk appetite should be considered in all business decisions at every level of the organisation;
- We avoid risks that could lead to legal or regulatory breaches.

A risk dashboard and progress report is discussed by the Group Risk Committee every quarter, as well as periodically by the Risk Committee of the Supervisory Board. Risk-taking is in the nature of banks; low risks are not a means to an end. For a number of reasons, it may be appropriate to accept a higher risk – either temporarily or for a prolonged period. We always consider both gross and net – i.e. after mitigating measures – risk positions, paying extra attention to high risks.

The scores and risk appetite for each individual risk type at year-end 2019 are shown in this simplified version of the risk dashboard below.

Risk dashboard	Low	Medium	High
Strategic risk		○ □	
Credit risk	○ □		
Market risk	○ □		
Liquidity risk	○ □		
Interest rate risk	○ □		
Operational risk		○ □	
Information risk		○ □	

○ Risk score □ Risk appetite

We operate our risk framework in accordance with the "three lines of defence" model. The management teams at individual departments and units (the first line) are responsible for managing their specific risks. The Group Risk Management department (the second line) supports management by facilitating risk assessments, writing risk policies, providing expertise for the formulation of controls and mitigating actions, providing reports, and challenging the first line on the management of their risks. Group Audit (the third line) monitors whether the activities of the first and second line are effectively mitigating the risks identified. Lastly, we use insurance to cover certain remaining risks.

Strategic risk

Strategic risk is defined as the risk to Van Lanschot Kempen's performance, resulting from failure to respond adequately to changes in external factors or from poor strategic decisions. External factors include the actions of competitors, clients, potential market entrants and public authorities, as well as public opinion. Keeping up with technological developments and fintech is also a key topic on our strategic agenda. Furthermore, a prolonged period of low interest rates puts pressure on our net interest income. Other important elements are the capacity to meet all specific regulatory and client demands, consequences of operating in specific niche markets, and risks associated with a relatively small-scale organisation. We use a range of performance indicators – such as growth in assets under management, net result, efficiency ratio and FTE trends – together with a qualitative assessment to monitor and control strategic risk. Due to the challenging environment both economically and in terms of technological developments, our strategic risk remains at a medium level.

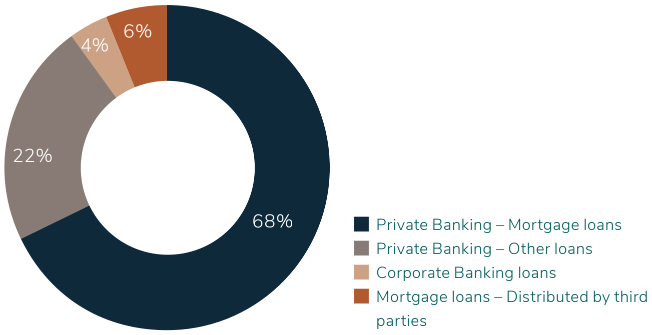
Credit risk

Credit risk is still one of our most significant financial risk types but, as a result of the strong economy and the run-down of our corporate loan book, it has been at a relatively low level for some years now. Our loan portfolio amounts to €8.6 billion and has manageable risks; 68% of the loan portfolio consists of mortgage loans. We aim to keep the size of exposure to the Private Banking residential mortgage portfolio at least constant by generating enough new business to offset prepayments and redemptions. New mortgages are primarily provided to Private Banking clients who also hold assets under management with Van Lanschot Kempen.

Credit quality in general further improved in 2019, reflecting the healthy state of the Dutch economy and underlying positive developments, such as low unemployment figures and strong house prices. These effects, in combination with a prudent risk policy, continue to feed through to our loan portfolio with a slight lag.

In 2019, loan losses continued to reach historically low levels. In order to monitor and measure credit risks for most of our loan portfolios, we use sophisticated risk models (internal ratings-based approach). As observed in 2018, we see positive rating migration in nearly all portfolios as an additional indicator of improved credit quality. Our loan portfolio and credit risks are concentrated in the Netherlands (95%); lending in Belgium and Switzerland is limited, and mainly concerns Lombard loans with low risk profiles.

Loan portfolio, excluding provision
(100% = €8.7 billion)



Although our exposure to the Dutch housing market is fairly significant, the concentration risk on single line items in the overall loan portfolio is relatively limited. The ten largest loans to individual counterparties, other than financial institutions, totalled €280 million at year-end 2019, compared to €220 million in 2018. 96% of all borrowers held loans of less than €10 million at year-end 2019 (year-end 2018: 96%). Our policy is to keep credit-risk limits on a single debtor at an acceptable level in order to contain concentration risk and to mitigate its potential impact on Van Lanschot Kempen's results (see page 130 in the financial statements for more information).

Responsible lending policy

We have a responsible lending policy that takes environmental and social impact into consideration. The policy ensures periodic sustainability screening (due diligence), via a risk filter, of all existing and new corporate loans, and includes factors such as human rights, social and labour issues, environment, anti-corruption and bribery. The screening did not identify any new material sustainability issues in the portfolio during 2019. The number of potentially high-risk borrowers totalled 17 by year-end 2019 (2018: 17). We continue to talk to these borrowers about specific sustainability risks and how they could be mitigated. For more information on this policy and its results, see our CSR Supplement and vanlanschotkempen.com/responsible/core-banking-activities.

A few years ago, a separate policy was created to assess the sustainability of financial institutions with which Van Lanschot Kempen has a banking relationship (vanlanschotkempen.com/responsible/core-banking-activities). This policy aims to prevent the risk that client assets find their way – through interbank loans or investments, for example – to institutions with weak or non-existent CSR policies. Van Lanschot Kempen challenges financial institutions that have not developed sufficiently visible policies. In 2019, one of these institutions improved its policy by becoming a member of UN Global Compact. Following this change, only three financial institutions in our portfolio did not fully meet our policy; by the end of 2019, we decided to divest from one of these.

In 2019, the Belgian sustainability organisation Forum Ethibel carried out its seventh annual audit to verify our responsible use of client assets. We were pleased to once again receive their annual sustainability certificate.

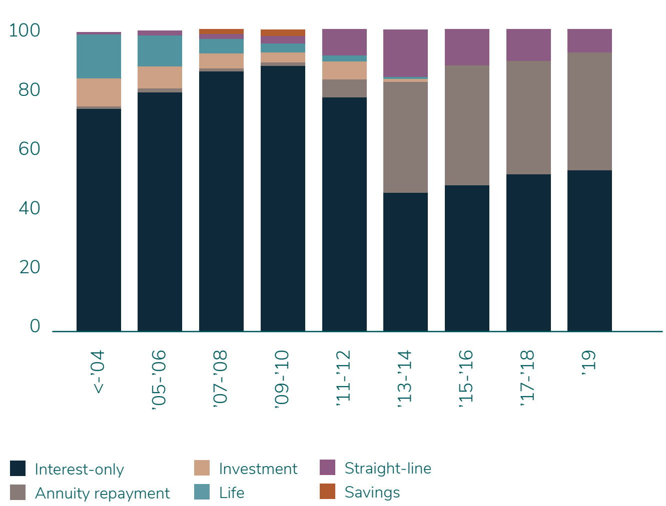
Mortgage loans

At year-end, 68% of our loan portfolio consisted of mortgages. Our portfolio differs from that of other Dutch mortgage lenders in that the average loan is higher (approximately €488,000), making the portfolio a little more sensitive to a fall in underlying house prices. In 2019, the portfolio's weighted average loan-to-value (LTV) ratio, based on foreclosure value, was stable at 76% at year-end, the same as year-end 2018. House prices in the Netherlands increased significantly across the country, causing LTVs in the current portfolio to decline. LTVs for Van Lanschot Kempen's total portfolio remained constant, while new mortgage issuance in 2019 was the highest in the last 20 years. New issuances are in general issued for LTVs above 76%.

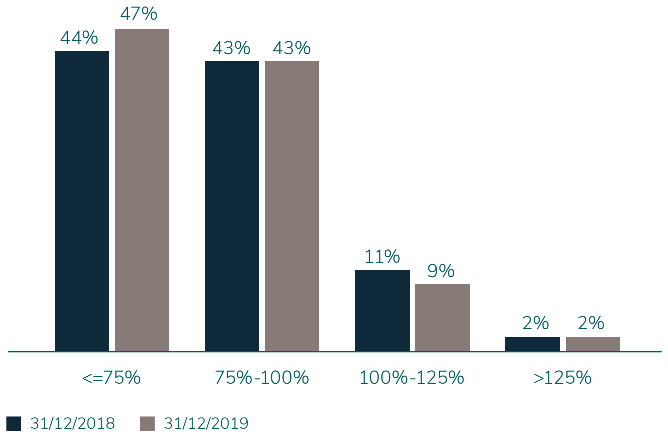
In 2015, we started to provide mortgages through a network of intermediaries, branded as Hypotrust and with Quion as our service provider for our white-label mortgages. Since then, we have built up a successful white-label portfolio with good risk characteristics and with very few loan losses. Our white-label mortgages are subject to strict acceptance criteria, and the size of this portfolio amounted to €553 million by year-end 2019 (year-end 2018: €602 million). This portfolio is relatively stable at approximately 6% of the total Van Lanschot mortgage portfolio.

Clients with potentially declining incomes (e.g. due to retirement), and who are exposed to the risk of interest-only mortgages that will mature in the next 10–15 years, are actively assisted by us to limit the risk of not being able to pay off their loans at maturity date. In general, their LTVs are below 100%, making the credit risk of the loans acceptable. However, if the decline in clients' income prevents the loan being rolled over at maturity, we enter into early discussions with them. In this way, we increase awareness among clients and try to avoid potentially difficult situations. Around 900 clients with interest-only mortgages fall into this target group. We have started reaching out to these clients and are providing insight into their financial situation as well as possible options to adjust their current mortgage contract.

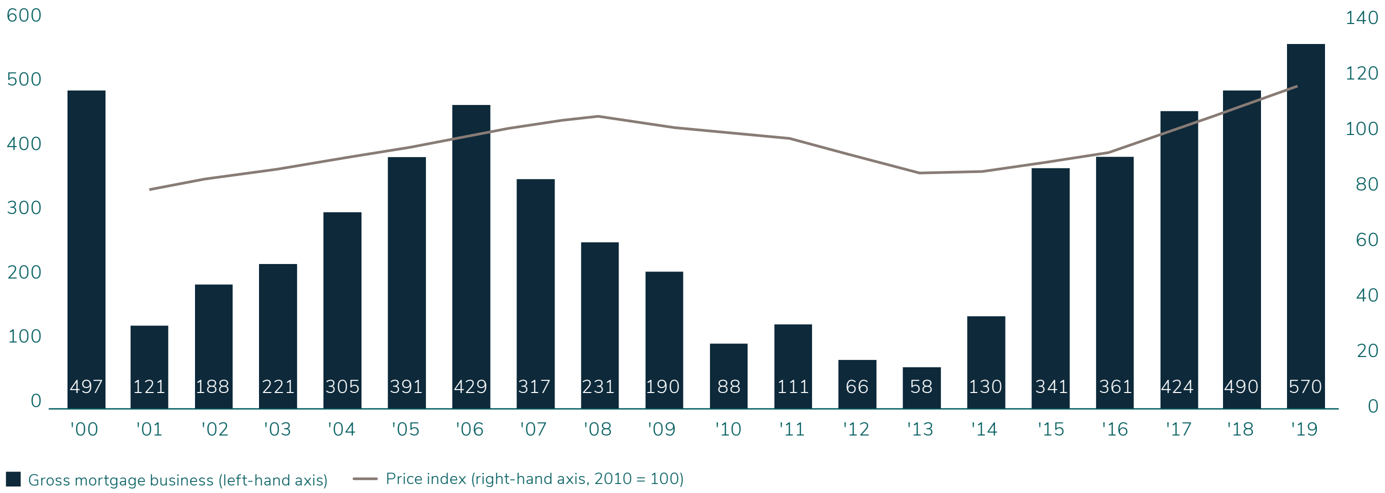
Mortgage loans: new production by type (%)



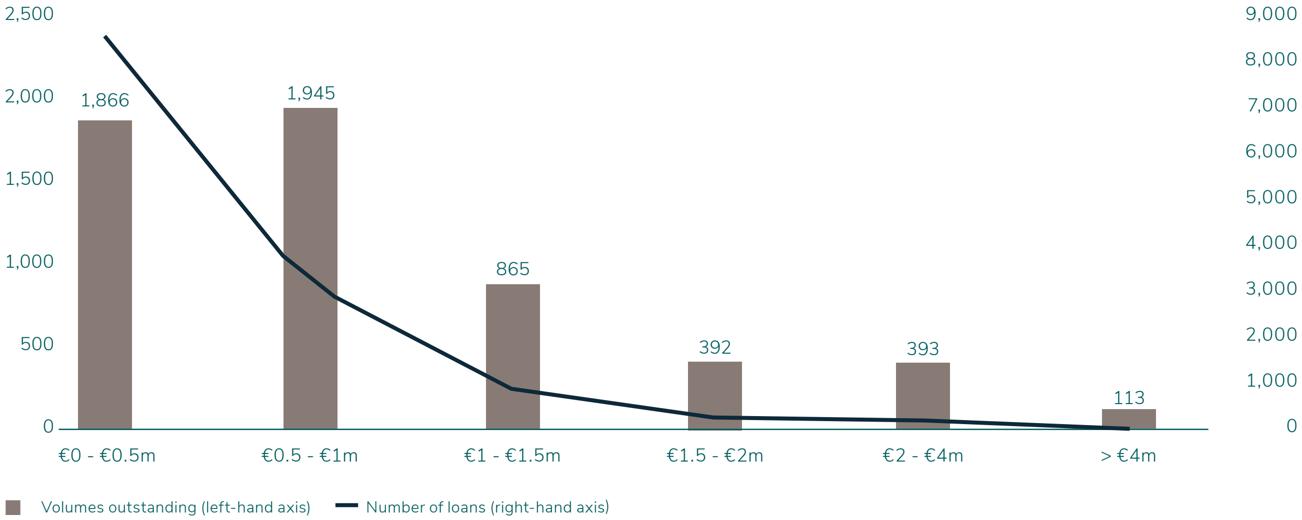
Private Banking in the Netherlands: mortgage loan-to-value (%)



Mortgage loans: remaining gross business per year (€ million) compared with house price trends

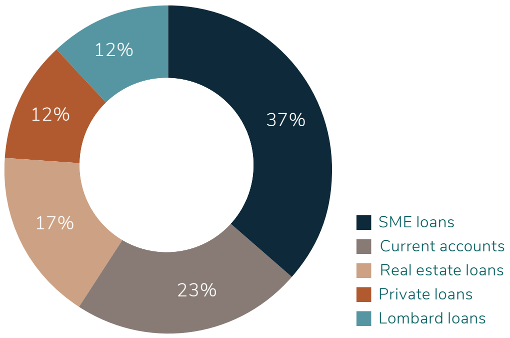


Mortgage loans: outstanding volumes (€ million) and number of loans by size



Other Private Banking loans
This part of the loan portfolio comprises loans to high net-worth individuals, in the form of overdraft facilities or funding for a second home, for example. In the same category are commercial activities that fit into Private Banking's relationship model, such as funding investments for family businesses, business professionals and executives, and healthcare professionals. These kinds of loans are supplementary to our wealth management strategy and typically involve bringing in assets under management. Our aim is to keep the size of this portfolio stable. The average loan size is approximately €120,000.

Other Private Banking loans by loan type
(100% = €1.9 billion)



Corporate Banking loans
Since 2019, the remaining part of our Corporate Banking loan portfolio has been integrated within Private Banking, because the size, complexity and risks of the portfolio no longer justified a separate department. The winding down of this portfolio continues. The total portfolio amounted to €318 million at year-end 2019 (year-end 2018: €523 million). The remaining SME loan portfolio is well diversified, with no dominant sector. The average loan size amounted to €1.07 million at year-end 2019 (year-end 2018: €1.16 million).

Our portfolio of Corporate Banking real estate loans is well diversified, and consists of a balanced portfolio of the various object classes – offices, residential property, retail and commercial real estate. The average loan size of our real estate loans amounted to €1.8 million at year-end 2019 (year-end 2018: €1.7 million). Average LTV ratios improved to 62% (year-end 2018: 66%).

Our real estate loans are provided primarily on the basis of a total quality assessment of the borrowers. We also take into account the quality and sustainability of the real estate object, and the diversification and stability of the rental flows. The debt service coverage ratio (DSCR) is calculated so that we can determine the extent to which a client will be able to make interest and principal payments from the rental income generated by their commercial real estate. At year-end 2019, 82.9% of our real estate loans generated sufficient rental income to cover interest and principal payments, i.e. had a DSCR of over 1 (year-end 2018: 78.2%). Clients with a DSCR of less than 1 often have other income-generating assets they can use to service their loan obligations. Lastly, the LTV of real estate loans also improved due to strong economic growth in the Netherlands, causing prices of most real estate to rise.

We sold a portfolio of non-performing commercial real estate loans to a company affiliated to Cerberus Capital Management LP in 2015. The sale concerned loans with a total nominal amount of approximately €400 million and around 120 client relationships. A small number of individual debtors initiated legal proceedings in relation to this sale, claiming that the transfer of the debtors' loans and the rights related to these loans were invalid. Legal proceedings in relation to the transaction are pending but are currently on hold in anticipation of a judgement of the Dutch Supreme Court (in prejudicial proceedings) regarding *(inter alia)* the question of whether the claims of a bank (as a lender) under loans provided to its clients (as borrowers) are assignable under Dutch law to a third party that is not a bank.

Impaired loans
Impaired loans are loans for which a provision has been taken. Impaired loans accounted for 2.7% of the loan portfolio at the end of 2019 (year-end 2018: 3.8%). In the reporting year, we decided to write-off €31 million in residual debts. These had been under management of our Credit Restructuring & Recovery department for a long time, with virtually no prospect of recovery, and were fully provisioned. In 2019, a provision equal to 23% of impaired loans was taken (2018: 31%), resulting in specific provisions totalling €54 million. In 2019, we achieved a further net release of €12.1 million in provisions (2018: €12.7 million).

Current provisions as well as expected losses have continued to fall significantly over the past few years. The team for preventive management continues to contribute to the reduced inflow into the Credit Restructuring & Recovery department through early intervention.

During 2019, the impact of the migration from IFRS 9 credit quality stages one and two to stage three was limited, which is partly the result of the current phase of the economic cycle. See page 134 in the financial statements for more detail.

For more information about credit risk, please refer to the discussion of risk management in the financial statements, Section 2, "Credit risk".

Market risk
Van Lanschot Kempen is exposed to market risk to a limited extent through client-facilitating transactions. Kempen Merchant Banking performs equity and structured product transactions for clients and provides market liquidity, which may result in temporary trading positions. The same applies at Van Lanschot Private Banking regarding transactions in interest-related and foreign currency products. Temporary positions may arise from our efforts to facilitate our clients' requests. We invest in our own funds to support Kempen Asset Management, in order to align our interests with those of our clients. The Risk Management department monitors market risks on a daily basis.

For further information on market risk, see Section 3, "Market risk", in the financial statements.

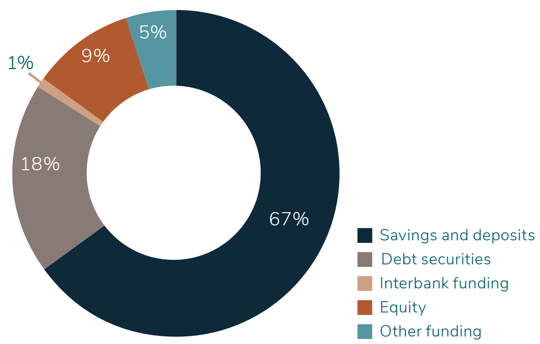
Liquidity and funding risk
Our wealth management strategy entails a large client savings and deposits base, which exceeds the volume of our client loan book. This is reflected in our loan-to-deposit ratio of 90%. Because of this, our liquidity risk profile is

mostly driven by the potential unanticipated outflows that could occur from our deposit base. Although our deposit base has not resulted from a competitive pricing policy and has proven to be sticky over time, there is always a risk of unexpected outflows, particularly for balances not covered by the deposit guarantee scheme (DGS). The procedures, processes and reporting associated with liquidity risk management are combined in our internal liquidity adequacy assessment process (ILAAP), which is assessed by our supervisor every year. DNB considers our liquidity and funding risk management to be adequate for a company of the size and complexity of Van Lanschot Kempen.

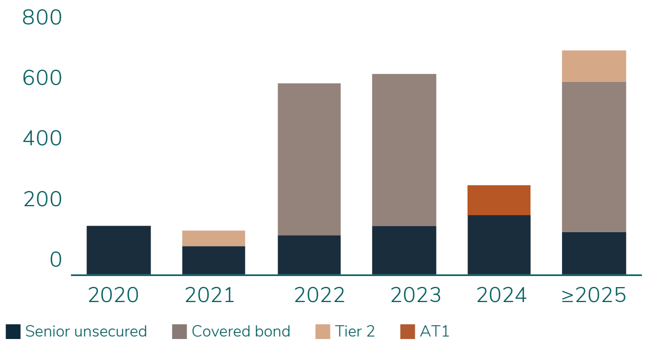
We take a cautious approach to liquidity risk, and aim to hold solid liquidity buffers that would allow us to absorb severe unexpected liquidity stress situations. Outcomes of liquidity stress tests, which cover acute and persistent liquidity stress, are discussed by the ALCO on a monthly basis. Due to our strong liquidity buffer, stress test outcomes and other liquidity indicators (e.g. LCR and NSFR) remained well within the limits throughout the year. The total liquidity buffer at year-end 2019 amounted to €4.0 billion (2018: €3.6 billion) with the liquidity coverage ratio standing at 156.9% (2018: 140.6%).

Reducing the impact of excess liquidity on net interest income, while maintaining a solid liquidity cushion and sufficient funding diversification, remains the main funding and liquidity planning objective. Although our loan portfolio can be entirely funded by client deposits, we aim to keep sufficient diversification in our funding mix by supplementing the savings and deposits base with secured debt instruments that are issued under the Conditional Pass-through Covered Bond programme (CPTCB). Due to our structurally high liquidity buffer, we did not issue any new wholesale debt instruments in 2019. Only a €100 million Additional Tier 1 (AT1) instrument was issued for capital efficiency purposes. As a result, total outstanding volume under the CPTCB remained at €1.5 billion throughout 2019. We do not have any RMBS or benchmark unsecured debt issuances placed with investors. In September 2019, Van Lanschot Kempen issued the first series (€300 million) of its newly structured retained CPTCB programme, replacing the retained Courtine 2013-I RMBS transaction, which was redeemed at the end of September 2019. A retained structure is one in which the note remains on our balance sheet and is used as a liquidity backstop, since the note is accepted as collateral by the Eurosystem and can be exchanged for cash at very short notice.

Funding mix
(100% = €14.3 billion)



Funding redemption profile
(€ million)

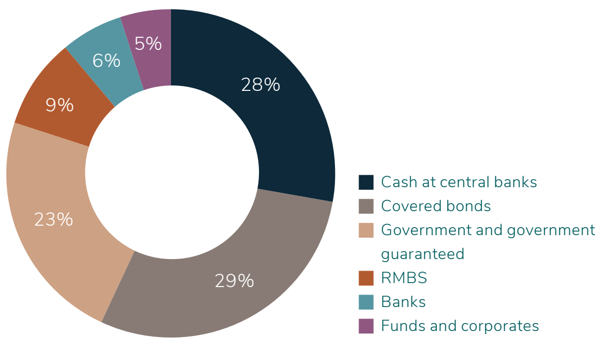


Investment portfolio

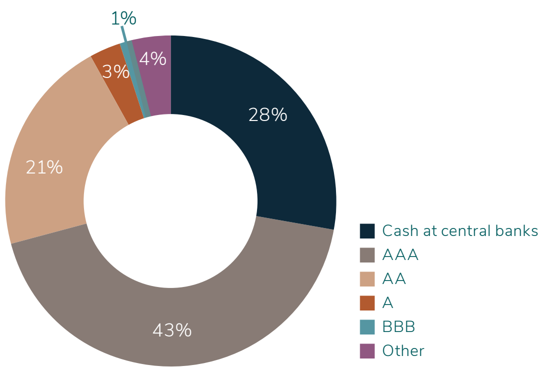
Our investment portfolio totalled €4.4 billion at year-end 2019, up from €3.9 billion at year-end 2018. It is maintained primarily for liquidity purposes, and consists mainly of liquid, low-risk instruments. The composition of the portfolio was relatively stable in 2019. There are strict limits on instrument types, counterparties, countries, ratings and credit spread risk. Despite lower yields and spreads, we maintained a liquid, low-risk investment portfolio in line with our investment policy.

We review our investment portfolio annually to ensure it meets our environmental, social and governance criteria. Investments in financial services companies are subject to our CSR policy for financial institutions as outlined under "Responsible lending policy" on page 61; corporates in the portfolio are assessed for compliance with our responsible investment policy (see page 23). We have not encountered any material sustainability issues in our investment portfolio to date.

Investment portfolio and liquidity by counterparty
(100% = €4.4 billion)



Investment portfolio and liquidity by rating
(100% = €4.4 billion)



For further information on our liquidity risk profile, see Section 9, “Liquidity risk”, in the financial statements.

Interest rate risk

In 2019, interest rates fell further and yield curves became even flatter. We maintained a 0% client interest rate for the majority of our deposit base (we charge negative rates for balances over €2.5 million), even though the ECB reduced the interest rate we receive on cash holdings to -0.5%. Combined with lower yields on new purchases in our investment portfolio and the limited pick-up from the interest rate mismatch position (due to the flat yield curve), the (implicit) 0% client interest rate floor had a negative impact on our net interest income.

Client preference for long interest rate maturities for mortgages continued, both for newly agreed mortgages and for interest rate resets. At year-end 2019, approximately 26% of the mortgage portfolio consisted of loans with remaining fixed-rate terms of eight years or more. Unlike most other banks, our share of mortgages with repricing tenors of over ten years is relatively small. This is driven by the fact that our new mortgage clients expect a higher than average future repayment capacity, reducing the need for very long repricing tenors. In total, 97% of the mortgage portfolio had fixed-rate terms at year-end 2019.

On the liability side of the balance sheet, clients held their balances in variable rate accounts (current accounts, savings and securities accounts). Given that these products have similar features and offer equal interest rates in the current environment, we observe that clients are becoming more indifferent as to which product they keep their balances in. Appetite for term deposits remained negligible, due to the low interest rates on these products. As of December 2019, our term deposit base amounted to only €162 million.

We manage our exposure to changing market interest rates (interest rate risk in the banking book) using both a value-based and a scenario-based approach. We address long-term interest rate risk mainly via the economic value approach, which examines how movements in interest rates impact the value of our assets and liabilities. Given the current asymmetrical character of our interest rate risk exposure (mostly driven by implicit or contractual rate floors in products), we have shifted our interest rate risk management focus to a more scenario-based approach. We apply scenarios to both delta net interest income scenarios and economic value changes, and have set risk appetite limits for these.

For net interest income at risk, we have set a limit of 15% net interest income loss in the first 12 months, relative to our baseline scenario. All stress scenarios remained within this limit throughout the reporting year. We have kept our duration of equity, which provides an indication of our interest rate mismatch position, within a two- to three-and-a-half-year range, carefully balancing the risks and returns associated with the low and flat yield curve.

From a risk management perspective, the combination of mortgages with long interest rate maturities, funded to a large extent by a variable-rate deposit base, poses challenges: there is less room to adjust client loan rates if future funding costs rise. This risk is inherent to the banking business model and more prevalent in the current interest rate environment.

For more information on interest rate risk, see Section 8, “Interest rate risk”, in the risk management section of the financial statements.

Operational risk and information risk

Non-financial risk comprises operational risks, information risks and business continuity risks. Operational risks are potential losses that result from inadequate or failed internal processes or systems, inadequate or incorrect human actions, external events and fraud. To identify and manage non-financial risks, we have created a group-wide operational risk framework. This allows us to regularly test the effectiveness of key controls in our processes and systems. Other instruments that we use for measuring and monitoring non-financial risks include incident registration, root cause analyses, risk self-assessments on both department level and value-chain level, and key risk indicators.

We have defined a non-financial risk appetite. On a quarterly basis, the current non-financial risk exposure related to the non-financial risk appetite is discussed with senior management in the Compliance and Operational Risk Committee. In 2019, we further strengthened our non-financial risk management competencies through a series of workshops, for example. The second line of defence continues to interact more closely with the businesses, aiming to encourage an increasingly risk-based approach in managing non-financial risks. Influencing human behaviour and our risk culture is a structural way of further mitigating operational risk. In 2019, we put more emphasis on risks in value chains rather than in individual departments, raising awareness of the operational risk in processes involving multiple departments.

One of our key focuses is preventing cybercrime, and we have further invested in technological and process-related measures. In addition to awareness programmes and staff training, we continue to develop intelligent solutions and to work closely with industry partners. In a multi-year programme, we are gradually increasing the security measures to keep pace with the increasing cyber threats. Dedicated teams monitor security events and simulate cyber attacks (for training purposes).

For the continuation of operational processes during potential disruptions, threats and incidents, we have business continuity measurements in place. These include a policy, a governance structure with a Business Continuity Committee and Crisis Management Team, and working instructions. Moreover, multiple tests are performed during the year to assess whether these measures work in practice.

For more information about operational risk, please refer to the discussion of risk management in the financial statements, Section 4, “Operational risk”.

Climate risk

We also periodically assess the risk of climate change on our activities. In Van Lanschot Private Banking, the most important lending portfolio is the mortgage portfolio. While some climate risks to this portfolio exist (e.g. financing houses below sea level), we assess that the chances of these risks materialising are considerably lower than other credit risk factors. Therefore, no separate restrictions are used when granting new mortgages. We also see limited climate risk in our corporate lending business, mainly because of the regional and sectoral characteristics of this portfolio as well as due to our winding down of the Corporate Banking activities. In Kempen Asset Management, climate risks are taken into account when investments are made or investment managers are selected. For further information, see our disclosure on vanlanschotkempen.com/responsible/environment in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Compliance risk

Following the implementation of MiFID II, GDPR and other significant regulations, we expected regulatory pressure to ease off in 2019. However, the growing list of new laws and regulations relevant to our activities meant that the reality proved otherwise. In particular, the ever-increasing requirements to combat money laundering, terrorist financing and other financial crimes played a key role in our efforts in 2019. The Executive Board initiated a group-wide project to strengthen our approach to operate in accordance with European and national anti-money laundering and anti-terrorist financing legislation, and to harmonise our respective arrangements across all business lines. This includes further tightening our policies and procedures around client acceptance and sanction screening, and our efforts to control transaction flows. In 2019, the Dutch Authority for the Financial Markets (AFM) started an investigation regarding specific parts of Kempen & Co. The investigation focuses on compliance with the Money Laundering and Terrorist Financing (Prevention) Act (Wwft). We expect to receive more information from the AFM concerning the potential consequences of the investigation in the course of 2020.

Also in 2019, our Compliance team continued to pay special attention to our duty of care towards our clients. Supporting the development of strong product governance has been one of our major initiatives, while all services and products offered to our clients continue to receive the attention of our Compliance team. Our activities also focused on policies and control arrangements regarding privacy, data protection, bribery, corruption and fraud prevention. The Compliance team remained closely involved in the implementation of procedures and processes to ensure compliance, and to give advice on control arrangements in the business. Discretion is one of our core values, and the protection of our clients' privacy has always been a priority. The Privacy Committee and our Privacy Officer ensure that we have adequate policies, procedures and control arrangements in place to secure the sensitive data of our clients.

Regulatory impact

The increase and changes in regulations continued to pose a challenge for our organisation: Basel IV, targeted review of internal models (TRIM), benchmark regulations, to mention just a few, all represent major changes for us going forward. In addition to new regulations, the number of data requests from regulators has also been increasing – in terms of both ad-hoc questionnaires and recurring reports. Anacredit (loan-level reporting on corporate loans), RRE (loan-level reporting on residential mortgage loans) and shorter timelines for DGS (deposit-holder information to be provided to DNB in case of bankruptcy) have all become operational.

In 2019, we started the implementation phase for Basel IV. The impact of this new regulatory framework on the business is still expected to be relatively limited. Our analysis includes changes to the approaches for credit risk and operational risk. Together with the Fundamental Review of the Trading Book (FRTB), these reforms will take effect as of 2022 with transitional arrangements. However, since many definition and reporting requirements have been changed, implementing the new regulation will take a lot of work.

In October 2019, DNB announced its intention to introduce a minimum risk-weight floor for the residential mortgage loan portfolios of Dutch banks subject to the IRB approach in the autumn of 2020. This measure means that Dutch banks will need to hold more capital against their mortgage portfolios. It aims to support the banks' ability to absorb the impact of a potential housing price adjustment, and will come into effect in autumn 2020. The impact on our risk-weighted assets (RWA) is estimated to be around 15% based on the current size of our portfolios and the current regulatory capital models. The relative impact is slightly higher due to the current lower level of absolute total RWA and the further rating improvements in our residential mortgages portfolio. DNB has indicated that the new measure will not be in addition to the new Basel IV framework, which means we expect early absorption of the Basel IV impact for Van Lanschot Kempen. More details about the possible impact on our capital position can be found on the following page.

Capital management

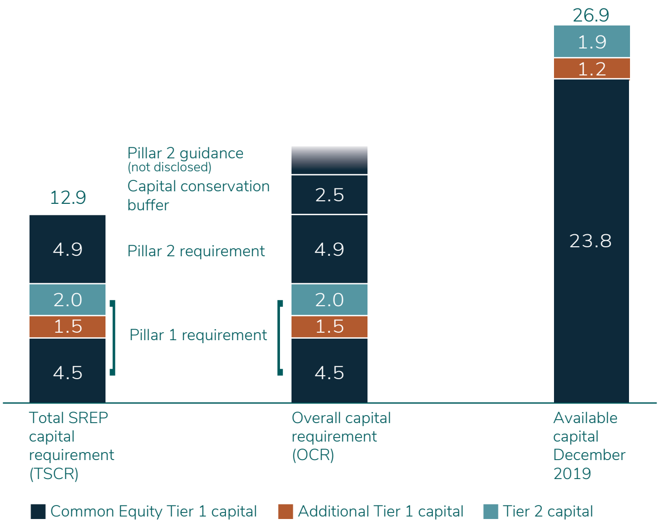
At the end of 2019, our Common Equity Tier (CET) 1 ratio stood at 23.8%. Despite a capital return of €61 million (€1.50 per share) to our shareholders in December 2019, the CET 1 ratio increased by 270 percentage points. This was the third capital return to shareholders of the "excess" equity capital generated by the winding down of our corporate loan book in recent years. Since 2016, a total of over €330 million has been paid out to shareholders, in the form of both regular dividends and capital returns.

Since our CET 1 ratio remains well above our target range of 15-17%, we will continue to consider paying out excess equity capital to shareholders in the form of dividends and capital returns, subject to supervisory approval. In addition, we aim to engage in acquisitions, and intend to leave room for these in our capital position as well.

The downward effect on solvency of the equity capital return was offset by regular earnings retention and a €383 million decrease in our total risk exposure amount (TREA), with the latter being driven by corporate loan book reduction and improved underlying credit quality. Moreover, we successfully issued a €100 million AT1 instrument in March 2019, which improved our Tier 1 ratio by approximately one percentage point. At year-end 2019, our Tier 1 and total capital ratios stood at 25.0% (2018: 21.1%) and 26.9% (2018: 23.2%) respectively.

Following the annual supervisory review evaluation process (SREP), DNB informed us about the capital requirements that we need to meet from June 2019 onwards. The minimum capital requirements comprise a CET 1 ratio of 9.4%, a Tier 1 ratio of 10.9%, and a total capital ratio of 12.9%. The SREP requirements cover both Pillar 1 and Pillar 2 risks.

SREP and overall capital requirements for 2019 (%)



In addition to the 9.4% CET 1 SREP requirement, we are subject to overall capital requirements (OCR), which consist of combined buffer requirements and Pillar 2 guidance (P2G). Both elements must be met by CET 1 capital alone.

The capital conservation buffer is currently the main element of the combined buffer requirements. It stands at 2.5% and reached its fully phased-in level in January 2019. The countercyclical buffer for the Netherlands is currently set at 0%. The systemic risk buffer does not apply to us. We are expected to comply with P2G by holding CET 1 capital, but P2G does not have binding status and does not automatically restrict dividend distributions in the event of a breach.

With a CET 1 ratio of 23.8% and a total capital ratio of 26.9% at year-end 2019, we meet all capital requirements, including P2G. The leverage ratio increased to 7.3% at year-end 2019 (year-end 2018: 6.9%), which is high compared with other Dutch banks and well above the minimum Basel requirement of 3%.

Basel IV is an important dimension in our capital planning, as is DNB's intention to temporarily impose minimum floors for residential mortgage risk weights that are derived from internal ratings-based models. Taking Basel IV and the proposed risk weight floor into account, we expect our CET 1 ratio to remain above our target range of 15-17%.

Minimum required eligible liabilities (MREL)

As part of single resolution mechanism (SRM) regulation, the National Resolution Authority has set us an indicative MREL target, which is not likely to become binding before 2024. The MREL target has a loss absorption and a recapitalisation component (both 50%). Our current compliance with the MREL target depends on the MREL eligibility of the structured notes that we have issued to institutional investors. If structured notes do indeed classify as MREL, we comfortably meet our MREL target. If structured notes do not classify, we will adjust our funding planning in the run-up to 2024 in order to fill the limited MREL gap that could arise.

VAN LANSCHOT KEMPEN SHARES

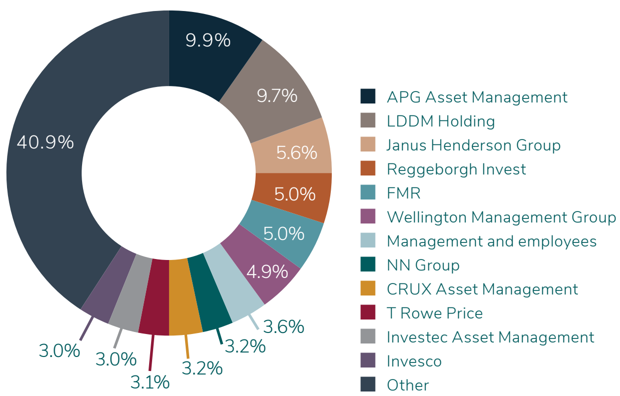
Van Lanschot Kempen's market capitalisation stood at €820 million at year-end 2019. Depositary receipts for Van Lanschot Kempen's Class A ordinary shares have been traded on the Euronext Amsterdam stock market since 29 June 1999 (ISIN Code: NL0000302636; ticker: VLK.AS).

The issued share capital of Van Lanschot Kempen at 31 December 2019 consisted of 41,361,668 Class A ordinary shares ("shares") each having a nominal value of €1. We held 440,895 treasury shares at year-end 2019.

Shareholders and depositary receipt holders

Van Lanschot Kempen's shareholder base remained roughly the same during 2019. Pursuant to Chapter 5.3 of the Dutch Financial Supervision Act, the disclosures below have been entered in the Register of Substantial Holdings as maintained by the Dutch Authority for the Financial Markets (AFM). The percentages reflect the number of shares or depositary receipts on the register on the disclosure dates and our current number of outstanding shares. Disclosure is required once a shareholder's interest reaches, exceeds or falls below a threshold value. The current interest of a shareholder or holder of depositary receipts may consequently differ from the interest reported on the disclosure date. On 31 December 2019, Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen held over 99.99% of Van Lanschot Kempen shares. For more information on Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen, see the "Corporate governance" section on page 91.

Van Lanschot Kempen's depositary receipt holders



Management and employees jointly owned around 3.6% of our share capital at year-end. In 2017 and 2018, a profit-sharing scheme was applied for all Van Lanschot Kempen employees working in the Netherlands. In 2019, the conditions were not met. It was agreed with the Works Councils that the profit-sharing scheme will no longer be applied as of 2020, and that the new integrated Works Council will discuss alternatives in 2020 together with the Executive Board.

Credit ratings

Our creditworthiness is periodically assessed by Standard & Poor's (S&P) and Fitch Ratings (Fitch). Van Lanschot Kempen maintains its high creditworthiness by deploying its assets for the benefit of its clients and by taking on only such risks as can be understood and controlled. This ensures solid risk management processes as well as a strong capital and liquidity position. Our current credit ratings reflect our healthy capital and funding position along with our low risk profile. Van Lanschot Kempen currently has a BBB+ long-term credit rating from both S&P and Fitch.

Credit ratings[1]	Standard & Poor's	Fitch Ratings
Long-term credit rating	BBB+	BBB+
Long-term credit rating outlook	Stable outlook	Stable outlook
Short-term credit rating	A-2	F2
Date of latest report	26 September 2019	16 September 2019

Research coverage

Four sell-side analysts – from ABN AMRO, ING, Kepler Cheuvreux and UBS respectively – actively track Van Lanschot Kempen and regularly publish equity research reports. Their details can be found at vanlanschotkempen.com/share-information.

Dividend policy and dividend for 2019

Our aim is to distribute between 50% and 70% of our underlying net result attributable to shareholders. The result actually available for distribution is the net result adjusted for minority interests, the share of AT1 capital securities holders, and the net effect of selected special items. In 2019, we adjusted for two special items: costs relating to our Strategy 2020 investment programme and restructuring charges. The underlying net result available for distribution to shareholders amounts to €103.3 million and works out at underlying earnings per share of €2.52.[2]

Our strong results and solid capital position enable us to propose a dividend distribution of €1.45 per share to our shareholders (2018: €1.45 per share). The shareholders at the general meeting to be held on 28 May 2020 will be invited to approve the distribution of the dividend.

1 Credit ratings apply to Van Lanschot Kempen Wealth Management NV (VLKWM). Van Lanschot Kempen is the holding company of VLKWM. Its only asset is 100% of the shares in VLKWM.

2 Based on the weighted number of outstanding ordinary shares.

Based on the number of shares in issue at 31 December 2019 (excluding treasury shares), the proposed dividend payments will total €59.3 million, corresponding to a pay-out ratio of 57.4% of the underlying net result attributable to shareholders. This percentage amounts to 63.9% of net result attributable to shareholders. The proportion of net result attributable to shareholders that will not be paid out – i.e. €33.6 million – will be added to reserves.

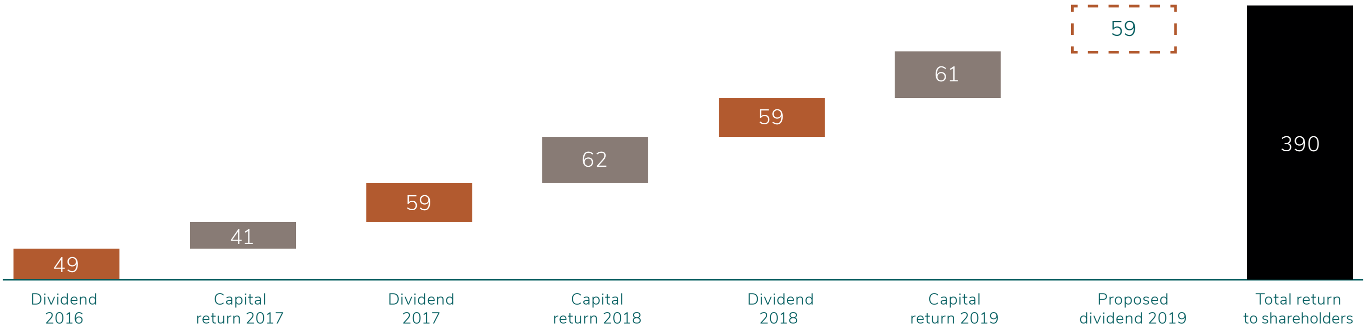
Capital management policy

By running down our corporate loan portfolio in recent years, and optimising the use of capital in our other divisions and departments, we sharply reduced risk-weighted assets and consequently our required capital. However, these actions have resulted in a less efficient capital structure. By year-end 2019, our CET 1 ratio of 23.8% was well ahead of our target range of 15-17%. We aim to engage in acquisitions, and intend to leave room for these in our capital position. In addition, we may choose to pay out excess capital to our shareholders. We consider dividend payment an appropriate and efficient way to return capital to our shareholders. In addition, we may consider other avenues, under the prevailing laws and regulations, to distribute excess capital to our shareholders, including share buybacks or capital returns. These are subject to approval by the regulator.

In August 2019, we proposed a capital return to our shareholders of €1.50 per share. This proposal, as well as resolutions to amend the Articles of Association to this effect, were approved by our shareholders at the extraordinary general meeting on 9 October 2019. Subsequently, a total of over €60 million was returned to shareholders in December 2019. The capital return was charged to the share premium reserve available for distribution and is exempt from Dutch dividend tax. The total share capital in issue remained unchanged.

Since 2016, we have paid out a total of over €330 million to our shareholders in the form of both dividends and capital returns. Including the 2019 dividend, a total of over €390 million will have been returned by 2020.

Capital returns and dividends
(€ million)



Key figures per ordinary share	2019	2018	2017	2016	2015
Share price (€):					
High	23.30	28.00	27.38	22.28	25.70
Low	17.28	18.40	19.46	14.73	17.00
Closing	20.05	19.82	26.15	19.98	21.23
Average daily trading volume in depositary receipts	32,920	23,333	46,232	28,505	21,305
Market capitalisation (€ million) (year-end)[3]	820	813	1,068	817	870
Net asset value per share (€)	29.59	30.32	32.63	32.80	31.72
Price-earnings ratio[4]	8.0	8.3	10.0	10.6	16.9

Information on dividend per ordinary share	2019	2018	2017	2016	2015
Underlying earnings per ordinary share (€)[4]	2.52	2.37	2.61	1.89	1.26
Dividend per ordinary share (€)	1.45	1.45	1.45	1.20	0.45
Dividend yield (%)	7.2	7.3	5.5	6.0	2.1
Pay-out ratio (%)	57.4	61.1	55.4	63.5	35.8
Total return for holders of ordinary shares (%)	16	–13	42	–4	24

3 Calculated as: closing price x (issued share capital minus treasury shares).
4 2019 and 2018 adjusted for costs incurred for our Strategy 2020 investment programme and restructuring charges; 2017 and 2016 also adjusted for an additional charge for the derivatives recovery framework; 2015 adjusted for a one-off charge arising from the sale of non-performing real estate loans.

Movements in Van Lanschot Kempen's share price compared with industry indices

Investor relations policy

Our investor relations policy is designed to provide current and potential shareholders and bondholders, rating agencies and research analysts with accurate and timely information on developments within the business. We engage in active dialogue with all our financial stakeholders, by publishing press releases and our annual report, and by organising meetings and one-to-one discussions with existing and potential investors. We observe a "silent" period of three weeks prior to the publication of our annual and half-year results. No meetings are held with shareholders or analysts during this period. We also publish our policies on investor relations at vanlanschotkempen.com/investorrelationspolicy.

All documents and other relevant information may be found at vanlanschotkempen.com/en. If you would like to receive Van Lanschot Kempen's press releases by email, you can subscribe to our news service at vanlanschotkempen.com/pressreleases.

More information

Investors and analysts with questions about Van Lanschot Kempen are welcome to contact our Investor Relations department by phone on +31 20 354 45 90 or by emailing investorrelations@vanlanschotkempen.com.

KEY DATES 2020

Publication of 2020 Q1 trading update	22 April 2020
2020 annual general meeting	28 May 2020
Ex-dividend date	1 June 2020
Record date	2 June 2020
2019 dividend made payable	9 June 2020
Publication of 2020 half-year results	26 August 2020
Publication of 2020 Q3 trading update	29 October 2020

GOING FOR GREEN

My work has always been about making improvements through change management, and there's no shortage of changes at Van Lanschot Kempen. I started managing procurement here in 2013, and two years later facilities management was added to my remit as well. That means I look after the physical aspects of the company – like the buildings, lease cars, security and so on – as well as all supplier-related aspects.

In 2019, we focused on using technology to drive smart facilities solutions. We've started programmes to reduce our environmental footprint over the coming years – by collecting real-time data we'll be able to reduce our energy usage, improve our services and reduce costs. The smarter our buildings, the less energy we'll need.

We've also been preparing for the big switch from petrol cars to electric cars. We've been investing in expanding the number of electric charging points at our offices. And we're coming up with smart ways to direct that energy to where it's needed – so that employees who have an electric car will be able to leave in time for their client meeting, for example. We've also been piloting a car-sharing scheme to encourage people to take the train to work and only use a car when needed. The shared cars are all electric as well, so that people can experience driving them and be better prepared to shift from petrol to electric.

Peter Ligtvoet – Director Service Centre Procurement, Contract Management & Facilities

REMUNERATION REPORT

Remuneration Committee

Key objectives

To advise on the Statutory Board remuneration policy and its execution, and to prepare the Supervisory Board's decision-making.

Responsibilities

The responsibilities of the Remuneration Committee include:
- Providing advice to the Supervisory Board on:
  - the determination of the policy on remuneration of the Statutory Board;
  - the total remuneration packages for the members of the Statutory Board;
  - the remuneration of the members of the Supervisory Board;
- Preparing the annual remuneration report;
- Overseeing remuneration policies and practices, including total variable remuneration paid to Van Lanschot Kempen employees, significant[1] individual variable remuneration, and individual variable remuneration to all identified staff.

The committee held five meetings in 2019.

Composition

Chair
Bernadette Langius

Members
Willy Duron
Maarten Muller
Frans Blom
Jeanine Helthuis

Letter from the Chair of the Remuneration Committee

Dear shareholder,
As Chair of the Remuneration Committee, I'm pleased to present Van Lanschot Kempen's remuneration report. This is our first report that is guided by requirements originating from the updated EU Shareholder Rights Directive. Although there is still not full clarity around the specific legal requirements for the report, we aim to draft this report in line with the spirit of the draft EU guidelines for disclosure. We intend to further update our 2020 report when there is more clarity.

This report includes both a summary of our Statutory Board and Supervisory Board remuneration policy as approved by shareholders at the 2018 AGM, and our annual report on remuneration, which sets out how our policy was applied during 2019, and how it will be applied for 2020. The annual report on remuneration will be subject to an advisory vote at our AGM on 28 May 2020. We will reflect on the feedback we received on our current remuneration policy and how we have incorporated that feedback.

Alignment with our strategic framework

Since the announcement of our wealth management strategy in 2013, Van Lanschot Kempen has transformed from a small universal bank to a specialist wealth manager. This has resulted in strong performance over recent years. In the future, the company will continue to pursue its wealth management strategy, and will use the latest technology and expertise in digitalisation and advanced analytics to grow the business and to make the organisation more efficient. As a specialist wealth manager, we compete with large (Dutch) financial institutions in our niches.

We strongly believe that our future success requires a strong Statutory Board with a proven track record in wealth management, while experience in digitalisation and advanced analytics is also key. As a consequence, the remuneration of the Statutory Board members should be such that Van Lanschot Kempen is able to attract and retain the necessary talent, which includes future board members from highly specialist wealth management and technology firms. Moreover, the remuneration package of the Statutory Board must be structured to fit properly within the Dutch (regulatory) context.

Remuneration principles remained unchanged in 2019

We believe in rewarding long-term sustainable performance to help achieve our long-term strategy. This is reflected in our

1 More than 50% of fixed remuneration.

Statutory Board remuneration policy. Since 2015, this consists of fixed remuneration only (no variable remuneration) and includes a large proportion in depositary receipts for shares (hereinafter: shares), with a five-year lock-up period, in combination with share ownership guidelines.[2] This creates a strong focus on long-term value creation.

Total remuneration management

We review total remuneration for the Statutory Board periodically, taking into account internal and external perspectives.

When adopting the Statutory Board remuneration package, we consider pay ratios within the company and remuneration policies in place across the wider workforce in our organisation. Moreover, the Remuneration Committee takes note of individual Statutory Board members' views regarding the amount and structure of their own remuneration. For more information about the remuneration package and pay ratios, see "Remuneration of the Statutory Board in 2019" on page 76.

When we assess the remuneration levels of the Statutory Board versus external market levels, we use a well-balanced, focused group of companies based on the guidelines provided by the Dutch Banking Code. Companies are included that reflect our talent market for Statutory Board positions. Our talent market is much broader than that of our direct competitors (evidenced by the previous employers of the current Statutory Board members) and includes both financial services companies and non-financial industry companies, both Dutch and international. For more information on our reference market, see "Remuneration of the Statutory Board in 2019" on page 77.

Performance management

As our remuneration policy for the Statutory Board consists of fixed remuneration only, remuneration levels for all members of the Statutory Board are equal to remuneration levels in 2018. The Supervisory Board assesses and challenges the performance of the Statutory Board based on a set of financial and non-financial key performance indicators (KPIs). These KPIs are strongly aligned with KPIs for the rest of the organisation, and reflect both the interests of our stakeholders and our ambitions as a wealth manager. In assessing the performance of the Statutory Board, great value is attached to their performance as a team. This is the starting point of the performance assessment, given the company's complementary business lines. If the performance of a Statutory Board member is consistently under par, the Supervisory Board may dismiss the responsible Board member.

Stakeholder engagement

We take our stakeholders' views very seriously, and welcome an open dialogue on all aspects of remuneration. In 2018, the Supervisory Board initiated an engagement programme with shareholders, proxy advisers and other stakeholders. The programme was based on feedback received from investors, as well as the Supervisory Board's evaluation of the process prior to the 2018 AGM. The aim was to further understand stakeholders' concerns and issues in relation to our 2018 policy, and to broaden the scope of engagement with shareholders.

In preparation for the 2020 AGM, a delegation from the Remuneration Committee of the Supervisory Board again consulted with a large cross-section of our shareholder base, proxy advisers, the Works Council, various client groups and Dutch political parties. During these meetings, an explanation was given about the revised Shareholder Rights Directive; the Statutory and Supervisory Board remuneration policy; the Supervisory Board's view on rewarding long-term sustainable performance; and the Dutch context, such as the Dutch law on remuneration of financial undertakings, and the Dutch Corporate Governance and Banking Codes.

The dialogue with our stakeholders was very constructive. Gaining their views on executive pay in general, and Van Lanschot Kempen's remuneration policy in particular, was very valuable. The topics discussed and the main feedback given are outlined in the table below.

Topic	Feedback from stakeholders[3]	Explanation by Van Lanschot Kempen
No variable remuneration	The decision by Van Lanschot Kempen to abolish variable remuneration for Statutory Board members in 2015 needs further explanation, especially for investors who adhere to the "pay for performance" principle.	We explained the Dutch regulatory and societal context. A ceiling of 20% for variable remuneration, in combination with the obligation to defer a substantial portion over a period of five years, means that performance on an individual KPI results in a relatively limited payment of variable remuneration to a Statutory Board member. It is therefore expected to have very limited impact on the behaviour of our Statutory Board members. Our 2015 decision has now been met with greater understanding by investors as they see other Dutch financial institutions in this situation. We reiterated our belief in a structure that focuses on long-term sustainable performance, which led to the introduction of fixed remuneration in shares with a five-year lock-up period in combination with the share ownership guidelines.[2]
Performance management	Some stakeholders struggle with the concept of KPIs not having an impact (positively or negatively) on the remuneration of Statutory Board members. The main question was what measures the Supervisory Board can take if targets are not met, or when red flags remain in the performance assessment. Our stakeholders see the KPI disclosure itself as positive and very transparent.	We explained that in assessing the performance of the Statutory Board, great value is attached to their performance as a team. The Supervisory Board evaluates both the performance of the Statutory Board as a whole and that of the individual Statutory Board members, on an annual basis. Performance discussions are held with the individual members. If an individual Statutory Board member underperforms, they are held accountable. If no improvement is realised, the Statutory Board member may be dismissed by the Supervisory Board at any time.

2 Statutory Board members must hold Van Lanschot Kempen shares with a value equal to or above the cash portion of two years' gross salary (for as long as they remain in office). They can gradually meet this requirement over the years. If the share price is not performing, the Statutory Board members must keep increasing their holdings.

3 Shareholders, proxy advisers, various client groups, employees and Dutch society (political parties).

Topic	Feedback from stakeholders[2]	Explanation by Van Lanschot Kempen
Indexation	The indexation clause that we want to include in our remuneration policy is seen as positive by most stakeholders. They do not favour a large increase in remuneration at one time, but prefer small increases over the years.	Further to the feedback received, we maximised the (discretionary) indexation possibility to the general increase granted to the wider workforce in the organisation. The indexation is also maximised by the derived Consumer Price Index (CPI)[4] applicable over the previous year, but only when it can be justified by the financial performance of Van Lanschot Kempen.
Peer group	The peer group that was used for the market assessment in December 2017 is a concern for certain stakeholders. Questions were raised about the selection criteria of the peer group and why significantly larger companies have been selected.	We explained that the Dutch Banking Code prescribes that the peer group should be composed of comparable positions both inside and outside the financial industry, including the relevant international context. Furthermore, we are convinced that market capitalisation does not drive talent. Our talent market is much broader than that of our direct competitors. The relative size of our company versus our competitors drives the need to attract better people than the competition. Prompted by our business strategy, we are willing to pay for the best people in the market. Typically, this talent comes from companies that are larger than ours. We also increasingly recruit from outside the banking sector. We explained that we want to keep the companies selected from our peer group consistent over the next few years, and that the selection should be seen in conjunction with the fact that the current remuneration package of our Statutory Board members occupies a position far below the median of the peer group. In fact, they are placed around the first quartile. Following feedback from stakeholders, in 2019 we asked Willis Towers Watson (WTW) to update the market assessment for the Statutory Board. No changes were made in the companies selected, but we asked WTW in particular to benchmark one level deeper in the organisation for the larger firms in the peer group, with a focus on positions at a similar job level. This means that our CEO was compared with positions that report to the CEO (CEO-1 level); for the other Statutory Board positions, divisional heads were taken that report to CEO-1 level (i.e. CEO-2). As these positions do not have formal board responsibilities, a standard board premium (in line with market practice) was applied to the base salary levels. Based on this updated analysis, we found that the CEO and CFO are still placed below median market levels (in the 40th percentile for the CEO and 44th percentile for the CFO), while the other Statutory Board members are placed at median market levels. When we change our remuneration policy in the future, we will also review our peer group, taking into account the feedback that we received.
Derogation	The derogation clause we initially proposed led to discussions with various stakeholders regarding the correct interpretation and possible working.	Based on the feedback received, we decided not to include the derogation clause in the remuneration policy.

The Supervisory Board received detailed feedback about each of the engagement meetings, and appreciates that it is important for stakeholders to have a clear understanding of the decisions made around remuneration. We would like to thank all the stakeholders for their valuable input. The feedback was very constructive, and the Supervisory Board will take it into account going forward. Van Lanschot Kempen will continue this broader scope of stakeholder engagement, and will aim to liaise with stakeholders on sensitive matters well before these items are put on the agenda of the AGM.

Looking ahead to 2020

In 2020, the Dutch law implementing the revised Shareholder Rights Directive (SRD II) will be applicable. SRD II requires additional context to be included in the remuneration policies for the Statutory and Supervisory Boards. During the engagement programme, we obtained a clear understanding of the views of our stakeholders on the implementation of SRD II and on Van Lanschot Kempen's remuneration policy ahead of the 2020 AGM.

The remuneration structure for the Statutory and Supervisory Boards will remain unchanged in 2020. To be compliant with SRD II, particular textual additions have been made to explain our approach to remuneration. We believe the additional context does not qualify as a material change to our remuneration policy.

We attach great value to the consent of our shareholders. We will therefore put the remuneration policies for the Statutory and Supervisory Boards to vote at our AGM in 2020. The Works Council has issued a positive recommendation to the Supervisory Board with regard to the proposed remuneration policies. The remuneration report will be submitted to the 2020 AGM for an advisory vote.

‘s-Hertogenbosch, the Netherlands, 20 February 2020

Remuneration Committee

Bernadette Langius, *Chair*

4 The Consumer Price Index (CPI), calculated by Statistics Netherlands, measures the average price changes of goods and services purchased by households. The derived CPI excludes the effect of changes in the rates of product-related taxes (e.g. VAT), subsidies and consumption-related taxes.

Our approach to remuneration: rewarding long-term sustainable performance

Our purpose is the preservation and creation of wealth, in a sustainable way, for our clients and the societies we serve.

We believe that wealth is not just about financial assets; essential as these may be, wealth is about all the things that we value in life. Although our primary objective is to help our clients with the financial aspects of wealth, we endeavour to serve their broader objectives as well. We do this through our Van Lanschot Kempen Foundation, sponsorships and work on sustainability issues.

As a company, we believe that the generation of wealth – and its re-distribution through taxation – are critical to the process of creating and maintaining stable, successful societies. Given that societal cohesion necessitates that wealth creation, we believe that wealth management cannot be the preserve of a few but is a necessity for all.

This view is reflected in our approach to remuneration. The remuneration of the Statutory Board consists of fixed remuneration only, and includes a large proportion in Van Lanschot Kempen shares (with a five-year lock-up period), creating a strong focus on the long-term continuity of the company and subsequent strong client relations.

WE BELIEVE IN:

Focusing on the long term
Variable remuneration is scrutinised in Dutch society, especially in the financial sector. The use of variable remuneration can lead to a focus on short-term performance. As we believe in rewarding long-term sustainable performance, we ended all variable remuneration for the Statutory Board in 2015. Since then, we have only paid fixed remuneration to the Statutory Board.

Rewarding sustainable performance
We pay out a substantial proportion of the fixed remuneration in shares to ensure our Board members focus on long-term, sustainable performance. To maximise this effect, these shares are subject to a five-year lock-up period (during which the shares cannot be sold).

Creating a sense of ownership
We believe in aligning our interests with those of our shareholders through a high level of personal share ownership. Our share ownership guidelines stipulate that Statutory Board members must hold Van Lanschot Kempen shares with a value equal to or above the cash portion of two years' of their gross salary (for as long as they remain in office). If the share price is not performing, the Board members must keep increasing their holdings.

Performance management
The Supervisory Board assesses and challenges the performance of the Statutory Board based on a set of financial and non-financial KPIs. In assessing the performance of the Statutory Board, great value is attached to their performance as a team. The Supervisory Board evaluates both the performance of the Statutory Board as a whole and that of the individual Statutory Board members on an annual basis. Performance discussions are held with the individual members. The Statutory Board also annually evaluates its own functioning as a whole and that of its individual members. If an individual Statutory Board member underperforms, they will be held accountable. If no improvement is realised, the Statutory Board member can be dismissed by the Supervisory Board at any time.

Van Lanschot Kempen has developed a set of KPIs focusing on long-term value creation. These financial and non-financial KPIs reflect both the interests of stakeholders and our ambitions as a wealth manager. They are in line with the company's values and will be reassessed from time to time. The KPIs that are relevant from a strategy and stakeholder perspective are disclosed in the "Performance report" on page 30. These KPIs are also applicable to the members of the Statutory Board. Van Lanschot Kempen aims for the KPIs and performance management applicable to the Statutory Board to be fully aligned with the rest of the organisation.

Our remuneration policy at a glance

The remuneration policy for members of Van Lanschot Kempen's Statutory Board was approved and adopted by the AGM on 31 May 2018, and applied from 1 January 2018. The remuneration policy for the Executive Board is similar to the Statutory Board remuneration policy.

Our remuneration policy aims to ensure a balanced, sustainable and competitive remuneration package. The key features of our remuneration policy are as follows:

	Purpose	Operation
Fixed salary – cash	To reflect the scale and complexity of our company, enabling us to attract and retain the highest calibre talent needed to continue the company's transformation and growth	Fixed salary in cash, paid during the year in 12 instalments, taking into account the following factors: – Level of skill, experience and scope of responsibilities – Business performance, scarcity of talent, economic climate and market conditions – Developments elsewhere within Van Lanschot Kempen, including pay ratios – Developments in our external comparator groups (which are used for reference purposes only)
Fixed salary – shares	To reflect the scale and complexity of our company, enabling us to attract and retain the highest calibre talent needed; to align rewards with long-term sustainable performance; and to align the interests of the Statutory Board with shareholders	Fixed salary in shares, paid in one instalment: – A lock-up period of five years applies to these shares
Share ownership guidelines	To align the interests of the Statutory Board with those of shareholders	Statutory Board members must hold Van Lanschot Kempen shares with a value equal to or above the cash portion of two years' gross salary (for as long as they remain in office). They can gradually meet this requirement over the years. If the share price is not performing, the Statutory Board members must keep increasing their holdings
Pension and disability insurance	To recognise competitive practice	– The members of the Statutory Board are responsible for their own pension provision, towards which they receive a fixed cash payment of 30% of their fixed remuneration. This percentage is in line with our reference market – They also receive a payment of 2.59% of their fixed remuneration for taking out disability insurance – There are no early retirement schemes for Statutory Board members – We monitor external developments regarding alignment between executive pensions and broader employee pension arrangements, and the possible impact that these may have in the Netherlands

Remuneration of the Statutory Board in 2019

The remuneration paid to our Statutory Board in 2019 and 2018 was as follows:

Total remuneration of the individual members of the Statutory Board in 2019[5] (€1,000)								
	Karl Guha		Constant Korthout		Arjan Huisman		Richard Bruens	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Fixed salary in cash	**773**	773	**438**	438	**438**	438	**438**	438
Fixed salary in shares[6]	**387**	387	**312**	312	**312**	312	**312**	312
Total fixed salary	**1,160**	1,160	**750**	750	**750**	750	**750**	750
Pension and disability insurance	**378**	378	**244**	244	**244**	244	**244**	244
Total remuneration[7]	**1,538**	1,538	**994**	994	**994**	994	**994**	994

5 To be able to make a comparison between 2019 and 2018, the same definition of total remuneration (total fixed salary plus pension and disability insurance) has been used. Business expenses have not been included.

6 Expenses recognised under IFRS-EU accounting for Van Lanschot Kempen shares differ due to treatment under IFRS 2. For 2019, expenses under IFRS for Karl Guha amounted to €432 (2018: €404), for Constant Korthout to €346 (2018: €324), for Arjan Huisman to €346 (2018: €324), and for Richard Bruens to €346 (2018: €324). A proportion of fixed salary is paid in the form of Van Lanschot Kempen shares. Karl Guha received 18,953 (2018: 15,165) shares while the other members of the Statutory Board each received 15,273 (2018: 12,168) shares. The number of shares granted is based on the average share price for the first four trading days in a year. For 2019, the average share price amounted to €20.45 (2018: tranche 1 €26.28 and tranche 2 €24.53). IFRS takes the share price at grant date as the basis for recognition. This price also amounted to €20.45 in 2019 (2018: tranche 1 €26.28 and tranche 2 €24.53).

7 Expenses recognised under IFRS-EU accounting for total remuneration differ due to treatment under IFRS 2. For 2019, expenses under IFRS for Karl Guha amounted to €1,580 (2018: €1,555), for Constant Korthout to €1,028 (2018: €1,006), for Arjan Huisman to €1,028 (2018: €1,006), and for Richard Bruens to €1,028 (2018: €1,006).

Compliance with the remuneration policy
We have continued to ensure that decisions on Statutory Board remuneration are made in accordance with our policy, as approved by our shareholders and in the context of developments inside and outside Van Lanschot Kempen. We have not made use of any discretion when applying the policy.

Total remuneration management
We review total remuneration for the Statutory Board periodically, taking into account internal and external considerations.

Internal pay ratios, fairness and wider workforce considerations
When adopting the Statutory Board remuneration package, we consider pay ratios within the company – attaching importance to the need for a sound pay ratio. A comparison of the remuneration package of the CEO and the average labour cost[8] of an employee within Van Lanschot Kempen results in a pay ratio of 10:1 (2018 ratio: 10:1). The development of the pay ratio is discussed annually with the Works Council.

As part of the review of Statutory Board remuneration, we take into account the remuneration policies in place across the wider workforce. This includes considering the structure of remuneration packages at each level of the business to ensure there is a strong rationale for how these evolve across the different levels of the organisation. In 2019, we decided to abolish the fixed expense allowance for the members of the Statutory Board from 2020, in line with the rest of our employees. Business expenses will be reimbursed on a declaration basis.

For more detailed information on Statutory Board remuneration versus remuneration for the wider workforce (as well as company performance), see "Supplementary disclosure related to Statutory Board remuneration" on page 78.

External considerations
We periodically assess the remuneration levels of the Statutory Board versus external market levels. For this purpose, we use a well-balanced, focused group of companies, which reflects our talent market for Statutory Board positions. This serves as one of many checks in the determination of remuneration levels.

We are convinced that market capitalisation does not drive talent. Our talent market is much broader than that of our direct competitors. This is evidenced by our current Statutory Board members, who were consistently hired from top-notch larger firms. The relevant market includes both financial services companies and non-financial industry companies, both Dutch and international companies, and companies that are similar to and larger in size than Van Lanschot Kempen. The relative size of the company versus our competitors drives the need to attract better people than the competition. Prompted by our business strategy, we are willing to pay for the best people in the market. Typically, this talent comes from companies that are larger than ours.

Our external reference market consists of the following types of companies:
– **Specialist wealth management companies**: We are a (highly) specialist company, and need to be able to attract specialists to further grow the business. As there are no other standalone specialist wealth management companies of comparable size in the Netherlands, we look at companies active in Western Europe. We take into account standalone companies, broadly comparable in terms of number of employees.
– **Dutch banks**: Although not all of the banks are directly comparable in terms of activities and size, these companies are subject to the same regulatory framework and are part of the same public debate.
– **Other Dutch companies**: Although other banks and specialist wealth management companies are important from a talent market perspective, our talent pool does not only consist of financial services companies. For example, in pursuing our wealth management strategy, experience in digitalisation and advanced analytics is key. Because of this, our peer group also consists of other, non-financial Dutch companies. These companies are larger than ours, reflecting our experience that talent suitable for our Statutory Board is likely to be attracted (and lost) to larger companies.

The proposed peer group is in line with requirements as laid down in the Dutch Banking Code. This code prescribes that the peer group should be composed of comparable positions both inside and outside the financial industry, including the relevant international context. The composition of the peer group is set out in the table below.

Statutory Board peer group		
Specialist wealth management companies	Dutch banks	Other Dutch companies
BIL	ABN AMRO	Aegon
Degroof Petercam	ING Groep	ASML
Julius Bär	NIBC Bank	Boskalis Westminster
KBL	Rabobank	DSM
Lombard Odier		KPN
Vontobel		NN Group
		Vopak

As for the Statutory Board's overall total remuneration level, the objective is to remain competitive and to occupy a position below the median of the peer group. When establishing more specific positioning against market data, we take into account that some of the companies are substantially larger than ours. As a result, the current remuneration packages of our Statutory Board members occupy a position far below the median of the peer group.

8 The average labour cost is calculated by dividing total staff costs by the number of FTEs working for Van Lanschot Kempen.

Following feedback from stakeholders, in 2019 we asked WTW to update the market assessment for the Statutory Board. No changes were made in the companies selected, but we asked WTW to benchmark one level deeper in the organisation for the larger firms in the peer group (at similar job levels). This means that our CEO was compared with positions that report to the CEO (CEO-1 level); for the other Statutory Board positions, divisional heads were included that report to CEO-1 level (i.e. CEO-2). As these positions do not have formal board responsibilities, a standard board premium (in line with market practice) was applied to the base salary levels. Based on this updated analysis, we found that the CEO and CFO are still placed below median market levels (in the 40th percentile for the CEO and 44th percentile for the CFO), while the other Statutory Board members are placed at median market levels.

Statutory Board performance

As indicated in our approach to remuneration, the performance of the Statutory Board is assessed based on non-financial and financial KPIs. For 2019, the following KPIs (relevant from a strategic and stakeholder perspective) were included in the Performance report, and were specifically included in the KPIs of the Statutory Board:

	KPI	Target 2023	Result 2019[9]	Supervisory Board assessment 2019
Financial	CET 1 ratio	15-17%	23.8%	Excellent
	Return on equity (CET 1)	10-12%	10.5%[10]	Below target
	Efficiency ratio	70-72%	75.5%[11]	Below target
Non-financial	Net Promoter Score (NPS) a) Private Banking b) Evi c) Asset Management	 10 10 20	 23 10 31	 Excellent On target On target
	Employee engagement score	> 80%	82%	On target

In addition to these, the members of the Statutory Board had KPIs regarding operating profit, level of operating expenses, net inflow of assets under management, risk appetite, diversity and inclusion, activating our full potential, and transformation of the workforce. As of 2020, the KPIs of the Statutory Board will be further aligned with the KPIs included in the Performance report (which is externally disclosed).

Supplementary disclosure related to Statutory Board remuneration

Annual change in Statutory Board remuneration versus wider workforce and company performance

	2014[13]	2015	2016	2017	2018	2019
CEO remuneration[12] (€1,000)	1,255	1,193	1,193	1,229	1,538	1,538
Other Statutory Board members' remuneration[12] (€1,000)	865	772	772	795	994	994
Average employee remuneration (€1,000)	126	130	134	138	149	148
Underlying net profit (€ million)	54.2	60.1	81.3	112.3	103.0	108.8

The members of the Supervisory Board only received fixed remuneration during the years covered by the table above, ranging from €53,000 (lowest full-time amount in 2014) to €127,000 (highest full-time amount in 2019). For more information see “Remuneration of the Supervisory Board in 2019” on page 79.

9 Van Lanschot Kempen set its targets for 2023. The 2019 targets differ from the 2023 targets because of the annual development towards these future goals.
10 Including book profit of VLC & Partners, AIO II and impairment of Kempen Merchant Banking. If these one-offs are excluded, the return on equity would be 8.6%.
11 Including book profit of VLC & Partners. Excluding this book profit, the efficiency ratio would be 78.1%.
12 Total remuneration awarded.
13 For 2014, the Statutory Board only accepted 50% of the variable remuneration they were entitled to, given the transformation process of Van Lanschot Kempen and the long-term interests of the company and its stakeholders. The actual total remuneration awarded to the CEO was €1,087, and to the other Statutory Board members €695.

Number of shares held by Statutory Board members in 2019				
	At 1 January 2019	Bought/awarded	Sold/post-employment	At 31 December 2019
Karl Guha	52,502	11,220	–	63,722
Constant Korthout	53,001	9,041	–	62,042
Arjan Huisman	32,614	9,041	–	41,655
Richard Bruens	48,936	9,041	–	58,004
Total	187,080	38,343	–	225,423

At 31 December 2019, the members of the Statutory Board held no options for shares.

Loans to Statutory Board members are only granted within the scope of normal operations and in keeping with conditions laid down in the financial services regulations for directors of Van Lanschot Kempen, subject to the approval of the Remuneration Committee.

No advances or guarantees have been granted to members of the Statutory Board.[14] No impairments or write-offs have occurred on loans granted to Statutory Board members.

Loans to Statutory Board members at 31 December 2019 (€1,000)				
	At 31 December 2019	Repaid	Interest	Collateral
Karl Guha	–	–	–	
Constant Korthout	– –	357 150	2.30% 1.90%	Mortgage Mortgage
Arjan Huisman	–	80	Floating	Mortgage
Richard Bruens	600 519 256	– 18 8	1.90% 1.72% 1.72%	Mortgage Mortgage Mortgage
Total	1,375	613		

Remuneration of the Supervisory Board in 2019

The remuneration policy for members of the Supervisory Board was adopted by the AGM on 31 May 2018 and applied from 1 January 2018. The remuneration of the Supervisory Board is summarised in the tables below.

Remuneration Supervisory Board	Chairman	Vice-Chairman	Member
Supervisory Board	€90,000	€70,000	€60,000
Audit and Compliance Committee	€15,000		€10,000
Risk Committee	€15,000		€10,000
Remuneration Committee	€10,000		€7,000
Selection and Appointment Committee	€10,000		€6,000

Remuneration of the Supervisory Board in 2019 (€1,000)		
	2019	2018
Willy Duron	127	127
Manfred Schepers	95	95
Frans Blom (from 5 October 2018)	77	19
Jeanine Helthuis	76	76
Bernadette Langius	80	79
Godfried van Lanschot (until 31 May 2018)	–	32
Maarten Muller (from 31 May 2018)	73	43
Lex van Overmeire	85	85

No share-based remuneration, loans, advances or guarantees have been granted to the members of the Supervisory Board.

14 Arjan Huisman has an ongoing credit facility up to €400,000. At 31 December 2019, there were no withdrawals.

The Supervisory Board peer group is composed of Dutch banks and Dutch listed companies that operate a two-tier board structure. As a specialist wealth manager in the financial sector, Van Lanschot Kempen wants to be able to appoint and retain high-quality Supervisory Board members.

Supervisory Board peer group		
Dutch banks	**Dutch companies with a two-tier board structure**	
ABN AMRO	Aegon	KPN
ING Groep	Ahold Delhaize	NN Group
NIBC Bank	Akzo Nobel	Philips
Rabobank	ASML Holding	Randstad Holding
	Boskalis Westminster	SBM Offshore
	DSM	Vopak
	Heineken	Wolters Kluwer

Remuneration of other employees

We aim to provide a remuneration package for all employees that is market-competitive and fair. Our remuneration policy for other employees is in line with our strategy and purpose, and contributes to long-term value creation.

Fixed remuneration

Employees' fixed remuneration reflects their relevant work experience and organisational responsibilities. In 2019, we implemented a new job and career framework that consistently links the weight of each job to a pay line. The pay lines are based on external market data, and are differentiated to ensure we pay market-competitive salaries across the organisation. The new pay lines are fully transparent, promote better pay-for-performance focus, and have been set up with clear guidelines on pay-related decisions and governance. As part of the new job and career framework, we have substantially reduced the number of legacy arrangements within the organisation, and we have modernised and streamlined the benefits package.

Variable remuneration

Our variable remuneration policies cover all employees (excluding the members of the Statutory Board). Each individual grant is subject to meeting the criteria as described in this section.

Our variable remuneration policies comply with all relevant laws and regulations. The average variable remuneration of all Van Lanschot Kempen employees who work (largely) in the Netherlands does not exceed 20% of their fixed remuneration. However, for a small number of employees, we may grant variable remuneration of up to 100% of fixed remuneration. These deviations require separate approval from the Supervisory Board.

Variable remuneration funding

The Statutory and Executive Boards annually establish a variable remuneration pool, from which individual variable remuneration awards are made. The size of the pool (or the pool funding) depends on achievement of financial and non-financial KPIs. The size of the pool is subject to Supervisory Board approval. Once the size of the variable remuneration pool has been established, the Statutory and Executive Boards decide how the pool will be allocated.

Variable remuneration allocation

The individual allocation of variable remuneration is dependent on individual performance, market competitiveness and special factors.

Individual performance is measured by assessing the achievement of KPIs, as set at the beginning of the year. These indicators can be financial and non-financial, with some departments applying only non-financial criteria. For the departments that use both financial and non-financial indicators, at least 50% of the allocation of any variable remuneration is based on non-financial criteria, such as showing the desired professional behaviour, improving client satisfaction, developing new products or solutions for clients, and improving internal processes, policies or systems. The financial performance indicators include nothing that might encourage irresponsible risk-taking.

Variable remuneration is only awarded if:

- Van Lanschot Kempen's financial position allows;
- It is justified by the performance of Van Lanschot Kempen, the relevant business line and the individual employee;
- Van Lanschot Kempen meets the prevailing buffer requirements under the EU's Capital Requirements Regulation (CRR), the Dutch Financial Supervision Act (Wft) and its implementing legislation;
- The risks taken have been reassessed and no material risks have occurred that were not expected or factored in;
- The employee has received a good performance assessment, has met compliance targets, has not been subject to disciplinary measures, and has not taken any risks that fall outside Van Lanschot Kempen's accepted risk appetite.

Variable remuneration pay-out

Variable remuneration up to €50,000 gross is paid out in cash directly. Above this amount, 50% of any variable remuneration is paid out directly, whereas the other 50% is deferred for a period of three years. Pay-out of the deferral is conditional on Van Lanschot Kempen meeting the prevailing buffer requirements (as mentioned before).

The Statutory Board may, with the approval of the Supervisory Board, hold or claw back all or part of the pay-out if pay-outs have taken place on the basis of incorrect information, or have been made in conflict with the variable remuneration policy and/or applicable legislation and regulations:

- Deferred, conditional, variable remuneration previously awarded to an employee (or former employee), if payment of the variable remuneration would be considered unfair or unreasonable (hold back);
- Unconditional variable remuneration previously paid to an employee (or former employee). This might occur if, for instance, payment was based on incorrect information about performance or about the conditions on which the variable remuneration depended (claw back).

Remuneration in 2019

Variable remuneration totalling €14.7 million was paid to employees (including identified staff) over 2019 (2018: €16.2 million). One person received total annual remuneration of over €1 million in 2019.

Long-term share plan

Our 2011 long-term share plan (LTP) allows us to award variable remuneration in the form of Van Lanschot Kempen shares to certain key employees (including identified staff). 60% of each award is unconditional, whereas 40% of each award is deferred for a period of three years. Pay-out of the deferral is conditional on Van Lanschot Kempen meeting the prevailing buffer requirements (as mentioned before).

Profit-sharing scheme

In 2017 and 2018, a profit-sharing scheme was applied for all Van Lanschot Kempen employees working in the Netherlands. In 2019, the conditions were not met. It was agreed with the Works Councils that the profit-sharing scheme will no longer be applied as of 2020, and that the new integrated Works Council will discuss alternatives in 2020 together with the Executive Board.

Pensions

Until 2019, there were separate pension plans for Van Lanschot Kempen Wealth Management (previously Van Lanschot) and for Kempen & Co. As of 2020, all our employees will participate in a new Van Lanschot Kempen defined contribution pension plan. The Statutory Board members do not participate in this plan as they receive an individual pension contribution. We monitor external developments regarding alignment between executive pensions and broader employee pension arrangements, and the possible impact that these may have in the Netherlands.

Remuneration policy for identified staff

Identified staff are employees whose activities have a material impact on the risk profile of the business. For these employees, performance measurement is the same as for other employees, but additional rules for the pay-out of variable remuneration apply.

As a general rule, any pay-out to identified staff is made 50% in cash and 50% in Van Lanschot Kempen shares. As an exception[15] to this, the variable remuneration of identified staff working at Kempen Capital Management is paid 50% in cash and 50% in a flexible mix of Van Lanschot Kempen shares and investments in funds managed. A lock-up period of one year applies to the shares that have become unconditional.

In all cases, 60% of the award is paid out unconditionally (both the cash part and the non-cash part), whereas 40% is conditionally deferred for a period of three years. Pay-out of the deferral is conditional on a re-assessment of the five conditions mentioned for any award of regular variable remuneration. If this re-assessment leads to an adjustment of the deferred remuneration, the hold and/or claw-back system applies.

Remuneration policy governance

The Statutory Board sets the remuneration policy for employees, based on the advice of the Human Resource Management, Finance, Reporting & Control, Group Risk Management and Compliance departments. These, together with Group Audit, have an important part to play in setting up, adjusting, implementing and reviewing our variable remuneration policy. They advise the Statutory and Supervisory Boards and report to them on their conclusions.

The Statutory Board is responsible for implementing the remuneration policy. The Supervisory Board approves the variable remuneration policy, including its general principles, and oversees its implementation. Approval by the Supervisory Board is also required for the variable remuneration pools, any significant[16] individual variable remuneration, and for individual variable remuneration proposed for employees designated as identified staff. The Supervisory Board's Remuneration Committee prepares the Supervisory Board's decision-making on remuneration and advises it in this area. More information about the remuneration policy for identified staff can be found in our 2019 Pillar 3 disclosure on remuneration.

15 Based on AIFMD and UCITS guidelines on sound remuneration policies.
16 More than 50% of fixed remuneration.

REPORT OF THE SUPERVISORY BOARD

This report gives an overview of the activities of the Supervisory Board and its committees in 2019. A description of the composition and operation of the Supervisory Board is set out in the notes on corporate governance (see page 89).

The report includes the achievement of corporate targets, the relationship with stakeholders and the relevant aspects of corporate and social responsibility. It covers the internal organisation as well as the meetings of the Supervisory Board and its committees. It also covers the annual evaluation of the functioning of the Supervisory Board, its committees and individual members.

Supervision

Achievement of corporate targets

The Supervisory Board can reflect on a strong year for Van Lanschot Kempen, as is proven by the strong increase in client assets, driven by the net inflow of assets under management in both Private Banking and Asset Management. With interest rates historically low, it's a very challenging environment for our savers and pension funds. These interest rates also put pressure on our own interest income results.

Various actions by management had an impact on cost levels in 2019, and resulted in an improved efficiency ratio. Advanced analytics and digital technology provided us with better insights and delivered efficiencies to drive down costs.

As a financial services company, complying with laws and regulations is a priority for Van Lanschot Kempen. The efforts required to operate in compliance with regulatory requirements continue to grow and are putting a strain on our resources.

The capital position has been strengthened further, which allowed us to provide our shareholders with a capital return in December 2019.

The structure of Van Lanschot Kempen has been simplified through a legal merger of Van Lanschot NV and Kempen & Co NV, in order to achieve further efficiency improvements and process simplification. This legal merger is very much in line with our strategy to act and operate as one group.

The company's ambition to shift from responsible to sustainable investing is gaining traction, as evidenced by our sustainable engagement score that's in line with industry benchmarks.

Competition for talent requires modern and attractive employment conditions; we were therefore pleased with the transition to new conditions from 2020 onwards, including a single pension plan for all employees.

A new set of financial and non-financial KPIs was introduced during 2018, which allowed us to track progress on our ambitions and create long-term value for our stakeholders (see page 30).

Structure and functioning of internal risk management

Van Lanschot Kempen's principal risks, as well as the structure and functioning of its risk management and control systems, are discussed by the Risk Committee. In 2019, the committee's chairman regularly reported its conclusions and recommendations to the Supervisory Board. Van Lanschot Kempen's risk appetite statement is subject to the Supervisory Board's annual approval. The statement for 2020 was approved at the Board's December meeting. The 2020-22 capital and funding plan was also discussed and approved at the December meeting.

Financial reporting

Financial reporting is discussed regularly at the Audit and Compliance Committee's meetings, which are also attended by the external auditors. In 2019, the committee gave special attention to Van Lanschot Kempen's fiscal policy and group standard tax principles, compliance with the obligations under anti-money laundering and anti-terrorist financing legislation, the replacement of IBOR as interbank rate, the impact of the new standard IFRS 16 (Leases) on Van Lanschot Kempen's financial statements and capital position, and the 2019 interim financial statements. After each meeting, the chairman of the committee reports on committee discussions to the full Supervisory Board. All members of the Supervisory Board attended the Audit and Compliance Committee's meetings in 2019 at which the 2018 annual figures and 2019 half-year figures were discussed. The Supervisory Board approved the financial statements for 2018 on 20 February 2019.

The Supervisory Board decided to propose to the general meeting held on 22 May 2019 that it reappoint PricewaterhouseCoopers Accountants NV (PwC) as external auditors for the 2020 financial year. The general meeting has reappointed PwC as external auditors for the 2020 financial year. In December 2019, the Supervisory Board decided to propose the reappointment of PwC for the 2021 financial year to the general meeting to be held on 28 May 2020.

Legal and regulatory compliance

The quarterly reports of the Compliance department were discussed by the Audit and Compliance Committee. These meetings were also attended by the Director of Compliance. The Supervisory Board is regularly provided with information on developments regarding the compliance framework; further development of the compliance programme; and group-wide projects to strengthen policies and control arrangements, especially with respect to anti-money laundering and anti-terrorist financing, sanctions and CDD processes, and the supervision of the regulatory authorities regarding compliance with regulations. The Supervisory Board was also informed periodically about the ongoing implementation of new legislation and regulations such as the EBA Guidelines on internal governance, the EBA and ESMA Guidelines on the assessment of the suitability of members of the management body and key function holders, and the Shareholder Rights Directive II (SRD II).

Relationship with stakeholders

The Supervisory Board regularly discussed Van Lanschot Kempen's relationship with its shareholders. The most important topics discussed were the general development of Van Lanschot Kempen, the progress made on executing the company's wealth management strategy, and Van Lanschot Kempen's strong capital base, which enabled it to make a capital return payment to its shareholders in December 2019.

A delegation of the Remuneration Committee of the Supervisory Board had engagement meetings with a broad group of Van Lanschot Kempen's shareholders and other stakeholders to discuss the consequences of SRD II on the company's remuneration policy for the Statutory and Supervisory Boards. The structure and content of the remuneration policies remained unchanged. However, additional explanatory text was included in the remuneration policy in accordance with the requirements of SRD II. For further information, see page 72.

In December 2019, Jeanine Helthuis and Maarten Muller attended the Works Council's meeting with the Executive Board, at which the general course of business at Van Lanschot Kempen was discussed. Willy Duron and Frans Blom also held a meeting with the chairmen of the Works Councils to discuss the size and composition of the Statutory and Supervisory Boards. The process for the selection of a new member of the Supervisory Board, to be appointed on the basis of the enhanced right of recommendation of the Works Council, was discussed and agreed with the chairmen of the Works Councils before the start of the selection process. Since January 2020, the Works Councils of Van Lanschot and Kempen have merged into the integrated Van Lanschot Kempen Works Council. The Supervisory Board values its constructive relationship with the Works Council.

Relevant aspects of corporate social responsibility

In December, the Head of Corporate Social Responsibility (CSR) and the Director of Impact and Responsible Investment informed the Supervisory Board about the main developments in the field of sustainability. They explained that, in 2019, Van Lanschot Kempen updated its materiality matrix, strengthened its CSR strategy ("from responsible to sustainable") and harmonised the various ESG and sustainable investment solutions for clients. The Supervisory Board was also informed about the decision to increase Van Lanschot Kempen's offsetting of carbon emissions to 100% as of 2019. In addition, the Risk Committee was informed about progress made on applying the responsible lending policy. Based on the way CSR is integrated in the organisation – e.g. in policies, products and reporting – the Supervisory Board concluded that Van Lanschot Kempen has taken significant steps in the area of CSR over the years. In view of the continuous developments in this field as well as evolution towards a more purpose-driven and value-based leadership within companies, CSR remains a topic that requires ongoing attention from Van Lanschot Kempen going forward.

Internal organisation

Composition of the Statutory and Executive Boards

The composition of the Statutory Board has not changed since 2014. From 2015 onwards, the Statutory Board has, in principle, been taking its decisions at the Executive Board's meetings. The composition of the Executive Board also remained the same in 2019, consisting of Karl Guha (Chairman), Constant Korthout, Arjan Huisman, Richard Bruens, Leni Boeren and Leonne van der Sar. In January 2020, Leonne van der Sar informed the Executive and Supervisory Boards that she has decided to pursue other interests and will therefore step down as member of the Executive Board in the course of 2020. We greatly appreciate her work for Kempen Merchant Banking and thank her for her dedication to Van Lanschot Kempen in recent years, wishing her well in her future endeavours.

Composition of the Supervisory Board

The composition of the Supervisory Board did not change in 2019. According to schedule, Willy Duron's and Bernadette Langius's terms of office as members of the Supervisory Board expired in May 2019. Willy Duron had been a member of the Supervisory Board for 12 years, the last three of which as its chairman. Although the recruitment and selection process started promptly, the Supervisory Board concluded that it would take more time to find a suitable successor. The Supervisory Board therefore asked Willy Duron if he was available for reappointment as a member of the Supervisory Board for another term of two years, to which he agreed. This gives Van Lanschot Kempen more time to find a suitable successor. Willy Duron was reappointed as member of the Supervisory Board by the annual general meeting in May 2019 for a term of two years. Bernadette Langius was reappointed for a term of four years.

Supervisory Board meetings

The Supervisory Board held nine meetings in 2019. The Executive Board attends the formal meetings of the Supervisory Board and prepares detailed supporting information. Regular items on the agenda of these meetings included the company's strategy, developments within the various business lines, corporate governance, risk management, IT and operations, results and the annual budget. In addition, the Supervisory Board discussed the simplification of the legal structure of Van Lanschot Kempen through a legal merger between Van Lanschot NV and Kempen & Co NV, the harmonisation and modernisation of the group's employment conditions, external target setting for 2023, the return of capital to shareholders, the cloud strategy of Van Lanschot Kempen, the group's fiscal policy and most important tax developments, and the amendments to the regulations of the Supervisory Board and its committees, the Statutory Board and the Executive Board.

The Supervisory Board also held nine additional meetings with Supervisory Board members only. These closed meetings give the Supervisory Board the opportunity to reflect on the agenda items and discuss possible concerns in advance of the regular meetings, as well as to discuss matters such as the composition of the Statutory and Supervisory Boards and the evaluation of the functioning of both boards. The Chairman of the Executive Board was invited to attend some of these closed meetings, depending on the topics being discussed.

The table below shows the composition of Supervisory Board committees, and the attendance rate of each member of the Supervisory Board at the Board and committee meetings.

The Supervisory Board received all information needed to perform its tasks from the Executive Board and the external auditors. Employees from within the organisation regularly attended meetings to provide additional information on specific topics within their respective fields. The agendas for Supervisory Board meetings were drawn up by the Company Secretary, in consultation with the Chairman of the Supervisory Board.

In addition, the Supervisory Board held a closed meeting to discuss the outcome of the evaluation of the functioning of the Board itself, its individual members and its committees, and to allow for more informal discussions between the Supervisory Board members. For further information, see page 87.

Supervisory Board committees

Composition of Supervisory Board committees

The Supervisory Board has appointed four committees from among its members. Each committee advises the Supervisory Board and prepares decision-making by the Board in its designated area of interest. The Supervisory Board remains fully responsible for all decisions.

Composition and attendance rate	Supervisory Board	Audit and Compliance Committee	Risk Committee	Selection and Appointment Committee	Remuneration Committee
Willy Duron	94.4% (Chair)	100%	100%	100% (Chair)	60%
Manfred Schepers	94.4%	60%	100% (Chair)		
Jeanine Helthuis	100%	100%		100%	100%[1]
Bernadette Langius	94.4%		100%		80% (Chair)
Lex van Overmeire	100%	100% (Chair)	100%		
Maarten Muller	100%			89.9%	80%
Frans Blom	100%		100%		100%

1 As of 1 December 2019.

Audit and Compliance Committee

The Audit and Compliance Committee held five meetings in 2019. These meetings were attended by a delegation from the Statutory Board. The external auditors and the directors of Group Audit, Compliance, and Finance, Reporting & Control were also present at the meetings. The Audit and Compliance Committee also met with the internal and external auditors without the members of the Statutory Board being present to discuss the course of affairs during the financial year.

The Audit and Compliance Committee carried out a detailed assessment of the annual figures, half-year figures, and information used for the trading updates and the proposal for a capital return to the shareholders of €1.50 per share. The committee considered significant financial items in relation to the company's financial statements and disclosures, which are shown in the table.

Key items for discussion	Audit and Compliance Committee review and conclusion
Impairments of loans and advances to the public and private sectors Impairments for individually identifiable loans are based on IFRS 9. Van Lanschot Kempen recognises a loss allowance for expected credit losses (ECL) on all loans. The ECL is calculated by using purpose-built IFRS 9 models. For credit-impaired loans, the Credit Restructuring & Recovery department provides input in determining the lifetime of ECL. Determining the appropriateness of the individual items involves elements of judgement and requires management to make assumptions.	On the basis of periodic management reports and the outcome of the audit procedures performed by our auditor, we challenged the completeness and accuracy of the impairments made. We discussed the changes in loss allowances during the year as well as the loss allowances recognised in the profit and loss statement. Based on our discussion and considering the acceptable range in the context of estimate uncertainty, we agree with the methodology applied by management in determining the provisions for impairments of loans and advances to the public and private sectors, and with the corresponding results. The disclosures relating to this item are set out in Note 7 to the financial statements.

Key items for discussion	Audit and Compliance Committee review and conclusion
Fair value measurement of financial instruments For financial instruments traded in an active market (Level 1), the valuation is based on quoted prices and market data. There is limited judgement involved in the fair value valuation of these instruments. For financial instruments not traded in an active market (Levels 2 and 3), management applies subjective judgement in the fair value valuation of these instruments. The fair value of Level 2 and 3 instruments is determined with the use of net present value models, option models or the net asset value of the underlying investment. In addition, for certain Level 3 instruments, Van Lanschot Kempen uses market and transaction multiples in the valuation. The nature of the instrument determines the model and data used.	We were informed about the methods used for, and the outcome of, management's valuations of Level 2 and 3 financial instruments, including the governance around model and assumption changes. We specifically discussed the adjustment made in the model used to value structured products and were informed by management about the improvements made in the control framework regarding the structured products activities. In addition, management informed us about the choice to use more prudent valuation assumptions for one of the contracts that is part of the Kempen Dutch Inflation Fund. Based on our discussions and considering the acceptable range in the context of estimation uncertainty, we agree with the estimates applied in the fair valuation of the Level 2 and 3 financial instruments.
Valuation of goodwill Van Lanschot Kempen annually conducts a goodwill impairment test regarding the valuation of goodwill on its balance sheet. This process is complex and subjective by nature as it is based on assumptions of future market and economic conditions. The assumptions used include future cash flow projections and, for each cash-generating unit (CGU), a cost of equity used as a discount rate.	We discussed in depth the goodwill impairment test conducted by management. We were informed about the analyses made as part of the goodwill impairment test as well as their outcome. We made special inquiries into the decision of management to impair part of the goodwill of the CGU Merchant Banking and on the size of this impairment. We concur with the conclusions from the goodwill impairment test that were drawn by management.
Fiscal policy and tax principles In 2019, Van Lanschot Kempen updated its fiscal policy, which is based on a number of guiding tax principles. One of these principles is the will to comply with laws and regulations. We follow both the letter and the spirit of these laws and standards, both national and international. The tax principles are published on the corporate website, making them available to all stakeholders.	We reviewed and discussed the updated fiscal policy, including the tax principles and the fiscal objectives of Van Lanschot Kempen, based on which we approved the revised policy.

The committee discussed the external auditors' audit plan, reports and the board report prior to their consideration by the full Supervisory Board. During these discussions, the committee discussed the audit scope, materiality and key audit matters as reported by the auditors. The Audit and Compliance Committee works closely with the Risk Committee on some key audit matters such as reliability and continuity of the IT environment and the fair value measurement of specific financial instruments. In the December meeting, the functioning of PwC in 2019 was evaluated. The committee reviews the external auditors' independence, communication and fees every year. The outcome of the evaluation resulted in the proposal to reappoint PwC for the 2021 financial year.

The committee considered the annual plan and reports from Group Audit and from Compliance. During the reporting year, the structure of the Compliance department shifted towards a more harmonised approach across the Van Lanschot Kempen group. The annual plan for Compliance in 2020 is based on the new structure, with specific focus on financial crime prevention, company culture and awareness, control frameworks and sustainability. The committee received information about contact and communication with regulators, and was kept informed on supervisory actions such as thematic reviews (e.g. on IT risks) and reports conducted by De Nederlandsche Bank (DNB) and the Dutch Authority for the Financial Markets (AFM).

The Audit and Compliance Committee discussed the quarterly reports of Group Audit and Compliance, as part of its evaluation of the quality and effectiveness of Van Lanschot Kempen's governance, risk management and internal control systems. Group Audit reports present the results of reviews of the risk & control framework, the implementation and functioning of IT systems, the outsourcing of IT (payments) systems, the management of the loan portfolio, and the impact of the strategy on the organisation. Quarterly reporting from Compliance covered themes such as regulatory developments, compliance risk management and monitoring, and actions to further strengthen the control frameworks. Comprehensive information was provided on the harmonisation of policies, procedures and control arrangements across the Van Lanschot Kempen group to ensure the prevention of money laundering and other financial crimes. The reports included information on the group-wide project to implement all adjustments to systems and processes across the various business lines. Reporting on the implementation of, and adherence to, all applicable rules and regulations is also provided in the reports.

Risk Committee

The Risk Committee met three times in 2019. Its meetings were also attended by the CFO/CRO, the Director of Group Risk Management and the Director of Credit Risk and Credit Restructuring & Recovery. The committee paid detailed attention to the credit, operational, market and interest rate risks to which the organisation is exposed.

The quarterly risk appetite reports were discussed by the Risk Committee. On a regular basis, specific attention was given to reviewing whether Van Lanschot Kempen's risk profile was within the limits set in Van Lanschot Kempen's risk appetite. In its meetings, the committee discussed credit risk, execution risk of specific change projects, data management risk, cyber risk and business continuity risk. Interest rate and market risk developments were discussed based on factors including duration analyses, the development of value at risk, and stress tests. The committee was also informed about risk mitigation measures and developments in several strategic projects, such as the outsourcing of payment services to Fidor and the redevelopment of the IRB model.

At the committee's December 2019 meeting, the capital and funding plan for 2020-22 and Van Lanschot Kempen's risk appetite statement for 2020 were discussed. Both documents were submitted to the Supervisory Board with a positive recommendation. See vanlanschotkempen.com/en/governance ("Banking Code") for the principles on which Van Lanschot Kempen's risk appetite is based.

In 2019, the Risk Committee gave special attention to the topics in the table below.

Key items for discussion	Risk Committee review and conclusion
Non-financial risk With the execution of the wealth management strategy on track, Van Lanschot Kempen's financial risk profile is generally decreasing, while its operational risk profile is slowly increasing. This is partly due to the higher number of assets under management.	Management informed us about the developments in the risk profile across the organisation and all mitigating measures taken by Risk Management. Attention was also paid to value change assessments. Based on this information, we conclude that non-financial risks are being adequately monitored, and several initiatives have been taken to further reduce these risks.
Cybercrime Cybercrime is and will remain one of the main threats facing the financial services industry. With our scale and budget, we need to follow a risk-based approach and develop intelligent solutions.	Management informed us about the progress of the ambitious Cyber 5.0 plans. In addition to technological defence measures, emphasis is on security awareness and responsiveness. We conclude that sufficient resources and attention are being dedicated to this important topic.
Credit risk Developments concerning risks in the overall loan portfolio, including the non-performing part of the loan portfolio, were thoroughly reviewed and discussed.	The Risk Committee received quarterly risk reports, including reporting on credit risk, and notes an ongoing improvement in both the performing and the non-performing parts of the loan portfolio. We conclude that credit risk is still decreasing and that developments in the loan portfolio are proceeding according to plan. Moreover, we were informed about the project to upgrade the IRB models in line with the new IRB regulations.
Robustness of IT environment Van Lanschot Kempen is dependent on its IT environment for the reliability and continuity of its operations and financial reporting. In 2019, the outsourcing of the payment system to Fidor was a major IT project; this change enables Van Lanschot Kempen to focus more on its core activities.	We were informed about the progress made on the major IT projects within Van Lanschot Kempen and their implementation so far. Management informed us that several high-impact projects have been successfully completed and the risk has decreased. We discussed the fact that certain projects, such as the outsourcing of payments and the migration of the Belgian Private Banking infrastructure to the Dutch Private Banking infrastructure, are high risk. Continuous attention from all stakeholders is necessary to mitigate these risks.

Selection and Appointment Committee
The Selection and Appointment Committee met nine times in 2019 to discuss the recruitment and selection process and succession planning for new members of the Supervisory Board, as well as the composition of the Statutory Board. The composition of the Supervisory and Statutory Boards was also discussed during the closed sessions of the Supervisory Board.

Remuneration Committee
On 1 December 2019, Jeanine Helthuis became a member of the Remuneration Committee. As a result of new legislation to implement SRD II, Supervisory Board members who are appointed through the Works Council's enhanced right of recommendation will automatically become members of the Remuneration Committee. The Remuneration Committee held five meetings in 2019. The Chairman of the Executive Board was present at three of the Remuneration Committee's meetings. The HR Director and other experts were invited to these meetings when required. At its February meeting, the committee discussed the performance appraisal of the members of the Executive Board in 2018 and their individual targets for 2019. The 2018 remuneration report was discussed, as was the 2018 variable remuneration paid to staff of Van Lanschot Kempen. The amount available for variable remuneration of Van Lanschot Kempen staff for 2019 was among the topics discussed at the December meeting.

Consequences of SRD II on the company's remuneration policy
SRD II requires additional context to be included in the remuneration policies for the Statutory and Supervisory Boards. A delegation of the Remuneration Committee held engagement meetings with a broad group of Van Lanschot Kempen's stakeholders. During these meetings, we obtained a clear understanding of their views on the implementation of SRD II and on Van Lanschot Kempen's remuneration policies for the Statutory and Supervisory Boards. The remuneration structure for both the Statutory and Supervisory Boards will remain unchanged in 2020. To be compliant with SRD II, particular additions were included in the remuneration policies to explain our approach to remuneration. We believe the additional context does not qualify as a material change to our remuneration policy. We attach great value to the consent of our shareholders and will therefore put the remuneration policies for the Statutory and Supervisory Boards to vote at the general meeting on 28 May 2020. Further details on the remuneration policy of the Statutory Board can be found in the remuneration report on page 76.

In addition, the Remuneration Committee paid specific attention to the preparation of the remuneration report, which was drawn up in accordance with the new requirements based on the law under which SRD II must be implemented. The remuneration report will be submitted to the annual general meeting in May 2020 for an advisory vote.

Assuring supervision quality

Evaluation of the Supervisory Board

The Supervisory Board performs an annual evaluation of the functioning of the Supervisory Board, its committees and individual members. The evaluation is carried out under the guidance of an external adviser once every three years. The 2019 evaluation process was carried out using a questionnaire completed by each board member. Included in the evaluation are the participation and contribution of each member of the Supervisory Board, the knowledge and experience of the Supervisory Board collectively, the interaction and dynamics within the Supervisory Board, the communication and provision of information, the decision-making process and the quality of the information provided for Supervisory Board meetings, the independence of mind of the individual members, and the relationship with the Executive Board. The outcomes and recommendations from the evaluation were discussed by the Supervisory Board at the Supervisory Board meeting in February 2020; recommendations will be implemented as a result. The Supervisory Board concluded that the Board and its committees are functioning well, and that its composition is in line with the required profile in terms of suitability, expertise and diversity, and also complies with Principle 2.1 of the Dutch Corporate Governance Code. The conclusions and recommendations relevant to the Executive Board will be shared with the Executive Board.

Evaluation of the Statutory Board and Executive Board

In February 2020, the Supervisory Board evaluated the functioning of the Statutory Board and Executive Board as a whole and that of the individual members of both boards on the basis of the key performance indicators (KPIs) for 2019. The Supervisory Board sets the KPIs for the Executive Board every year. The KPIs are divided into 50% financial KPIs, 40% non-financial KPIs and 10% personal KPIs. The financial KPIs include the return on CET 1, costs, operating profit before tax, risk appetite and efficiency ratio. The non-financial KPIs include employee engagement, activating our full potential, diversity and inclusion, and client NPS. For further information on performance against these KPIs, see page 30. The assessment of the KPIs is included as the basis for the collective assessment of the Executive Board and the individual assessment of the members of the Executive Board for 2019. The Supervisory Board concluded that the members of the Executive Board both collectively and individually performed well in 2019. The conclusions and recommendations relevant to the Statutory and Executive Boards were shared with the members of these boards. The 2020 KPIs for the Executive Board are in line with Van Lanschot Kempen's new financial and non-financial KPIs for 2020 (see page 19).

The Executive Board evaluates its own functioning and effectiveness on a regular basis during its quarterly off-sites. Board members gave each other feedback on their strengths and points to consider, and reflected on these.

On-boarding programme

All new members of the Supervisory Board complete an extensive on-boarding programme when appointed. The programme is tailor-made for each newly appointed member of the Supervisory Board, as their knowledge and experience varies. The aim of the on-boarding programme is to ensure that new members have thorough knowledge of Van Lanschot Kempen and its business activities in order to fulfil their role within the Supervisory Board.

Education

The members of the Supervisory and Executive Boards took part in the continuing education programme. In 2019, two continuing education sessions were organised. Topics covered included:

- Digitalisation and advanced analytics;
- The evolving landscape of asset management;
- Van Lanschot Kempen's equity investors and their expectations.

These education sessions were positively rated by the members of the Supervisory and Executive Boards.

Independence

All members of the Supervisory Board perform their duties independently and critically. The independence requirements described in best practice provisions 2.1.7 to 2.1.9 of the Dutch Corporate Governance Code have been fulfilled. Currently, there are no dependent members on the Supervisory Board. Willy Duron also qualifies as an independent Supervisory Board member within the meaning of best practice provision 2.1.8 of the Dutch Corporate Governance Code. Both as a member and as the chairman of the Supervisory Board, he has invariably taken a highly independent stance in fulfilling his role and responsibilities. He will continue to do so for the additional period for which he has been reappointed, giving Van Lanschot Kempen time to complete the careful process of selecting his successor.

In the event of a potential conflict of interest relating to a particular topic, the Supervisory Board member concerned is not allowed to participate in discussions or decision-making on that topic. Best practice provisions 2.7.3 to 2.7.4 of the Dutch Corporate Governance Code were observed as far as applicable. In 2019, there were no conflicts of interest of material significance for members of the Supervisory or Statutory Boards.

Financial statements

The Supervisory Board has reviewed and approved the annual report for 2019 and the 2019 financial statements. The 2019 financial statements have been audited by the external auditors, PwC. The independent auditors' report can be found on page 205. We invite the annual general meeting to adopt the 2019 financial statements as submitted and to discharge the Statutory Board in respect of its conduct of Van Lanschot Kempen's affairs and the members of the Supervisory Board in respect of their supervision.

Acknowledgements

The Supervisory Board would like to thank all stakeholders for their continued trust and confidence in Van Lanschot Kempen. We value our cooperative relationship with the Executive Board, and would like to express our gratitude to the Board's members and all staff for their hard work and dedication in 2019.

We would also like to compliment the Works Councils and the HR department. Together with the Executive Board, they have co-developed a set of new, modernised employment conditions for all Van Lanschot Kempen employees. These will enable the company to attract and retain talented professionals, while fitting our objectives to encourage internal job rotation and to activate our full potential. We believe the new employment conditions will be a differentiating factor in the labour market, which will safeguard the quality of Van Lanschot Kempen’s workforce now and in the future.

‘s-Hertogenbosch, the Netherlands, 20 February 2020

Supervisory Board

Willy Duron, *Chairman*
Manfred Schepers, *Vice-Chairman*
Frans Blom
Jeanine Helthuis
Bernadette Langius
Maarten Muller
Lex van Overmeire

CORPORATE GOVERNANCE

The key elements of corporate governance at Van Lanschot Kempen are set out below. The Articles of Association and various other regulations and documents relating to corporate governance can be found at vanlanschotkempen.com/en/governance and vanlanschotkempen.com/management-supervision.

Corporate governance structure

Van Lanschot Kempen NV is the holding company of Van Lanschot Kempen Wealth Management NV and Kempen Capital Management NV. On 31 December 2019, Kempen & Co NV merged with Van Lanschot, and the name of Van Lanschot was changed to Van Lanschot Kempen Wealth Management NV (VLKWM) as a consequence. VLKWM holds all the shares in Kempen Capital Management NV. Van Lanschot Kempen holds all the shares in VLKWM.

The Private Banking, Evi and Merchant Banking activities are now all performed by VLKWM. The Asset Management activities continue to be performed by Kempen Capital Management.

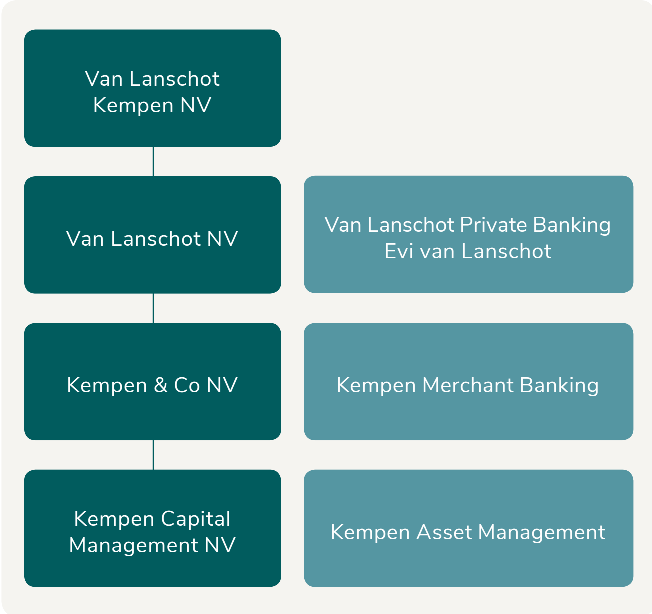
Van Lanschot Kempen is a listed public limited company under Dutch law, governed by a two-tier board. The Statutory Board is responsible for managing the company, while the Supervisory Board oversees the policies pursued by the Statutory Board, and the general conduct of affairs at the company and its associated business. The Supervisory Board advises the Statutory Board on the performance of its duties.

Van Lanschot Kempen is a *structuurvennootschap*. Under Dutch corporate law this means that in addition to the tasks already mentioned, the Supervisory Board is responsible for appointing and dismissing the Statutory Board and for approving some of its decisions. Both the Statutory Board and the Supervisory Board report to Van Lanschot Kempen's general meeting.

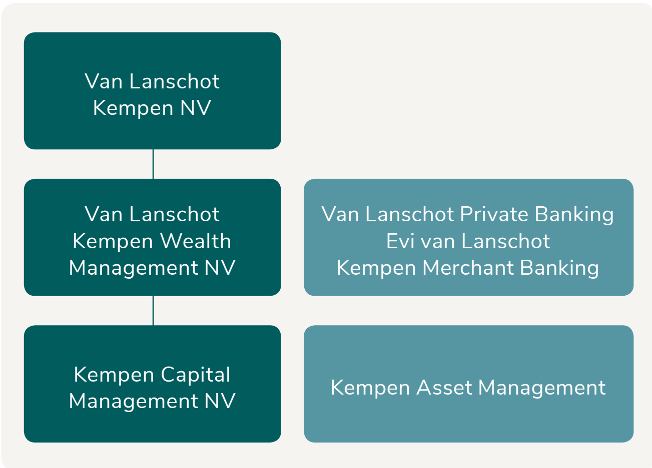
Statutory Board

The Statutory Board of Van Lanschot Kempen is responsible for the continuity of the company. It focuses on long-term value creation for the company, and takes into account stakeholders' interests that are relevant in this context. The Statutory Board is responsible for the management of the company, and its duties include drawing up and achieving Van Lanschot Kempen's purpose, its strategy and related risk profile, its goals and the pattern of its results, while also attending to the social aspects of doing business that are relevant to the company.

Previous structure



Structure as of 1 January 2020



The Statutory Board of Van Lanschot Kempen is also the Statutory Board of VLKWM. The Supervisory Board notifies the general meeting of any proposed appointment of a member of the Statutory Board. A member is appointed by the Supervisory Board for a maximum period of four years. The Supervisory Board may dismiss a member of the Statutory Board at any time, but only after consulting the general meeting.

In strategic decisions, the Statutory Board takes all material environmental and social factors into account. Periodically, it determines the financial and non-financial key performance indicators (KPIs) for Van Lanschot Kempen.

Executive Board

Van Lanschot Kempen has an Executive Board comprising the members of the Statutory Board of Van Lanschot Kempen and the two people who are responsible for the Asset Management and Merchant Banking business lines. The Executive Board oversees the implementation of our company strategy and manages core activities. This ensures better alignment between core activities and a more effective decision-making process.

In principle, all members of the Executive Board attend Supervisory Board meetings. The Executive Board makes sure that all the information relevant to the Supervisory Board is provided. Van Lanschot Kempen's Statutory Board members have ultimate responsibility for the actions and decisions of the Executive Board.

Supervisory Board

In performing its duties, the Supervisory Board focuses on the interests of the company and its associated business. The Supervisory Board of Van Lanschot Kempen is also the Supervisory Board of VLKWM.

The members of Van Lanschot Kempen's Supervisory Board are appointed by the general meeting, in accordance with the provisions set out in Article 23 of Van Lanschot Kempen's Articles of Association. Members of the Supervisory Board are appointed for a term of four years and may be reappointed for one further four-year period. A member of the Supervisory Board may subsequently be reappointed again for a period of two years, and this appointment may be extended another two years. In the event of reappointment after eight years, the reasons for reappointment should be given in the Report of the Supervisory Board.

A member of the Supervisory Board may only be dismissed by the Enterprise Chamber of the Amsterdam Court of Appeal with due observance of Article 161(2) of Book 2 of the Dutch Civil Code. In addition, the general meeting may pass a motion of no confidence in the Supervisory Board as a whole, in accordance with Article 161(a) of Book 2 of the Dutch Civil Code. Such a resolution results in the immediate dismissal of all members of the Supervisory Board.

Diversity policy

The Supervisory Board of Van Lanschot Kempen has adopted a diversity policy for the composition of the Supervisory and Executive Boards (the policy can be found at vanlanschotkempen.com/management-supervision under "Diversity Policy Supervisory Board and Executive Board"). In view of their joint functioning, the diversity policy for the Executive Board includes the Statutory Board of Van Lanschot Kempen.

We are committed to supporting, valuing and leveraging inclusiveness and diversity, and aim for a diverse composition of the Supervisory and Executive Boards in the areas relevant to us, such as age, background, experience, gender and nationality. The importance of diversity should not mean setting aside a candidate's qualifications, the requirements for the position to be filled or the overriding principle that someone should be recommended, nominated and appointed for being "the best person for the job".

With regard to gender diversity, we strive for a reasonable spread across gender and aim for the composition of the Supervisory and Executive Boards to be such that at least 30% of their respective members are men and at least 30% women. We strive for a reasonable spread across ages and nationalities in the composition of the Supervisory and Executive Boards, but we do not believe that age or nationality are suitable criteria for setting specific diversity targets so we do not set specific objectives for these. With regard to background, experience and expertise, we aim – in keeping with the Supervisory Board's profile – to ensure that the combined background, experience and expertise of Supervisory Board members enables the Board as a collective to best carry out its range of responsibilities and duties towards Van Lanschot Kempen, taking into account the nature of our business and activities. The same applies for the Executive Board. Our diversity policy describes the relevant areas of background, experience and expertise of the Supervisory Board and the Executive Board respectively.

In implementing our diversity policy, the individual profiles drawn up for vacancies in the Supervisory and Executive Boards take into account the policy's criteria and objectives. These profiles form the basis for the recruitment and selection of new members of the Supervisory and Executive Boards. These criteria and objectives are also taken into account when evaluating the functioning of the Supervisory and Executive Boards. The results of our diversity policy are described in the section below on the boards' composition and performance.

The policy governing recruitment and selection of members of the Statutory and Supervisory Boards can be found at vanlanschotkempen.com/management-supervision, under "Policy Recruitment and Selection Van Lanschot Kempen".

Composition and performance of the Statutory and Executive Boards

The Statutory Board must consist of at least three members, with the actual number set by the Supervisory Board. The composition of the Statutory Board did not change in 2019, and consisted of Karl Guha (Chairman), Constant Korthout, Arjan Huisman and Richard Bruens. The composition of the Executive Board did not change either in 2019; it comprised Karl Guha (Chairman), Constant Korthout, Arjan Huisman, Richard Bruens, Leni Boeren and Leonne van der Sar.

The Statutory and Executive Boards evaluate their functioning as a whole and that of individual Board members at least once a year. The Supervisory Board discusses, at least once a year, the performance of the Statutory Board and the Executive Board as a whole and members' performance individually. The Supervisory Board has concluded that the composition of the Statutory and Executive Boards meets the objectives of our diversity policy. The specific target for the Executive Board's male/female ratio as set out in our diversity policy was met since two of the six members of the Executive Board are female.

No decisions were taken in 2019 to conclude transactions involving a conflict of interest on the part of members of the Statutory Board that were of material significance to Van Lanschot Kempen and/or the Board member in question.

Composition and performance of the Supervisory Board and its committees

The Supervisory Board has a minimum of three members and a maximum of nine. Currently, the Supervisory Board comprises Willy Duron (Chairman), Manfred Schepers (Vice-Chairman), Frans Blom, Jeanine Helthuis, Bernadette Langius, Maarten Muller and Lex van Overmeire.

The Supervisory Board has appointed four committees from among its members to prepare the Board's decision-making: the Audit and Compliance Committee, the Risk Committee, the Remuneration Committee, and the Selection and Appointment Committee. These committees advise the Supervisory Board on matters relating to their respective areas of interest. More information about the committees and their composition can be found on page 84 of the Report of the Supervisory Board.

The Supervisory Board has drawn up a profile[1] for its size and composition, taking into account the nature and activities of the business associated with Van Lanschot Kempen and its subsidiaries, and the required expertise and background of the members of the Supervisory Board. The Supervisory Board appraises its own performance, that of its committees and that of individual Supervisory Board members, at least once a year without members of the Statutory Board being present. The Supervisory Board appraises its own performance with independent support once every three years. More information about the conclusions of the Supervisory Board's self-assessment of their functioning in 2019 can be found on page 87 of the Report of the Supervisory Board.

The Supervisory Board nearly meets the objectives of our diversity policy. The Supervisory Board currently has seven members, two of whom are female, which means 28.6% of the positions on the Supervisory Board are held by women. Given the size of the Supervisory Board, the target for 30% of the positions to be held by women has nearly been achieved. The Supervisory Board intends to meet this target when nominating a new candidate for appointment to the Supervisory Board.

Dutch Corporate Governance Code

The revised Dutch Corporate Governance Code 2016[2] (the Code) came into force starting in the 2017 financial year, and contains principles and best practice provisions that regulate relations between the management board, supervisory board and shareholders (including the general meeting). The Code aims to define responsibilities for long-term value creation, risk control, effective management and supervision, remuneration, and relationships with shareholders and other stakeholders. We fully complied with the Code in 2019.

Dutch Banking Code

The Dutch Banking Code[3] contains principles on sound and ethical business operations, governance, risk policy, audit and remuneration policy. The Banking Code applies to activities performed in, and aimed at, the Netherlands by banks with registered offices in the Netherlands and which hold a banking licence issued by De Nederlandsche Bank (DNB). It therefore applies to VLKWM, the subsidiary of Van Lanschot Kempen that holds a banking licence in the Netherlands. Where banks that are subject to the Banking Code form part of a group, parts of the Banking Code may be applied at the level of the entity which acts as the head of the group, rather than at the level of individual subsidiaries. Certain parts of the Banking Code are therefore applied at the level of Van Lanschot Kempen.

In 2019, VLKWM complied with the Banking Code. An explanation (in Dutch) of how VLKWM has applied the Banking Code during the reporting year is given on our website: vanlanschotkempen.com/en/governance.

Capital structure and shares

Van Lanschot Kempen's authorised share capital consists of 150 million shares with a nominal value of €1 each, divided into 75 million Class A ordinary shares and 75 million Class C preference shares. Our outstanding capital consisted entirely of Class A ordinary shares; a total of 41,361,668 Class A ordinary shares had been issued at 31 December 2019. There were no outstanding Class C preference shares in 2019.

Depositary receipts for shares

Over 99.99% of Class A ordinary shares in issue are held by Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen ("Stichting Administratiekantoor"), which has issued depositary receipts for these shares. The receipts have been listed on the official market of the Euronext Amsterdam stock market since 1999. A depositary receipt can be converted into its underlying share without any restrictions, although administrative costs may be charged. Stichting Administratiekantoor fully complies with Principle 4.4 of the Code, which specifies that "Depositary receipts for shares can be a means of preventing a majority (including a chance majority) of shareholders from controlling the decision-making process as a result of absenteeism at a general meeting. Depositary receipts for shares should not be issued as an anti-takeover protective measure."

Stichting Administratiekantoor grants proxies so that holders of depositary receipts can always exercise their voting rights. In the case of shares for which Stichting Administratiekantoor has not granted proxies to the holders of depositary receipts and for which no voting instructions have been received, Stichting Administratiekantoor's Board decides how the votes are to be cast. Stichting Administratiekantoor exercises the voting rights in the interest of the holders of depositary receipts for shares, taking into account the interest of Van Lanschot Kempen, the enterprise associated therewith and all parties concerned. Its Board has three members and is independent of Van Lanschot Kempen. It appoints its own members, without requiring the approval of Van Lanschot Kempen. Before appointing a member, the Board allows the holders of depositary receipts of shares the opportunity to recommend candidates for appointment as members of the Board. A meeting of holders of depositary receipts takes place at least once every two years. At this meeting, the Board reports on its activities, vacancies in the Board, and candidates the Board intends to appoint as members of the Board. Once every two years, the Board requests the holders of depositary receipts at this meeting to confirm their confidence in the Board. At the meeting that was held

1 The profile can be viewed at vanlanschotkempen.com/management-supervision.
2 The 2016 Dutch Corporate Governance Code can be downloaded from mccg.nl.
3 The Banking Code can be downloaded from nvb.nl.

on 13 November 2018, holders of depositary receipts confirmed this. The Board reports on its activities annually. This report can be found on page 216.

Stichting preferente aandelen C Van Lanschot Kempen

A call option contract has been agreed between Stichting preferente aandelen C Van Lanschot Kempen ("Stichting preferente aandelen") and Van Lanschot Kempen, under which Stichting preferente aandelen was granted the right to acquire Class C preference shares up to 100% of the value of Van Lanschot Kempen's share capital in issue before the exercise of the call option, less one share. A general meeting, at which a proposal to redeem the preference shares will be placed on the agenda, is to be convened within 12 months.

The following circumstances may lead to the issuance of Class C preference shares:

- A concentration of shares or depositary receipts for shares in Van Lanschot Kempen as a result of purchases on the stock market or the purchase of blocks of shares, other than as a pure investment;
- Merger talks that do not lead to an agreement;
- The announcement of a public bid, whether or not in combination with the above circumstances;
- A proposal by a shareholder or holder of depositary receipts of shares to place an item on the agenda that represents a potential threat to Van Lanschot Kempen's continuity, identity and/or independence.

Interests in Van Lanschot Kempen notifiable under Chapter 5.3 of the Financial Supervision Act

Pursuant to the Dutch Financial Supervision Act, shareholders and holders of depositary receipts of Van Lanschot Kempen are required to provide information on their holdings once they cross threshold levels of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. As of the publication date of this report, Van Lanschot Kempen is not aware of any shareholders or holders of depositary receipts with an interest of 3% or more in Van Lanschot Kempen other than Stichting Administratiekantoor, APG Asset Management NV, LDDM Holding BV, Janus Henderson Group plc, Reggeborgh Invest BV, FMR LLC, Wellington Management Group LLP, NN Group NV, CRUX Asset Management Limited, T. Rowe Price Group, Inc., Investec Asset Management Limited and Invesco Limited. For more information on Van Lanschot Kempen's shareholders, see the Van Lanschot Kempen shares section on page 68. Stichting preferente aandelen has reported a potential interest of 100% in Van Lanschot Kempen under the call option agreement between Stichting preferente aandelen and Van Lanschot Kempen.

In 2019, no transactions took place between Van Lanschot Kempen and any natural person or legal entity holding at least 10% of the shares in Van Lanschot Kempen, and which would be material to Van Lanschot Kempen and/or the person/entity involved.

Rights of shareholders

Since there are exclusively Class A ordinary shares in issue at present, this section only describes the rights of holders of Class A ordinary shares and depositary receipts for Class A ordinary shares.

Dividend

The portion of the profit remaining after addition to the reserves is at the disposal of the general meeting. In the event that a loss is incurred over a year, which cannot be covered by a reserve or by some other means, no profit distribution will occur in subsequent years until such time as this loss has been absorbed. A dividend on ordinary shares can only be paid out when the dividend proposal has been approved by the general meeting. Van Lanschot Kempen checks whether the proposed dividend satisfies the European Central Bank's recommendation on dividend payment policies. Further information on our dividend policy can be found on page 68.

Pre-emption rights

When ordinary shares are issued, each existing holder of ordinary shares has a pre-emption right proportionate to the aggregate nominal amount of the existing holding of ordinary shares. Class A ordinary shares are issued to holders of Class A ordinary shares. The same applies to the grant of rights to acquire ordinary shares. Pre-emption rights can be limited or excluded by resolution of the Statutory Board, any such resolution being subject to the approval of the Supervisory Board. The relevant authority of the Statutory Board ends as soon as its authority to issue shares expires (see "Share issues").

Shareholders do not have any pre-emption rights on shares issued in exchange for a non-cash contribution. Nor do shareholders have any pre-emption rights on shares or depositary receipts for those shares issued to employees of Van Lanschot Kempen or another group company.

Special rights of shareholders

There are no special statutory control rights attached to shares in Van Lanschot Kempen.

Van Lanschot Kempen signed a shareholder agreement with LDDM Holding BV in 2011. In it, LDDM Holding affirms that it will respect Van Lanschot Kempen's independence. LDDM Holding will not cooperate with the acquisition by a third party of a shareholding in Van Lanschot Kempen exceeding 25% of the issued share capital without the approval of the Statutory and Supervisory Boards. In the event of any future share issues, Van Lanschot Kempen will give LDDM Holding the opportunity, subject to certain conditions, to keep its relative shareholding in Van Lanschot Kempen at the same level. As long as LDDM Holding retains an interest of at least 7.5% in Van Lanschot Kempen, it has the right to recommend one person for appointment as a member of the Supervisory Board of Van Lanschot Kempen. Maarten Muller currently serves on the Supervisory Board on LDDM Holding's recommendation.

Restrictions on voting rights and deadlines for exercising voting rights

Van Lanschot Kempen has not imposed any restrictions on the exercise of voting rights. In principle, voting rights are exercised at the general meeting by the shareholder or the person authorised by the shareholder to that end. A shareholder is entitled to vote at the general meeting if the shares in question are registered in the shareholder's name on the registration date (see "General meeting"). Holders of depositary receipts for Class A ordinary shares who register on time to attend the general meeting are granted a proxy by Stichting Administratiekantoor. They can use this proxy at the general meeting to exercise the voting rights on the shares held by Stichting Administratiekantoor, and in exchange for which depositary receipts were issued. Proxies will be provided when the depositary receipt holders sign the attendance list prior to the start of the meeting. If the depositary receipt holder's right to attend the meeting is to be exercised by a representative authorised in writing, Stichting Administratiekantoor will grant a proxy to the representative. Shareholders and holders of depositary receipts for shares are also offered the opportunity to issue a voting instruction to an independent third party prior to the general meeting. The notice convening the relevant general meeting will state to whom this voting instruction should be sent and what the deadline is for submission.

Share issues

The extent of the Statutory Board's authority to decide on a share issue (subject to the approval of the Supervisory Board) is determined by a resolution of the general meeting. The duration and granting of this authority are also determined by resolution of the general meeting and may not exceed five years. The Statutory Board's authority to issue ordinary shares, including the granting of rights to acquire these shares, was extended at the general meeting held on 22 May 2019 for a period of 18 months from the date of that meeting. The authority to issue these shares is limited to 10% of the issued capital.

Repurchase of shares

Repurchases of paid-up shares in the company or depositary receipts for such shares, other than for no consideration, may take place if the general meeting has authorised the Statutory Board to this effect. This authorisation applies for up to a maximum of 18 months. Repurchase occurs pursuant to a decision by the Statutory Board, subject to Supervisory Board and DNB approval.

The Statutory Board was authorised at the general meeting held on 22 May 2019 to repurchase paid-up ordinary shares in the company or depositary receipts for these shares, by buying such shares on the stock market or otherwise, up to a maximum of 10% of the issued capital at the date of authorisation, subject to Supervisory Board approval. This authority has been granted for a period of 18 months from the date of the meeting.

Transfer of shares and depositary receipts

The Articles of Association and the conditions of administration do not contain any restrictions on the transfer of Class A ordinary shares or depositary receipts for Class A ordinary shares.

Amendment to the Articles of Association

A resolution to amend the Articles of Association of Van Lanschot Kempen may only be adopted based on a proposal by the Statutory Board that has been approved by the Supervisory Board. If a proposal to amend the Articles of Association is presented to the general meeting, a copy of the proposal will be made available to the shareholders and holders of depositary receipts prior to the meeting.

General meeting

Each voting shareholder and depositary receipt holder is authorised, either in person or through a representative authorised in writing, to attend the general meeting, to address the meeting and to exercise their voting rights. A registration date applies to each general meeting, which is the 28th day prior to that meeting. The registration date determines who qualifies as a voting shareholder or depositary receipt holder for the relevant general meeting. The notice convening the meeting states the registration date, the way in which shareholders and depositary receipt holders can register and how they can exercise their rights, either in person or through a representative authorised in writing.

Shareholders and depositary receipt holders or their representatives are only admitted to the meeting if they have informed Van Lanschot Kempen in writing of their intention to attend, and if this has been done in the manner described in the notice convening the meeting. Access to the meeting is only possible if the relevant shares or depositary receipts are registered in the name of the shareholder or the depositary receipt holder on the registration date. Representatives must also present a written proxy. A written proxy may be sent electronically. Each share entitles the holder to cast one vote at the general meeting.

The powers of the general meeting include the following:
- Approving decisions of the Statutory Board to make important changes to the identity or nature of the company or the business;
- Appointing members of the Supervisory Board on the Supervisory Board's recommendation;
- Setting the remuneration policy for the Supervisory Board;
- Passing a motion of no confidence in the Supervisory Board;
- Setting the remuneration policy for the Statutory Board;
- Approving schemes in the form of shares and/or rights to acquire shares for the Statutory Board;
- Adopting the financial statements;
- Disposing of the profit remaining after dividend has been distributed to any outstanding Class C preference shares, and after the decision has been made to add all or part of the profit to the reserves;
- Discharging the Statutory Board;
- Discharging the Supervisory Board;
- Granting the Statutory Board the authority to issue shares and to limit or exclude pre-emption rights on the issue of shares;
- Granting the Statutory Board the authority to repurchase the company's own shares;

– Resolving to amend the Articles of Association of Van Lanschot Kempen, to dissolve Van Lanschot Kempen, or to effect a legal merger or demerger of Van Lanschot Kempen, following a proposal to that effect by the Statutory Board which has been approved by the Supervisory Board.

Furthermore, the general meeting has an advisory vote with regard to the remuneration report.

Main features of Van Lanschot Kempen's management and control system

Van Lanschot Kempen's management and control system is designed to manage internal and external risks. This includes the management of financial reporting risks, to ensure reliable financial reporting and financial statements that are prepared in accordance with generally accepted accounting principles, and which comply with the prevailing legislation and regulations.

Van Lanschot Kempen applies the "three lines of defence" model for the management of risk. The first line of defence is the business, responsible for day-to-day risk management. The second line of defence is provided by departments such as Group Risk Management and Compliance, which oversee the first line. Group Audit acts as the third line of defence, providing an independent evaluation of the adequacy of the internal management and control systems.

The three lines of defence model provides the Statutory Board with a reasonable degree of certainty as to how the internal management and control system is functioning, including the efficacy of both the first and second lines. In 2019, we improved our monitoring of the effectiveness of key controls (as part of the risk & control framework), and updated the risk & control framework to reflect changes in the organisational structure.

Group Audit is responsible for carrying out IT and operational audits. All of Group Audit's reports were submitted to the Statutory Board. Group Audit, Compliance and Group Risk Management ensure adequate follow-up and prioritisation. Supplementary control measures have been defined in the meantime, which should mitigate risk sufficiently.

The effectiveness of the framework is evaluated annually by Group Risk Management and Compliance, while Group Audit also assesses its quality and effectiveness. The results of these evaluations featured in the respective quarterly reports of Group Risk Management, Compliance and Group Audit.

For more detailed information on risk management within Van Lanschot Kempen, see page 59. The financial statements also include a more detailed explanation of risk management at Van Lanschot Kempen (see "Risk management", beginning on page 122).

Financial reporting risk

The Statutory Board is responsible for the design and operation of an adequate system of internal control for Van Lanschot Kempen's financial reporting. The system is designed to provide reasonable assurance as to the reliability of financial reporting. The financial statements must be prepared in accordance with generally accepted accounting principles and applicable legislation and regulations.

Van Lanschot Kempen has tools in place to manage financial reporting risks:

– Periodic management reports and KPI dashboards, accompanied by analysis of financial and non-financial figures and trends;
– A risk & control framework describing processes and procedures, and setting out primary controls such as authorisations and segregation of duties;
– Evaluation of the functioning of the internal management and control system by Group Audit. The main findings are discussed with the Statutory Board, the Audit and Compliance Committee and the Supervisory Board;
– Assessment and approval of the annual report by the Statutory Board, and discussion of the annual report by the Audit and Compliance Committee and the Supervisory Board;
– The Accounting Manual, which sets out the principles regarding financial accounting.

In-control statements are provided by the management of the relevant departments. These are based on the results of testing procedures for the risk & control framework, the risks reported on a quarterly basis, the follow-up of these risks, and the incidents reported. Group Risk Management and Compliance evaluated the 2019 in-control statements.

The quarterly reports of Group Audit, setting out its main findings, were discussed with the Executive Board and the Audit and Compliance Committee. The conclusions of the Audit and Compliance Committee were subsequently shared with the Supervisory Board.

The Supervisory Board was informed about the Statutory Board's internal control of the organisation, and how it safeguards the integrity of financial information. The subjects considered by the Supervisory Board when assessing the financial statements include the board report and the audit by the external auditors.

The key audit matters cited in the independent auditors' report were discussed with the Statutory Board and the Audit and Compliance Committee, and formed part of the organisation's management and control.

Statement by the Statutory Board

In accordance with best practice provision 1.4.3 of the Dutch Corporate Governance Code, the Statutory Board states that:

– The management report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
– The aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
– Based on the current state of affairs, it is justified that the financial reporting is prepared on a "going concern" basis;
– The management report states those material risks and uncertainties that are relevant to expectation of the company's continuity for the period of 12 months after the preparation of this report.

External auditors

PricewaterhouseCoopers Accountants NV (PwC) were reappointed as Van Lanschot Kempen's external auditors for the 2020 financial year at the general meeting on 22 May 2019. PwC's audit plan for 2019 and risk analysis were discussed in August 2019 at meetings of the Statutory Board and the Audit and Compliance Committee.

PwC issued a board report for 2019 in February 2020. The subjects set out in this board report are in line with the notes included in this annual report with respect to risk management, insofar as these relate to financial reporting risks. The external auditors may be questioned at the annual general meeting in relation to their audit, and will be attending the meeting for this reason.

The Statutory Board and the Audit and Compliance Committee evaluated the functioning of PwC in December 2019.

STATEMENT BY THE STATUTORY BOARD
As required by Article 5:25c (2c) of the Financial Supervision Act, each of the undersigned hereby confirms that to the best of their knowledge:
- The 2019 financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Van Lanschot Kempen and its consolidated entities;
- The 2019 Report of the Statutory Board of Van Lanschot Kempen gives a true and fair view of the position of the company and its consolidated entities on balance sheet date, and of the course of their affairs during the 2019 financial year, and describes the material risks that Van Lanschot Kempen faces.

’s-Hertogenbosch, the Netherlands, 20 February 2020

Statutory Board

Karl Guha, *Chairman*
Constant Korthout
Arjan Huisman
Richard Bruens

PERSONAL DETAILS OF MEMBERS OF THE EXECUTIVE BOARD

From left to right: Constant Korthout, Richard Bruens, Leni Boeren, Karl Guha, Arjan Huisman, Leonne van der Sar

Karl Guha

Chairman of the Statutory Board of Van Lanschot Kempen/ Van Lanschot Kempen Wealth Management, Chairman of the Executive Board of Van Lanschot Kempen

Born
1964, male

Nationality
Dutch

Appointed
2 January 2013

Areas of responsibility
Advanced Analytics, Communications, Company Secretariat/Legal, Compliance, Group Audit, Human Resource Management, Strategy & Corporate Development, Sustainability, Van Lanschot Belgium

Total number of board and/or supervisory positions
Two

Background
1989 – ABN AMRO: Various managerial positions in Structured Finance, Treasury, Capital Management, Investor Relations, Risk Management and Asset & Liability Management
2009 – UniCredit Banking Group: CRO and member of the executive management committee, and member of supervisory boards of Bank Austria, HVB in Germany and Zao Bank in Russia

Constant Korthout

Member of the Statutory Board, Chief Financial Officer/ Chief Risk Officer of Van Lanschot Kempen/Van Lanschot Kempen Wealth Management, Member of the Executive Board of Van Lanschot Kempen

Born
1962, male

Nationality
Dutch

Appointed
27 October 2010

Areas of responsibility
Finance, Reporting & Control, Treasury, Group Risk Management, Credit Risk, Credit Restructuring & Recovery

Total number of board and/or supervisory positions
Two

Background
1985 – ABN AMRO: Management trainee, senior account manager corporate clients
1990 – KPMG Management Consultants: financial management consultant
1992 – Robeco: Group Controller, CFO and member of executive board of Weiss, Peck & Greer in New York, and Corporate Development Director
2002 – Robeco: CFO, including Risk Management, Treasury and Corporate Development

Arjan Huisman

Member of the Statutory Board, Chief Operating Officer of Van Lanschot Kempen/Van Lanschot Kempen Wealth Management, Member of the Executive Board of Van Lanschot Kempen

Born
1971, male

Nationality
Dutch

Appointed
6 May 2010

Areas of responsibility
Digital & Innovation, IT Platforms & Security, Service Centre Securities, Service Centre Data Management, Service Centre Procurement, Contract Management & Facilities

Total number of board and/or supervisory positions
Four

Significant supervisory board memberships and/or (board) positions
VLC & Partners: Member of supervisory board

Background
1995 – BCG Amsterdam and Boston offices: Various consulting positions, with a strong focus on financial services
2004 – BCG Prague office: Partner and Managing Director
2008 – BCG Amsterdam office: Partner and Managing Director

Richard Bruens

Member of the Statutory Board of Van Lanschot Kempen/ Van Lanschot Kempen Wealth Management, Member of the Executive Board of Van Lanschot Kempen

Born
1967, male

Nationality
Dutch

Appointed
15 May 2014

Areas of responsibility
Private Banking, Van Lanschot Switzerland, Evi

Total number of board and/or supervisory positions
Four

Significant supervisory board memberships and/or (board) positions
Feyenoord Rotterdam: Member of supervisory board

Background
1991 – ABN AMRO: Various managerial positions in the Global Markets division, Managing Director of Investor Relations
2007 – Renaissance Capital: Member of group managing board
2010 – ABN AMRO: Global Head Products & Solutions and Global Head Private Wealth Management

Leni Boeren

Member of the Executive Board of Van Lanschot Kempen

Born
1963, female

Nationality
Dutch

Appointed
5 February 2018

Areas of responsibility
Asset Management

Total number of board and/or supervisory positions
Four

Significant supervisory board memberships and/or (board) positions
Kempen Capital Management: Chair of statutory board
Tata Steel Nederland: Member of supervisory board
Air France-KLM: Independent member of board of directors, member of audit committee, and member of sustainable development and compliance committee
FCLT Global: Member of board of directors

Background
1983 – Paribas: Account Manager
1984 – Rabobank: Senior Investment Adviser, Head of Account Management
1992 – Robeco Group: Head of Investment Services Strategy, Head of Marketing and Product Management
1997 – Amsterdam Exchanges: Member of board of directors
2000 – Euronext: Member of executive committee
2005 – Robeco Group: Member, Vice-Chair and Chair of group management board and Chair/member of the boards of a number of Robeco Group subsidiaries

Leonne van der Sar

Member of the Executive Board of Van Lanschot Kempen

Born
1969, female

Nationality
Dutch

Appointed
1 August 2017

Areas of responsibility
Merchant Banking: Corporate Finance, Equity Capital Markets, Securities

Total number of board and/or supervisory positions
None

Background
1994 – ABN AMRO: Various positions in Investment Banking
1998 – ABN AMRO Rothschild: Various positions in Investment Banking and Equity Capital Markets
2004 – ABN AMRO Rothschild: Managing Director and Head of ABN AMRO Rothschild Netherlands office
2006 – ABN AMRO: Executive Director Corporate Development
2008 – Several interim management assignments in the financial sector
2014 – Van Lanschot Kempen: Head of Strategy & Corporate Development

PERSONAL DETAILS OF MEMBERS OF THE SUPERVISORY BOARD

From left to right: Frans Blom, Jeanine Helthuis, Manfred Schepers, Willy Duron, Lex van Overmeire, Bernadette Langius, Maarten Muller

Willy Duron

Chairman of the Supervisory Board
Supervisory Board committees: Audit and Compliance, Remuneration, Risk, Selection and Appointment (Chairman)

Born
1945, male

Nationality
Belgian

Appointed
10 May 2007; fourth term of office expires in 2021

Total number of supervisory board memberships and/or board positions
Three

Significant other supervisory board memberships and/or (board) positions
Windvision: Chairman of board of directors

Previous positions held
KBC Group: Chairman

Manfred Schepers

Vice-Chairman of the Supervisory Board
Supervisory Board committees: Audit and Compliance, Risk (Chairman)

Born
1960, male

Nationality
Dutch

Appointed
18 May 2017; first term of office expires in 2021

Total number of supervisory board memberships and/or board positions
Four

Significant other supervisory board memberships and/or (board) positions
NWB Bank: Member of supervisory board

Principal other positions held
Amsterdam Institute of Finance: Member of advisory board
UWC Atlantic College: Member of board of governors
European Fund for Strategic Investments: Member of investment committee
Cardano Development: Project manager ILX

Previous positions held
European Bank for Reconstruction and Development: Vice President and Chief Financial Officer

Frans Blom

Member of the Supervisory Board
Supervisory Board committees: Risk, Remuneration

Born
1962, male

Nationality
Dutch

Appointed
5 October 2018; first term of office expires in 2023

Total number of supervisory board memberships and/or board positions
Two

Principal other positions or offices held
Boston Consulting Group The Netherlands: Adviser

Previous positions or offices held
Boston Consulting Group The Netherlands: Chairman

Jeanine Helthuis

Member of the Supervisory Board
Supervisory Board committees: Audit and Compliance, Selection and Appointment, Remuneration

Born
1962, female

Nationality
Dutch

Appointed
2 July 2013; second term of office expires in 2021

Total number of supervisory board memberships and/or board positions
Seven

Principal position
PC Uitvaart: Managing Director

Significant other supervisory board memberships and/or (board) positions
Prorail: Vice-Chair of supervisory board

Previous positions held
Monuta Holding/Monuta Verzekeringen: Chair of board of management
Fortis Bank Nederland: Member of board of directors

Bernadette Langius

Member of the Supervisory Board
Supervisory Board committees: Remuneration (Chair), Risk

Born
1960, female

Nationality
Dutch

Appointed
13 May 2015; second term of office expires in 2023

Total number of supervisory board memberships and/or board positions
Five

Significant other supervisory board memberships and/or (board) positions
IBM Nederland: Member of supervisory board
BDO Nederland: Member of supervisory board
Ingenico ePayments Nederland: Member of supervisory board

Previous positions held
VU Amsterdam: Member of executive board
ABN AMRO: CEO Commercial Banking NL, CEO Private Banking NL

Maarten Muller

Member of the Supervisory Board
Supervisory Board committees: Remuneration, Selection and Appointment

Born
1954, male

Nationality
Dutch

Appointed
31 May 2018; first term of office expires in 2022

Total number of supervisory board memberships and/or board positions
Two

Significant other supervisory board memberships and/or (board) positions
Stichting continuïteit TomTom: Chairman of board
Stichting Vopak: Member of board

Previous positions held
Allen & Overy LLP: Partner

Lex van Overmeire

Member of the Supervisory Board
Supervisory Board committees: Audit and Compliance (Chairman), Risk

Born
1956, male

Nationality
Dutch

Appointed
30 January 2017; first term of office expires in 2021

Total number of supervisory board memberships and/or board positions
Three

Significant other supervisory board memberships and/or (board) positions
Centrum indicatiestelling zorg (CIZ): Chairman of audit advisory committee
Stichting Arq: Member of supervisory board

Previous positions held
EY Accountants LLP: Audit partner

RECONCILIATION OF IFRS AND MANAGEMENT REPORTING

Reconciliation of IFRS and management reporting (€ million)	IFRS	Non-strategic investments	Investment programme	Amortisation of intangible assets arising from acquisitions	Restructuring charges	Managerial
Commission	290.4	–	–	–	–	290.4
Interest	174.9	0.4	–	–	–	175.3
Income from securities and associates	86.5	–36.0	–	–	–	50.5
Result on financial transactions	–7.4	–	–	–	–	–7.4
Other income	8.8	–8.8	–	–	–	–
Income from operating activities	**553.2**	**–44.5**	**–**	**–**	**–**	**508.7**
Staff costs	250.6	–8.4	–1.0	–	–2.8	238.5
Other administrative expenses	135.1	2.9	–10.1	–	–	127.9
Depreciation and amortisation	25.2	–1.3	0.0	–6.2	–	17.7
Operating expenses	**410.8**	**–6.7**	**–11.1**	**–6.2**	**–2.8**	**384.1**
Gross result	**142.4**	**–37.8**	**11.1**	**6.2**	**2.8**	**124.7**
Impairments	22.9	–	–	–	–	22.9
Operating profit before tax of non-strategic investments	–	37.8	–	–	–	37.8
Operating result before special items and tax	**119.5**	**–**	**11.1**	**6.2**	**2.8**	**139.6**
Strategic investment programme	–	–	11.1	–	–	11.1
Amortisation of intangible assets arising from acquisitions	–	–	–	6.2	–	6.2
Restructuring charges	–	–	–	–	2.8	2.8
Operating profit before tax	**119.5**	**–**	**–**	**–**	**–**	**119.5**
Income tax	21.1	–	–	–		21.1
Net result	**98.4**	**–**	**–**	**–**	**–**	**98.4**

2019 financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER
Before profit appropriation (€1,000)

		2019	2018[1]
Assets			
Cash and cash equivalents and balances at central banks	1	1,417,164	1,406,864
Financial assets from trading activities	2	49,263	62,468
Due from banks	3	297,556	539,180
Derivatives	4	367,279	332,719
Financial assets at fair value through profit or loss	5	321,509	218,583
Financial assets at fair value through other comprehensive income	6	2,384,261	1,803,584
Loans and advances to the public and private sectors	7	8,597,894	8,561,497
Other financial assets at amortised cost	8	425,606	554,209
Investments in associates using the equity method	9	52,452	54,071
Property and equipment	10	102,521	48,238
Goodwill and other intangible assets	11	141,311	183,083
Tax assets	12	18,566	29,118
Assets classified as held for sale	13	–	68,058
Other assets	14	143,469	121,513
Total assets		**14,318,853**	**13,983,184**
Equity and liabilities			
Financial liabilities from trading activities	15	2,150	333
Due to banks	16	141,715	334,902
Public and private sector liabilities	17	9,545,095	9,090,939
Derivatives	4	449,826	469,316
Financial liabilities at fair value through profit or loss	18	907,602	940,361
Issued debt securities	19	1,545,109	1,521,504
Provisions	20	49,597	44,461
Tax liabilities	21	792	5,764
Liabilities classified as held for sale	22	–	20,871
Other liabilities	23	187,306	125,383
Subordinated loans	24	173,090	173,473
Total liabilities		**13,002,283**	**12,727,308**
Issued share capital		41,362	41,362
Treasury shares		–10,007	–8,678
Share premium reserve		323,719	385,115
Other reserves		762,852	751,233
Undistributed profit attributable to shareholders		92,929	74,631
Equity attributable to shareholders		**1,210,853**	**1,243,663**
AT1 capital securities		100,000	–
Undistributed profit attributable to holders of AT1 capital securities		1,688	–
Equity attributable to AT1 capital securities[2]		**101,688**	**–**
Other non-controlling interests		3,606	6,529
Undistributed profit attributable to other non-controlling interests		423	5,684
Equity attributable to other non-controlling interests		**4,029**	**12,213**
Total equity	25	**1,316,570**	**1,255,876**
Total equity and liabilities		**14,318,853**	**13,983,184**
Contingent liabilities		105,706	134,449
Irrevocable commitments		939,156	853,276
Contingent liabilities and irrevocable commitments	26	**1,044,862**	**987,725**

The number beside each item refers to the Notes to the consolidated statement of financial position.

1 Some prior year figures adjusted due to restatement related to provisions for pensions (see "Summary of significant accounting policies", subsection "Disclosure relating to prior period error").

2 This relates to capital securities issued by Van Lanschot Kempen Wealth Management NV.

CONSOLIDATED STATEMENT OF INCOME
(€1,000)

		2019	2018
Income from operating activities			
Interest income calculated using the effective interest method		236,165	251,985
Other interest income		32,116	52,359
Interest expense calculated using the effective interest method		49,912	66,518
Other interest expense		43,473	62,612
Net interest income	27	**174,897**	**175,213**
Income from associates using the equity method		33,426	28,728
Other income from securities and associates		53,109	2,594
Income from securities and associates	28	**86,535**	**31,323**
Commission income		305,622	307,714
Commission expense		15,232	14,467
Net commission income	29	**290,390**	**293,247**
Result on financial transactions	30	**–7,407**	**–805**
Net sales		13,066	11,020
Cost of sales		4,258	3,716
Other income	31	**8,808**	**7,304**
Total income from operating activities		**553,222**	**506,282**
Expenses			
Staff costs	32	250,577	263,724
Other administrative expenses	33	135,062	162,043
Staff costs and other administrative expenses		**385,639**	**425,766**
Depreciation and amortisation	34	25,201	14,427
Operating expenses		**410,840**	**440,193**
Impairments of financial instruments		–12,059	–12,737
Other impairments		34,913	–679
Impairments	35	**22,854**	**–13,416**
Total expenses		**433,693**	**426,778**
Operating profit before tax		**119,529**	**79,504**
Income tax	36	21,114	12,086
Net profit from continuing operations		**98,414**	**67,418**
Net profit from discontinued operations	37	–	12,897
Net result		**98,414**	**80,315**
Of which attributable to shareholders		92,929	74,631
Of which attributable to holders of AT1 capital securities		5,063	–
Of which attributable to other non-controlling interests		423	5,684
Earnings per ordinary share (€)	38	2.27	1.82
Earnings per ordinary share from continuing operations (€)	38	2.27	1.51
Diluted earnings per ordinary share (€)	39	2.26	1.81
Diluted earnings per ordinary share from continuing operations (€)	39	2.26	1.49
Proposed dividend per ordinary share (€)		1.45	1.45

The number beside each item refers to the Notes to the consolidated statement of income.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (€1,000)

		2019	2018[1]
Net result (as per statement of income)		**98,414**	**80,315**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Other comprehensive income through revaluation reserve			
Revaluation of financial assets at fair value through other comprehensive income		6,302	–12,881
Realised return on financial assets at fair value through other comprehensive income		–657	–3,764
Impairments of financial assets at fair value through other comprehensive income		402	–86
Income tax effect		–1,151	3,985
Total other comprehensive income through revaluation reserve	25	**4,895**	**–12,746**
Other comprehensive income from value changes of derivatives (cash flow hedges)			
Increase in value of derivatives directly added to equity		–2,148	–3,892
Income tax effect		437	208
Total other comprehensive income from value changes of derivatives (cash flow hedges)	25	**–1,711**	**–3,684**
Other comprehensive income from currency translation differences			
Other comprehensive income from currency translation differences		768	–1,499
Total other comprehensive income from currency translation differences	25	**768**	**–1,499**
Total other comprehensive income to be reclassified in subsequent periods to profit or loss		**3,952**	**–17,929**
Other comprehensive income not to be reclassified in subsequent periods to profit or loss			
Change in fair value attributable to change in credit risk of financial liabilities at fair value through profit or loss			
Change in fair value attributable to change in credit risk of financial liabilities at fair value through profit or loss		5,755	–2,931
Income tax effect		–1,180	733
Total change in fair value attributable to change in credit risk of financial liabilities at fair value through profit or loss		**4,575**	**–2,198**
Remeasurement of defined benefit plans			
Remeasurement of defined benefit plans		–10,263	765
Income tax effect		2,490	–930
Total remeasurement of defined benefit plans	25	**–7,772**	**–165**
Total other comprehensive income not to be reclassified in subsequent periods to profit or loss		**–3,197**	**–2,363**
Total other comprehensive income		**755**	**–20,292**
Total comprehensive income		**99,169**	**60,024**
Of which attributable to shareholders		93,684	54,339
Of which attributable to holders of AT1 capital securities		5,063	–
Of which attributable to other non-controlling interests		423	5,684
Total comprehensive income to shareholders			
Of which continuing operations		93,684	46,460
Of which discontinued operations		–	7,880
		93,684	**54,339**

The number beside each item refers to the Notes to the consolidated statement of financial position.

1 Some prior year figures adjusted due to restatement related to provisions for pensions (see "Summary of significant accounting policies", subsection "Disclosure relating to prior period error").

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN 2019
Before profit appropriation (€1,000)

	Share capital	Treasury shares	Share premium reserve[1]	Other reserves[1]	Undistri-buted	**Total equity attributable to share-holders**	Equity attributable to AT1 capital securities	Equity attributable to other non-controlling interests	Total equity
At 1 January	**41,362**	**–8,678**	**385,115**	**751,233**	**74,631**	**1,243,663**	**–**	**12,213**	**1,255,876**
Net result (as per statement of income)	–	–	–	–	92,929	92,929	5,063	423	98,414
Total other comprehensive income	–	–	–	755	–	755	–	–	755
Total comprehensive income	**–**	**–**	**–**	**755**	**92,929**	**93,684**	**5,063**	**423**	**99,169**
Share plans	–	6,622	–	–2,608	–	4,015	–	–	4,015
To other reserves	–	–	–	15,194	–15,194	–	–	–	–
Repurchased equity instruments	–	–7,952	–	–	–	–7,952	–	–	–7,952
Dividends/Capital return	–61,396	–	–	–	–59,437	–120,833	–3,375	–309	–124,517
To share capital	61,396	–	–61,396	–	–	–	–	–	–
Increase/(decrease) of capital	–	–	–	–	–	–	100,000	–	100,000
Other changes	–	–	–	–1,724	–	–1,724	–	–	–1,724
Change in non-controlling interests	–	–	–	–	–	–	–	–8,298	–8,298
At 31 December	**41,362**	**–10,007**	**323,719**	**762,852**	**92,929**	**1,210,853**	**101,688**	**4,029**	**1,316,570**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN 2018
Before profit appropriation (€1,000)

	Share capital	Treasury shares	Share premium reserve[1]	Other reserves[1]	Undistri-buted	**Total equity attributable to share-holders**	Equity attributable to AT1 capital securities	Equity attributable to other non-controlling interests	Total equity
At 1 January	**41,147**	**–7,869**	**441,459**	**754,234**	**89,508**	**1,318,478**	**–**	**16,264**	**1,334,742**
Adjustment opening balance[2]	–	–	–	–11,861	–	-11,861	–	–	–11,861
Adjusted 1 January opening balance	41,147	–7,869	441,459	742,374	89,508	1,306,617	–	16,264	1,322,881
Net result (as per statement of income)	–	–	–	–	74,631	74,631	–	5,684	80,315
Total other comprehensive income	–	–	–	–20,292	–	–20,292	–	–	–20,292
Total comprehensive income	**–**	**–**	**–**	**–20,292**	**74,631**	**54,339**	**–**	**5,684**	**60,024**
Shares issued	215	–5,397	5,182	–	–	–	–	–	–
Share plans	–	14,780	–	–445	–	14,334	–	–	14,334
To other reserves	–	–	–	30,139	–30,139	–	–	–	–
Repurchased equity instruments	–	–10,192		–	–	–10,192	–	–	–10,192
Dividends/Capital return	–61,526	–	–	–	–59,369	–120,894	–	–895	–121,789
To share capital	61,526	–	–61,526	–	–	–	–	–	–
Other changes	–	–	–	–542	–	–542	–	–	–542
Change in non-controlling interests	–	–	–	–	–	–	–	–8,840	–8,840
At 31 December	**41,362**	**–8,678**	**385,115**	**751,233**	**74,631**	**1,243,663**	**–**	**12,213**	**1,255,876**

1 For additional information on the nature and composition of the share premium reserve and other reserves, see Note 25. Some prior year figures adjusted due to restatement related to provisions for pensions (see "Summary of significant accounting policies", subsection "Disclosure relating to prior period error").

2 See "Summary of significant accounting policies", subsection "Changes in accounting presentation.

CONSOLIDATED STATEMENT OF CASH FLOWS
(€1,000)

		2019	2018
Cash flow from operating activities			
Operating profit before tax		119,529	79,504
Adjustments for			
– Depreciation and amortisation	34	27,845	16,799
– Costs of share plans		1,996	2,989
– Results on associates using the equity method	9	–13,469	–11,759
– Valuation results on financial assets at fair value through profit or loss		–15,305	19,803
– Valuation results on financial liabilities at fair value through profit or loss		57,967	–46,177
– Valuation results on derivatives		–7,693	–4,818
– Impairments	35	22,853	–13,416
– Changes in provisions		6,332	8,458
Cash flow from operating activities		**200,055**	**51,383**
Net movement in operating assets and liabilities			
– Financial assets/liabilities from trading activities		15,022	–25,800
– Due from/to banks		14,445	–33,238
– Loans and advances to public and private sectors/Public and private sector liabilities		502,352	506,713
– Derivatives		–107,517	129,920
– Withdrawals from restructuring provision and other provisions		–11,060	–2,931
– Other assets and liabilities		–30,820	–15,640
– Deferred tax assets and liabilities		113	–
– Tax assets and liabilities		1,269	1,382
– Income taxes paid		–14,858	–9,523
– Dividends received		7,677	3,192
Total net movement in operating assets and liabilities		**376,623**	**554,076**
Net cash flow from operating activities		**576,679**	**605,459**
Net cash flow from discontinued operations		**27,269**	**–6,027**
Cash flow from investing activities			
Investments and acquisitions			
– Investments in debt instruments		–1,287,393	–1,302,486
– Investments in equity instruments		–6,562	–48,331
– Investments in associates using the equity method	9	–4,447	–9,609
– Property and equipment		–10,727	–5,016
– Goodwill and other intangible assets		–167	–878
Divestments, redemptions and sales			
– Investments in debt instruments		769,714	1,307,076
– Investments in equity investments		–5,996	92,589
– Investments in associates using the equity method		15,311	27,115
– Property and equipment		2,399	4,686
– Goodwill and other intangible assets		–	1,873
Dividends received	9	4,516	3,473
Net cash flow from investing activities of continuing operations		**–523,351**	**70,492**
Net cash flow from investing activities of discontinued operations		**–154**	**154**

The number beside each item in the statement of cash flows refers to the Notes to the consolidated statement of financial position and the Notes to the consolidated statement of income.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(€1,000)

	2019	2018
Cash flow from financing activities		
Share plans	2,019	11,345
Repurchased equity instruments[1]	–7,952	–10,192
AT1 capital securities	100,000	–
Change in non-controlling interests	–736	–8,133
Redemption of subordinated loans	–113	–113
Redemption of issued debt securities	–1,232	–907,256
Receipts on financial liabilities at fair value through profit or loss	60,427	129,771
Redemption of financial liabilities at fair value through profit or loss	–145,530	–116,872
Dividends paid	–124,517	–121,789
Net cash flow from financing activities of continuing operations	**–117,634**	**–1,023,239**
Net cash flow from financing activities of discontinued operations	–	–
Net change in cash and cash equivalents and balances at central banks	**–37,191**	**–353,161**
Cash and cash equivalents and balances at central banks at 1 January[2]	1,473,572	1,826,733
Cash and cash equivalents and balances at central banks at 31 December[2]	1,436,381	1,473,572
Additional disclosure		
Cash flows from interest received	265,370	310,702
Cash flows from interest paid	97,456	135,195

The table below provides a reconciliation of changes in liabilities arising from financing activities.

Reconciliation of liabilities arising from financing activities in 2019	Subordinated loans	Issued debt securities	Financial liabilities at fair value through profit or loss	Total
At 1 January	**173,473**	**1,521,504**	**940,361**	**2,635,338**
Cash flows	–113	–1,232	–85,102	–86,448
Non-cash changes				
– Fair value changes	–269	24,837	52,343	76,911
At 31 December	**173,090**	**1,545,109**	**907,602**	**2,625,801**

Reconciliation of liabilities arising from financing activities in 2018	Subordinated loans	Issued debt securities	Financial liabilities at fair value through profit or loss	Total
At 1 January	**173,620**	**2,411,671**	**971,453**	**3,556,744**
Cash flows	–113	–907,256	12,899	–894,470
Non-cash changes				
– Fair value changes	–34	17,089	–43,991	–26,936
At 31 December	**173,473**	**1,521,504**	**940,361**	**2,635,338**

1 Van Lanschot Kempen grants unconditional and conditional rights to acquire depositary receipts for Class A ordinary shares for no consideration. To meet open positions, Van Lanschot Kempen holds depositary receipts for Class A ordinary shares. In 2019 and 2018, Van Lanschot Kempen carried out a share buy-back programme.

2 Cash and cash equivalents and balances at central banks also includes amounts due from/to banks available on demand.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

General
Our purpose is the preservation and creation of wealth, in a sustainable way, for our clients and the societies we serve. Van Lanschot Kempen NV ("Van Lanschot Kempen") is the holding company of Van Lanschot Kempen Wealth Management NV (formerly Van Lanschot NV until 31 December 2019) ("VLKWM"). The company has its registered office at Hooge Steenweg 29, 5211 JN ´s-Hertogenbosch, the Netherlands.
Van Lanschot Kempen is a public limited company incorporated under Dutch law and registered under number 16014051 at the Chamber of Commerce. Depositary receipts for Class A ordinary shares are publicly traded on the official market of the Euronext Amsterdam Stock Exchange.

The consolidated financial statements of Van Lanschot Kempen at 31 December 2019 were prepared by the Statutory Board on 20 February 2020, were approved by the Supervisory Board, and will be submitted to the general meeting of shareholders for adoption on 28 May 2020.

Basis of preparation
The consolidated financial statements of Van Lanschot Kempen and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and with Part 9, Book 2 of the Dutch Civil Code. Unless stated otherwise, assets and liabilities are measured at historical cost.

Continuity
The Statutory Board has examined the ability of Van Lanschot Kempen to continue its operations and concluded that we are able to do so for the foreseeable future. Moreover, the Board is not aware of any material uncertainties that cast significant doubt on our ability to continue as a going concern. The consolidated financial statements have been prepared on this basis.

Functional and reporting currency
The consolidated financial statements are denominated in euros, the functional and reporting currency of Van Lanschot Kempen. Unless stated otherwise, all amounts are given in thousands of euros. The totals may not always match the sum of the individual values due to rounding.

Disclosure relating to prior period error
Provisions for pensions were understated, because not all future pension guarantee costs were taken into account. In accordance with IAS 8, these amounts were adjusted retrospectively from 1 January 2018, causing an increase in provisions for pensions by €15.8 million, an increase in deferred tax assets by €4.0 million and a reduction in Total equity attributable to shareholders by €11.9 million. At 31 December 2018, provisions for pensions were understated by an amount of €15.5 million, and deferred tax assets by €3.2 million. As a result, Total equity attributable to shareholders was overstated by €12.3 million. The consolidated statement of income was not materially affected in 2018.

Adjustment	01/01/2018
Total Equity attributable to shareholders before adjustment	**1,318,478**
Increase in provisions for pensions	15,814
Increase in deferred tax assets	3,954
Total Equity attributable to shareholders after adjustment	**1,306,617**

Changes in accounting policies
The accounting policies adopted in the preparation of our annual consolidated financial statements for the year ended 31 December 2019 remain unchanged, except for the adoption of new standards and interpretations effective from 1 January 2019.

Changes in published IFRS standards and interpretations
The IFRS standards listed below became effective from 1 January 2019 and have been applied to our financial statements for 2019. Unless stated otherwise, application of these standards had no impact on Van Lanschot Kempen's equity or result. Application of the amended standards generally entails amendment or expansion of notes.

IFRS 16 Leases
IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and will result in almost all leases being recognised on the balance sheet, similar to the accounting for finance leases under IAS 17. We have applied the standard from its mandatory adoption date of 1 January 2019 and have opted to use the modified retrospective approach. The reclassifications and adjustments arising from the new leasing rules are recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, Van Lanschot Kempen recognised lease liabilities. These were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.19%, as derived from our Treasury department calculations. We have used the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. Van Lanschot Kempen has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value.

The following table reconciles the future rental commitments for operating lease contracts under IAS 17 to the lease liability under IFRS 16 on transition to IFRS 16 as of 1 January 2019:

Reconciliation of lease liabilities initially recognised (€ million)	Total
Operating lease commitments disclosed under IAS 17 at 31 December 2018	**71,602**
(Less) discounting effect using average incremental borrowing rate of 1.19% at 1 January 2019	–3,942
(Less) recognition exception for low value leases	–800
Lease liability recognised under IFRS 16 at 1 January 2019	**66,860**
The recognised right-of-use assets as at 1 January 2019 relate to the following types of assets:	
Right-of-use assets – buildings	59,108
Right-of-use assets – transport equipment	7,752

The right-of-use assets are presented under Property and equipment in the statement of financial position. For information regarding the carrying amount, additions, depreciation and impairments by class of assets see Note 10 (Property and equipment). Lease liabilities are presented in the statement of financial position under Other liabilities (see Note 23, Other liabilities). Also disclosed here are the expenses relating to payments not included in the measurement of the lease liability. Interest expense on leases and amortisation on the right-of-use assets during the year are disclosed within the statement of profit or loss, and are disclosed in, respectively, Note 23 (Other liabilities) and Note 34 (Depreciation and amortisation). The undiscounted maturity analysis of lease liabilities at 31 December 2019 is incorporated within “Risk management”, Table 9.1.A.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how the recognition and measurement requirements of IAS 12 Income Taxes are applied for income tax treatments. The standard has no material impact on group results.

Annual Improvements to 2015-2017 Cycle

Changes to standards concern:

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. Based on our assessment, we expect no material impact on group results.

Published IFRS standards and interpretations not yet effective

In addition to the IFRS standards and interpretations referred to above, a number of IFRS standards and interpretations are new or have been amended, and apply to financial statements for periods beginning on or after 1 January 2020. We have not applied the following standards in the 2019 financial statements. Unless stated otherwise, standards will be applied as soon as they become effective and have been endorsed by the EU.

Annual Improvements to 2015-2017 Cycle

Changes to standards concern:

IFRS 3 – Definition of a Business

The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. These amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. In case of a business combination, an impact assessment will be made.

IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

The amendments provide temporary reliefs that enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. We have performed an impact assessment and concluded that this standard will have no material impact on the group. These amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

IAS 1 and IAS 8 – Definition of material

The amendments are issued to align the definition of "material" across the standards and clarify that materiality will depend on the nature or magnitude of information, or both. These amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. At this stage, we expect no impact.

Significant accounting judgements and estimates

We have identified those accounting policies which involve the most complex or subjective decisions or assessments. In the process of applying these accounting policies, we use estimates, assumptions and judgements which can have a significant impact on the amounts recognised in the financial statements. These estimates and assumptions are based on the most recent information available, and the actual amounts may differ in the future. The principal estimates and assumptions relate to impairments on financial instruments measured at amortised cost and fair value through other comprehensive income, investments in associates using the equity method, property and equipment, goodwill, intangible assets, and assets acquired through foreclosures.

Such estimates and assumptions also relate to the determination of the fair value of financial instruments, deferred tax positions, share-based payments, employee benefits and provisions.

Accounting judgements

We have applied critical judgement to determine significant influence in companies in which we hold minority interests smaller than 20%. In our opinion, the influence on the financial and operating policy decisions that we have in some minority interests is more in line with the expected influence in an associate. Examples of this influence are veto rights in decisions on issuance of new shares and decisions on amendments of the articles of association. Therefore, we classify these minority interests as incorporated in the articles of association and apply equity accounting instead of IFRS 9 fair value accounting. For further information, see the disclosure on Investments in associates using the equity method.

Significant accounting estimates

The determination of the fair value of financial instruments, in so far as available and provided there is an active market, is based on stock market prices at the reporting date. For financial assets, the bid price is used; for financial liabilities, the selling price.

The fair value of financial instruments not traded in an active market is determined on the basis of cash flow and of option and other valuation models. These models are based on the market circumstances prevailing at the reporting date. Estimates mainly relate to future cash flows and discount rates. For more details, see “Risk management”, under 14, Fair value.

Impairments of financial assets

We recognise a loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost or fair value through profit or loss, as well as for financial guarantees and loan commitments. When there has been no significant deterioration in credit risk since initial recognition, ECL is recognised based on a 12-month expected credit loss (Stage 1). When a significant increase in credit risk has occurred, ECL is recognised based on a lifetime expected credit loss (Stage 2). For impaired loans (Stage 3), a lifetime ECL is recognised. The impairments of financial assets are determined as a critical estimate. For more information on deterioration in credit risk, see “Risk management”, under 2.8, Loss allowance for expected credit loss.

Impairments of goodwill

To measure the recoverable amounts, we calculate the value in use for each cash-generating unit (CGU). This calculation reflects an estimate of future cash flows, multiple scenario analyses and discount rates. Future cash flow estimates are based on our strategic plans and different types of investigation into possible trends. Events and factors that could have a significant impact on these estimates include market expectations, effects of mergers and acquisitions, competitive conditions, client behaviour and changes in the client base, cost structure, trends in interest rates and risks, and other circumstances specific to the industry and sector. For more information on the discount rates used, see Note 11, Goodwill and other intangible assets.

Other accounting estimates

Impairments of non-financial assets

The recoverable amount of a non-financial asset is the higher of the fair value of the asset less costs to sell and its value in use. This fair value less costs to sell is the price that would be received on sale of an asset or paid on transfer of a liability in an orderly transaction between market participants at the valuation date. To determine whether assets are impaired, the individual assets are allocated to the lowest level at which cash flows can be identified (cash-generating units). Non-financial assets that have been subject to impairment, other than goodwill paid, are reviewed annually to determine whether the impairment can be reversed. Non-financial assets, other than goodwill paid, are tested for impairment annually by assessing whether there are any indications that these assets are impaired.

Deferred tax assets

Deferred tax assets are recognised only if it is probable that taxable profits will be realised in the near future against which these temporary differences can be offset. Estimates are used when determining future taxable profits, since these are subject to uncertainty.

Acquisitions

In the case of acquisitions, it is necessary to determine the fair value of the acquired assets (including any intangible assets and goodwill acquired), as well as of liabilities and obligations not recognised in the statement of financial position. Estimates are used for this, particularly for those items which are not traded on an active market.

Actuarial assumptions of provisions

The pension liabilities are determined using actuarial calculations. These calculations make assumptions regarding elements such as the discount rate, future trends in salaries and returns on investments. These assumptions are subject to uncertainty. See Note 20, Provisions.

BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements of Van Lanschot Kempen comprise the financial statements of Van Lanschot Kempen Wealth Management and its subsidiaries. These have been prepared at 31 December 2019 using consistent accounting policies and their financial year is concurrent with the calendar year.

Subsidiaries (including the consolidated structured entities) are associates in which Van Lanschot Kempen exercises decisive control. Van Lanschot Kempen has decisive control over an entity when it has power over that entity and is exposed to or has rights to variable income from its involvement in the entity and is able to use its power over the entity to influence the entity's income. The assessment of control is based on the actual relationship between Van Lanschot Kempen and the entity. Factors taken into account include existing and potential voting rights. A right is a material right if its holder is able to exercise that right in practice.

Van Lanschot Kempen has power over an entity if its existing and potential voting rights amount to more than 50%. If these rights amount to less than 50%, Van Lanschot Kempen determines whether it has power over the entity pursuant to contractual agreements. In making this assessment, a distinction is made between substantive and protective rights. Substantive rights are rights which enable the decision-making power of an enterprise to be influenced directly and which give Van Lanschot Kempen decisive control over an entity. Examples include the right to appoint and dismiss members of the board of management, and to set the level of their remuneration. Protective rights are rights which protect the interests of an entity in another entity, but which do not directly confer decision-making powers. Protective rights do not give Van Lanschot Kempen decisive control over an entity. When acquiring non-controlling interests, Van Lanschot Kempen in principle includes only protective rights in the contractual agreement. These are rights of approval which enable Van Lanschot Kempen to protect its minority position without acquiring decision-making power. Examples of protective rights are rights of approval in respect of the issue of shares and the effecting of significant acquisitions.

Intra-group transactions are eliminated in the consolidation process. Subsidiaries are consolidated from the date of incorporation or acquisition, being the date on which Van Lanschot Kempen acquires control, and are consolidated until the date that such control ceases.

We consolidate interests in investment funds if we have power over the investment fund and are exposed to or have rights to variable income stemming from our involvement and are able to use our power over the investment fund to influence the variable income. The assessment of control is based on the actual relationship between Van Lanschot Kempen and the investment fund. Van Lanschot Kempen takes into account its interest for its own account and its own role, or that of one of its group companies, as fund manager.

In the case of subsidiaries not fully controlled by Van Lanschot Kempen, the non-controlling interest in equity is presented separately in the consolidated statement of financial position as a component of total equity. The profit or loss for the reporting period that can be attributed to the non-controlling interest is disclosed separately.

Acquisitions

Acquisitions are recognised using the acquisition method. Accordingly, the cost of an acquisition is allocated to the fair value of the acquired assets (inclusive of any intangible assets not previously disclosed in the statement of financial position), liabilities and obligations not disclosed in the statement of financial position.

Goodwill, being the difference between the cost of the acquisition (including assumed debts) and our interest in the fair value of acquired assets, liabilities and obligations not disclosed in the statement of financial position at the acquisition date, is capitalised as an intangible asset. If this difference is negative (negative goodwill), it is taken directly to the statement of income.

A non-controlling interest in the company acquired is recognised at the fair value prevailing on the acquisition date or at the proportionate share in the identifiable assets and liabilities of the company acquired.

Results of companies acquired are disclosed in the statement of income from the date at which control is obtained.

Adjustments to the fair value of acquired assets and liabilities at the acquisition date which are identified within 12 months of the acquisition may lead to adjustment of goodwill. Adjustments identified after expiry of one year are disclosed in the statement of income.

On disposal of group companies, the difference between the sale proceeds and the acquisition cost (including goodwill) is included in the statement of income together with any unrealised gain or loss.

Goodwill is not amortised. For more information on its valuation, see Note 11, Goodwill and other intangible assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currencies

Functional currency
Items in the statement of financial position pertaining to each group company are stated in the currency of the economic environment in which the entity operates (i.e. the functional currency).

Group companies
The assets, liabilities, income and expenses of group companies that use a functional currency other than the reporting currency are translated as follows:
- Assets and liabilities are translated using the closing exchange rate at the reporting date;
- Income and expenses are translated using the rate prevailing on the transaction date, which is approximately equal to the average exchange rate;
- Remaining exchange-related gains or losses are recognised as a separate component of equity.

Upon consolidation, exchange-related gains or losses arising from monetary items forming part of a net investment in foreign divisions are recognised in equity. Exchange-related gains or losses on borrowings and other items designated as hedging instruments for such investments are also recognised in equity.

Transactions and line items
On initial recognition, transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Translation differences arising on the settlement of such transactions or on the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except where they are recognised in equity as qualifying cash flow hedges or qualifying net investment hedges in foreign divisions.

In general, translation differences in the statement of income are included in the result on financial transactions. Translation differences on non-monetary items measured at fair value through profit or loss are reported as part of the fair value gain or loss. Non-monetary items are translated into the reporting currency at the same time as the determination of their fair value. By retranslation on reporting date, translation differences on non-monetary items measured at fair value through equity are included in the revaluation reserve in equity.

Non-monetary items not measured at fair value are translated at the exchange rate prevailing on the original transaction date.

Recognition of financial assets in the statement of financial position
Purchases of financial assets designated at fair value through profit or loss whose value is subject to change, or financial assets at fair value through other comprehensive income, or other financial assets at amortised costs, which are settled according to standard market conventions, are recognised on the transaction date, i.e. the date on which we undertake to purchase or sell the asset concerned. Loans and advances are recognised on the settlement date, i.e. the date on which we receive or transfer the asset.

Derecognition of financial assets and liabilities in the statement of financial position
Financial assets are derecognised when:
- Our rights to the cash flows from the asset expire; or
- We have retained the right to receive the cash flows from an asset, but have an obligation to pay these in full to a third party under a special agreement; or
- We have transferred our rights to the cash flows from the asset and have transferred substantially all the risks and rewards; or
- We have not transferred substantially all the risks and rewards but have transferred control over the asset.

If we have transferred our rights to the cash flows from an asset, but have not transferred substantially all the risks and rewards of the asset and have not transferred control, the asset is recognised as long as we have continuing involvement in the asset.

A financial liability is derecognised as soon as the obligation under the liability is discharged, cancelled or expired.

Repo transactions and reverse repo transactions
Securities sold subject to repurchase agreements (repos) continue to be recognised in the statement of financial position. The related liability is included under the relevant line item (principally Due to banks).

Securities purchased subject to resale agreements (reverse repos) are recognised under the line item Due from banks or under Loans and advances to the public and private sectors. The difference between the sale price and the purchase price is recognised in the statement of income as interest during the term of the agreement.

Securitisation
We have placed parts of our loan portfolio in special purpose entities (SPEs). If we have effective control over an SPE, it is consolidated. We have control over an entity when we have power over that entity and are exposed to or have rights to variable income from our involvement in the entity and are able to use our power over the entity to influence the entity's income.

The accounting principles followed by Van Lanschot Kempen are applied when consolidating SPEs.

Transfers of financial assets
All or a part of a financial asset is transferred if:
- The contractual rights to receive the cash flows from that financial asset are transferred; or
- The contractual rights to receive the cash flows from that financial asset are retained, but a contractual obligation is assumed to pay the cash flows to one or more recipients under an arrangement.

For more details, see “Disclosure of interest in other entities”.

We have no other assets meeting the criteria for transfers of financial assets.

Derivatives
A derivative is initially recognised at fair value on the effective date of the contract. After initial recognition, the derivative is subsequently remeasured at fair value and movements in value are taken to the statement of income under Result on financial transactions. Fair values are based on stock exchange prices, cash flow models, and option and other valuation models.

Hedge accounting
We use derivatives, such as interest rate swaps, to hedge our exposure to risks. The carrying amount of assets and liabilities which are hedged through fair value hedging and which would otherwise be recognised at cost is adjusted for movements in the fair value that can be attributed to the hedged risks. Any gains or losses arising from changes in the fair value of derivatives not relating to the hedged risks are taken directly to the statement of income. We have chosen to apply hedge accounting based on IAS 39, using the temporary reliefs provided by the applicable amendments.

At the inception of a hedge transaction, we formally designate and document the hedge relationship and the financial risk management objective when entering into the hedge transaction. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument’s effectiveness in offsetting the exposure to risks.

Such hedges are considered to be effective if we may expect, both upon inception and during the term of the hedge, that changes in the fair value or cash flows of the hedged item will be almost fully offset by changes in the fair value or cash flows of the hedging instrument, in so far as they relate to the hedged risk, and the actual outcome is within a range of 80-125%. The effectiveness is assessed and documented on a monthly basis in order to determine that the hedge has been highly effective throughout the financial reporting periods for which it was intended. We apply the EU carve-out on portfolio fair value hedges.

Hedges that qualify for hedge accounting are recognised as follows:

Fair value hedges
Fair value hedges are hedges of the exposure to changes in the fair value of an asset or liability arising as a result of interest rate changes. Movements in the value of the hedging instrument are taken to the statement of income. Any change in the fair value of the hedged item is also recognised in the statement of income, in so far as the hedging instrument has been effective in the preceding period.

A hedge relationship ends if the hedging instrument is sold, expires or is exercised, or if the hedging transaction no longer meets the criteria for hedge accounting, with the remaining value adjustment of the hedged item amortised through profit or loss until the end of its term.

We apply micro fair value hedge accounting and macro fair value hedge accounting.

Micro fair value hedges
A fair value hedge is classified as a micro fair value hedge when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. Debt securities at fair value through other comprehensive income and issued debt securities are hedged for interest rate risk in a micro fair value hedge.

Macro fair value hedges
We apply macro fair value hedges for fixed rate mortgages. A portfolio of mortgages is identified comprising homogeneous loans based on their contractual interest rates, maturity and other risk characteristics. Mortgages within the identified portfolio are allocated into repricing term buckets based on expected repricing dates rather than contractual repricing dates. The hedging instruments are designated appropriately to those repricing term buckets.

Cash flow hedges
Cash flow hedges are hedges of the exposure to fluctuations in the cash flow of an asset, liability or future transaction arising as a result of interest rate changes and/or inflation. The portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognised directly in equity until the hedged item affects the statement of income, while the ineffective portion is recognised in profit or loss.

If the hedging instrument expires or is sold, or if it can no longer be designated as a hedge, accumulated gains and losses remain in equity until the expected future transaction is taken to the statement of income. If the expected future transaction is no longer likely to take place, the accumulated result is transferred directly from equity to profit or loss.

Embedded derivatives
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

If the hybrid contract contains a host that is not an asset, the embedded derivatives are separated from the host contract and treated as separate derivatives when:
- The economic characteristics are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

Day 1 profit
Discrepancies between the transaction price and the fair value may arise if valuation techniques are applied at the time of the transaction. Such a discrepancy is referred to as a Day 1 profit. Any resulting profit or loss is recognised directly in the statement of income if the valuation method is based on observable inputs in an active market. In the event of unobservable inputs, the gain or loss is amortised over the term of the transaction.

Netting of financial assets and liabilities
Financial assets and liabilities are netted and presented in the consolidated financial statements at the net amount when we have a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This mainly concerns netting of derivatives. See 2.7, Risk management.

Statement of financial position by IFRS accounting policy
For the layout of the statement of financial position by IFRS accounting policy, see "Consolidated statement of financial position by category" in the supplementary notes.

Statement of financial position

Cash and cash equivalents and balances at central banks
Cash and cash equivalents and balances at central banks comprise, at nominal value, cash in hand and deposits with a term of less than three months, investments readily convertible into a known amount of cash with an insignificant risk of value changes, balances at central banks and balances withdrawable on demand at other banks in respect of which the risk of value changes is insignificant. The amount due from DNB arising from the minimum reserve requirement is also included in this item.

Financial assets from trading activities
Financial assets from trading activities are transactions for our own account whereby the aim is to actively sell these instruments in the short term. Financial assets from trading activities consist of the trading portfolio of both equity instruments and debt instruments. The financial assets from trading activities are recognised at fair value with effect from the trade date and value adjustments are taken to the statement of income under the line item Result on financial transactions.

Due from banks
Amounts due from banks are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Derivatives
Derivatives are carried at fair value. The positive and negative values of derivatives are shown separately on the face of the statement of financial position on the assets side and the liabilities side, respectively. The values of derivatives with a positive and negative value, concluded with the same counterparty, are only netted if the cash flows are settled on a net basis and this is permitted under law. Movements in the value of derivatives are taken directly to the line item Result on financial transactions. If the hedge is completely effective, the net impact on the statement of income is nil. The difference, in so far as this remains within the ranges set, reflects ineffectiveness and is taken to the statement of income.

Derivatives include:
- *The fair value of derivatives held for trading*
  Derivatives held for trading are transactions for own account whereby the aim is to actively sell them in the short term;
- *Economic hedges*
  Economic hedges are derivatives used to manage risks without applying hedge accounting;
- *Structured product derivatives*
  Structured product derivatives are options we have acquired in order to hedge structured products sold to clients, without application of hedge accounting;
- *Client option positions*
  Offsetting market transactions are conducted for all option positions held by our clients on a one-on-one basis;
- *Derivatives with application of hedge accounting*
  These are derivatives used as hedging instruments in the application of hedge accounting.

Financial assets at fair value through profit or loss
Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income (FVOCI) are measured at fair value through profit or loss (FVPL). Additionally, any instrument for which the contractual cash flow characteristics are not solely payments of principal and interest (SPPI) must be measured at FVPL. No restrictions are set for sales within the fair value through profit or loss portfolio. These debt instruments are governed by the Asset & Liability Committee (ALCO) and sales need to be approved by ALCO. Interest earned on these assets is recognised as interest income. All other realised and unrealised gains and losses on remeasuring debt instruments at fair value are recognised under Result on financial transactions.
All realised and unrealised gains and losses on remeasuring equity instruments at fair value are recognised under Income from securities and associates.

Financial assets at fair value through other comprehensive income
A debt instrument that is held within the hold to collect and sell business model and meets the SPPI test is measured at fair value, with fair value adjustments recognised in other comprehensive income unless the asset is designated at fair value through profit or loss. The financial assets in the hold to collect and sell portfolio are governed by ALCO and sales need to be approved by ALCO. Sales as a result of managing everyday liquidity needs, maintaining a particular interest yield profile on the secondary market, or to match the duration and sales required by regulators, are consistent with the objective of the hold to collect and sell portfolio.

Under FVOCI, a financial asset is measured at its fair value and movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue, and foreign exchange gains and losses on the instrument's amortised cost, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in Result on financial transactions. Interest income from these financial assets is included in Interest income using the effective interest method.

Loans and advances to the public and private sectors
Loans and advances to the public and private sectors are initially recognised at fair value plus transaction costs directly attributable to the acquisition of the financial asset, and are subsequently amortised using the effective interest rate method less any allowance for impairment. The impairment is recognised in the statement of income.

Other financial assets at amortised cost
A debt instrument that is held within the hold to collect business model and meets the SPPI test is measured at amortised cost unless the asset is designated at fair value through profit or loss. Our ALCO sets restrictions for buying and selling in the hold to collect portfolio. Sales are permitted when these are due to an increase in credit risk, take place close to the maturity date, are insignificant in value (both on individual and aggregated level) or are infrequent. Under this measurement category, the financial asset is initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, and subsequently recognised at amortised cost less the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any impairment allowance. The impairment is recognised in the statement of income. Interest income from these financial assets is included in Interest income using the effective interest rate method.

Investments in associates using the equity method
These investments have been designated by management as transactions held indefinitely, and as a result of the acquired control can be classified as investments in associates using the equity method. These are investments in entities where we have significant influence but not control. If there is a change in the equity of the associate, we recognise our share in this change and include it in the statement of changes in equity. This also applies to results of associates recognised in our statement of income.

In the first year of investment, investments classified as investments in associates using the equity method are recognised at cost, and where applicable are adjusted for any changes in the value of the associate's individual receivables and payables occurring after the acquisition, measured using the policies applied by Van Lanschot Kempen.

The recoverable amount of the investments in associates using the equity method is determined each quarter. The valuation methods applied are the capitalisation method (peer group analysis), the discounted cash flow method and the disclosed net asset value method. An impairment is recognised if the recoverable amount is lower than the carrying amount.

The capitalisation method determines the value of a business by multiplying the operating profit (EBIT) and the operating profit before depreciation and amortisation (EBITDA) by a multiplier factor derived from similar listed companies (the peer group), if applicable also taking account of a discount for poor liquidity and minority shareholding. EBIT and EBITDA are adjusted for one-off items where applicable.

The discounted cash flow method calculates the enterprise value by discounting the forecast operational cash flows at a discount rate for the planning period and a final value based on the extrapolation of the operating profit. The discount rate is determined on the basis of the discount rate of listed companies with a high degree of similarity and on the specific characteristics of the company. If applicable, the discounted cash flow method takes account of a discount for poor liquidity and minority shareholdings.

The company's net debt is then deducted from the value resulting from the capitalisation method and/or discounted cash flow method and multiplied by the share in the capital structure in order to derive the shareholder value from the enterprise value.

The disclosed net asset value method determines the value of a company based on the statement of financial position.

If our share in the associate's losses is equal to or exceeds our interest in the associate, no further losses are recognised unless we have assumed obligations or made payments for these associates.

Property and equipment
Property and equipment comprise property, information technology, furniture and fixtures, and communication and safety equipment. Property and equipment are initially carried at cost and subsequently measured at historical cost less accumulated depreciation and accumulated impairments. The carrying value includes the costs for replacement of part of the existing property as soon as these costs are incurred, but excludes day-to-day servicing costs. Depreciation is calculated on a straight-line basis over the useful life of the asset.

Lease contracts which we entered into as a lessee are classified as right-of-use assets. Right-of-use assets are presented as part of Property and equipment in the statement of financial position and are measured at cost, comprising the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

Depreciation is applied using the same method as for wholly-owned tangible assets.

The recoverable amount of individual property items is determined every year, irrespective of whether there is any indication of impairment, and more often if market conditions so dictate. The recoverable amount is the higher of the fair value less costs or the value in use. The fair value less costs is set by an independent surveyor. If the fair value less costs is below the carrying amount, the value in use is determined. This value is calculated using the value-in-use method. If the value in use is also below the carrying amount, an impairment is recognised for the difference between the carrying amount and the higher of the fair value less costs and the value in use.

Estimated useful life of property and equipment (years)	
Land	Indefinite
Buildings	40
Alterations	10–15
Operating system software and IT	3-5
Communication equipment	5
Safety equipment	15
Infrastructure	10
Furniture and fixtures	5–10
Right of use assets	1–10

Operating system software development costs are capitalised if they are identifiable, if there is a likelihood that future economic benefits will flow to Van Lanschot Kempen and if costs can be measured reliably.

Property not in own use comprises office buildings no longer in own use. Our policy is focused on selling these assets in due course. Property not in own use is carried at historical cost less accumulated depreciation and accumulated impairments. This property is considered to be impaired if its carrying amount exceeds the recoverable amount. The recoverable amount less the relevant variable costs to sell is based on the appraisal value as determined by an independent surveyor.

Goodwill and other intangible assets
Goodwill represents the difference between the fair value of the acquired assets (including intangible assets) and liabilities, and the purchase price paid (excluding acquisition costs). Goodwill paid is included in the financial statements at cost less any accumulated impairment losses. Goodwill paid is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying value may be impaired. An impairment is calculated based on the difference between the carrying value and the recoverable amount of the cash-generating unit (CGU) to which the goodwill relates. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use.

Owing to the absence of a market for separate CGUs, we are unable to calculate a reliable fair value less costs to sell for each CGU. The recoverable amount is therefore deemed to be equal to the value in use. The value in use is determined by discounting the future cash flows generated by a CGU to their net present value. If the recoverable amount of a CGU is lower than its carrying amount, goodwill is impaired. The impairment is first applied in full to the goodwill and then pro rata to the individual assets.

Other intangible assets with a finite useful life, such as application software, client bases, contractual rights and the value of acquired funds and loans and advances, are capitalised at cost and amortised on a straight-line basis over their respective useful lives.

Estimated useful life of intangible assets (years)	
Client bases	5–20
Third-party distribution channels	12–20
Brand names	20
Application software	3–5

Tax assets and liabilities
Tax assets and liabilities are stated at face value. Current and deferred tax assets and liabilities are offset when they relate to the same tax authority, the same type of tax and the law permits offsetting of these assets and liabilities.

Deferred taxes are recognised on the face of the statement of financial position if the valuation of an asset or liability temporarily differs from the valuation for tax purposes. Deferred taxes are calculated using the tax rates prevailing on the reporting date. Deferred tax assets and liabilities are offset if they relate to the same tax authority, concern the same type of tax, if it is permitted under law to offset these deferrals and if the deferrals are expected to be settled simultaneously. Deferred tax assets are recognised only if it is probable that taxable profits will be realised in the near future against which these temporary differences can be offset.

Deferred tax assets and liabilities are assessed at every reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets and liabilities to be used. This reduction will be reversed if it is probable that sufficient taxable profits will be available.

Changes in the value of investments classified as available for sale and movements in the value of derivatives forming part of a cash flow hedge are recognised in equity net of deferred tax. Deferred tax assets and liabilities cease to be recognised when these movements in value are realised. Current tax is taken to the statement of income on realisation of the movement in value.

Assets and liabilities classified as held for sale
The line items Assets and liabilities classified as held for sale includes a group of assets whose carrying amounts will principally be recovered through a sale transaction. These assets and liabilities are measured at the lower of either the carrying amount or fair value less costs to sell and depreciation. The group of assets and liabilities concerned is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups. We plan to sell assets at a price which is reasonable considering their current fair value, as a result of which a sale is highly probable and expected to be completed within one year.

Other assets
Assets acquired through foreclosures are carried at the lower of cost or the recoverable amount. This recoverable amount is the estimated selling price in the ordinary course of business less the relevant variable costs to sell. The recoverable amount less the relevant variable costs to sell is based on the appraisal value as determined by an independent surveyor. Other assets are initially recognised at fair value excluding transaction costs. After initial recognition, they are recognised at amortised cost using the effective interest method.

Financial liabilities from trading activities
Financial liabilities from trading activities are transactions for own account whereby the aim is to repurchase these instruments in the short term. These instruments are stated at fair value, with movements in value recognised in the statement of income under Result on financial transactions.

This line item comprises short positions on the trading portfolio in both equity instruments and debt instruments. Recognition is from the date on which the contract is concluded.

Due to banks
Amounts due to banks are initially recognised at fair value excluding transaction costs. After their initial recognition, they are recognised at amortised cost using the effective interest method.

Public and private sector liabilities
Public and private sector liabilities are initially recognised at fair value excluding transaction costs. After their initial recognition, they are recognised at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss comprise financial instruments which management believes should be recognised at fair value through profit or loss based on one of the following reasons:
– Designation eliminates or significantly reduces inconsistencies in measurement and recognition which would otherwise arise as a result of liabilities being valued or income and expenses being recognised under different accounting policies; or
– The contract in which the financial instrument is included contains one or more embedded derivatives and the entire contract is recognised at fair value through profit or loss. This is only permitted if the embedded derivative has significant influence on the contractually agreed cash flows.

The valuation takes account of our own credit risk. This is based on the internal funding curve, which is determined by spreads on issued debt securities and estimates by investment banks of interest rates on new issued debt securities. Own credit risk is recognised in equity under the line item Own credit risk reserve. The remaining amount of change in the fair value is recognised in Result on financial transactions.

Issued debt securities
Issued debt securities are initially recognised at fair value excluding transaction costs. After initial recognition, issued debt securities are carried at amortised cost using the effective interest method. Repurchase of our own debt securities is offset in the consolidated financial statements against the liability; the difference between the cost and the carrying amount based on the remaining term is taken to the statement of income.

Provisions
A provision is a liability of uncertain timing or amount. A provision is included in the statement of financial position if we have an obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made. Provisions are discounted if the time value of money for the liability has a material effect.

Provisions for pensions
We operate defined benefit plans and defined contribution plans. Under defined contribution plans, contributions to pension providers are taken to the statement of income as staff costs. We have no further payment obligations with respect to defined contribution plans once the contributions have been paid.

A defined benefit plan is a pension plan which defines the amount of pension benefit that an employee will receive on retirement. Factors such as age, years of service and salary are taken into account when determining the amounts to be paid. The provision for defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets.

The pension obligation is calculated with reference to the expected return on plan assets. Differences between the expected and actual return on plan assets and actuarial gains and losses are recognised directly in equity; net interest is recognised under Interest in the statement of income.

Provisions for long-service benefits
Employees receive a bonus to mark a long-service anniversary of 25 and 40 years. In addition, receptions or dinners with colleagues are organised for employees who have been in service for 25 and 40 years.

Restructuring provision
A provision for restructuring is recognised only if the recognition criteria are met. We have a constructive obligation if we have a detailed formal restructuring plan identifying at least the business or part of the business concerned, the principal locations affected, the number of employees affected, a detailed estimate of the expenditure to be undertaken and a suitable timeframe. Employees are also notified of the main features of the plan.

Provision for the interest rate derivatives recovery framework
A provision for the interest rate derivatives recovery framework is recognised. We have agreed to abide by the Netherlands' general recovery framework for interest rate derivatives clients, implying that we have offered payments as a result of the implementation of the uniform recovery framework.

Other liabilities
Other liabilities are initially recognised at fair value excluding transaction costs. After their initial recognition, they are recognised at amortised cost using the effective interest method.

Lease liabilities are presented in the statement of financial position as part of Other liabilities. Interest payments and amortisation in the year are charged to the income statement on a straight-line basis over the term of the lease, and disclosed separately within the statement of profit or loss.

Lease liabilities consist of interest and lease payments and are initially measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

Subordinated loans
Subordinated loans are initially recognised at fair value excluding transaction costs. After initial recognition, they are carried at amortised cost. Purchases of our own subordinated loans are offset against the liability in the

consolidated financial statements; the difference between cost and the carrying amount based on the remaining term is taken to the statement of income.

Equity
Direct costs of a new share issue are deducted from equity, taking account of taxes.

If we purchase treasury shares, the purchase price, including direct transaction costs after tax, is deducted from equity. Treasury shares that we purchase do not qualify for profit or dividend and are not included in the calculation of earnings per share.

Obligations not recognised in the statement of financial position
This includes obligations that represent a potential credit risk. For the other obligations not recognised in the statement of financial position, see “Commitments” in the supplementary notes.

Contingent liabilities and irrevocable commitments
Contingent liabilities are carried at the contract value and relate in particular to guarantees and irrevocable letters of credit. This item consists of unused overdraft facilities, sale and repurchase commitments, irrevocable payment commitments for the Single Resolution Fund (SRF) and all other obligations resulting from irrevocable commitments that could give rise to loans.

Statement of income

General
Revenue is recognised when it is likely that the economic benefits will flow to Van Lanschot Kempen and the revenue can be measured reliably. Costs are allocated as far as possible to the period in which the services were rendered or to the relevant proceeds.

Net interest income
This item consists of income earned on lending and costs of borrowing, derivatives, related commission, and other income/expense similar to interest. The amortisation of remaining value adjustments on mortgage portfolios of fair value hedges which expired in the past is disclosed under Interest income.

Interest income and interest expense are recognised in the statement of income on an accrual basis, using the effective interest method. The effective interest rate is the rate that exactly discounts estimated cash flows over the life of the financial instrument, or a shorter period when appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, we take into account all contractual terms of the financial instrument (for example early repayment) but not future losses due to uncollectible amounts.

Negative interest on derivatives whereby interest paid is recognised under Interest expense and interest received is recognised under Interest income. Negative interest on balances at central banks is recognised under Interest expense.

Income from securities and associates
All dividends received from investments in equity instruments are included under dividends and fees. Dividends are recognised directly in the statement of income when they are made payable.

Our share in the results of equity-valued associates is recognised under Income from securities and associates using the equity method. Dividends received are deducted from the carrying amount of the equity-valued associate. Due to the fact that these investments in associates using the equity method are part of our investment strategy, we present the income as part of our operating activities.

Net commission income
This item comprises the income, other than income similar to interest, earned on wealth management services provided to third parties. Commission paid to third parties is accounted for as commission expense.

We receive commission for the wide range of services we provide to clients. This can be divided into commission on a transaction basis and periodic commission charged to the client during the year.

Commission on a transaction basis
Commission income on a transaction basis is recognised in the periods in which we provide the services. Transaction commission for which we only provide a service on the transaction date (e.g. commission on buying and selling shares) is taken directly to the statement of income. Transaction commission for which we have to provide a service in the future (e.g. commission on structured products) forms part of the amortised cost and is recognised in the statement of income over the expected term of the instrument.

Periodic commission
Periodic commission (e.g. management fees) is recognised in the statement of income in the period in which the services are provided.

Result on financial transactions
Result on securities trading includes realised and unrealised value differences on gains and losses on financial instruments relating to the securities trading portfolio. Exchange and price gains and losses on trading in other financial instruments are recognised under Result on foreign currency trading. Gains and losses due to ineffectiveness in hedge accounting are recognised under Unrealised gains/losses on derivatives under hedge accounting. Result on economic hedges includes realised and unrealised gains and losses on derivatives that are not included in a hedge accounting model. Result on financial instruments at fair value through profit or loss comprises unrealised value differences and interest expenses on financial liabilities at fair value through profit or loss.

Other income
Other income comprises non-banking income resulting from the consolidation of non-banking subsidiaries.

Staff costs
Staff costs comprise wages and salaries, pension and early retirement costs, other social security costs and other staff costs such as remuneration in the form of share-based employee benefits.

Share-based payments
Employees may be eligible to receive remuneration in the form of share-based payments. The cost of equity instrument-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined based on the share price on the grant date. The cost of equity instrument-settled transactions is recognised, together with a corresponding increase in equity, in the period in which the employee's performance criteria are fulfilled, ending on the date on which the employee becomes fully entitled to the award (the vesting date).

Share-based payments: Management Investment Plan
The Management Investment Plan (MIP) entails an equity instrument-settled transaction. If, at the moment that the share-based payment is made, the fair market value per depositary receipt exceeds the issue price, the costs relating to this higher fair market value are treated as expenses during the vesting period, with a corresponding adjustment to equity. The total sum to be taken into consideration is determined on the basis of the fair value of the depositary receipts as established on the date on which they are granted.

Other administrative expenses
Other administrative expenses comprise IT expenses, costs of marketing and communication, accommodation expenses, office expenses and other administrative expenses.

Depreciation
Depreciation and amortisation are determined on the basis of estimated useful life and charged to the statement of income.

Impairments
This item comprises the balance of the required impairments and reversals of such impairments.

Income tax
Tax on operating profit is recognised in the statement of income in accordance with applicable tax law in the jurisdictions in which we operate. Tax effects of any losses incurred in certain jurisdictions are recognised as assets when it is probable that sufficient future profits will be available in the relevant jurisdiction against which these losses can be offset.

Earnings per ordinary share
Earnings per ordinary share are calculated by dividing the profit for the year available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per ordinary share are calculated by dividing the profit available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, adjusted for possible dilution as a result of, for example, outstanding option rights.

Statement of cash flows
The statement of cash flows is prepared using the indirect method. This statement of cash flows shows the source and application of cash items. Cash flows are divided into those from operating, investing and financing activities. Cash and cash equivalents comprise, at face value, all cash in hand, balances at central banks and balances withdrawable on demand at other banks in respect of which the risk of value changes is insignificant.

Segment information
The different operating segments form the basis for our primary segmentation. An operating segment is a business unit that can earn revenues and incur expenses and whose operating results are regularly reviewed by its management or the chief operating decision maker and for which discrete financial information is available. Additional information is reported geographically based on where the business activities are located. Intra-segment transactions are conducted on commercial terms and market conditions (at arm's length).

RISK MANAGEMENT

1. Risk and capital management

Our front-office functions are essential in delivering services to our clients. Risk management supports the front office, clients and other stakeholders in ensuring that the risks incurred by Van Lanschot Kempen are controlled and comply with our risk appetite and legal requirements. This section describes our risk appetite, the organisational and governance arrangements that are in place regarding risk management, and the three lines of defence principle. After discussing these general arrangements, the section continues with credit risk, market risk, operational risk, settlement risk, CVA risk, strategic risk, interest rate risk, liquidity risk, securitisation risk, climate risk, compliance risk, financial reporting risk and assets at fair value.

1.1 Risk appetite

Solid capital and liquidity ratios are essential prerequisites for a successful proposition to our clients, and this is reflected in our risk appetite statement. We aim to have a simple and transparent balance sheet. Lending activities occur mainly in Private Banking and the corporate loan portfolio is being wound down.

We have a robust risk appetite framework in place. Each year, the Statutory Board prepares the risk appetite statement, which translates our risk appetite into strategic limits. The risk appetite statement is then submitted to the Supervisory Board for review and approval. In addition, the Supervisory Board reviews the development of the risk profile twice a year. Risk appetite reports serve as important discussion documents for these reviews.

The risk appetite statement is based on the following guiding principles:

- We only take risks that we understand and can explain;
- We only take risks that – directly or indirectly – serve our strategic objectives;
- The sum of all risks taken should not exceed our risk-bearing capacity;
- When taking risks, we take the requirements and expectations of all stakeholders into account;
- We do not take any risks that could seriously harm our reputation;
- Our risk appetite should be considered in all business decisions at every level of the organisation;
- We avoid risks that could lead to legal or regulatory breaches.

1.2 Organisation of risk and capital management

The purpose of our risk management framework is to identify and analyse risks at an early stage, as well as to mitigate and monitor those risks. Adequate internal control procedures and reporting systems, including the application of standards and limits, are key elements of the risk management framework.

The organisation of our risk management framework is based on the three lines of defence principle. Day-to-day responsibility for risk control lies with the front office and/or operational departments (the first line of defence); Compliance, Group Risk Management and Finance, Reporting & Control form the second line of defence for financial and non-financial risks. These departments are responsible for initiating risk policies and the supervision of risk controls within Van Lanschot Kempen. Group Audit forms the third line of defence and is responsible for performing independent audits on the risk framework. This set-up creates a clear, balanced and appropriate division of tasks, powers and responsibilities, and ensures independent and effective execution of the risk management function.

Group Risk Management stands at the core of capital management. We actively manage our capital base to cover risks inherent to our business and meet the capital adequacy requirements of De Nederlandsche Bank (DNB). The adequacy of our capital is monitored by using the rules and ratios established by the Basel Committee on Banking Supervision as transposed into EU law. This legal framework also forms the basis for supervision by DNB. Over the reporting period, we fully complied with all externally imposed capital requirements. Both external and internal capital adequacy targets are taken into account, and the central focus is on safeguarding our financial solidity and stability. Each year, a capital and funding plan is prepared for capital management purposes.

Table 1.2 Risk and capital management framework

Supervision § 1.2.1	**Supervisory Board** – Risk Committee – Audit and Compliance Committee					
Risk and capital management § 1.2.2	**Statutory Board** – Group Risk Committee – Credit Risk Committee – Market Risk Committee – Asset & Liability Committee – Compliance & Operational Risk Committee – Credit Committee – Product Board					
Implementation and review § 1.2.3	Group Risk Management	Finance, Reporting & Control	Compliance	Group Audit		
Execution § 1.2.4	Private Banking	Evi	Asset Management	Merchant Banking	Treasury	Credit Restructuring & Recovery

1.2.1 Supervision
The Supervisory Board oversees the risks and capital requirements in relation to the group's operations and portfolio composition. It has set up two committees specifically for this purpose.

The Risk Committee focuses on all identified risks in the group's business activities, as well as the risk management framework. The Committee also informs decision-making by the Supervisory Board on risk matters.

The Audit and Compliance Committee is tasked with advising the Supervisory Board on financial reporting, internal and external audits, compliance and matters regarding duty of care.

1.2.2 Risk and capital management
The Statutory Board is responsible for developing and executing the strategy of the group. This includes the capital and funding plan, which is based on a number of risk and capital policies.

The primary objective of our capital management is to ensure that we comply with external and internal capital requirements in order to support our businesses and to create value for our stakeholders. We manage our capital structure by taking into account changes in economic conditions and the risk characteristics of our activities. To maintain and/or manage our capital structure, we may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities. These adjustments are under constant review by the Statutory Board.

The Statutory Board also bears responsibility for ensuring the proper operation of the processes that safeguard the group's liquidity and capital position. In addition, it is required to provide information to the Supervisory Board, which in turn assesses the risk appetite of the group. The decisions of the Statutory Board are taken during meetings of the Executive Board. To ensure the various risk types are managed properly, the Statutory Board has set up the following risk committees:

Group Risk Committee
The Group Risk Committee, which includes all members of the Statutory and Executive Boards, discusses overarching risk management themes. In this committee, the various risk types are brought together, discussed and monitored on an integrated level. The committee is involved in setting the annual risk appetite statement, and discusses the risk appetite report and emerging trends in the risk profile. Other areas covered include recovery and resolution planning, and operational incidents.

Credit Risk Committee
The Credit Risk Committee sets and adjusts the group's overall credit risk policy and translates this into acceptance and portfolio management policies. In executing its tasks, the committee bears in mind our strategic objectives and the guiding principles contained in the risk appetite statement. Two members of the Executive Board serve on this committee (the CFRO and the member of the Executive Board responsible for Private Banking), along with representatives of Group Risk Management, Private Banking, Credit Service Centre, Credit Approval, and Credit Restructuring & Recovery. The committee meets on a quarterly basis.

Market Risk Committee
This committee focuses on all market risks within Van Lanschot Kempen. Market risk is the risk of loss as a result of changes in market variables, including interest rates (excluding interest rate risk in the banking book), exchange rates and equity prices. It also considers variables not directly observable in the market, such as volatility and correlations, which also influence the value of certain financial instruments. Market risks at Kempen occur due to the trading of securities (mainly equities, equity derivatives, management book investments and structured products). VLKWM is exposed to a certain amount of market risk (mainly FX risk) through its treasury activities. This risk is limited, as the majority of transactions and positions in the statement of financial position are denominated in euros. VLKWM is also exposed to market risk as a result of management book investments. The committee meets on a quarterly basis.

Asset & Liability Committee

The Asset & Liability Committee (ALCO) is responsible for managing risks that result from mismatches between assets and liabilities (interest rate and liquidity risks), as well as the capital position of the bank. ALCO's main tasks are:
- Overseeing the asset-liability management (ALM) process;
- Monitoring and adjusting the funding profile;
- Setting policies on interest rate risk in the banking book[1], liquidity and funding risk, funds transfer pricing and capitalisation;
- Monitoring the development of the balance sheet and balance-sheet projections.

ALCO meets once a month and is chaired by the CFRO. As well as the CFRO, ALCO's members comprise:
- The Chairman of the Statutory Board;
- The Statutory Board member responsible for Private Banking;
- Representatives of Treasury, Group Risk Management and Finance, Reporting & Control.

On a quarterly basis, ALCO meets as an expanded group, which includes the COO and representatives of the commercial departments.

Compliance & Operational Risk Committee

The Compliance & Operational Risk Committee is responsible for the implementation and execution of our compliance and operational risk management policies. The committee assesses compliance and operational risks, and ensures remedial actions are taken if required. The committee also challenges and approves the annual plans of the Non-Financial Risk Management and Compliance departments. It meets on a quarterly basis and is chaired by the CFRO.

In addition to the committees described above (in which Group Risk Management takes the lead), we have a number of committees that form part of the first line of defence and that cover specific risk-related topics, such as the Credit Committee and the Product Board.

1.2.3 Implementation and review of risk and capital management policies

Implementation and monitoring of our risk and capital policies is carried out by:
- Group Risk Management;
- Finance, Reporting & Control;
- Compliance.

In addition, Group Audit periodically reviews these policies.

Group Risk Management is responsible for:
- Second-line monitoring and management of all risks relating to the statement of financial position at group level, including modelling, measuring, managing and reporting on our credit, market, interest rate, liquidity and strategic risks;
- Business continuity management;
- Information security;
- The risk appetite process;
- Preparing, developing and maintaining policy documents;
- Preparing ICAAP and ILAAP documentation as well as the recovery plan;
- Issuing daily market risk reports;
- Proactively and reactively providing advice on managing risks;
- Raising risk awareness among staff in order to improve their ability to strike a sound balance between risk and return.

Finance, Reporting & Control is jointly responsible with Group Risk Management for the financial accounting and business control function. Through its various reports, Finance, Reporting & Control fulfils an important role in challenging the businesses and coordinating supervision of risk management.

Compliance has both an advisory and a monitoring role with respect to compliance with internal and external laws and regulations that apply to the Statutory Board, senior management and employees. Compliance operates independently and its director reports directly to the Chairman of the Statutory Board. In addition, Compliance reports periodically to the Supervisory Board's Audit and Compliance Committee.

Group Audit reviews the design and effectiveness of the risk organisation and the execution of our risk and capital management policies. The department reports to the Statutory Board. The applicable policies form the starting point for the independent review by Group Audit. Processes, infrastructure, organisation and systems are audited based on these policies in order to determine whether the organisation adequately executes its risk and capital management policies.

1.2.4 Execution of risk and capital management policies

The commercial departments, i.e. the departments shown under "Execution" in Table 1.2 (excluding Treasury and Credit Restructuring & Recovery), are responsible for preparing their business plans. On the basis of these plans, current and future risks are assessed, including expected capital and liquidity requirements. These assessments serve as input for ALCO.

1.3 Capital requirements

The standards set by the Basel Committee on Banking Supervision, and translated into law, apply to all Dutch banks. The Basel framework consists of three pillars:
- Pillar 1 stipulates capital requirements for credit, market and operational risk.
- Pillar 2 requires banks to have internal processes for risk management and to calculate the capital requirements needed to address all risks that are not included in Pillar 1. The Supervisory Review and Evaluation Process (SREP) is also part of Pillar 2.
- Pillar 3 sets out requirements for disclosure of information about the institution's risk profile to external stakeholders.

Our website has Pillar 3 information (unaudited) and a detailed breakdown of our portfolio of loans to companies and institutions (unaudited), published once a year. Our remuneration policy is explained in the remuneration section and in a Pillar 3 Remuneration disclosure (unaudited), which can also be found on our website.

1 The banking book comprises all assets that are not held for trading purposes under the regulatory definition.

1.4 Individual risks

The following sections detail the individual risk types to which we are exposed. It therefore covers a combination of Pillar 1 and Pillar 2 capital requirements. The risk types covered are:

- Credit risk (Section 2);
- Market risk (Section 3);
- Operational risk (Section 4);
- Settlement risk (Section 5);
- CVA risk (Section 6);
- Strategic risk (Section 7);
- Interest rate risk (Section 8);
- Liquidity risk (Section 9);
- Securitisation risk (Section 10);
- Climate risk (Section 11);
- Compliance risk (Section 12);
- Financial reporting risk (Section 13).

2. Credit risk

Credit risk is defined as the risk that a counterparty or client is no longer able to fulfil its obligations to the bank. Our credit risk policies focus on the counterparty risks associated with lending to private and corporate clients. Strict selection criteria for new clients and active credit management for existing clients are applied to safeguard the quality of the loan portfolio. The lending activities that we conduct are required to be in line with stated objectives, and individual assessments are used to ascertain this.

As well as from lending activities, credit risk also arises from:

- Investment activities;
- International payment transactions and cash management;
- Foreign exchange (FX) risk;
- Hedging activities;
- Settlement risk.

Our investment activities relate to the management of our liquidity buffer and equity investments. For the liquidity buffer, a limit framework is in place to manage and monitor associated credit risks.

Counterparty credit risk with respect to financial institutions arises from international payment transactions, cash management, FX and hedging activities. Some of these activities also involve settlement risk. For derivatives transactions, counterparty credit risk is mitigated by daily margining.

We apply a strict policy when determining and monitoring country and counterparty (financial institutions) limits. The country limits serve as a cross limit for financial institutions, meaning that the counterparty risks in respect of financial institutions in one country are limited by the relevant country limit, as the country limit is usually lower than the aggregate of the individual counterparty limits.

2.1 Loans and advances

2.1.1 Credit acceptance

Our loan approval policy focuses on maintaining a high-quality loan portfolio. The authority to approve loans and loan reviews is delegated to a limited number of departments, mainly our Credit Approval department.

The authority to approve large loans rests, according to the credit approval authorisation matrix, with the Credit Committee, which comprises representatives of the relevant divisions as well as members of the Statutory Board.

The mid- and back-office for nearly all residential mortgage loans is carried out by a third party. A service level agreement (SLA) has been signed to ensure adequate control of the operational risks, including the outsourcing risk. The acceptance process is not outsourced, with the exception of our white label loans that fall within the acceptance framework.

We also offer residential mortgages via a third party under a white label. From a risk management perspective, the credit and outsourcing risks are of particular relevance. An SLA has been signed to ensure adequate control of the operational risks, including the outsourcing risk. The acceptance and management of credit risks have been outsourced to a third party and these activities are monitored using detailed data from the mortgage portfolio, provided in accordance with prevailing legal requirements. This allows for the recognition of any arrears, for example. We also review random samples of mortgage loans.

Limits on financial institutions and countries are determined using a number of hard criteria such as the external rating, BIS ratios, capital ratios, country of origin and gross domestic product (for countries). Limits can also be adjusted and withdrawn on a daily basis.

New loan requests are assessed to determine if they are in line with our strategy and we adopt a conservative approach to granting them.

The credit risk concentration mainly lies within our Private Banking segment in the Netherlands.

2.1.2 Credit management – policy and processes

A high-quality loan portfolio requires strict credit management. Credit management is carried out at both individual loan and portfolio level. At the individual loan level, explicit attention is devoted to the management of unauthorised overdrafts and accounts past due. Loans with an elevated risk profile are subjected to a risk check. In addition, a portion of the portfolio is regularly reviewed and as part of this review the credit risk of individual clients is scrutinised. The frequency of the reviews varies according to the individual borrower's risk profile, but they take place at least annually. In addition to the financial analysis, the review takes account of future developments in the client's situation (partly in the light of relevant macroeconomic trends).

A deterioration in a client's risk profile may lead to closer supervision, an adjusted rating, corrective measures (such as requiring additional collateral or increasing the frequency of financial reporting), involvement of the Credit Restructuring & Recovery department or a combination of these measures. It may also lead to a stage transfer under IFRS 9, see Section 2.8.

At portfolio level, credit risks are monitored on a monthly basis. A detailed credit risk report and any relevant developments or expected developments are discussed in the Credit Risk Committee on a quarterly basis. Any negative trend identified in the risk profile of a particular client segment, sector or loan type can lead to the adjustment of the relevant lending policy. Trends in sectors where there is a concentration risk are monitored particularly closely.

If the review, risk check, payment arrears or external signals point to an increased risk of discontinuity, the Credit Restructuring & Recovery department is involved in the credit management process. An estimate is made of the probability of continuity. Depending on the seriousness and magnitude of the problem, either monitoring or intensive supervision is applied. If there are objective indicators of impairment as referred to under the line item Impairments, the Credit Restructuring & Recovery department draws up an impairment proposal. The Impairment Committee determines the impairment for the whole credit portfolio.

Active management of past due loans enables potential problem loans to be identified at an early stage. If an individual assessment identifies an increased risk, the Credit Restructuring & Recovery department will supervise the client. Increased credit risk occurs in situations including the following:

- If clients fail to meet their payment obligations (for amounts > €250);
- If clients report difficulties in meeting future payments, e.g. because of a divorce, unemployment etc.;
- In the event of a default (see Section 2.1.3.1);
- For business clients, in the event of a significant decrease in turnover, breach of one or more covenants, a debt service coverage ratio < 1, etc.

The primary goal of the Credit Restructuring & Recovery department is to migrate clients back to accounts with regular status (i.e. not under the supervision of Credit Restructuring & Recovery) by reducing their credit risk. The aim is to do this in accordance with the loan agreements made with these clients, but forbearance measures are applied if necessary. More information on forborne exposures can be found in Section 2.2.

2.1.3 Credit risk measurement

We have developed internal models for measuring and monitoring credit risk for the majority of the loan portfolio. These internal models are also used to determine the required capital that has to be set aside for absorbing unexpected credit losses. For this reason, the models, the use of these models and the model governance have to adhere to strict requirements set out in the Capital Requirements Regulation (CRR).

The CRR distinguishes three approaches for determining the required capital for credit risk: the standardised approach (SA), the foundation internal ratings-based (F-IRB) approach, and the advanced internal ratings-based (A-IRB) approach.

The standardised approach prescribes a set of rules for determining the required capital based on various characteristics such as client type, loan type, collateral type, and external rating. Under F-IRB, banks are allowed to use internal estimates of the probability of default (PD) in determining the required capital. The credit conversion factors for determining the exposure at default (EAD) and the loss given default (LGD) are prescribed. Under A-IRB banks are allowed to use own estimates for PD, EAD and LGD. The PD is defined as the likelihood that a client will default within one year, the EAD is defined as the bank's expected exposure at the time a client defaults, and the LGD is the expected loss percentage in the event that a client defaults. As a result, A-IRB is more risk-sensitive than F-IRB and SA.

We have approval from DNB to determine and report the required regulatory capital for a large proportion of our loan portfolio using internal ratings-based (IRB) methods. For these models, we have a model governance framework in place. As part of this, the performance of the models is periodically monitored, and these models are also periodically validated against independent models. As mentioned above, part of the portfolio is capitalised using the A-IRB and F-IRB methods. More specifically, the retail and non-retail exposures are capitalised under A-IRB and F-IRB, respectively.

The retail portfolio comprises four sub-portfolios with the following exposures:

- Residential mortgage exposures;
- Qualifying revolving retail exposures up to €40,000;
- Other retail exposures up to €2 million;
- Small and medium-sized enterprises (SMEs) with total exposures up to €1 million.

The PD models are mostly based on behavioural aspects of the client and the LGD models on the underlying collateral. For the capital calculations a so-called downturn LGD is applied, i.e. the expected loss at default during an economic downturn. Estimation of the EAD is based on the limit and credit utilisation.

The non-retail portfolio comprises four sub-portfolios with the following exposures:

- Exposures to corporate clients;
- Exposures to private customers exceeding €2 million (excluding residential mortgages);
- Commercial real estate exposures;
- Exposures to holding companies that are clients with non-controlling interests and shareholdings.

For the first two sub-portfolios an internal PD model has been developed that uses behavioural and other client characteristics to estimate the PD. For commercial real estate exposures and exposures to holding companies the SA method has been used for capital calculations since the first half of 2018; prior to this the F-IRB method was used for these exposures.

IRB equity portfolio

The IRB equity portfolio includes our own positions in equities in the investment portfolio, subordinated receivables, non-controlling interests and shareholdings which appear on VLKWM's company statement of financial position. We use the simple risk-weighted method to calculate the risk-weighted assets for positions in shares. In this method, a specific risk weighting (190%, 290% or 370%) is assigned to each position, based on a number of characteristics. A risk weighting of 250% is applied for significant investments in financial institutions that are not deducted from equity because they fall below the regulatory threshold. Positions taken in shares and subordinated loans of wholly owned subsidiaries are excluded from IRB. These are reported using the SA method.

Other loans and advances
The risk-weighted assets of the other portfolios, such as the debt securities in our investment portfolio managed by the Treasury department (i.e. excluding retail, non-retail and equity), are calculated on the basis of the standardised approach.

2.1.3.1 Definition of default and credit-impaired assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred:
- A breach of contract such as a 90 days past due event;
- Significant financial difficulty of the issuer or the borrower and an inability to meet future payments;
- Concession(s) granted to the borrower that the lender would not otherwise consider, relating to the borrower's financial difficulty (forbearance);
- A growing likelihood that the borrower will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial market difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit loss.

It may not be possible to identify a single discrete event; instead the combined effect of several events may have caused financial assets to become impaired. All impaired assets are also classified as defaulted by Van Lanschot Kempen under CRR rules. Van Lanschot Kempen has implemented one definition that serves for all the different purposes.

2.2 Forborne exposures
A loan is regarded as forborne if the borrower is unable to meet its contractual obligations towards the bank and the bank then decides to make a concession to the client by modifying the terms and conditions of the loan agreement. The objective of this modification is to enable the borrower to meet the renewed obligations, and it would not have been offered if those circumstances had not arisen. Forbearance actions may include one or more of the following measures:
- Amendment of the original terms and conditions of the loan agreement with which the client is unable to comply due to financial difficulties, with a view to restoring the client's payment capacity;
- Full or partial refinancing of a forborne exposure.

The purpose of the measures taken in forbearance situations is to maximise the chance of restoring the borrower's payment capacity and to minimise the risk of losses due to having to write off all or part of the loan. The measures must offer the client an appropriate and sustainable solution enabling them to comply with the original obligations arising from the credit agreement in due course.

Application of forbearance measures is exclusively reserved for the Credit Restructuring & Recovery department, which pursues a policy based on general principles that it translates to match the specific situation of the individual client. Given the nature of these loans, the Credit Restructuring & Recovery department carries out intensive credit management. Before any new arrangements are agreed, a detailed analysis is made of the client, their financial situation and the likelihood of income recovery. The outcome of this analysis may have consequences for the client's review frequency and the size of any loan loss provision to be made. If the client qualifies for appropriate forbearance measures, a proposal will be drawn up and submitted to the competent assessor(s) for approval.

In practice, forbearance measures do not always have the desired effect – i.e. the recovery of the client's payment capacity or an end to the process of declining payment capacity. This may, for example, be the result of a further deterioration in the client's financial circumstances or the failure of those circumstances to improve as expected. Such cases will be reanalysed and a strategy determined. However, the principle is explicitly maintained that the forbearance measure must be appropriate, sustainable and effective. Any new arrangements agreed with the borrower must also meet these strict criteria.

A forbearance situation ends when the "non-performing" status has no longer been applied to the loan for a probation period of two years. The non-performing status must last a minimum of one year starting from the last forbearance measure. The client must moreover have made significant and regular payments of interest and/or principal during at least half of the probation period. After expiry of the two-year probation period, no payments by the borrower may be in arrears for more than 30 days. If this condition is not met, the probation period will start again from the date the client is no longer in arrears for more than 30 days.

The recording and monitoring of loans which are subject to forbearance is carried out by the Credit Restructuring & Recovery department. Each quarter, and where appropriate more frequently for specific loans, an individual assessment is carried out of forborne exposures which are in default, in relation to any provision made. In addition to this quarterly assessment (as part of the provisioning process), these loans are subject to extensive credit risk management, the intensity and frequency of which will as far as possible match the specific circumstances of the loan.

Tables 2.2.A through 2.2.E show the total volume of forborne exposures. We apply several types of forbearance measures (see Table 2.2.A). Following the decision to apply such a measure, a loan remains under the supervision of the Credit Restructuring & Recovery department until the forbearance situation has ended.

Table 2.2.A Types of forborne exposure	31/12/2019	31/12/2018
Total	55,452	69,731
Repayments/reviews temporarily reduced/suspended	38,091	44,077
Provision of (temporary) additional funding (emergency loan)	11,584	16,269
Temporary reduction in interest rate or loan is made interest-free	5,503	9,087
Conditional and/or partial forgiveness of the loan	274	299

Table 2.2.B Movements in forborne exposures	2019	2018
At 1 January	69,731	98,254
New forborne exposures	12,184	16,074
Additions and repayments	–33,286	–52,489
Assets no longer designated as forborne exposures	–8,362	–1,099
Impairments	15,184	8,992
At 31 December	55,452	69,731

Additions and repayments are related to clients that have a forborne exposure in place.

Tables 2.2.C and 2.2.D provide an insight into the underlying collateral of forborne loans. This breakdown is based on the collateral used under Basel regulations, with the exception of commercial real estate, for which collateral is based on market values. The value in the Total primary collateral column is the lower of the subscription value or the value of the collateral.

Table 2.2.C Forborne exposures by collateral at 31/12/2019

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Total primary collateral	Secondary collateral and unsecured loans
Total	55,452	2,877	24,380	15,948	43,205	12,247
Mortgage loans	3,010	2,877	–	–	2,877	132
Current accounts	20,263	–	–	15,948	15,948	4,315
Loans	32,180	–	24,380	–	24,380	7,799

Table 2.2.D Forborne exposures by collateral at 31/12/2018

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Total primary collateral	Secondary collateral and unsecured loans
Total	69,731	7,072	24,707	23,020	54,799	14,933
Mortgage loans	3,368	3,368	–	–	3,368	–
Current accounts	30,049	–	–	23,020	23,020	7,029
Loans	36,314	3,703	24,707	–	28,410	7,904

The geographical breakdown in Table 2.2.E is based on client locations.

Table 2.2.E Forborne exposures by geographical area	31/12/2019	31/12/2018
Total	55,452	69,731
Netherlands	55,073	69,258
Belgium	–	101
Other	379	373

2.2.1 Write-off policy

We write off loans as soon as there is sufficient certainty about the loss after the sale of collateral and after exploring other redress opportunities.

2.3 Breakdown of the loan portfolio

We adopt a cautious approach to granting unsecured loans. Our loan book mainly consists of loans to Private Banking clients (primarily loans secured by residential real estate), as well as a number of commercial real estate loans and securities-backed loans. The remainder of the loan portfolio comprises consumer loans and private customised financing (other loans), which are solely intended for clients who have placed substantial funds with us. The mortgage loans also include Kempen Dutch Inflation Fund, a fund that invests in leasehold contracts primarily in connection with Dutch residential real estate to create an investment in long-term inflation-linked cash flows.

New loan requests are assessed to determine if they are in line with our strategy and we adopt a conservative approach to granting them.

Credit risk concentration mainly lies within our Private Banking segment in the Netherlands.

Table 2.3 Breakdown of loan portfolio by entity (excluding impairments)	31/12/2019		31/12/2018	
	Limit	Utilisation	Limit	Utilisation
Total	**9,544,548**	**8,661,663**	**9,346,945**	**8,674,307**
Van Lanschot	9,063,194	8,255,267	8,927,953	8,306,871
Kempen	219,510	219,510	212,069	212,069
Van Lanschot Kempen other	261,844	186,886	206,923	155,366

2.4 Collateral

In general, collateral can be used for all current and future amounts owed by a debtor. In addition to mortgage collateral and guarantees provided by governments and credit institutions, commercial real estate, receivables, and stocks and inventories may serve as collateral. The majority of collateral is not directly linked to a specific financing arrangement.

Tables 2.4.A and 2.4.B provide insight into the underlying collateral of the loan portfolio.

Table 2.4.A Loans and advances to the public and private sectors by collateral at 31/12/2019

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Guarantees	Total primary collateral	Secondary collateral and unsecured loans
Total	**8,597,894**	**6,216,064**	**462,358**	**374,261**	**4,788**	**7,057,471**	**1,540,424**
Mortgage loans	6,442,472	6,216,064	–	–	876	6,216,940	225,532
Loans	1,322,734	–	462,358	–	3,911	466,269	856,465
Current accounts	518,979	–	–	218,746	–	218,746	300,233
Securities-backed loans and settlement receivables	313,130	–	–	155,515	–	155,515	157,615
Subordinated loans	579	–	–	–	–	–	579

Table 2.4.B Loans and advances to the public and private sectors by collateral at 31/12/2018

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Guarantees	Total primary collateral	Secondary collateral and unsecured loans
Total	**8,561,497**	**6,201,921**	**619,707**	**338,974**	**9,116**	**7,169,718**	**1,391,779**
Mortgage loans	6,368,870	6,201,921	–	–	4,758	6,206,679	162,190
Loans	1,414,789	–	619,707	–	4,358	624,065	790,723
Current accounts	509,107	–	–	220,329	–	220,329	288,778
Securities-backed loans and settlement receivables	267,221	–	–	118,645	–	118,645	148,576
Subordinated loans	1,510	–	–	–	–	–	1,510

The category Secondary collateral and unsecured loans mainly comprises loans for which collateral has been pledged in the form of operating assets, inventories and receivables, as well as collateral which for technical reasons is not directly linked to a specific loan. Tables 2.4.A and 2.4.B have been drawn up on the basis of the definitions contained in the Basel regulations, with the exception of commercial real estate, which is based on the market value. The value under primary collateral is the lower of the subscription value or the value of the collateral. The total amount of unsecured loans is small. In general, collateral can be used for all current and future amounts owed by a debtor.

The average loan-to-value (LTV) of our mortgage loans, based on 100% foreclosure value, is 76% (2018: 76%).

2.5 Concentration within the loan portfolio

About 82% of our loan portfolio consists of loans to private clients. The credit risk in this portfolio is limited (see Section 2.8, Loss allowance for expected credit loss). We aim for a diversified loan portfolio and have actively sought to reduce the concentration on individual counterparties. Reflecting our risk appetite, we have set limits for concentrations in individual sectors.

2.5.1 Individual loan concentrations

The ten largest loans to individual counterparties other than financial institutions totalled €280 million at year-end 2019, compared with a total loan portfolio of €8.7 billion (2018: €220 million; total loan portfolio €8.7 billion).

2.5.2 Geographical concentrations

In line with our strategy, the majority of lending takes place in the Netherlands and Belgium. The geographical breakdown is based on client locations. A small portion of the Belgian market is served from the Dutch branch network.

Table 2.5.2 Loans and advances to the public and private sectors by geographical area	31/12/2019	31/12/2018
Total	**8,597,894**	**8,561,497**
Netherlands	8,097,188	8,048,335
Belgium	256,050	250,206
Other	244,656	262,956

2.6 Encumbered and unencumbered assets

Certain items in the statement of financial position are classified as encumbered. Tables 2.6.A and 2.6.B provide insight into the financial assets treated as encumbered. These tables have been drawn up on the basis of carrying value.

Encumbered assets

Pledged as collateral:

- Cash pledged to a counterparty bank or central clearing party as security for obligations stemming from derivatives (CSA contracts);
- Investments in debt instruments pledged to DNB or counterparty banks in the context of repo transactions or for securities and derivatives clearing purposes;
- Securitised mortgage loans and receivables underlying debt instruments which have been pledged as collateral to DNB for transaction settlements or have been placed with institutional investors in the form of securitisation notes or covered bonds.

Other:

- Statutory reserve deposits with central banks;
- Reserve accounts of the Courtine and Covered Bond entities to which we have no access.

Unencumbered assets

Eligible as collateral:

- Investments in debt instruments which appear on the ECB eligible list of marketable assets but are not classed as encumbered at the reporting date;
- Securitised mortgage loans and advances underlying debt instruments which are held by us and which appear on the ECB eligible list of marketable assets but are not classified as encumbered at the reporting date.

Table 2.6.A Encumbered and unencumbered assets	Encumbered assets		Unencumbered assets		31/12/2019
	Pledged as collateral	Other	Eligible as collateral	Not eligible as collateral	Total
Total	2,123,693	22,063	2,673,157	8,625,077	13,443,990
Cash and cash equivalents and balances at central banks	–	14,425	–	1,402,739	1,417,164
Due from banks	174,338	7,638	–	115,580	297,556
Financial assets at fair value through profit or loss	–	–	142,448	179,061	321,509
Financial assets at fair value through other comprehensive income	–	–	2,029,900	354,361	2,384,261
Loans and advances to the public and private sectors	1,725,446	–	299,112	6,573,336	8,597,894
Other financial assets at amortised cost	223,909	–	201,697	–	425,606

Table 2.6.B Encumbered and unencumbered assets	Encumbered assets		Unencumbered assets		31/12/2018
	Pledged as collateral	Other	Eligible as collateral	Not eligible as collateral	Total
Total	2,356,409	33,319	1,838,506	8,855,683	13,083,916
Cash and cash equivalents and balances at central banks	–	12,783	–	1,394,080	1,406,863
Due from banks	152,288	20,535	–	366,357	539,180
Financial assets at fair value through profit or loss	–	–	61,391	157,192	218,583
Financial assets at fair value through other comprehensive income	121,065	–	1,391,945	290,574	1,803,584
Loans and advances to the public and private sectors	1,753,444	–	160,573	6,647,480	8,561,497
Other financial assets at amortised cost	329,612	–	224,597	–	554,209

2.7 Netting of financial assets and liabilities

Tables 2.7.A and 2.7.B show the netting of financial assets and liabilities. The right to net derivatives is laid down in a master netting agreement per counterparty. For information about the netting criteria, please see “Summary of significant accounting principles”.

Table 2.7.A Netting of financial assets and liabilities 31/12/2019	Gross	Gross in the statement of financial position	Net in the statement of financial position	Related amounts not netted in the statement of financial position	Net
Derivatives (assets)	414,524	47,245	367,279	5,398	361,881
Derivatives (liabilities)	497,071	47,245	449,826	5,398	444,428

Table 2.7.B Netting of financial assets and liabilities 31/12/2018	Gross	Gross in the statement of financial position	Net in the statement of financial position	Related amounts not netted in the statement of financial position	Net
Derivatives (assets)	378,730	46,011	332,719	7,279	325,440
Derivatives (liabilities)	515,327	46,011	469,316	7,279	462,037

2.8 Loss allowance for expected credit loss

Under the IFRS 9 standard, we recognise a loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost or fair value through profit or loss, as well as for financial guarantees and loan commitments. When there is no significant deterioration in credit risk since initial recognition, ECL is recognised based on a 12-month expected credit loss (Stage 1). When a significant increase in credit risk has occurred, ECL is recognised based on a lifetime ECL (Stage 2). For impaired loans (Stage 3), a lifetime ECL is recognised.

Expected loss measurement

We measure expected credit losses by using a sophisticated approach and an alternative approach. In both these approaches, ECL reflects an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and verifiable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Both approaches calculate a 12-month and a lifetime ECL for the exposures of all three stages. After the risk stage determination in the stage calculation, the relevant ECL is assigned:
- 12-month ECL for Stage 1;
- Lifetime ECL for Stage 2 and Stage 3.

The key elements of the ECL calculation are the probability of default (PD), exposure at default (EAD), loss given default (LGD), and loss given non-cure (LGN). The loss given non-cure is an estimate of the loss arising in the event of a default without cure occurring at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral.

In addition to these four key elements, we incorporate forward-looking information for the sophisticated approach. We identify macroeconomic variables and consider three macroeconomic scenarios in calculating ECL:
- A base-case scenario;
- An upside scenario;
- A downside scenario.

These scenarios are associated with different PDs, EADs and LGNs. In the process of building the PD, cure rate and LGN models for IFRS we included several macroeconomic risk drivers in the long list of risk drivers. Those determined as best-performing during modelling were selected to be part of the model. The macroeconomic scenarios are generated based on inputs from CBS, DNB and Van Lanschot Kempen's economic experts. The reported ECL (12-month or lifetime, depending on the stage) is a weighted average of ECLs per macroeconomic scenario. The table below shows the macroeconomic variables used for the sophisticated approach.

Model	Macroeconomic variables
PD calibration	– Gross domestic product (GDP) – Volume of exports (EXP)
Cure rate	– Total investments (TI) – Private consumption (PC) – Residential real estate price (RREP) – Government consumption (GC)
LGN	– Gross domestic product (GDP) – Residential real estate price (RREP)

Significant deterioration in credit risk

To determine the deterioration in credit risk of a financial instrument since initial recognition, we compare the current risk of default at the reporting date with the risk of default on initial recognition.

To calculate the lifetime probability of default (LPD) at origination and the LPD at reporting date, we use four PD models: private individuals, small and medium-sized enterprises, corporates, and commercial real estate. If the increase in LPD exceeds the designated threshold, the exposure is transferred to Stage 2 and the lifetime ECL is calculated.

We use the following thresholds for the different PD models:

– Private investments	0.8
– Small and medium-sized enterprises	0.9
– Corporates	1.3
– Commercial real estate	0.9

A backstop is applied and financial instruments that are materially overdrawn and more than 30 days past due are transferred from Stage 1 to Stage 2. If the financial instrument is credit-impaired, it is transferred to Stage 3.

Threshold

An exposure will be regarded as "significantly deteriorated" if the result of the following formula exeeds the limit:

$$\log \left[\frac{LPD_{reporting}}{1 - LPD_{reporting}} \right] - \log \left[\frac{LPD_{origination}}{1 - LPD_{origination}} \right]$$

Financial instruments following sophisticated approach

For the majority of financial instruments included in the line item Loans and advances to the public and private sectors, including mortgage loans, loans, current accounts, subordinated loans and financial guarantees and loan commitments, we apply a sophisticated approach to calculate ECL. This approach uses an umbrella model that combines the following submodels:

- Various models that provide the expected flow of exposures to the default state;
- A PD calibration model giving the flow from performing to default;
- A full prepayment model and amortisation model giving the outflow from the portfolio of an entire exposure due to prepayment or contract expiration;
- A migration model providing flows from performing rating classes to other performing rating classes;
- A cure rate model giving the flow from default to performing classes and the non-cure state;
- Various product-level models that give the expected exposure at the moment a client goes into default;
- An amortisation model showing the contractual payments during the lifetime of a product and the part of the exposure flowing out of the portfolio due to partial prepayments;
- An EAD model giving the exposure as a function of the limit or outstanding amount just before default;
- A product-level model evaluating the part of EAD that may be lost – the loss given loss (LGL) model;
- A discount factor to discount the loss from the moment of default to the moment of reporting.

Financial instruments following the alternative approach

We apply an alternative approach for cash and cash equivalents, due from banks, debt instruments at amortised cost, debt instruments at fair value through other comprehensive income, and loans and security-backed loans issued by the Belgian branch and F. van Lanschot Bankiers (Schweiz) AG. The alternative approach comprises an investments model and a foreign loan model.

Investments model

The investments model is applied to calculate the ECL for cash and cash equivalents, due from banks, debt instruments at amortised cost, and debt instruments at fair value through other comprehensive income. These financial instruments all have a low risk profile. All such exposures are assigned to Stage 1 as long as their external rating is investment grade. We use a simplified model to calculate 12-month ECL, using publicly available data for PD and LGD based on external ratings. If financial assets are downgraded below investment grade, these assets will be sold.

Foreign loans model

For the loans and securitised loans issued by the Belgian branch and F. van Lanschot Bankiers (Schweiz) AG, we have developed a foreign loans model. These two portfolios fall outside the scope of the IRB models and no requirements on historical data have been set. The foreign loan model calculates ECL as the sum of future exposure discounted at the effective interest rate at recognition for non-revolving products and the current effective interest rate for revolving products.

The loss allowance for ECL on financial instruments and the macroeconomic variables used are described in the following section.

The table below shows the ECL loss allowances and the corresponding book values, categorised by balance sheet line item and ECL by stage, as at 31 December 2018 and 31 December 2019.

Table 2.8 Loss allowance for expected credit loss	31/12/2019		31/12/2018	
	Book value (excluding impairments)	Expected credit loss	Book value (excluding impairments)	Expected credit loss
Total	**14,231,141**	**64,423**	**13,837,572**	**113,675**
Cash and cash equivalents and balances at central banks	1,417,165	1	1,406,864	0
Due from banks	297,557	1	539,180	0
Financial assets at fair value through other comprehensive income	2,384,261	549	1,803,584	544
Loans and advances to the public and private sectors	9,469,589	63,768	9,295,388	112,811
Other financial assets at amortised cost	425,634	28	554,242	34
Financial guarantees and loan commitments	236,935	76	238,313	286

Loss allowances for ECL change over time for several reasons: the credit risk of financial instruments may significantly increase or decrease, financial instruments may become credit-impaired, or new financial assets may be originated. The following tables explain the changes in the loss allowances during the year and the loss allowance recognised in the statement of income.

Movements in impairments of Financial assets at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	544	–	–	544
Additions or releases without transfer	–23	–	–	–23
New financial assets originated or purchased	27	–	–	27
Total through profit or loss	**549**	–	–	**549**
At 31 December 2019	**549**	**–**	**–**	**549**

Movements in impairments of Financial assets at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	663	–	–	663
Additions or releases without transfer	–269	–	–	–269
New financial assets originated or purchased	150	–	–	150
Total through profit or loss	**544**	–	–	**544**
At 31 December 2018	**544**	**–**	**–**	**544**

Movements in impairments of Loans and advances to the public and private sectors	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	3,691	8,621	100,499	112,811
Additions or releases without transfer	–888	–2,905	–12,027	–15,819
Transfer to Stage 1	524	–5,141	–28	–4,644
Transfer to Stage 2	–307	6,400	–4,267	1,826
Transfer to Stage 3	–3,167	–1,429	8,287	3,691
New financial assets originated or purchased	3,812	–	–	3,812
Total through profit or loss	**3,664**	**5,546**	**92,465**	**101,675**
Amounts written off	–	–	–37,907	–37,907
At 31 December 2019	**3,664**	**5,546**	**54,558**	**63,768**

Movements in impairments of Loans and advances to the public and private sectors	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	4,390	12,186	114,944	131,520
Additions or releases without transfer	–1,509	–3,676	–7,753	–12,938
Transfer to Stage 1	435	–5,278	–420	–5,263
Transfer to Stage 2	–607	7,403	–1,480	5,316
Transfer to Stage 3	–27	–2,014	7,503	5,462
New financial assets originated or purchased	1,009	–	–	1,009
Total through profit or loss	**3,691**	**8,621**	**112,794**	**125,105**
Amounts written off	–	–	–12,295	–12,295
At 31 December 2018	**3,691**	**8,621**	**100,499**	**112,811**

In 2019, there were no material recalibrations of PD, LGD, LGN or EAD.

Movements in impairments of Financial guarantees and loan commitments	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	106	98	82	286
Additions or releases without transfer	–93	–170	–74	–337
Transfer to Stage 1	40	–372	–	–332
Transfer to Stage 2	–8	450	–	442
New financial assets originated or purchased	16	–	–	16
Total through profit or loss	**62**	**6**	**8**	**76**
At 31 December 2019	**62**	**6**	**8**	**76**

Movements in impairments of Financial guarantees and loan commitments	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	89	223	888	1,200
Additions or releases without transfer	–52	–41	–806	–899
Transfer to Stage 1	35	–140	–	–105
Transfer to Stage 2	–2	56	–	55
Transfer to Stage 3	–	–0	0	0
New financial assets originated or purchased	36	–	–	36
Total through profit or loss	**106**	**98**	**82**	**286**
At 31 December 2018	**106**	**98**	**82**	**286**

All financial instruments included in the line items Cash and cash equivalents, Due from banks, and Debt instruments at amortised cost are classified in Stage 1, and no transfers have taken place.

Credit quality

Van Lanschot Kempen allocates each exposure to a credit risk grade based on a variety of data that are determined to be predictive of the risk of default. Credit risk grades are defined using qualitative (applying experienced credit judgement) and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

We use internally developed rating pools for the line items Loans and advances to the public and private sectors and Financial guarantees and loan commitments.

Credit grade	Description
Investment grade	Non-credit-impaired financial assets that are not placed under the supervision of the Credit Restructuring & Recovery department, internal rating pool 1
Standard monitoring	Non-credit-impaired financial assets that are not placed under the supervision of the Credit Restructuring & Recovery department, internal rating pools 2 to 4
Special monitoring	Non-credit-impaired financial assets that are placed under the supervision of the Credit Restructuring & Recovery department, internal rating pools 1 to 4
Default	Credit-impaired financial assets

All financial instruments under the line items Cash and cash equivalents, Due from banks, Debt instruments at amortised cost and Debt instruments at fair value through other comprehensive income are investment grade, which means their external rating is at least BBB-. We use external ratings for these line items.

The credit quality of the line items Loans and advances to the public and private sectors and Financial guarantees and loan commitments is shown in the tables below. Assessment of credit quality is based on our internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

Credit quality of Loans and advances to the public and private sectors 31/12/2019	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade (AAA to BBB–)	8,205,162	–	–	8,205,162
Standard monitoring (BB+ to B–)	–	921,443	–	921,443
Special monitoring (CCC to C)	–	100,651	–	100,651
Default (DDD to D)	–	–	242,334	242,334
Gross carrying amount	8,205,162	1,022,094	242,334	9,469,589
Loss allowance	3,664	5,546	54,558	63,768
Carrying amount	8,201,498	1,016,548	187,776	9,405,821

Credit quality of Loans and advances to the public and private sectors 31/12/2018	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade (AAA to BBB–)	7,559,491	–	–	7,559,491
Standard monitoring (BB+ to B–)	–	1,244,681	–	1,244,681
Special monitoring (CCC to C)	–	154,980	–	154,980
Default (DDD to D)	–	–	336,236	336,236
Gross carrying amount	7,559,491	1,399,661	336,236	9,295,388
Loss allowance	3,691	8,621	100,499	112,811
Carrying amount	7,555,801	1,391,040	235,737	9,182,578

Credit quality of Financial guarantees and loan commitments 31/12/2019	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade (AAA to BBB-)	232,573	–	–	232,573
Standard monitoring (BB+ to B-)	–	3,673	–	3,673
Special monitoring (CCC to C)	–	320	–	320
Default (DDD to D)	–	–	369	369
Gross carrying amount	232,573	3,993	369	236,935
Loss allowance	62	6	8	76
Carrying amount	232,511	3,987	361	236,859

Credit quality of Financial guarantees and loan commitments 31/12/2018	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade (AAA to BBB-)	224,716	–	–	224,716
Standard monitoring (BB+ to B-)	–	9,166	–	9,166
Special monitoring (CCC to C)	–	1,160	–	1,160
Default (DDD to D)	–	–	3,271	3,271
Gross carrying amount	224,716	10,326	3,271	238,313
Loss allowance	106	98	82	286
Carrying amount	224,610	10,227	3,189	238,026

Macroeconomic variables

We incorporate forward-looking information for the sophisticated approach. We use macroeconomic variables and consider three macroeconomic scenarios in calculating ECL: a base scenario, an upside scenario, and a downside scenario. The table shows the macroeconomic variables used for the sophisticated approach as at 31 December 2018 and 31 December 2019.

Macroeconomic variables	As at 31 December 2019			As at 31 December 2018		
	2019	2020	2021	2018	2019	2020
Gross domestic product						
Base-case scenario	1.99%	1.69%	1.39%	2.80%	2.00%	2.00%
Upside scenario	3.41%	3.11%	2.81%	4.26%	3.46%	3.46%
Downside scenario	–0.58%	–0.88%	–1.18%	0.16%	–0.64%	–0.64%
Volume of export						
Base-case scenario	2.82%	2.72%	2.32%	2.94%	3.54%	3.84%
Upside scenario	4.85%	4.75%	4.35%	4.62%	5.22%	5.52%
Downside scenario	–0.86%	–0.96%	–1.36%	–0.08%	0.52%	0.82%
Total investments						
Base-case scenario	6.44%	2.94%	2.94%	7.91%	6.11%	6.11%
Upside scenario	15.29%	11.79%	11.79%	17.28%	15.48%	15.48%
Downside scenario	–9.66%	–13.16%	–13.16%	–8.98%	–10.78%	–10.78%
Private consumption						
Base-case scenario	1.62%	2.22%	2.62%	2.92%	1.92%	1.82%
Upside scenario	2.69%	3.29%	3.69%	4.00%	3.00%	2.90%
Downside scenario	–0.31%	0.29%	0.69%	0.98%	–0.02%	–0.12%
Residential real estate price						
Base-case scenario	7.23%	3.23%	2.53%	9.63%	6.13%	3.43%
Upside scenario	10.29%	6.29%	5.59%	12.70%	9.20%	6.50%
Downside scenario	1.68%	–2.32%	–3.02%	4.09%	0.59%	–2.11%
Government consumption						
Base-case scenario	1.90%	2.70%	1.60%	1.20%	2.60%	2.00%
Upside scenario	1.89%	2.69%	1.59%	1.19%	2.59%	1.99%
Downside scenario	1.91%	2.71%	1.61%	1.22%	2.62%	2.02%

For the portfolios that fall under the scope of IFRS 9, Van Lanschot Kempen performs a scenario analysis to calculate the sensitivity of the ECL to macroeconomic variables. The main economic drivers of the ECL are gross domestic product (GDP), volume of exports (EXP), total investments (TI), private consumption (PC), residential real estate price (RREP) and government consumption (GC). In the table below, ECLs are shown per stage and per scenario.

Sensitivity analysis as at 31 December 2019	Stage 1	Stage 2	Stage 3	Total	Change
Original situation	4,305	5,552	54,629	64,486	
Base-case scenario	4,232	5,512	54,149	63,893	–592
Upside scenario	3,229	4,656	51,701	59,586	–4,899
Downside scenario	5,432	6,480	58,004	69,916	5,430

Collateral credit-impaired financial instruments

In general, collateral can be used for all current and future amounts owed by a debtor. In addition to residential mortgage collateral and guarantees provided by governments and credit institutions, commercial real estate, financial collateral, receivables, stocks and inventories may serve as collateral. The majority of collateral is not directly linked to a specific financing arrangement. For credit-impaired financial assets, the Credit Restructuring & Recovery department determines the liquidation or recovery value of the available collateral, based on the most recent valuation reports. The table below shows the collateral for financial assets considered credit-impaired.

Collateral for credit-impaired assets as at 31 December 2019	Gross exposure	Impairment	Carrying amount	Value of collateral
Loans and advances to public and private sectors	242,334	54,558	187,776	207,359
Financial guarantees and loan commitments	369	8	361	347

No impairment is recognised for credit-impaired financial instruments if the collateral is sufficient to cover the outstanding obligation. The total carrying amount of credit-impaired financial instruments for which there is no impairment recognised is €106.0 million (2018: €135.6 million).

3. Market risk

Market risk is the risk of loss as a result of changes in market variables, including interest rates, exchange rates and share prices. Other variables not directly observable in the market, such as volatility and correlations, can also influence the value of financial instruments. The market risk to which we are exposed can be divided into two components: the market risk to which Van Lanschot Treasury (part of the Other activities operating segment) is exposed in respect of its necessary market maintenance and services to clients, and the market risk stemming from trading activities in institutional securities; this latter risk is concentrated at Kempen, within the Merchant Banking operating segment.

3.1 Kempen market risk: trading activities in securities

Our trading activities in securities, mainly comprising equities and equity derivatives, are concentrated at Kempen (within the operating segment Merchant Banking). A governance structure has been created to facilitate effective risk management. The risks are managed using Value at Risk (VaR) limits as well as gross and net limits. Daily stress tests provide information about changes in portfolio values in extreme market conditions and complement the VaR calculation. The VaR for the trading portfolios is computed daily, based on a one-day time horizon with a 97.5% confidence level on one year of historical data. The continued validity of the assumptions underlying the VaR computation is regularly tested using back-testing. Other risks relating to derivatives are expressed in "the Greeks" (e.g. Delta, Vega, Rho) and are separately monitored on a daily basis or more frequently if necessary. Separate limits are in place for all risk drivers. VaR and other relevant risk parameters are reported to senior management (including two Executive Board members) on a daily basis. Lastly, market risks are also generated by investments in Kempen's management book (€85.6 million; 2018: €69.1 million). These investments provide seed capital to newly launched Kempen Capital Management funds and are held with a trading intent. Financial markets were relatively calm and bullish in 2019, although some temporary volatility increases were observed as a result of the US-China trade war.

Table 3.1 VaR of Kempen trading activities	2019		2018	
	Derivatives-related	Share-related	Derivatives-related	Share-related
At 31 December	219	158	445	314
Highest VaR	582	475	576	439
Lowest VaR	19	113	169	55
Average VaR	359	238	293	144

3.2 Van Lanschot market risk: treasury

To a limited degree, Van Lanschot Treasury (part of the Other activities operating segment) is also exposed to market risk. These risks stem from its treasury activities (mainly foreign exchange exposure, comprising client transactions and own positions). The majority of transactions and positions in the statement of financial position are denominated in euros. Exchange rate risk is managed within the required limits and an authorisation structure applies. Foreign exchange positions are shown in Table 3.2.B and include all cash, forward and option positions of the entities in scope of consolidation.

Table 3.2.A Exchange rate risk of treasury trading activities (total gross nominal foreign exchange position translated to € x 1,000)	2019	2018
At 31 December	546	99
Highest position	1,970	1,794
Lowest position	83	59
Average position	462	250

Table 3.2.B Foreign exchange positions (€1,000)	31/12/2019	31/12/2018
Total	**583**	**–179**
US dollar	344	79
Singapore dollar	57	–
New Zealand dollar	50	7
Canadian dollar	30	9
Pound sterling	7	77
Danish krone	–	–501
Swiss franc	–180	–104
Other	275	254

The capital adequacy requirement for exchange rate risk was €0.06 million at year-end 2019 (2018: €0.05 million). This amounts to 8% of the net open positions in each currency (2018: 8%).

In addition, some market risk exposure results from investments made in Van Lanschot's management book. The current exposure in this portfolio is €32.0 million (2018: €20.2 million). Credit spread risk in the banking book (CSRBB) is the risk of volatility in earnings and/or equity, caused by spread movements in the swap curve, for banking book instruments that are classified at fair value.

For Van Lanschot, CSRBB is mainly concentrated in the investment and liquidity portfolios. CSRBB limits have been imposed on these portfolios, which are monitored by ALCO on a monthly basis.

3.3 Market risk: interest rate and share-related instruments

We use the maturity method to calculate the capital adequacy requirement in respect of the general risk on debt instruments in the trading portfolio. Share-related instruments are share instruments included under Financial assets from trading activities (see Table 3.3).

Table 3.3 Market risk	31/12/2019		31/12/2018	
	Risk weighting	Capital adequacy requirement	Risk weighting	Capital adequacy requirement
Total	188,432	15,075	325,017	26,001
Interest-related instruments	139,633	11,171	229,589	18,367
Share-related instruments	48,015	3,841	94,804	7,584
Currency-related instruments	783	63	625	50

Weighting and requirements

We use the standardised approach for all types of market risk. The market risk of interest rate derivatives is included under Interest rate-related instruments; the market risk of share-related derivatives is included under Share-related instruments; and the market risk of currency derivatives is included under Currency-related instruments.

4. Operational risk

Operational risks are potential losses that result from inadequate or failed internal processes, systems, inadequate or incorrect human actions, external events and fraud. Within Van Lanschot Kempen, operational losses are classified using operational loss event types as set out in the Basel framework. Managing operational risks is the responsibility of line management (the first line of defence); this also includes the responsibility for information security and business continuity.

We have created a range of instruments for identifying, evaluating, monitoring and managing operational risks to support the bank's management in their roles as risk owners.

- **Operational risk appetite**: This appetite defines the level of – quantitative and qualitative – operational risk we are willing to accept. Exceeding this appetite requires the attention of the Executive Board and will lead to additional mitigation measures as necessary.
- **Risk identification and assessment** via risk and control self-assessments and scenario analysis:
  - **Risk and control self-assessment** is a tool that allows line managers to systematically identify and assess risks so that steps can be taken to manage any risks outside the risk appetite. Risk and control self-assessments are carried out, at tactical (department) level, on the most important value chains of the organisation and on our most important programmes and projects. These assessments are re-performed periodically in order to reassess and update the existing operational risk level.
  - **Scenario analyses** are used to assess low frequency but high-impact risks. The results of these analyses are used to provide insight into the adequacy of the Pillar 1 capital requirement vis-à-vis the operational risk profile.
- **Risk response**: Management is responsible for deciding how to treat the risk, and whether to mitigate, accept or transfer (insure) it:
  - **Action tracking**: Action tracking is used to track progress made in the delivery of actions to mitigate identified risks, arising from risk and control self-assessments, failing controls, analysis of incidents or complaints, findings by Group Audit and external regulators, and other relevant events.
  - **Control effectiveness monitoring**: To ensure that the most important risks (the key risks) are mitigated sufficiently, key controls have been defined; these are assessed on a regular basis to determine their effectiveness.
  - **Risk insurance**: To protect the organisation against major operational risk-related losses, we have taken out insurance policies that cover claims and losses resulting from the services offered. Broadly, these policies are a combination of fraud and professional liability insurance, directors' liability insurance and various other liability and accident insurance policies. In 2016, a cyber risk policy was added to our insurance coverage. This policy provides liability and damage cover for relevant cyber risk events.
  - **Risk acceptance**: If a risk is assessed to be outside of the risk appetite and it is not possible or economically viable to lower the risk, the risk can be accepted at Executive Board level.
- **Risk monitoring**:
  - **Incident management**: Risks that materialise through an incident are registered in our database via the incident management process. For severe incidents, root cause analyses are carried out. The incidents database allows the systematic recording and analysis of losses resulting from operational risks. It contains information about losses incurred as

a result of operational risks in prior years and forms the foundation of the operational risk management measurement system for Van Lanschot and Kempen. A total of 112 incidents entailing a loss of more than €1,000 were logged in the database in 2019 (2018: 187 incidents).

- **Risk measurement**: This is based on key risk indicators (early warnings), which highlight trends and/or provide prospective information about operational risks.
- **Risk meetings**: Periodic meetings with risk owners are held to monitor the development of the risk profile in relation to the risk appetite.

Information security

Information security contributes to the protection of client and corporate information. Both automated and manual information processing are carried out. Taking the right measures on the basis of targeted risk analyses of business and IT processes ensures that both our client data and corporate data are adequately protected.

Business continuity management

Business continuity analyses are carried out as part of our business continuity management process in order to gain insight into critical processes and the resources that are needed to ensure continuity of service and address potential threats. Embedding business continuity management in the organisation is essential to give the bank sufficient resilience against the impact of an incident or disaster. Business continuity therefore has universal scope within the bank; it comprises policies, standards and procedures aimed at safeguarding critical processes or enabling a restart within a specified timeframe in the event of a disaster. The objective is to keep any financial, reputational and/or other material damage to a minimum, both for us and for our clients. Procedures are tested on a regular basis, with tests of fallback procedures and crisis governance carried out every year.

5. Settlement risk

We are required to hold capital for financial transactions that are not settled within five days of the agreed deadline, if the difference between the agreed settlement price and the price at the reporting date could lead to a loss.

At year-end 2019, financial transactions totalling €10 million (2018: €171 million) had to be reported in the context of settlement risk.

6. CVA risk

Under the CRR, account must also be taken of the risk-weighted assets in relation to credit valuation adjustment (CVA), which must be adequate to cover the risk of a deterioration in the creditworthiness of the counterparty in an OTC derivatives transaction. This CVA capital adequacy requirement is additional to requirements applying to the risk-weighted assets in relation to the “regular” default risk. We use the SA method to calculate the capital requirement for CVA.

7. Strategic risk

Strategic risk can be defined as the threat to our results or equity resulting from failure to respond (adequately) to changes in environmental factors, or from incorrect strategic decisions. Environmental factors include the actions of competitors, clients, potential market entrants and public authorities.

8. Interest rate risk

Interest rate risk is the exposure of the banking book (IRRBB) to adverse market interest rate movements. Adverse interest rate movements may impact a bank’s current and/or future earnings, capital and market value. Interest rate risks in non-banking book items are managed as part of market risk.

Our main source of interest rate risk is the interest maturity mismatch between mortgages and loans on the one hand and savings and other funding sources on the other. In general, assets have longer fixed-rate terms than liabilities, especially in the current low interest rate environment, in which clients show a distinct preference for long fixed-rate terms for mortgages. In measuring our interest rate risk exposure, we model client behaviour with respect to the prepayment patterns of mortgages and loans and the interest rate risk profiles of savings and current accounts. Client behaviour risk is another important source of interest rate risk, as actually observed client behaviour may deviate from assumptions. Differences between assumed and actually observed client behaviour could have a material adverse impact on future results.

Responsibility for IRRBB management has been delegated by the Executive Board to ALCO. We pursue a prudent interest rate risk policy that aims to mitigate the effect of prospective interest rate movements which could reduce future net interest income, while balancing the costs of hedging activities on current earnings. We manage interest rate risk from both a long- and a short-term perspective. The short-term interest rate risk is addressed mainly from a net interest income perspective (delta net interest income, or ΔNII). This involves an analysis of the interest income under a number of market interest rate scenarios, relative to the baseline scenario in which interest rates are expected to develop based on forward rates. In 2019, all ΔNII scenarios remained within risk appetite limits. By year-end 2019, the most adverse scenario was a non-parallel scenario in which short-term market rates fall over the next twelve months, with Van Lanschot Kempen being unable to reduce savings rates sufficiently. This is considered an extreme scenario as negative (short-term) market rates are already at historically low levels. The ΔNII for this scenario was -7.6% at the end of 2019 (end of 2018: -8.2%). Table 8.A shows the interest rate risk metrics.

Table 8.A Interest rate risk metrics	31/12/2019	31/12/2018
Delta net interest income (ΔNII)	–7.6%	–8.2%
Duration of equity (years)	3	2
Delta economic value of equity (ΔEVE)	–6.9%	–4.0%

We address long-term interest rate risk by means of the economic value approach, which looks at how movements in interest rates impact the value of the bank's assets and liabilities. The rule-of-thumb metric for economic value analysis is duration of equity, which indicates the net impact of parallel interest rate changes on economic value, assuming a linear relationship between these parameters.

In 2019, duration of equity was controlled by ALCO within a bandwidth of two to three and a half years. In the current interest rate environment, however, the relationship between economic value and interest rate changes is less linear due to, among other factors, floors in interest rates on various balance sheet items. For this reason, we focus not only on duration, but also on the "true" economic value changes under various scenarios, in which all interest rate cash flows are re-plotted and revalued at shocked interest rate curves. In calculating economic values, we use coupon rates that are "stripped" from margins. In 2019, all delta economic value of equity (ΔEVE) scenarios remained within risk appetite limits. By year-end 2019, the most adverse scenario was an instant upwards shock of 200 basis points. The ΔEVE for this scenario was -6.9% at the end of 2019 (end of 2018: -4.0%).

We aim to neutralise the impact of differences in accounting classifications on interest rate steering. Hence, we mostly hedge the interest rate risk in fair value items in the banking book on a back-to-back basis, by means of interest rate swaps. By doing so, we make sure that Result on financial transactions – to the extent that it arises from banking book items – is only impacted by market changes in credit spreads over the swap curve and that there is no net impact from changes in the swap curve itself. For this reason, the ΔNII scenarios we use to assess our interest rate risk profile do not affect the Result on financial transactions. We use hedge accounting to offset changes in the market value of derivatives that are used for hedging portfolios classified at amortised cost.

9. Liquidity risk

The main objective of our liquidity risk management is to ensure that we are able to maintain or generate sufficient cash resources to meet our payment obligations in full as they come due, on acceptable terms. As materialising liquidity risk could theoretically jeopardise a bank's continuity, our tolerance for liquidity risk is classified as low. One of the key elements of our approach towards liquidity risk management is to maintain stakeholder confidence in the bank's solidity at all times.

The main source of liquidity risk that we are exposed to relates to the share of client deposits in our funding base. Although client deposits have proven to be relatively price-inelastic and sticky over time, the withdrawable nature of such deposits poses potential outflow risks, especially for those deposits not covered by the deposit guarantee scheme (DGS).

The roll-over risk with respect to maturing capital market funding is less substantial for us. This is mainly due to the realised run-off of the Corporate Banking loan book, which has reduced the reliance on funding sources other than our stable base of client deposits.

To manage liquidity risks, we use a forward-looking liquidity risk framework that enables the comprehensive measurement, evaluation and calibration of indicators related to liquidity risk. The framework consists of the risk appetite statement, the liquidity buffer, monitoring and reporting, forecasting, funding planning and contingency planning.

Limits for liquidity risk are revised on an annual basis as part of the risk appetite statement. Limits set include, but are not limited to, levels of the liquidity coverage ratio, the net stable funding ratio and stress test survival periods, which are reported on a monthly basis to ALCO. The liquidity buffer is the main defensive element against liquidity risk, and the quality and size of the buffer are monitored frequently, together with in- and outflows in the client deposit base. Finally, each year we outline our capital and funding planning for a two to five-year horizon, both under regular circumstances in the capital and funding plan, and under potential future stress or emergency situations in the liquidity contingency plan, complemented by the recovery plan.

Part of our liquidity and funding planning is scenario analysis, of which stress testing is a key element. By means of stress testing, we assess our resilience to a variety of adverse liquidity events – Van Lanschot Kempen-specific events, system-wide events, and a combination of these two.

9.1 Contractual maturity

Tables 9.1.A and 9.1.B show the assets and liabilities based on their remaining contractual terms to maturity at the reporting date, without taking behavioural aspects into account. These amounts correspond with the amounts included in the consolidated statement of financial position. Items with no maturity, such as equity instruments, assets and liabilities classified as held for sale, and provisions are presented separately.

Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included. As savings and current accounts do not have fixed terms, the balances of non-maturity instruments are presented within the withdrawable on demand category.

Due from banks and amounts due to banks include collateral delivered and received related to derivative transactions. Allocation of this collateral over the maturity buckets is conducted in accordance with the maturity classification of the derivative contracts.

Table 9.1.A Contractual maturity of assets and liabilities at 31/12/2019

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Sub-total	Maturity not applicable	Total
Assets								
Cash and cash equivalents and balances at central banks	1,417,164	–	–	–	–	**1,417,164**	–	1,417,164
Financial assets held for trading	–	–	–	–	–	–	49,263	49,263
Due from banks	75,593	28,194	128	141,180	52,461	**297,556**	–	297,556
Derivatives	–	30,869	103,536	138,279	94,595	**367,279**	–	367,279
Financial assets at fair value through profit or loss	87,385	52,648	38,228	98,620	–	**276,882**	44,627	321,509
Financial assets at fair value through other comprehensive income	–	25,258	261,804	1,863,425	233,775	**2,384,261**	–	2,384,261
Loans and advances to the public and private sectors	760,454	83,625	126,072	368,830	7,258,913	**8,597,894**	–	8,597,894
Other financial assets at amortised cost	–	25,001	25,014	375,591	–	**425,606**	–	425,606
Investments in associates using the equity method	–	–	–	–	–	–	52,452	52,452
Other assets[1]	–	112,621	31,841	17,573	–	**162,035**	243,832	405,867
Total assets	**2,340,597**	**358,217**	**586,624**	**3,003,497**	**7,639,744**	**13,928,678**	**390,174**	**14,318,853**
Total assets excluding derivatives	**2,340,597**	**327,348**	**483,087**	**2,865,218**	**7,545,149**	**13,561,399**	**390,174**	**13,951,573**
Equity and liabilities								
Financial liabilities from trading activities	–	2,150	–	–	–	**2,150**	–	2,150
Due to banks	56,377	2,270	5,960	24,048	53,060	**141,715**	–	141,715
Public and private sector liabilities	9,133,688	57,976	53,532	192,568	107,331	**9,545,095**	–	9,545,095
Derivatives	–	35,496	83,220	132,394	198,715	**449,826**	–	449,826
Financial liabilities at fair value through profit or loss	–	50,318	114,212	608,613	134,459	**907,602**	–	907,602
Issued debt securities	–	–	–	1,033,154	511,955	**1,545,109**	–	1,545,109
Lease liabilities	–	–	945	19,701	39,853	**60,499**	–	60,499
Other liabilities[2]	–	48,104	79,495	–	–	**127,600**	49,597	177,196
Subordinated loans	–	–	–	17,274	155,815	**173,090**	–	173,090
Equity	–	–	–	–	–	–	1,316,570	1,316,570
Total equity and liabilities	**9,190,065**	**196,315**	**337,365**	**2,027,753**	**1,201,188**	**12,952,685**	**1,366,167**	**14,318,853**
Total equity and liabilities excluding derivatives	**9,190,065**	**160,818**	**254,144**	**1,895,359**	**1,002,473**	**12,502,859**	**1,366,167**	**13,869,027**
On-balance gap	**–6,849,469**	**161,903**	**249,259**	**975,745**	**6,438,556**	**975,994**	**–975,994**	**–**

1 Includes Property and equipment, Goodwill and other intangible assets, Tax assets and Other assets as presented in the consolidated statement of financial position.
2 Includes Provision, Tax liabilities and Other liabilities as presented in the consolidated statement of financial position.

Table 9.1.B Contractual maturity of assets and liabilities at 31/12/2018

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Sub-total	Maturity not applicable	Total
Assets								
Cash and cash equivalents and balances at central banks	1,406,864	–	–	–	–	**1,406,864**	–	1,406,864
Financial assets from trading activities	–	–	–	–	–	**–**	62,468	62,468
Due from banks	104,659	1,881	274,307	90,308	68,025	**539,180**	–	539,180
Derivatives	–	8,593	71,495	194,529	58,102	**332,719**	–	332,719
Financial assets at fair value through profit or loss	70,281	–	15,475	92,893	–	**178,649**	39,934	218,583
Financial assets at fair value through other comprehensive income	–	160,596	298,103	946,555	398,330	**1,803,584**	–	1,803,584
Loans and advances to the public and private sectors	847,804	52,108	101,379	314,691	7,245,515	**8,561,497**	–	8,561,497
Other financial assets at amortised cost	–	–	122,416	431,792	–	**554,209**	–	554,209
Investments in associates using the equity method	–	–	–	–	–	**–**	54,071	54,071
Assets classified as held for sale	–	–	–	–	–	**–**	68,058	68,058
Other assets[1]	–	96,189	26,555	27,886	–	**150,630**	231,321	381,952
Total assets	**2,429,609**	**319,366**	**909,730**	**2,098,656**	**7,769,971**	**13,527,332**	**455,852**	**13,983,184**
Total assets excluding derivatives	**2,429,609**	**310,774**	**838,235**	**1,904,127**	**7,711,869**	**13,194,613**	**455,852**	**13,650,465**
Equity and liabilities								
Financial liabilities from trading activities	–	333	–	–	–	**333**	–	333
Due to banks	37,951	460	250,551	24,420	21,520	**334,902**	–	334,902
Public and private sector liabilities	8,611,831	75,948	83,702	236,066	83,392	**9,090,939**	–	9,090,939
Derivatives	–	10,183	88,272	252,885	117,975	**469,316**	–	469,316
Financial liabilities at fair value through profit or loss	–	14,285	145,879	599,668	180,530	**940,361**	–	940,361
Issued debt securities	–	–	–	1,020,635	500,869	**1,521,504**	–	1,521,504
Liabilities classified as held for sale	–	–	–	–	–	**–**	20,871	20,871
Other liabilities[2]	–	60,332	70,055	–	–	**130,387**	45,221	175,608
Subordinated loans	–	–	–	–	173,473	**173,473**	–	173,473
Equity	–	–	–	–	–	**–**	1,255,876	1,255,876
Total equity and liabilities	**8,649,783**	**161,541**	**638,458**	**2,133,675**	**1,077,759**	**12,661,215**	**1,321,968**	**13,983,184**
Total equity and liabilities excluding derivatives	**8,649,783**	**151,358**	**550,186**	**1,880,789**	**959,784**	**12,191,900**	**1,321,968**	**13,513,868**
On-balance gap	**–6,220,174**	**157,825**	**271,272**	**–35,019**	**6,692,212**	**866,117**	**–866,117**	**–**

Major differences can be seen in the gaps, because the assets comprise many long-term mortgage loans while the liabilities comprise many short-term deposits. Potential liquidity risks are addressed by means of monthly stress tests – discussed monthly in ALCO – that test the bank's resilience to a variety of adverse liquidity events, and taking behavioural aspects into account.

For each transaction we have guaranteed, the maximum guaranteed amount is included in the relevant term bucket under which the bank first has the right to terminate the transaction. For each obligation arising from an irrevocable commitment, the committed amount is classified in the relevant term bucket under which we first have the right to withdraw the commitment.

1 Includes Property and equipment, Goodwill and other intangible assets, Tax assets and Other assets as presented in the consolidated statement of financial position.
2 Includes Provision, Tax liabilities and Other liabilities as presented in the consolidated statement of financial position.

9.2 Contractual maturities of undiscounted cash flow of financial liabilities

Tables 9.2.A and 9.2.B show liabilities by maturity based on contractual, undiscounted cash flows and including related future cash flows, such as interest payments. Repayments which are subject to notice are treated as if notice were to be given immediately. However, we expect that many clients will not request repayment at the earliest possible date, and the tables below do not reflect the expected cash flows as indicated by our deposit retention history.

Table 9.2.A Contractual maturities of undiscounted cash flow of liabilities at 31/12/2019

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial liabilities from trading activities	–	2,150	–	–	–	2,150
Due to banks	41,530	17,117	5,960	24,048	53,060	141,715
Public and private sector liabilities	9,172,136	56,435	65,175	193,466	125,260	9,612,472
Derivatives	224,376	14,414	24,836	94,385	91,815	449,826
Financial liabilities at fair value through profit or loss	–	51,454	114,536	613,173	137,821	916,984
Issued debt securities	–	5,750	2,797	1,040,859	513,125	1,562,531
Of which covered bond	–	5,750	1,864	1,022,403	513,125	1,543,142
Of which floating-rate notes	–	–	933	18,456	–	19,389
Subordinated loans	–	956	8,576	53,167	222,298	284,997
Total undiscounted liabilities	**9,438,041**	**148,276**	**221,881**	**2,019,097**	**1,143,380**	**12,970,675**

Table 9.2.B Contractual maturities of undiscounted cash flow of liabilities at 31/12/2018

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial liabilities from trading activities	–	333	–	–	–	333
Due to banks	2,153	36,258	250,096	24,420	21,520	334,447
Public and private sector liabilities	8,650,343	63,444	97,941	243,156	102,221	9,157,105
Derivatives	333,349	10,035	15,998	49,842	60,091	469,316
Financial liabilities at fair value through profit or loss	–	15,753	147,330	605,548	181,793	950,423
Issued debt securities	–	6,250	2,374	1,049,877	517,500	1,576,001
Of which covered bond	–	6,250	1,375	1,029,125	517,500	1,554,250
Of which floating-rate notes	–	–	999	20,752	–	21,751
Subordinated loans	–	956	8,954	39,639	253,268	302,818
Total undiscounted liabilities	**8,985,845**	**133,029**	**522,692**	**2,012,482**	**1,136,393**	**12,790,442**

10. Securitisation risk

We treat securitisation as an asset class in our investment portfolio as well using it as a potential funding tool. We are not party to any synthetic securitisations and have no trading position in securitisation transactions.

Funding

We do not structure securitisations for other entities and have no other role in our own securitisations other than as seller and servicer. Until 26 September 2019, we used residential mortgage-backed securities (RMBS) only as a source of contingent liquidity in retained transactions. Since the redemption of Courtine RMBS 2013-I on 26 September 2019, we have been using retained covered bonds, issued out of our Conditional Pass-Through Covered Bond Programme 2, as a contingent liquidity buffer.

Investments

Part of our liquidity investment portfolio is invested in RMBS. We invest only in the most senior and AAA tranches of RMBS transactions that qualify as high-quality liquid assets in assessing the liquidity coverage ratio. This means that the credit quality of the investments should have at least two ratings from an external credit assessment institution (ECAI). As the investments are part of the liquidity buffer, they can be used as collateral, in repo transactions, or sold if necessary. The RMBS portfolio represents a small share of the total investment portfolio.

Risk exposures within the investment portfolio

The credit risks of the investments are not hedged. Our investment portfolio as a whole is monitored by the Treasury and Credit Risk Approval departments on a daily basis.

Management

Interest rate risk is limited, as RMBS are typically floating-rate notes. Interest rate risk is monitored at balance sheet level and includes the investment portfolio. We used the IRB methodology to calculate the total risk exposure of RMBS investments.

11. Climate risk

Climate risk reflects the impact of a change in the climate on Van Lanschot Kempen's financial position and/or reputation. The risk of climate change on our activities is periodically assessed. The climate risk to our private banking activities (the most important lending portfolio here being the mortgage portfolio) is assessed to be limited and no separate lending restrictions are made. In Asset Management, climate risks are taken into account when investments are made or investment managers are selected.

12. Compliance risk

Van Lanschot Kempen and its subsidiaries fulfil a role as financial service providers, a role that we can only play to the full if we enjoy the trust of our stakeholders. Our integrity and behaviour, in accordance with our core values, form the basis for that trust. The Compliance department has an independent role in both advisory and monitoring, with respect to compliance with all relevant laws and regulations that apply to Van Lanschot Kempen. The Compliance department supports the business in translating those into policies and procedures, and also provides guidance to the bank's business lines to enable them to act and perform in accordance with applicable laws and regulations and with the firm's core values and internal codes. The Chief Compliance Officer reports directly to the Chairman of the Statutory Board and the Compliance department is represented in multiple internal committees.

Failure to comply with the statutory and regulatory rules can lead to significant reputational or financial damage. As Van Lanschot Kempen is active in a legal and regulatory environment that exposes it to risk of litigation, it is involved in legal cases and regulatory proceedings. Provisions for legal claims are recognised for obligations arising as a result of a past event where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Van Lanschot Kempen can also sustain potential future losses from legal or regulatory risks where the occurrence of a loss may not be probable and for which at balance sheet date no provisions have been recognised.

13. Financial reporting risk

The Statutory Board is responsible for devising and implementing an adequate system of internal control for our financial reporting. The system is designed to provide reasonable assurance as to the reliability of financial reporting and that the financial statements are prepared in accordance with generally accepted accounting principles and applicable legislation and regulations.

We have the following tools in place to manage financial reporting risks:

- Periodic management reports and KPI dashboards, accompanied by analysis of financial and non-financial figures and trends;
- A risk and control framework describing processes and procedures, and setting out primary controls such as authorisations and segregation of duties;
- The findings from the review of the operational effectiveness of the internal control system by Group Audit, which are discussed with the Executive Board, the Statutory Board, the Audit and Compliance Committee and the Supervisory Board;
- The Van Lanschot Kempen Accounting Manual, which sets out the principles we pursue with respect to financial accounting;
- Assessment and approval of the annual report by the Statutory Board and discussion of this by the Audit and Compliance Committee and by the Supervisory Board.

The Statutory Board states with reasonable assurance that the internal risk management and control systems for financial reporting are performed at an adequate level and that our financial reporting is free of material misstatement. The management teams of the relevant divisions have provided the Statutory Board with in-control statements on the extent of internal control, based on the results of testing procedures for the risk and control framework, the risks reported on a quarterly basis, the follow-up of these risks, and the incidents reported. Group Risk Management and Compliance have evaluated these statements.

14. Fair value

14.1 Financial assets at fair value through profit or loss

A portion of the financial instruments are measured at fair value in the statement of financial position. Tables 14.1.A and 14.1.B provide a breakdown of these instruments into three levels. The fair value is based either on quoted prices in active markets, inputs other than quoted prices that are observable in the market, or inputs based on data not observable in the market.

We have developed a policy on the criteria for allocating financial instruments recognised in the statement of financial position at fair value to each of the three levels. A review is carried out at the end of each reporting period to determine whether any changes have taken place in the hierarchy between the levels.

Level 1: Quoted prices in active markets

The fair value of financial instruments traded in an active market is based on the price at the reporting date (market price). The bid price is applied for financial assets and the offer price for financial liabilities. Since these instruments are traded in an active market, their prices adequately reflect current and frequent market transactions between unrelated parties.

Level 2: Inputs observable in the markets

The fair value of financial instruments not traded in an active market (e.g. over-the-counter financial derivatives) is established using cash flow and option valuation models. Using estimates, we make assumptions based on the market conditions (observable data) at the reporting date. The estimated present value of future cash flows is used to determine the fair value of the other financial instruments. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The discount rate is the same as the market interest rate at the reporting date for a similar instrument subject to the same conditions, taking into account collateral furnished under credit support annexes (CSAs).

The fair value of forward currency contracts is calculated by reference to forward exchange rates at the reporting date.

Estimates and judgements made are based on past experience as well as other factors, including expectations with respect to future events that could reasonably occur given current circumstances. Estimates and judgements are assessed on an ongoing basis.

Level 3: Significance of unobservable market data

The financial instruments in this category are assessed on an individual basis. Their valuation is based on the best estimate of management by reference to the most recent prices, prices of similar instruments and, to a not insignificant extent, information not observable in the market. Unobservable inputs may include volatility, correlation, seasonality and credit spreads. A valuation technique is used in which at least one input that has a significant effect on the instrument's valuation is not based on observable market data. A significant effect on the instrument's valuation is considered to be present when the unobservable input accounts for at least 10% of the total instrument's fair value and exceeds a threshold of €50,000. The effect of fair value adjustments on the instrument's valuation is included in the assessment.

Table 14.1.A Financial instruments at fair value at 31/12/2019

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets from trading activities (FVtPL)	44,648	4,152	463	49,263
Derivatives (FVtPL)	31,224	329,517	6,539	367,279
Financial assets at fair value through profit or loss	263,740	44,231	13,539	321,509
Financial assets at fair value through other comprehensive income	2,384,261	–	–	2,384,261
Total assets	**2,723,873**	**377,900**	**20,541**	**3,122,313**
Liabilities				
Financial liabilities from trading activities (FVtPL)	2,150	–	–	2,150
Derivatives (FVtPL)	29,345	417,071	3,410	449,826
Financial liabilities at fair value through profit or loss	–	898,491	9,111	907,602
Total liabilities	**31,496**	**1,315,561**	**12,521**	**1,359,578**

Table 14.1.B Financial instruments at fair value at 31/12/2018

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets from trading activities (FVtPL)	58,119	3,877	472	62,468
Derivatives (FVtPL)	42,640	279,941	10,138	332,719
Financial assets at fair value through profit or loss	156,658	40,782	21,143	218,583
Financial assets at fair value through other comprehensive income	1,803,584	–	–	1,803,584
Total assets	**2,061,001**	**324,600**	**31,753**	**2,417,354**
Liabilities				
Financial liabilities from trading activities (FVtPL)	333	–	–	333
Derivatives (FVtPL)	39,879	420,796	8,641	469,316
Financial liabilities at fair value through profit or loss	–	912,465	27,896	940,361
Total liabilities	**40,212**	**1,333,261**	**36,537**	**1,410,010**

Transfers of financial assets or liabilities between levels

We have developed a policy document for the fair value hierarchy. This divides the variables used into observable and unobservable market inputs. If the unobservable input variables are significant, the instrument is classified as Level 3. An unobservable input variable is significant if the change in the fair value due to the application of the variable is greater than the threshold values. Our policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period.

In 2019, our valuation technique remained unchanged, with non-observable input variables being assessed on significance. As a result of this assessment, some financial instruments included in Derivatives (assets and liabilities) and in Financial liabilities at fair value through profit or loss have been transferred from Level 2 to Level 3 and vice versa. The Derivatives receivables and payables and Financial liabilities at fair value through profit or loss were transferred to Level 2 as a result of the input variables' correlation and seasonality; the shorter remaining term to maturity of these financial instruments meant that these input variables qualified as non-significant, justifying a transfer to Level 2. In the case of Derivatives (assets), this entailed a transfer of €0.1 million from Level 2 to Level 3 and a transfer of €10.5 million from Level 3 to Level 2. In the case of Financial liabilities at fair value through profit or loss, it involved a transfer of €0.1 million from Level 2 to Level 3. The transfer of Derivatives (liabilities) includes a €6.6 million shift from Level 3 to Level 2.

Breakdown of movements in financial assets and liabilities classified under Level 3

Tables 14.1.C and 14.1.D provide a breakdown of the movements in all financial assets and liabilities classified as Level 3 items and recognised at fair value in the statement of financial position.

Table 14.1.C Breakdown of movements in financial liabilities classified as Level 3 in 2019	At 1 January	To statement of income	To equity[1]	Issues	Settlements	Transfers	At 31 December
Assets							
Financial assets from trading activities (FVtPL)	472	–13	–	4	–	–	463
Derivatives (FVtPL)	10,138	–1,034	–	2,358	–5,038	114	6,539
Financial assets at fair value through profit or loss	21,143	2,175	–	641	–8,972	–1,448	13,539
Total assets	31,753	1,129	–	3,003	–14,010	–1,333	20,541
Liabilities							
Derivatives (FVtPL)	8,641	5	–	479	–5,807	92	3,410
Financial liabilities at fair value through profit or loss	27,896	–934		–	–11,620	–6,231	9,111
Total liabilities	36,537	–929	–	479	–17,427	–6,139	12,521
Total assets less liabilities	–4,784	2,058	–	2,523	3,417	4,805	8,020

Table 14.1.D Breakdown of movements in financial liabilities classified as Level 3 in 2018	At 1 January	To statement of income	To equity[1]	Issues	Settlements	Transfers	At 31 December
Assets							
Financial assets from trading activities (FVtPL)	119	–3	–	450	–95	–	472
Derivatives (FVtPL)	3,254	–562		6,516	–7	938	10,138
Financial assets at fair value through profit or loss	74,572	184	–	404	–54,019	–	21,143
Total assets	77,945	–380	–	7,371	–54,121	938	31,753
Liabilities							
Financial liabilities from trading activities (FVtPL)	17	–	–	–	–17	–	–
Derivatives (FVtPL)	375	930	–	4,552	–183	2,968	8,641
Financial liabilities at fair value through profit or loss	23,912	–666	–	4,650	–	–	27,896
Total liabilities	24,303	263	–	9,202	–200	2,968	36,537
Total assets less liabilities	53,642	–644	–	–1,832	–53,921	–2,030	–4,784

Table 14.1.E Fair value changes recognised in profit or loss of financial instruments classified as Level 3	2019			2018		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Net interest income	–	–	–	109	–	109
Income from securities and associates	–13	–668	–681	–3	–476	–479
Result on financial transactions	–	2,739	2,739	–	–274	–274
Impairments	–	–	–	–	–	–
Total	–13	2,071	2,058	106	–750	–644

1 The changes in value recognised in equity are included in the statement of comprehensive income as Revaluation of financial assets at fair value through other comprehensive income.

Table 14.1.F Notes on fair value determination using unobservable market inputs (Level 3)

	Fair value		Valuation method	Significance of unobservable market inputs
	31/12/2019	31/12/2018		
Assets				
Financial assets from trading activities				
Shares, unlisted	463	472	– Net asset value	– Net asset value – Face value
Derivatives				
Structured product derivatives				
– Options[1]	3,765	5,508	– Option model	– Volatility – Correlation
– Equity swaps[1]	2,774	3,803	– Discounted cash flow model – Option model	– Volatility – Correlation
– Equity forwards[1]	–	827	– Option model	– Correlation
Financial assets at fair value through profit or loss				
Debt instruments: company cumprefs (shareholdings) (FVPL mandatory)[1]	2,024	7,042	– Discounted cash flow model	– Interest rate – Discount rates
Shares, unlisted				
	8,149	7,437	– Net asset value	– Most recent published net asset values of the underlying assets – Kempen: Cost or lower market value
	1,905	1,905	– Net asset value	– Net asset value – Market value
	1,203	2,783	– Net asset value	– Multiple analyses of comparable companies less a discount for illiquidity and company size based on EVCA guidelines – Most recently known share price
	258	1,976	– Net asset value	– EBITA – Issue or transfer price – Market price on final trading day – Face value less provisions
Total assets	**20,541**	**31,753**		
Liabilities				
Derivatives				
Structured product derivatives				
– Credit–linked swaps	–	2	– Discounted cash flow model	n/a
– Options[1]	3,410	7,111	– Discounted cash flow model – Option model	– Volatility – Correlation
– Equity swaps[1]	–	1,528	– Discounted cash flow model – Option model	– Volatility – Correlation
Financial liabilities at fair value through profit or loss				
Structured debt instruments[1]	9,111	27,896	– Discounted cash flow model – Option model	– Volatility – Correlation
Total liabilities	**12,521**	**36,537**		

1 Please refer to Tables 14.1.G and 14.1.H for the range and sensitivity of these financial instruments. No range or sensitivity information is available for the other financial instruments.

Table 14.1.G Notes on range and sensitivity of unobservable market inputs (Level 3) at 31/12/2019

	Significant unobservable market inputs	Range (weighted average)	Sensitivity
Assets			
Derivatives			
Structured products derivatives			
– Options	– Correlation	–19% - 20% (1%)	Total impact €0.3m
	– Volatility	13% - 18% (16%)	Total impact €0.4m
– Equity swaps	– Correlation	–13% - 15% (2%)	Total impact €0.1m
	– Volatility	n/a	n/a
Financial assets at fair value through profit or loss	– Interest rates	–6% - 12% (1%)	Change of 1% - change of €0.0m
Debt instruments: company cumprefs (shareholdings)	– Discount rates	–6% - 12% (1%)	Change of 1% - change of €0.0m
Liabilities			
Derivatives			
Structured product derivatives			
– Options	– Correlation	–23% - 26% (1%)	Total impact €0.8m
	– Volatility	n/a	n/a
Financial liabilities at fair value through profit or loss			
Structured debt instruments	– Correlation	n/a	n/a
	– Volatility	n/a	n/a

Table 14.1.H Notes on range and sensitivity of unobservable market inputs (Level 3) at 31/12/2018

	Significant unobservable market inputs	Range (weighted average)	Sensitivity
Assets			
Derivatives			
Derivatives: fair value hedge accounting			
– Inflation-linked swaps	– Seasonality		
Structured products derivatives			
– Options	– Correlation	–17% - 20% (1%)	Total impact –€0.4m
	– Volatility	10% - 13% (12%)	Total impact €1.0m
– Equity swaps	– Correlation	–21% - 30% (2%)	Total impact €0.0m
	– Volatility	10% - 13% (12%)	Total impact €0.2m
– Equity forwards	– Correlation	–10% - 12% (1%)	Total impact –€0.1m
Liabilities			
Derivatives			
Derivatives: fair value hedge accounting			
– Inflation-linked swaps	– Seasonality		
Structured products derivatives			
– Options	– Correlation	–21% - 30% (1%)	Total impact €1.5m
	– Volatility	10% - 13% (12%)	Total impact €0.4m
– Equity swaps	– Correlation	–21% - 25% (2%)	Total impact –€0.1m
	– Volatility	9% - 13% (12%)	Total impact €1.8m
– Equity forwards	– Correlation		
Financial liabilities at fair value through profit or loss			
Structured debt instruments	– Correlation	–19% - 25% (3%)	Total impact €0.1m
	– Volatility	9% - 13% (11%)	Total impact €0.1m

14.2 Financial instruments at amortised cost

Table 14.2 shows the carrying amount and fair value of financial instruments at amortised cost, with the exception of line items Cash and cash equivalents and balances at central banks, Other assets and Other liabilities. For these financial instruments the carrying amount is a reasonable approximation of the fair value.

The value of financial instruments at amortised cost is taken as the amount for which the instrument could be exchanged in a commercial transaction between willing parties, other than in a forced or liquidation sale. If there is an active market, we use the market value to determine the fair value. For financial instruments for which no market prices are available, the fair values shown in Table 14.2 are estimated on the basis of the present value or using other estimation or valuation methods.

Table 14.2 Financial instruments at amortised cost

	31/12/2019		31/12/2018				
	Fair value	Carrying amount	Fair value	Carrying amount	Level	Valuation method	Significant observable and unobservable market inputs
Assets							
Due from banks	297,444	297,556	538,910	539,180	2	Discounted cash flows using applicable money market rates	Interest rate and discount rate
Loans and advances to the public and private sectors	8,855,716	8,597,894	8,794,997	8,561,497	3	Discounted cash flows using current market fees for comparable loans and taking into account the creditworthiness of the counterparty	Interest rate, discount rate and counterparty credit risk
Other financial assets at amortised cost	442,305	425,606	576,970	554,209	1	Quoted prices in active markets	–
Liabilities							
Due to banks	141,715	141,715	334,902	334,902	2	Discounted cash flows using applicable money market rates for liabilities	Interest rate and discount rate
Public and private sector liabilities	9,607,892	9,545,095	9,165,416	9,090,939	3	Discounted cash flows using applicable money market rates for liabilities with a comparable term to maturity, taking account of own credit risk	Interest rate, discount rate and own credit risk
Issued debt securities	1,550,831	1,545,109	1,532,823	1,521,504	1	Quoted prices in active markets	Interest rate and discount rate
Subordinated loans	222,483	173,090	184,108	173,473	3	Discounted cash flows using applicable money market rates for debt instruments with a comparable term to maturity, taking account of own credit risk	Interest rate, discount rate and own credit risk

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER (€1,000)

1. Cash and cash equivalents and balances at central banks	2019	2018
Total	**1,417,164**	**1,406,864**
Cash	32	38
Balances at central banks	1,243,932	1,283,903
Statutory reserve deposits at central banks	14,425	12,783
Amounts due from banks	158,776	110,139
Impairments	–1	–0

Statutory reserve deposits comprise balances at central banks within the scope of the minimum reserves requirement. We cannot use these balances in our day-to-day operations.

Reconciliation with consolidated statement of cash flows	2019	2018	Movements
Cash and cash equivalents	1,417,164	1,406,864	10,300
Due from banks, available on demand	75,594	104,659	–29,066
Due to banks, available on demand	–56,377	–37,951	–18,426
Due from/to banks, available on demand, net	19,217	66,708	47,491
Total	**1,436,381**	**1,473,572**	**–37,191**

2. Financial assets from trading activities	2019	2018
Total	**49,263**	**62,468**
Debt instruments		
Structured debt instruments	4,152	3,877
Total debt instruments	**4,152**	**3,877**
Equity instruments		
Shares, listed	44,648	58,119
Shares, unlisted	463	472
Total equity instruments	**45,111**	**58,590**

3. Due from banks	2019	2018
Total	**297,556**	**539,180**
Deposits	206,975	172,824
Receivables arising from unsettled securities transactions	75,594	104,659
Reverse repo transactions	–	250,000
Loans and advances	14,987	11,697
Impairments	–1	–0

Deposits include deposits to a total of €174.3 million (2018: €152.3 million) which serve as collateral for liabilities arising from derivatives transactions.

4. Derivatives

At 31 December 2019	Asset	Liability	Contract amount
Total	**367,279**	**449,826**	**11,653,638**
Derivatives used for trading purposes			
Currency derivatives	133	129	11,141
Equity derivatives	172	961	1,133
Client option positions	30,994	28,256	30,994
Total derivatives used for trading purposes	**31,298**	**29,345**	**43,267**
Derivatives used for hedge accounting purposes			
Derivatives: fair value hedge accounting	103,864	97,312	3,454,540
Derivatives: portfolio fair value hedge accounting	2,076	96,745	2,090,000
Derivatives: cash flow hedge accounting	–	20,687	100,000
Total derivatives used for hedge accounting purposes	**105,940**	**214,744**	**5,644,540**
Other derivatives			
Economic hedges	1,376	4,119	130,609
Structured product derivatives	228,665	201,617	5,835,223
Total other derivatives	**230,041**	**205,736**	**5,965,831**

At 31 December 2018	Asset	Liability	Contract amount
Total	**332,719**	**469,316**	**12,026,497**
Derivatives used for trading purposes			
Currency derivatives	93	92	17,499
Equity derivatives	309	107	416
Client option positions	42,547	39,787	39,787
Total derivatives used for trading purposes	**42,949**	**39,986**	**57,701**
Derivatives used for hedge accounting purposes			
Derivatives: fair value hedge accounting	56,804	56,580	2,844,430
Derivatives: portfolio fair value hedge accounting	1,077	36,341	2,380,000
Derivatives: cash flow hedge accounting	–	18,247	100,000
Total derivatives used for hedge accounting purposes	**57,881**	**111,168**	**5,324,430**
Other derivatives			
Economic hedges	4,766	6,085	243,547
Structured product derivatives	227,122	312,076	6,400,818
Total other derivatives	**231,888**	**318,161**	**6,644,365**

We use derivatives for both trading and hedging purposes.

Note 4, Derivatives shows both the positive and negative market values of the derivatives, as well as their notional values.

The following types of interest rate derivatives are used:
- Interest rate swaps;
- Interest rate options.

The following types of currency derivatives are used:
- Currency options;
- FX forwards.

The following types of equity derivatives are used:
- Equity forwards;
- Futures;
- Long and short structured product options;
- Equity swaps.

Inflation-linked swaps and swaptions are also used.

We use interest rate swaps and inflation-linked swaps as hedging instruments in our hedge accounting.

Ineffectiveness of derivatives for hedge accounting purposes	2019		2018	
	Fair value	Ineffective	Fair value	Ineffective
Total	**–108,804**	**–686**	**–54,542**	**–221**
Fair value hedge accounting model	6,552	326	–1,031	49
Portfolio fair value hedge accounting model	–94,668	–1,012	–35,264	–270
Cash flow hedge accounting model	–20,687	–	–18,247	–

The total ineffectiveness of fair value hedges at year-end 2019 was €0.7 million (2018: €0.2 million), comprising €56.0 million in negative value changes in hedging instruments (2018: €29.7 million negative) and positive changes in the value of the hedged items of €55.4 million (2018: €29.5 million).

Hedged items in cash flow hedge accounting by term at 31/12/2019	Within 1 year	1 to 3 years	3 to 5 years	5 years and longer
Total	**–**	**–**	**–**	**–15,221**
Cash inflow	–	–	–	–
Cash outflow	–	–	–	–15,221

Hedged items in cash flow hedge accounting by term at 31/12/2018	Within 1 year	1 to 3 years	3 to 5 years	5 years and longer
Total	**–**	**–**	**–**	**–13,509**
Cash inflow	–	–	–	–
Cash outflow	–	–	–	–13,509

5. Financial assets at fair value through profit or loss	2019	2018
Total	**321,509**	**218,583**
Debt instruments		
Government paper and government-guaranteed paper	27,932	2,513
Sovereign, supranationals and agencies (SSA) bonds	62,638	–
Banks and financial institutions, listed	19,458	10,933
Covered bonds	79,470	94,922
Puttable investment funds	87,385	70,281
Company cumprefs (shareholdings) (FVPL mandatory)	2,024	7,042
Total debt instruments	**278,906**	**185,691**
Equity instruments (FVPL mandatory)		
Shares, listed	9,088	–
Shares, unlisted	33,515	32,892
Total equity instruments	**42,603**	**32,892**

All financial assets at fair value through profit or loss are designated at fair value through profit or loss on initial recognition with the exception of puttable investment funds, company cumprefs (shareholdings) and equity instruments.

The maximum credit risk to which we were exposed in the reporting period is equal to the carrying amount.

Movements in financial assets at fair value through profit or loss	2019	2018
At 1 January	218,583	416,899
Purchases	162,111	306,573
Sales	–56,129	–232,531
Redemptions	–18,050	–264,076
Value changes	15,294	–8,391
Other movements	–298	109
At 31 December	**321,509**	**218,583**

6. Financial assets at fair value through other comprehensive income	2019		2018	
	Fair value	Face value	Fair value	Face value
Total	2,384,261	2,335,985	1,803,584	1,798,601
Debt instruments				
Government paper and government-guaranteed paper	539,189	524,500	372,453	369,943
Sovereign, supranationals and agencies (SSA) bonds	454,305	440,556	44,205	44,000
Banks and financial institutions, listed	24,731	24,700	36,332	36,000
Covered bonds	928,015	914,155	843,168	842,281
Asset-backed securities	385,661	381,604	497,760	496,727
Companies, listed	52,362	50,470	9,666	9,650
Total debt instruments	2,384,261	2,335,985	1,803,584	1,798,601

Movements in gross carrying amount of Financial assets at fair value through other comprehensive income	Stage 1
At 1 January 2019	1,798,601
Additions or releases without transfer	326,184
New financial assets originated or purchased	211,200
At 31 December 2019	2,335,985

Movements in gross carrying amount of Financial assets at fair value through other comprehensive income	Stage 1
At 1 January 2018	1,703,564
Additions or releases without transfer	–853,654
New financial assets originated or purchased	948,691
At 31 December 2018	1,798,601

Movements in Financial assets at fair value through other comprehensive income	2019	2018
At 1 January	1,803,584	1,716,356
Purchases	1,139,837	1,001,047
Sales	–150,296	–579,312
Redemptions	–418,551	–329,760
Value changes	17,682	–2,165
Other movements	–7,995	–2,582
At 31 December	2,384,261	1,803,584

The loss allowance for financial assets at fair value through other comprehensive income is recognised in Other comprehensive income and does not reduce the carrying amount of the financial asset.

7. Loans and advances to the public and private sectors	2019	2018
Total	8,597,894	8,561,497
Mortgage loans	6,287,753	6,289,139
Loans	1,349,692	1,447,782
Current accounts	547,762	578,442
Securities-backed loans and settlement claims	313,130	267,221
Subordinated loans	579	1,510
Value adjustments fair value hedge accounting	162,746	90,212
Impairments	–63,768	–112,811

Impairments	2019	2018
Total	–63,768	–112,811
Mortgage loans	–8,027	–10,483
Current accounts	–28,783	–69,335
Other loans and advances	–26,958	–32,994

Movements in gross carrying amount of Loans and advances to the public and private sectors	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	7,559,491	1,399,661	336,236	9,295,388
Additions or releases without transfer	–567,299	–833,749	–79,078	–1,480,126
Transfer to Stage 1	1,032,935	–1,039,654	–4,373	–11,092
Transfer to Stage 2	–1,484,481	1,544,877	–61,628	–1,232
Transfer to Stage 3	–40,850	–49,042	89,084	–808
New financial assets originated or purchased	1,705,367	–	–	1,705,367
Amounts written off	–	–	–37,907	–37,907
At 31 December 2019	8,205,162	1,022,094	242,334	9,469,589

Movements in gross carrying amount of Loans and advances to the public and private sectors	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	7,762,425	1,684,215	392,728	9,839,368
Additions or releases without transfer	–924,506	–290,088	–102,255	–1,316,850
Transfer to Stage 1	896,890	–882,587	–14,303	–0
Transfer to Stage 2	–936,556	978,090	–41,534	–
Transfer to Stage 3	–23,926	–89,969	113,895	–
New financial assets originated or purchased	785,164	–	–	785,164
Amounts written off	–	–	–12,295	–12,295
At 31 December 2018	7,559,491	1,399,661	336,236	9,295,388

We acquired no significant financial or non-financial assets during the year through the seizure of collateral held as security (2018: nil). In general, the policy is to dispose of these assets within a reasonably short period. The proceeds are used to redeem the outstanding amount.

See “Risk management” (under 2, Credit risk) for more information about Loans and advances to the public and private sectors.

8. Other financial assets at amortised cost	2019		2018	
	Fair value	Face value	Fair value	Face value
Total	425,606	412,000	554,209	532,000
Debt instruments				
Government paper and government-guaranteed paper	211,729	200,000	318,043	300,000
Banks and financial institutions, listed	213,905	212,000	236,200	232,000
Impairments	–28	–	–34	–

Movements in gross carrying amount of Other financial assets at amoritised cost	Stage 1
At 1 January 2019	532,000
Additions or releases without transfer	– 120,000
At 31 December 2019	412,000

Movements in gross carrying amount of Other financial assets at amoritised cost	Stage 1
At 1 January 2018	490,000
New financial assets originated or purchased	42,000
At 31 December 2018	532,000

Movements in Other financial assets at amoritised cost	2019	2018
At 1 January	554,209	521,349
Purchases	–	42,001
Redemptions	–120,000	–
Value changes	6	–34
Other movements	–8,608	–9,107
At 31 December	425,606	554,209

9. Investments in associates using the equity method

Movements in associates using the equity method	2019	2018
At 1 January	54,071	70,390
Acquisitions and contributions	4,447	9,609
Sales and repayments	–15,311	–25,407
Income from associates	13,469	11,759
Impairments	87	783
Dividend received	–4,516	–3,473
Reclassification of assets classified as held for sale	–	–7,882
Other movements	206	–1,709
At 31 December	52,452	54,071

All associates valued using the equity method are unlisted investments.

10. Property and equipment	2019	2018
Total	102,521	48,238
Buildings	31,517	35,465
Right-of-use – buildings	51,648	–
Right-of-use – transport equipment	7,318	–
IT, operating system software and communications equipment	5,168	5,453
Other assets	6,840	7,214
Work in progress	30	106

The carrying amount of buildings not in use amounted to €3.5 million at year-end 2019 (2018: €3.5 million).

No restrictive rights apply to property and equipment.

Movements in property and equipment 2019	Buildings	Right-of-use – buildings	Right-of-use – transport equipment	IT, operating system software and communi-cations equipment	Other assets	Work in progress	Total
At 31 December 2018	35,465	–	–	5,453	7,214	106	48,238
Impact of adopting IFRS 16	–	59,108	7,752	–	–	–	66,860
At 1 January	35,465	59,108	7,752	5,453	7,214	106	115,098
Capital expenditure	668	–	–	3,141	2,196	9	6,014
Additions	–	1,594	3,210	–	–	–	4,804
Disposals	–2,397	–	–	–2	–	–	–2,399
Capitalisation of investments	–	–	–	–	–	–85	–85
Depreciation	–2,219	–9,055	–3,644	–3,424	–2,564	–	–20,906
Other	–	–	–	–	–6	–	–6
At 31 December	**31,517**	**51,648**	**7,318**	**5,168**	**6,840**	**30**	**102,521**
Historical cost	71,807	60,702	10,962	60,224	23,737	30	227,462
Accumulated depreciation and impairments	–40,290	–9,055	–3,644	–55,056	–16,897	–	–124,942
Net carrying amount at 31 December	**31,517**	**51,648**	**7,318**	**5,168**	**6,840**	**30**	**102,521**

Movements in property and equipment 2018	Buildings	IT, operating system software and communications equipment	Other assets	Work in progress	Total
At 1 January	41,973	5,929	15,335	231	63,468
Capital expenditure	1,125	2,648	1,358	4,525	9,656
Disposals	–4,679	–7	–	–	–4,686
Capitalisation of investments	–	–	–	–4,650	–4,650
Depreciation	–2,399	–3,118	–1,968	–	–7,485
Reclassification of assets classified as held for sale	–558	–	–7,518	–	–8,076
Other	3	–	8	–	11
At 31 December	**35,465**	**5,453**	**7,214**	**106**	**48,238**
Historical cost	76,582	16,256	22,258	106	115,203
Accumulated depreciation and impairments	–41,117	–10,804	–15,044	–	–66,964
Net carrying amount at 31 December	**35,465**	**5,453**	**7,214**	**106**	**48,238**

The carrying amount of goodwill arising from acquisitions in earlier years and other intangible assets are given in the table below.

11. Goodwill and other intangible assets	2019	2018
Total	141,311	183,083
Goodwill	95,247	130,247
Other intangible assets	46,064	52,836

Movements in goodwill and other intangible assets 2019	Goodwill	Client bases	Third-party distribution channels	Brand names	Application software	Total
At 1 January	130,247	42,280	–	6,132	4,424	183,083
Additions	–	–	–	–	167	167
Amortisation	–	–4,770	–	–767	–1,402	–6,939
Impairments	–35,000	–	–	–	–	–35,000
At 31 December	95,247	37,509	–	5,366	3,189	141,311
Historical cost	130,247	51,200	4,899	15,330	65,487	267,163
Accumulated amortisation and impairments	–35,000	–13,691	–4,899	–9,965	–62,298	–125,852
Net carrying amount at 31 December	95,247	37,509	–	5,366	3,189	141,311

Movements in goodwill and other intangible assets 2018	Goodwill	Client bases	Third-party distribution channels	Brand names	Application software	Total
At 1 January	154,981	48,678	409	6,898	7,424	218,389
Additions	–	–	–	–	879	879
Disposals	–	–	–	–	–160	–160
Amortisation	–	–6,398	–409	–767	–1,742	–9,315
Impairments	–	–	–	–	–263	–263
Reclassification of assets classified as held for sale	–24,734	–	–	–	–	–24,734
Other	–	–	–	–	–1,712	–1,712
At 31 December	130,247	42,280	–	6,131	4,426	183,083
Historical cost	130,247	106,084	4,899	15,330	65,487	322,047
Accumulated amortisation and impairments	–	–63,804	–4,899	–9,198	–61,063	–138,964
Net carrying amount at 31 December	130,247	42,280	–	6,132	4,424	183,083

The accumulated impairments on goodwill amounted to €88 million at 31 December 2019 (2018: €53 million) and have been deducted from the historical cost.

We have defined six CGUs, namely Private Banking, Evi, Asset Management, Merchant Banking, Other and Non-strategic investments. These correspond to our operating segments (see section on segment information) except for the Other activities segment, which is split between Other and Non-strategic investments. For impairment testing, goodwill was allocated to Private Banking, Asset Management, Merchant Banking and Non-strategic investments. The goodwill in Non-strategic investments relates to our subsidiary Holowell.

Allocation of goodwill to CGUs (based on segments)	2019	2018
Total	**95,247**	**130,247**
Private Banking	1,695	1,695
Asset Management	49,292	49,292
Merchant Banking	41,293	76,293
Non-strategic investments	2,967	2,967

Van Lanschot Kempen performed its annual impairment test on the goodwill arising from acquisitions in earlier years. To determine whether an impairment is necessary, the recoverable amount of each CGU is compared with its carrying amount. The recoverable amount is calculated on the basis of value in use. This calculation uses cash flow projections for each CGU for a five-year period. These projections are based on the current year and on the financial estimates for the years 2020 until 2024 used by management in its strategic forecast as per end of 2019. For the period after the explicit projections per CGU, the growth rate is set at the long-term market growth rate of 1.0%. This growth rate applies to all CGUs, as in the long term all CGUs will be impacted by the same economic market developments. The rate is based on our own projections and on wealth management market projections by market experts.

Management has compared the main assumptions against market forecasts and expectations. Cash flow estimates are based on our strategic plans and potential future trends. Events and factors that could have a significant impact on the estimates include stock and bond market developments, effects of mergers and acquisitions, competitive conditions, client behaviour and changes in the client base, cost structure, trends in interest rates and risks, and other circumstances specific to the industry and sector. Cash flows are discounted using a cost of equity for each CGU which reflects the risk-free interest rate, supplemented with a surcharge for the market risk exposure of the CGU. Compared with 2018, the peer group of Merchant Banking has been extended with additional, more specialist investment banks, as this more reliably captures the volatility of the business.

The weighted average cost of capital (WACC) is used as the discount rate for the cash flows in the impairment test for Non-strategic investments.

CGU	Discount rate before tax %		Discount rate after tax %	
	2019	2018	2019	2018
Private Banking	8.6	9.5	6.7	7.4
Asset Management	9.6	9.9	7.5	7.8
Merchant Banking	10.9	8.7	8.5	6.9
Non-strategic investments	11.2	11.9	9.1	9.9

The impairment test performed in 2019 did not result in goodwill impairments for Private Banking, Asset Management and Non-strategic investments. The model uses two baseline scenarios. A sensitivity analysis was also performed, focusing particular attention on a decrease in net profit, a change in the pay-out ratio and an increase in the cost of equity.

For Merchant Banking, the impairment test in 2019 has resulted in a goodwill impairment for an amount of €35 million. The calculated recoverable amount of this CGU (€103 million) fell below its carrying amount. The main causes for the impairment are the additional risk premium used and lower assumed growth for this CGU. In our opinion, the additional risk premium used for Merchant Banking gives a better reflection of the volatility of the cash flows of these activities compared with the other CGUs.

Given the current stage of the market cycle, the unpredictability of Merchant Banking's cash flows has increased on previous years.

The impaired goodwill of €35 million is recognised in the statement of profit or loss under the line item Goodwill and intangibles in Note 35, Impairments. This impairment is included in operating segment Other.

In addition, an annual test is carried out for indications of impairment of other intangible assets with a finite useful life. For the line item Client bases, movements in the number of clients are assessed. For Third-party distribution channels, an assessment is carried out to determine whether the relationships with these parties still exist. The useful life tests carried out in 2019 provided no indication of a need for further examination, nor of impairments.

	2020	2021	2022	2023	2024	2025-31
Expected amortisation of intangible assets	6,749	6,604	6,162	5,352	4,996	16,202

12. Tax assets	2019	2018
Total	18,566	**29,118**
Current tax assets	994	1,231
Deferred tax assets[1]	17,573	27,886

Movements in deferred taxes 2019	At 31 December 2018	Effect of changes in accounting policies	At 1 January 2019	Through statement of income	To equity	Tax rate adjustments	At 31 December 2019
Deferred tax assets							
Employee benefits	6,585	–	6,585	–384	2,131	299	8,631
Property and equipment	2,301	–568	1,733	–31	–	34	1,736
Lease liabilities – buildings	–	12,163	12,163	–2,155	–	702	10,710
Lease liabilities – transport equipment	–	1,222	1,222	–44	–	93	1,271
Derivatives	3,483	–	3,483	–	501	233	4,218
Loss available for set-off	11,881	–	11,881	–7,940	–	–110	3,832
Commission	203	–	203	46	–	–	249
Other	3,433	–	3,433	856	–1,153	105	3,241
Total deferred tax assets before offsetting	**27,886**	**12,816**	**40,702**	**–9,651**	**1,480**	**1,357**	33,887
Offsetting deferred tax assets							–16,316
Total deferred tax assets after offsetting							17,573
Deferred tax liabilities							
Property and equipment	1,633	–	1,633	–542	–	98	1,189
Right-of-use assets – buildings	–	11,595	11,595	–1,553	–	771	10,813
Right-of-use assets – transport equipment	–	1,222	1,222	–53	–	93	1,262
Intangible assets	2,588	–	2,588	–266	–	31	2,354
Investment portfolio	–790	–	–790	–	1,270	28	507
Other	111	–	111	–	124	–	234
Total deferred tax liabilities before offsetting	**3,542**	**12,817**	**16,358**	**–2,414**	**1,393**	**1,021**	16,359
Offsetting deferred tax assets							–16,316
Total deferred tax liabilities after offsetting							43

1 Prior year figure adjusted due to restatement (see “Summary of significant accounting policies”, subsection “Disclosure relating to prior period error”).

Movements in deferred taxes 2018	At 1 January	Through statement of income	To equity	Tax rate adjustments	At 31 December
Deferred tax assets					
Employee benefits[1]	7,075	439	–749	–180	6,585
Property and equipment	2,593	–317	–	26	2,301
Derivatives	3,275	–	208	–	3,483
Loss available for set-off	17,117	–5,236	–	–	11,881
Commission	128	75	–	–	203
Other	3,937	–383	–121	–	3,433
Total deferred tax assets before offsetting	**34,125**	**–5,423**	**–662**	**–155**	27,886
Offsetting deferred tax assets					–3,368
Total deferred tax assets after offsetting					24,518
Deferred tax liabilities					
Property and equipment	873	736	–	23	1,633
Intangible assets	3,852	–793	–	–471	2,588
Investment portfolio	3,227	–	–4,017	–	–790
Other	63	–	48	–	111
Total deferred tax liabilities before offsetting	**8,015**	**–57**	**–3,969**	**–448**	3,542
Offsetting deferred tax assets					-3,368
Total deferred tax liabilities after offsetting					174

A proportion of the deferred tax assets depends on future taxable profits. Tax losses incurred can be offset against taxable profits in future years. Based on the most recent forecast, it is likely that the existing tax losses can be offset well before expiry. The non-current portion of deferred tax assets that is expected to be recovered or settled after more than 12 months amounts to €13.1 million. See Note 36, Income tax, for more information.

Tax losses to be offset Financial year	Amount	Final year for offsetting
2014	–	2023
2015	6,992	indefinitely
2016	4,360	indefinitely
2017	31	indefinitely
2018	1,453	indefinitely
2019	3,441	indefinitely

The total amount of tax losses is recognised as a deferred tax asset based on the prevailing tax rate. The losses of 2015 through 2019 arose from the permanent establishment in Belgium. As Belgium does not apply a time limit for offsetting losses, they can be carried forward indefinitely.

1 Prior year figure adjusted due to restatement (see “Summary of significant accounting policies”, subsection “Disclosure relating to prior period error”).

	2019	2018
Unrecognised losses	20,940	24,167

The unrecognised losses are losses for which it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

13. Assets classified as held for sale	2019	2018
Total	–	**68,058**
Cash and cash equivalents and balances at central banks	–	1,729
Loans and advances to the public and private sectors	–	1,719
Investments in associates using the equity method	–	9,956
Property and equipment	–	8,127
Goodwill and other intangible assets	–	29,465
Other assets	–	17,062

The held for sale balance at the end of 2019 was nil. AIO II BV is the holding company of pharmacy chain Medsen and wholesale chemist Ceban. In the first quarter of 2019, we sold our stake in AIO II.

Our stake in Van Lanschot Chabot Mandema & Partners was sold to De Goudse Verzekeringen in the first half of 2019.

14. Other assets	2019	2018
Total	**143,469**	**121,513**
Interest receivable	19,534	16,622
Commission receivable	26,185	53,629
Transitory items	65,909	36,280
Assets acquired through foreclosures	190	190
Inventories	1,078	785
Other	30,574	14,006

Assets acquired through foreclosures relate to property. We aim to convert these to cash as soon as practicable.

Inventories are related to the non-strategic investments.

15. Financial liabilities from trading activities	2019	2018
Total	**2,150**	**333**
Equity instruments		
Shares, listed	2,150	333
Total equity instruments	**2,150**	**333**

16. Due to banks	2019	2018
Total	**141,715**	**334,902**
Deposits	85,338	46,951
Repo transactions	–	250,000
Payables arising from unsettled securities transactions	14,847	35,798
Loans and advances drawn	41,530	2,153

17. Public and private sector liabilities	2019	2018
Total	**9,545,095**	**9,090,939**
Savings	2,994,800	3,362,404
Deposits	161,502	231,472
Current accounts	5,988,483	5,130,131
Other client assets	398,402	365,808
Value adjustments fair value hedge accounting	1,908	1,123

18. Financial liabilities at fair value through profit or loss	2019	2018
Total	**907,602**	**940,361**
Unstructured debt instruments	47,936	142,021
Structured debt instruments	859,666	798,340

All financial liabilities at fair value through profit or loss are designated at fair value through profit or loss on initial recognition.

We have issued debt instruments which are managed on the basis of fair value. The fair value is paid to the issuer on maturity date. Management believes that valuation at fair value through profit or loss applies, as this largely eliminates or reduces inconsistencies in valuation and disclosure, and performance is assessed on the basis of fair value.

Financial liabilities at fair value through profit or loss include non-structured debt instruments such as floating-rate notes and fixed-rate notes, and structured debt instruments such as index guarantee notes and trigger notes. Our own credit risk in the reporting year decreased by €5.6 million (2018: up €1.0 million), reflecting a decrease of €0.8 million on the back of our own credit quality, together with a reduction of €4.8 million for the passage of time and for changes in the notional amount. The cumulative change in the fair value of Financial liabilities at fair value through profit or loss which can be allocated to the changes in own credit risk amounted to a total increase of €8.7 million (2018: €14.3 million).

19. Issued debt securities	2019	2018
Total	**1,545,109**	**1,521,504**
Covered bonds	1,491,490	1,493,179
Floating-rate notes	17,605	18,898
Value adjustments fair value hedge accounting	36,014	9,427

Issued debt securities comprise debt instruments with interest rates that are either fixed or variable, in so far as not subordinated. None of these debt securities becomes payable on demand in 2020 (2019: nil).

A retained Covered Bond 19-24 was issued in August 2019 for an amount of €300.0 million.

Face value versus carrying amount

The value adjustment of debt securities as a result of hedge accounting is recognised under the line item Issued debt securities.

Face value versus carrying amount of issued debt securities at 31/12/2019	Face value	Value adjustments fair value hedge accounting	Premium/discount	Carrying amount
Total	**1,514,573**	**36,014**	**–5,478**	**1,545,109**
Covered bond	1,497,050	36,014	–5,560	1,527,504
Floating-rate notes	17,523	–	82	17,605

Face value versus carrying amount of issued debt securities at 31/12/2018	Face value	Value adjustments fair value hedge accounting	Premium/discount	Carrying amount
Total	**1,518,755**	**9,427**	**-6,678**	**1,521,504**
Covered bond	1,500,000	9,427	-6,821	1,502,606
Floating-rate notes	18,755	-	143	18,898

20. Provisions	2019	2018
Total	**49,597**	**44,461**
Provisions for pensions[1]	39,841	30,809
Provision for long-service benefits	2,552	2,352
Provision for restructuring	3,426	6,356
Provision for interest rate derivatives recovery framework	184	1,025
Provision for financial guarantees and loan commitments	76	286
Other provisions	3,518	3,632

Compared with 2018, provisions increased by €5.1 million, mainly due to the provision for pensions.

We operate a number of employee schemes under which participants receive payments or benefits after they retire. Specifically, there is a pension scheme and a discount scheme for mortgage interest rates, as well as a long-service benefits scheme.

The following defined benefit schemes were valued for the purpose of the 2019 financial statements:

- Van Lanschot Kempen employees were eligible for discounted mortgage interest rates. Entitlement to this discount continued beyond retirement from active service.
- The long-service benefits depend on the number of years of service.
- Both a defined contribution scheme and a defined benefit scheme are in place for employees working at the Belgian branch. The pensionable salary for the defined benefit scheme is taken as the average basic salary over the last five years of service. The pension capital is insured with UKZT (Uitgesteld Kapitaal Zonder Tegenverzekering). The accompanying term life assurance is funded from risk premiums. The defined contribution pension plans have been set up according to the Belgian method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the defined contribution pension plans are treated as a defined benefit plan in the consolidated financial statements.
- Kempen operates an average salary scheme under which 1.875% of the pensionable salary – salary less state pension offset, with an annual ceiling of €41,232 – is accrued for each year of service and which is based on a retirement age of 68. The surviving dependants' pension is insured on a risk basis.
- The pension plans of F. van Lanschot Bankiers (Schweiz) have been set up according to the Swiss method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plans are treated as defined benefit plans in the consolidated financial statements.

Only within a Kempen pension scheme, plan assets fund the obligations (i.e. the scheme is funded). The other schemes are unfunded; payments in any year are made directly by the company.

The pension schemes have been placed with insurers and a pension institution, which are responsible for the pension administration, risk insurance and communication of legal documents to employees who are scheme members. Decisions on and changes to pension scheme content are taken by an internal pensions committee. Where applicable, in the Netherlands the Works Council is consulted for its opinion and/or consent.

1 Prior year figure adjusted due to restatement (see "Summary of significant accounting policies", subsection "Disclosure relating to prior period error").

The pension schemes of Kempen and Van Lanschot have been adjusted and will be replaced from 1 January 2020 by a single new plan. The new scheme is an individual defined contribution scheme. The former Van Lanschot scheme is classified as a collective defined contribution scheme, and the change of scheme has no impact from an accounting perspective. With the former Kempen scheme classified as defined contribution with guaranteed indexation, the termination of this scheme does have an impact, as the future accrual of entitlements in this plan will cease. This impact of €1.2 million has been processed as a plan amendment and is directly charged to the profit and loss account. Because there is still an obligation to index over the existing pension accrual, the remainder of the provision (€24.9 million) remains on the balance sheet.

The obligations are calculated using the projected unit credit method.

Obligations/assets included in the statement of financial position by scheme at 31/12/2019	Pensions	Early retirement	Employee discounts	Long-service benefits
Defined benefit obligations	266,206	45	96	2,552
Fair value of plan assets	226,411	–	–	–
Surplus/deficit	–39,795	–45	–96	–2,552
Obligation at year-end	–39,795	–45	–96	–2,552

Obligations/assets included in the statement of financial position by scheme at 31/12/2018	Pensions	Early retirement	Employee discounts	Long-service benefits
Defined benefit obligations	213,343	58	112	2,352
Fair value of plan assets[1]	182,592	–	–	–
Surplus/deficit	–30,751	–58	–112	–2,352
Obligation at year-end	–30,751	–58	–112	–2,352

Movements in defined benefit obligations for pension scheme	2019	2018
Defined benefit obligations at 1 January	213,343	207,094
Current service costs	5,442	5,899
Interest costs	4,204	3,580
Members' contributions	1,498	1,242
Financial assumptions	43,929	–3,811
Gross benefits	–2,923	–2,034
Transfers	–1,059	1,111
Discontinuation	–1,179	–
Changed assumptions	2,951	262
Defined benefit obligations at 31 December	**266,206**	**213,343**

At 31 December 2019, the weighted average duration of the defined benefit obligation was 24.5 years (2018: 23.5 years).

Movements in defined benefit obligations for early retirement scheme	2019	2018
Defined benefit obligations at 1 January	58	83
Current service costs	–13	–25
Defined benefit obligations at 31 December	**45**	**58**

1 Prior year figure adjusted due to restatement (see “Summary of significant accounting policies”, subsection “Disclosure relating to prior period error”).

Movements in defined benefit obligations for long-service benefits scheme	2019	2018
Defined benefit obligations at 1 January	2,352	2,322
Current service costs	142	143
Interest costs	33	28
Financial assumptions	120	-21
Gross benefits	-96	-120
Defined benefit obligations at 31 December	**2,552**	**2,352**

Movements in fair value of pension plan assets	2019	2018[1]
Fair value at 1 January	182,592	176,818
Expected return on plan assets	4,056	3,442
Financial assumptions	36,625	–3,230
Employer's contribution	6,848	5,776
Employees' contribution	–	300
Gross benefits	–2,923	–1,833
Transfers	–786	1,317
Fair value at 31 December	**226,411**	**182,592**
Actual return on plan assets	**40,680**	**213**

Current service costs of pension scheme included in statement of income	2019	2018
Current service costs	5,442	5,898
Net interest income	4,204	3,580
Expected return on plan assets	–4,056	–3,442
Net costs	**5,590**	**6,036**

Current service costs of early retirement included in statement of income	2019	2018
Current service costs	–13	–25
Net costs	**–13**	**–25**

Current service costs of long-service benefits included in statement of income	2019	2018
Current service costs	142	143
Net interest income	33	28
Financial assumptions	120	–21
Net costs	**295**	**150**

1 Some prior year figures adjusted due to restatement (see “Summary of significant accounting policies”, subsection “Disclosure relating to prior period error”).

Plan assets by investment category	2019		2018	
	Fair value	%	Fair value	%
Total	226,411	100	182,592	100
Fixed income	146,320	65	125,668	69
Equities	46,093	20	33,097	18
Mixed funds	2,116	1	1,686	1
Real estate	8,598	4	6,657	4
Cash and cash instruments	365	0	-830	0
Other	22,919	10	16,313	9

At each reporting date, an asset/liability matching study is carried out by the pension fund's asset manager, in which the consequences of the strategic investment policies are analysed. The strategic investment policies of the pension fund are bound by the maximum investment risk. The maximum investment risk is linked to a strategic asset mix comprising 73% fixed income and 27% equity income investments, with a duration match of 75%. A bandwidth of 5% is in place. The other investment category consists of funds managed by an external pension fund manager.

The most significant actuarial assumptions made at the reporting date are as follows:

Assumptions	2019	2018
Actuarial interest rate pension	0.10% - 1.10%	0.8% - 2.1%
Actuarial interest rate employee discounts	0.3%	1.2%
Actuarial interest rate long-service benefits	0.50% - 0.50%	1.3% - 1.4%
Expected return on investments	0.10% - 1.10%	0.8% - 2.1%
Price inflation	1.75% - 2.00%	1.75% - 2.0%
General salary increase	1.00% - 1.75%	1.00% - 1.75%
Retirement age	64-68 years	64-68 years

The mortality rate is based on publicly available mortality tables for the relevant countries. For the calculations at 31 December 2019, the following mortality tables were used:

- Kempen: the mortality tables as published by the Dutch Association of Actuaries (Prognosetafel 2018);
- Belgian branch: the mortality table as published by the Institute of Actuaries in Belgium (MR/FR) with an age correction of -3 years.
- F. van Lanschot Bankiers (Schweiz): the mortality table as published by BVG (BVG 2015 GT).

For Kempen, a rise of ten basis points in the actuarial interest rate will lead to a decrease of 2.6% in the pension obligations and will have no effect on the current service costs in the statement of income, as no future contributions are to be made due to the change in pension scheme.

For the Belgian branch, a reduction of 25 basis points in the actuarial interest rate will lead to an increase of 3.2% in the pension obligations and a rise of 25 basis points in the actuarial interest rate will lead to a decrease of -3.2% in the pension obligations.

For F. van Lanschot Bankiers (Schweiz), a reduction of 50 basis points in the actuarial interest rate will lead to an increase of 9.8% in the pension obligations and a rise of 50 basis points in the actuarial interest rate will lead to a decrease of -8.4% in the pension obligations.

History of movements in pension scheme gains and losses	2019	2018	2017	2016	2015
Defined benefit obligations	266,206	213,343	207,094	199,811	167,276
Fair value of plan assets	226,411	182,592	176,818	187,526	157,030
Surplus/deficit	–39,795	–30,751	–30,276	–12,285	–10,246
Actuarial gains/losses on obligations	43,929	–3,811	–3,010	13,484	–5,627
Actuarial gains/losses on investments	36,625	–3,230	120	16,734	–8,377

Expected contributions for 2020	Pension obligations	Employee discounts	Long-service benefits scheme
Total	**3,967**	**5**	**170**
Expected employer's contributions	3,647	5	170
Expected employees' contributions	320	–	–

Provision for restructuring	2019	2018
At 1 January	6,356	66
Withdrawals	–6,011	–1,216
Additions	3,081	7,506
At 31 December	**3,426**	**6,356**

Provision for interest rate derivatives recovery framework	2019	2018
At 1 January	1,025	2,064
Withdrawals	–842	–
Release	–	–1,040
Additions	2	–
At 31 December	**184**	**1,025**

Other provisions	2019	2018
At 1 January	3,632	4,087
Withdrawals related to acquisitions/consolidation base	–	–399
Withdrawals	–1,178	–865
Release	–522	–942
Additions	1,541	1,780
Other changes	45	–29
At 31 December	**3,518**	**3,632**

Other provisions include provisions made for various legal claims and defined benefit obligations for employee discount schemes. An amount of €2.6 million has an expected maturity of one year or longer.

21. Tax liabilities	2019	2018
Total	**792**	**5,764**
Current tax liabilities	749	2,222
Deferred tax liabilities	43	3,542

For movements in deferred tax liabilities, see Note 12, Tax assets.

See Note 36, Income tax, for more information.

22. Liabilities classified as held for sale	2019	2018
Total	–	20,871
Provisions	–	284
Other liabilities	–	20,587

For more information, see Note 13, Assets classified as held for sale.

23. Other liabilities	2019	2018
Total	187,306	125,383
Interest payable	20,872	24,943
Other accruals and deferred income	52,668	56,717
Lease liabilities	60,499	1,317
Other	53,268	42,407

Other liabilities comprise lease liabilities, income received to be credited to future periods and amounts payable such as accrued interest, payables, suspense accounts and unsettled items.

Payments not included in lease liability measurement	2019
Total	1,776
Leases of low value assets	638
Variable lease payments	1,138

Interest expense on leases amounted to €0.9 million at year-end 2019, and was recognised in the profit or loss under line item Other interest expense in Note 27, Net interest income.

24. Subordinated loans	2019	2018
Total	173,090	173,473
Certificates of indebtedness	155,986	156,402
Other subordinated loans	16,450	16,563
Value adjustments fair value hedge accounting	654	509

Amortised cost versus carrying amount

The value adjustment of subordinated loans used as hedged items is recognised under Subordinated loans.

Amortised cost versus carrying amount subordinated loans at 31/12/2019	Amortised cost	Value adjustments fair value hedge accounting	Premium/ discount	Carrying amount
Total	**166,450**	**654**	**5,986**	**173,090**
7.320% subordinated bond loan 08/33	25,000	–	1,080	26,080
7.218% subordinated bond loan 08/38	25,000	–	1,457	26,457
7.269% subordinated bond loan 08/43	50,000	–	3,449	53,449
3.396% subordinated bond loan 16/26	50,000	–	–	50,000
Other subordinated loans	16,450	654	–	17,104

Amortised cost versus carrying amount subordinated loans at 31/12/2018	Amortised cost	Value adjustments fair value hedge accounting	Premium/ discount	Carrying amount
Total	**166,563**	**509**	**6,402**	**173,473**
7.320% subordinated bond loan 08/33	25,000	–	1,205	26,205
7.218% subordinated bond loan 08/38	25,000	–	1,563	26,563
7.269% subordinated bond loan 08/43	50,000	–	3,634	53,634
3.396% subordinated bond loan 16/26	50,000	–285	–	49,715
Other subordinated loans	16,563	794	–	17,357

The average coupon on the other subordinated loans in 2019 was 6.05% (2018: 6.06%).

25. Total equity		2019		2018[1]
Total		1,316,570		1,255,876
Equity attributable to shareholders				
Issued share capital		41,362		41,362
Treasury shares		–10,007		–8,678
Share premium reserve		323,719		385,115
Revaluation reserve	1,831		–3,065	
Actuarial results on defined benefit schemes	–37,682		–29,910	
Currency translation reserve	872		104	
Cash flow hedge reserve	–15,221		–13,509	
Own credit risk reserve	–6,819		–11,394	
Retained earnings	819,870		809,008	
Other reserves		762,852		751,233
Undistributed profit (attributable to shareholders)		92,929		74,631
Total equity attributable to shareholders		1,210,853		1,243,663
Equity attributable to AT1 capital securities				
AT1 capital securities		100,000		–
Undistributed profit attributable to AT1 capital securities		1,688		–
Total equity attributable to AT1 capital securities		101,688		–
Equity attributable to other non-controlling interests				
Other non-controlling interests		3,606		6,529
Undistributed profit attributable to other non-controlling interests		423		5,684
Total equity attributable to other non-controlling interests		4,029		12,213

On 25 March 2019, Van Lanschot NV issued €100 million in Additional Tier 1 (AT1) capital securities at an issue price of 100%. The securities have a coupon of 6.75% and count as Tier 1 qualifying capital when determining capital adequacy. The AT1 capital securities included under equity are carried at cost.

Share capital	2019		2018	
	Number	Value	Number	Value
Class A ordinary shares (nominal value €1)	41,361,668	41,362	41,361,668	41,362
Unissued shares	108,638,332	108,638	108,638,332	108,638
Authorised capital	150,000,000	150,000	150,000,000	150,000

Movement in share capital	2019		2018	
	Number	Value	Number	Value
At 1 January	41,361,668	41,362	41,146,668	41,147
Shares issued	–	–	215,000	215
Capital increase	61,379,658	61,380	61,525,532	61,526
Capital return	–61,379,658	–61,380	–61,525,532	–61,526
At 31 December	41,361,668	41,362	41,361,668	41,362

Share premium reserve

At an extraordinary general meeting of shareholders in 's-Hertogenbosch on 9 October 2019, our shareholders approved the return of capital in the amount of €1.50 per share, as announced on 27 August 2019. The capital return paid on 23 December 2019 amounted to €61.4 million and is charged to the share premium reserve available for distribution. These transactions are exempt from dividend tax in the Netherlands.

1 Some prior year figures adjusted due to restatement related to provisions for pensions (see "Summary of significant accounting policies", subsection "Disclosure relating to prior period error").

All shares were paid up in cash. During the financial year Van Lanschot Kempen conditionally granted 60,039 depositary receipts for Class A ordinary shares. Van Lanschot Kempen holds 440,895 depositary receipts for Class A ordinary shares to meet open positions (2018: 344,647). For more information on share-based payments, see Note 32, Staff costs.

No option rights have been granted since 2008. By the end of 2019, board members held a total of 225,423 shares and depositary receipts for shares in Van Lanschot Kempen. Awards of unconditional shares and depositary receipts to staff are linked to performance and employment contracts. For more information about shares and options schemes for staff and the Statutory Board, see page 72.

Movements in reserves in 2019	Revaluation reserve financial assets at fair value through other comprehensive income	Actuarial results on defined benefit schemes	Currency translation reserve	Cash flow hedge reserve	Own credit risk reserve	Retained earnings	Total
At 1 January	**–3,064**	**–29,910**	**104**	**–13,509**	**–11,394**	**809,008**	**751,233**
Net changes in fair value	5,010	–	–	–1,711	–	–	3,298
Realised gains/losses through profit or loss	–523	–	–	–	–	–	–523
Net reversal of impairment (to profit or loss)	408	–	–	–	–	–	408
Value change own credit risk	–	–	–	–	4,575	–	4,575
Profit appropriation	–	–	–	–	–	15,194	15,194
Share plans	–	–	–	–	–	–2,608	–2,608
Actuarial results	–	–7,772	–	–	–	–	–7,772
Other changes	–	–	768	–	–	–1,724	–955
At 31 December	**1,831**	**–37,682**	**872**	**–15,221**	**–6,819**	**819,870**	**762,852**
Tax effects	–1,151	2,490	–	437	–1,180	–	596

In 2019, the dividend for 2018 was set at €1.45 per ordinary share.

Movements in reserves in 2018	Revaluation reserve financial assets at fair value through other comprehensive income	Actuarial results on defined benefit schemes	Currency translation reserve	Cash flow hedge reserve	Own credit risk reserve	Retained earnings	Total
At 1 January	9,682	**-17,885**	**1,602**	**–9,825**	**-9,966**	**780,625**	**754,234**
Adjustment opening balance[1]	–	–11,861	–	–	–	–	–11,861
Adjusted 1 January opening balance	**9,682**	**–29,746**	**1,602**	**–9,825**	**–9,966**	**780,625**	**742,373**
Net changes in fair value	–9,951	–	–	–3,684	–	–	–13,635
Realised gains/losses through profit or loss	–2,731	–	–	–	–	–	–2,731
Net impairment to profit or loss	–65	–	–	–	–	–	–65
Value change own credit risk	–	–	–	–	–2,198	–	–2,198
Profit appropriation	–	–	–	–	–	30,139	30,139
Share plans	–	–	–	–	–	–445	–445
Actuarial results	–	–165	–	–	–	–	–165
To retained earnings	–	–	–	–	770	–770	–
Other changes	–	–	–1,499	–	–	–542	–2,040
At 31 December	**–3,064**	**–29,910**	**104**	**–13,509**	**–11,394**	**809,008**	**751,233**
Tax effects	3,985	–930	–	208	733	–	3,996

In 2018, the dividend for 2017 was set at €1.45 per ordinary share.

1 See “Summary of significant accounting policies”, subsection “Disclosure relating to prior period error”.

Nature and purpose of other reserves

Treasury shares: Covers the cost price of treasury shares kept by Van Lanschot Kempen for shares awarded to staff under current remuneration and equity schemes.

Share premium reserve: Covers amounts paid to Van Lanschot Kempen by shareholders above the nominal value of purchased shares.

Revaluation reserve: Covers movements in the fair value of FVOCI investments.

Actuarial results on defined benefit schemes: Covers actuarial gains and losses on revaluation of investments and defined benefit obligations. The actuarial gains and losses related to a shortfall in minimum performance on defined contribution plan assets, required under Belgian and Swiss law, are also included.

Currency translation reserve: This reserve (which is not available for free distribution) covers currency exchange differences resulting from the valuation of investments in group companies at the prevailing exchange rate in so far as the currency rate risk is not hedged.

Own credit risk reserve: Covers the changes in Van Lanschot Kempen's own credit risk of financial liabilities at fair value through profit or loss.

Cash flow hedge reserve: Covers the share in the gain or loss on hedging instruments in a cash flow hedge that has been designated as an effective hedge.

Retained earnings: Covers past profits added to equity and changes in connection with the share scheme.

26. Contingent liabilities and irrevocable commitments	2019	2018
Total	**1,044,862**	**987,725**
Guarantees, etc.	105,706	134,449
Unused credit facilities	901,374	815,157
Other	37,782	38,119

For several group companies, guarantees of €217.6 million (2018: €225.6 million) have been issued. It is impossible to predict whether, when and how much of these contingent liabilities will be claimed.

Investigations by supervisory authorities: Specific parts of Kempen & Co (as of 1 January 2020 part of Van Lanschot Kempen Wealth Management) are the subject of an investigation by the AFM regarding compliance with the Money Laundering and Terrorist Financing (prevention) Act (Wwft). We are fully cooperating with the investigation. Management has concluded under IFRS that no present obligation exists as per 31 December 2019. It is not possible to assess the potential effect of the outcome of this investigation. We expect to receive more information from the AFM concerning the potential consequences of the investigation in the course of 2020.

The following movements are related to the gross carrying amount of the contingent liabilities and the irrevocable commitments. These figures only include IFRS 9-related items and do not therefore reconcile with the table above.

Movements in gross carrying amount of Guarantees and loan commitments in 2019	Stage 1	Stage 2	Stage 3	Total
At 1 January	224,716	10,326	3,271	238,313
Additions or releases without transfer	–32,451	–10,641	–867	–43,959
Transfer to Stage 1	18,678	–18,678	–	–
Transfer to Stage 2	–20,878	22,987	–2,035	74
New financial assets originated or purchased	42,508	–	–	42,508
At 31 December	**232,573**	**3,993**	**369**	**236,935**

The following tables show the contingent items (contingent liabilities and irrevocable commitments) based on their remaining contractual terms to maturity at the reporting date.

For each transaction that we have guaranteed, the maximum guaranteed amount is included in the relevant term bucket. For each obligation arising from an irrevocable commitment, the committed amount is classified in the relevant term bucket.

Contractual maturity of contingent items at 31/12/2019

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Total	**71**	**110,876**	**127,114**	**11,376**	**795,425**	**1,044,862**
Guarantees	71	3,011	1,623	7,036	93,965	105,706
Unused credit facilities	–	107,865	125,491	1,466	666,552	901,374
Other irrevocable commitments	–	–	–	2,874	34,908	37,782

Contractual maturity of contingent items at 31/12/2018

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Total	**644**	**121,340**	**11,574**	**12,238**	**841,930**	**987,725**
Guarantees	644	3,370	11,083	7,803	111,549	134,449
Unused credit facilities	–	117,970	491	1,466	695,230	815,157
Other irrevocable commitments	–	–	–	2,969	35,150	38,119

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME (€1,000)

27. Net interest income	2019	2018
Total interest income	**268,282**	**304,344**
Interest income on cash equivalents	64	103
Interest income on banks and private sector	224,546	238,356
Interest income on financial assets at fair value through other comprehensive income	3,617	5,040
Interest income on other financial assets at amortised cost	7,939	8,485
Interest income calculated using the effective interest method	**236,165**	**251,985**
Interest income on financial assets at fair value through profit or loss	1,098	2,192
Interest income on derivatives	21,258	45,262
Other interest income	9,761	4,904
Other interest income	**32,116**	**52,359**

Interest expense	2019	2018
Total interest expense	**93,385**	**129,131**
Interest expense on balances at central banks	4,369	5,855
Interest expense on banks and private sector	25,771	27,755
Interest expense on issued debt securities	10,083	23,333
Interest expense on subordinated loans	9,688	9,575
Interest expense calculated using the effective interest method	**49,912**	**66,518**
Interest expense on derivatives	37,852	61,084
Other interest expense	5,621	1,528
Other interest expense	**43,473**	**62,612**
Net interest income	**174,897**	**175,213**

In 2019, interest result was €0.3 million lower than in 2018. The decrease was the outcome of lower interest rates and is offset by a slightly higher mortgage volume and an one-off effect of a positive revaluation of interest claim to the tune of €3.9 million, to be received from DSB Bank NV. The interest result on loans subject to impairment was €8.6 million (2018: €11.1 million).

28. Income from securities and associates	2019	2018
Total	**86,535**	**31,323**
Income from associates using the equity method	9,469	14,171
Realised result of associates using the equity method	23,957	14,557
Realised and unrealised gains/losses on investments at fair value through profit or loss	17,067	2,410
Other gains on sales	36,042	184

Income from securities and associates was up by €55.2 million. This was largly due to Other gains on sales, which were mainly related to the sale of our majority stakes in non-strategic interests. Income from securities and associates includes an earn-out gain based on a fair value calculation; the maximum cash consideration for this earn-out is €2 million.

29. Net commission income	2019	2018
Total	**290,390**	**293,247**
Securities commissions	24,342	25,131
Management commissions	217,453	213,416
Cash transactions and funds transfer commissions	6,071	7,663
Corporate Finance and Equity Capital Markets commissions	34,886	38,125
Other commissions	7,637	8,913

30. Result on financial transactions	2019	2018
Total	**–7,407**	**–805**
Gains/losses on securities trading	3,545	–662
Gains/losses on currency trading	8,904	8,007
Gains/losses on derivatives under hedge accounting	–6,404	–4,684
Gains/losses on trading derivatives	–	600
Realised gains on financial assets at fair value through other comprehensive income	657	3,764
Gains/losses on economic hedges/hedge accounting not applied	67,204	–29,037
Gains/losses on financial assets and liabilities at fair value through profit or loss	–81,314	21,207

Compared with 2018, result on financial transactions was down by €6.6 million, –€1.7 million of which was due to higher unrealised gains on derivatives under hedge accounting. The balance of losses on economic hedges and losses on financial assets at fair value through profit or loss came in €6.3 million lower. This balance reflects the revaluation result caused by changes in capital market yields in the marked-to-market portfolio and a number of derivatives positions.

31. Other income	2019	2018
Total	**8,808**	**7,304**
Net sales	13,066	11,020
Cost of sales	–4,258	–3,716

Other income comprises net sales and cost of sales from non-strategic investments arising from debt conversion. In certain cases, where a company has not been able to repay a corporate loan granted by Van Lanschot Kempen, the loan has been converted into a shareholding, thus giving the company time to recover. We aim to sell any shares in non-strategic investments in due course.

32. Staff costs	2019	2018
Total	**250,577**	**263,724**
Salaries and wages	188,647	192,332
Pension costs for defined contribution schemes	18,114	18,324
Pension costs for defined benefit schemes	4,998	6,976
Other social security costs	21,204	22,181
Share-based payments for variable remuneration	4,047	4,510
Other staff costs	13,568	19,401

Staff costs declined by €13.1 million. The decrease in salaries and wages was partly due to a reduction in FTEs. Other staff costs fell due to the lease cost shift as a result of the implementation of IFRS 16.

In 2019, share-based payments added €2.0 million to equity (2018: €5.3 million). Of the total expenses arising from share-based payments, €0.0 million is included in Salaries and wages (2018: €2.7 million); this amount includes the profit-sharing scheme. Pension costs for defined contribution schemes include €1.1 million for Statutory Board members (2018: €1.1 million).

As the participants in the Kempen Management Investment Plan pay the fair value of the equity instruments, no expenses related to this are included in staff costs.

The average number of staff in 2019 was 1,834 (2018: 1,843), or 1,698 in full-time equivalents (2018: 1,747), as shown below:

Average FTEs	2019	2018
Total	**1,698**	**1,747**
Netherlands	1,515	1,553
Belgium	134	141
Other	49	53

There are no options outstanding. The remaining options outstanding at 1 January 2018 (6,679), with a weighted-average exercise price of €75.53, expired in 2018. No option rights were exercised in 2018 or 2019.

Conditional depositary receipts for shares granted to staff (excluding Statutory Board)	2019	2018
At 1 January	222,930	315,986
Granted	60,039	55,890
Vested	–127,107	–143,711
Forfeited rights	–5,249	–5,234
At 31 December	**150,613**	**222,930**

Conditional depositary receipts for shares are granted to staff both under the variable remuneration policy for identified staff and the long-term share plan (LTP).

The fair value is determined based on the volume-weighted day price for depositary receipts for Class A ordinary shares on the second trading day after release of Van Lanschot Kempen's annual figures. The fair value is equal to the share price less discounted value of expected dividends. Depositary receipts granted in 2019 had a weighted-average fair value of €16.78 (2018: €24.16).

In 2019, 12,540 conditional depositary receipts for shares were granted under the LTP to a number of senior managers other than members of the Statutory Board (2018: 10,587). The depositary receipts for Class A Van Lanschot Kempen shares will be granted in 2020 on the second trading day after the release of Van Lanschot Kempen's annual figures for 2019.

Long-term share plan

The long-term share plan allows us to award variable remuneration to certain key employees, including identified staff. It offers a special type of variable remuneration in which the total variable pay takes the form of depositary receipts for Class A Van Lanschot Kempen shares. For the 2011-14 LTP, 50% of the Van Lanschot Kempen shares were awarded conditionally over a period of three years and 50% over a period of five years. As from LTP 2015, 60% of the Van Lanschot Kempen shares are awarded immediately and unconditionally, while 40% are awarded conditionally over a period of three years.

Conditional depositary receipts for shares will vest if:
(i) Van Lanschot Kempen's financial position allows this in the year of vesting;
(ii) Risks have been reviewed and no material, unforeseen risks have occurred; and
(iii) The individual has not left Van Lanschot Kempen in the three or five-year period.

Conditional variable remuneration can be revised down if so prompted by risks and performances identified later (malus).

Employees do not receive any dividends during the vesting period. If an employee ceases to be employed by Van Lanschot Kempen within this period, their rights will be forfeited, except in limited circumstances judged on an individual basis.

A part (around 50%) of the conditionally awarded depositary receipts is used to pay income tax.

Share-based payments Kempen Management Investment Plan (MIP)

Under the terms of the MIP, selected Kempen staff invest indirectly via depositary receipts in Kempen shares and Kempen's profit-sharing certificates. Kempen issued these to Kempen Management Investeringsplan Coöperatief UA (Coöperatie MIP), a cooperative with two members, Stichting Administratiekantoor Kempen Management Investeringsplan (Stichting MIP) and Van Lanschot, with Stichting MIP holding virtually all membership rights. Stichting MIP issues depositary receipts to selected staff, who pay their issue price and receive the indirect right of beneficial ownership of the underlying Kempen shares and profit-sharing certificates.

Any dividends Kempen pays on the ordinary shares owned by Coöperatie MIP and profit-sharing rights on the profit-sharing certificates are distributed to Coöperatie MIP, which in turn distributes the profits to its members: Stichting MIP and Van Lanschot. Stichting MIP will subsequently pay out its share of the profits to the individual staff members, pro rata their holding of depositary receipts; for more information, see "Disclosure of interests in other entities".

Individual staff finance the issue price entirely from their own means and are not financially supported by Van Lanschot Kempen in any way.

33. Other administrative expenses	2019	2018
Total	**135,062**	**162,043**
Accommodation expenses	9,389	20,078
Marketing and communication	9,206	13,746
Office expenses	4,922	5,990
IT expenses	52,647	63,240
External auditors' fees	3,652	3,066
Consultancy fees	12,261	18,705
Travel and hotel fees	3,497	3,665
Information providers' fees	14,437	13,714
External service provider charges	7,609	6,331
Other	17,442	13,507

Consultancy fees relate to advisory services (business consultancy, tax) and the implementation and maintenance of software and hardware.

Fees charged by the external independent auditors (and their network of offices) can be broken down as follows:

Fees charged by external independent auditors 2019	Auditor PwC	Other auditors	Total auditors
Total	**3,512**	**141**	**3,652**
Financial statements audit fee	2,377	96	2,473
Fee for other audit services	210	–	210
Financial statements audit fee for funds managed by Kempen	751	–	751
Other non-audit assurance fees	173	44	217

Fees charged by external independent auditors 2018	Auditor PwC	Other auditors	Total auditors
Total	**2,876**	**190**	**3,066**
Financial statements audit fee	1,464	83	1,547
Fee for other audit services	659	–	659
Financial statements audit fee for funds managed by Kempen	627	–	627
Other non-audit assurance fees	127	106	233

This is a summary of the services rendered by our auditor PricewaterhouseCoopers Accountants NV:
- Financial statements audit;
- Financial statements audit for funds managed by Kempen;
- Statutory audit of controlled and related entities;
- Audit of the regulatory returns to be submitted to De Nederlandsche Bank;
- ISAE 3402 report on Kempen Capital Management, Private Banking and DGS;
- Assurance engagement F. van Lanschot Bankiers (Schweiz);
- Non-audit assurance engagements on safeguarding cient assets.

34. Depreciation and amortisation	2019	2018
Total	**25,201**	**14,427**
Buildings	2,219	2,399
Right-of-use assets – buildings	9,055	–
Right-of-use assets – transport equipment	3,644	–
IT, operating system software and communications equipment	3,424	3,118
Application software	1,402	1,742
Intangible assets arising from acquisitions	5,537	7,573
Results on disposals of property and equipment	-1,879	-2,373
Other depreciation and amortisation	1,799	1,968

Depreciation and amortisation rose by €10.8 million, mainly due to the implementation of IFRS 16.

35. Impairments	2019	2018
Total impairments	**22,854**	**-13,416**
Cash and cash equivalents and balances at central banks	0	0
Due from banks	1	-0
Financial assets at fair value through other comprehensive income	5	-119
Loans and advances to the public and private sectors	-11,857	-11,709
Other financial assets at amortised cost	-6	5
Financial guarantees and loan commitments	-203	-913
Impairment of financial instruments	**-12,059**	**-12,737**
Investments in associates using the equity method	-87	-892
Goodwill and intangible assets	35,000	263
Assets acquired through foreclosures	-	-50
Other impairments	**34,913**	**-679**

Total impairments increased by €36.3 million compared with 2018, mainly due to impairment of goodwill; for more information, see Note 11, Goodwill and other intangible assets.

36. Income tax	2019	2018
Operating profit before tax from continuing operations	119,529	79,504
Profit before tax from discontinued operations	–	16,275
Total gross result	**119,529**	**95,779**
Prevailing tax rate in the Netherlands	25%	25%
Tax on continuing operations	21,114	12,086
Tax on discontinued operations	–	3,378
Total tax	**21,114**	**15,464**
Expected tax on the basis of the prevailing tax rate in the Netherlands	29,882	23,945
Increase/decrease in tax payable due to		
Tax-free income from securities and associates	–10,122	–9,649
Non-deductible costs	1,382	2,092
Non-deductible losses	–113	–228
Adjustments to taxes for prior financial years	3	–239
Impact of foreign tax rate differences	–108	–146
Addition/(release) deferred tax assets	181	–82
Other changes	9	–229
	–8,768	**–8,481**
Total tax	**21,114**	**15,464**

This tax amount consists of the tax expense for the financial year on the operating result as disclosed in the statement of income, also allowing for any tax relief facilities. When determining the tax amount, we have applied currently existing tax rules. Changes in the effective tax rate were mainly due to the equity holding exemption and non-deductible costs. In both 2018 and 2019, the effective tax also changed as a result of changes to the statutory tax rate in the Netherlands.

Key income tax components	2019	2018
Total	**21,114**	**15,464**
Standard tax	28,712	10,775
Income/expense from foreign tax rate differences	–108	–146
Income/expense from changes in deferred tax assets	–8,913	5,578
Income/expense from deferred tax liabilities	1,420	–504
Income/expense from prior-year adjustments	3	–239

The breakdown of deferred tax assets and liabilities (including tax rate adjustments) through the statement of income is as follows:

Deferred tax assets	2019	2018
Total	**–8,913**	**5,578**
Employee benefits	–366	–258
Commissions	46	–75
Property and equipment	–1,400	292
Tax-loss carry-forwards	–8,049	5,236
Other	856	383

Deferred tax liabilities	2019	2018
Total	**1,420**	**–504**
Property and equipment	1,186	760
Intangible assets	235	–1,264

37. Net profit from discontinued operations	2019	2018
Net interest income	–	–377
Income from securities and associates	–	276
Other income	–	45,108
Total income from operating activities	**–**	**45,007**
Staff costs	–	17,286
Other administrative costs	–	9,481
Depreciation and amortisation	–	1,965
Total expenses	**–**	**28,732**
Operating profit before tax	**–**	**16,275**
Income tax	–	3,378
Net profit	**–**	**12,897**

For more information, see Note 13, Assets classified as held for sale.

38. Earnings per ordinary share	2019	2018
Net result	98,414	80,315
Share of AT1 capital securities	–5,063	–
Share of other non-controlling interests	–423	–5,684
Net result for calculation of earnings per share	**92,929**	**74,631**
Net result for calculation of earnings per share from continuing operations	92,929	61,734
Net result for calculation of earnings per share from discontinued operations	–	12,897
Weighted average number of ordinary shares in issue	40,974,330	41,004,769
Earnings per ordinary share (€)	2.27	1.82
Earnings per ordinary share from continued operations (€)	2.27	1.51
Earnings per ordinary share from discontinued operations (€)	–	0.31
Proposed dividend per ordinary share (€)	1.45	1.45

To calculate earnings per ordinary share, the number of ordinary shares consists solely of the weighted average number of shares in issue, ignoring any treasury shares held by the company.

39. Diluted earnings per ordinary share	2019	2018
Net result for calculation of diluted earnings per share	92,929	74,631
Net result for calculation of diluted earnings per share from continuing operations	92,929	61,734
Net result for calculation of diluted earnings per share from discontinued operations	–	12,897
Weighted average number of ordinary shares in issue	40,974,330	41,004,769
Potential shares	218,240	294,240
Weighted average number of ordinary shares in issue, fully diluted	**41,192,569**	**41,299,009**
Diluted earnings per ordinary share (€)	2.26	1.81
Diluted earnings per ordinary share from continuing operations (€)	2.26	1.49
Diluted earnings per ordinary share from discontinued operations (€)	–	0.31

Diluted earnings per ordinary share are calculated the same way as earnings per share, but taking into account the number of shares that could potentially cause dilution. Diluted earnings per ordinary share reflect the weighted average number of ordinary shares that would be in issue upon conversion into ordinary shares of all potential shares.

RELATED PARTIES

The Executive Board comprises our key management personnel and is responsible for implementing our strategy and managing our core activities. The Board is made up of the Chairman of the Van Lanschot Kempen Statutory Board, the Van Lanschot Kempen CFRO, the Van Lanschot Kempen COO and the members of the management team with responsibility for our core activities Van Lanschot Private Banking, Evi van Lanschot, Kempen Asset Management and Kempen Merchant Banking.

Remuneration of Executive Board	2019	2018
Total	**6,510**	**6,510**
Fixed salary, amount in cash	2,961	2,961
Fixed salary, amount in shares[1]	1,949	1,949
Fixed payment for pension and disability insurance costs	1,600	1,600

For transactions with key management personnel, see "Remuneration of the Statutory and Supervisory Boards".

Affiliates	2019		2018	
	Income	Expenses	Income	Expenses
Stichting Pensioenfonds F. van Lanschot	1,014	–	950	–

Parties with significant influence in Van Lanschot Kempen

On the basis of regulatory guidelines, management has decided that entities with a shareholding of at least 5% in Van Lanschot Kempen are parties with significant influence in Van Lanschot Kempen.

The table below shows the year-end income and expenditure relating to these parties in the statement of income and the statement of financial position.

Parties with significant influence in Van Lanschot Kempen in 2019	Income	Expenses	Amount receivable	Amount payable
Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen	–	–	–	71
APG Asset Management NV	–	–	–	–
LDDM Holding BV	0	–	–	1,788
Janus Henderson Group plc	–	–	–	–
Reggeborgh Invest BV	2,514	–	75,000	–

In November 2019, Van Lanschot Kempen offered a funding commitment of €200 million to Reggeborgh; of this amount €75 million was drawn at year-end. The funding to Reggeborgh was granted at market rates and collateral was provided by Reggeborgh.

Parties with significant influence in Van Lanschot Kempen in 2018	Income	Expenses	Amount receivable	Amount payable
Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen	–	–	–	52
APG Asset Management NV	–	–	–	–
LDDM Holding BV	0	–	–	1,304
Janus Henderson Group plc	–	–	–	–
Reggeborgh Invest BV	–	–	–	–

1 Expenses recognised under IFRS-EU accounting for Van Lanschot Kempen shares differ due to the treatment under IFRS 2. For 2019, expenses under IFRS amounted to €2,162,000 (2018: €1,993,000).

Loans to parties with significant influence in Van Lanschot Kempen were granted at market conditions, and collateral was provided.

Van Lanschot Kempen did not grant any guarantees in 2019 or 2018, and neither were impairments recognised for receivables.

List of shareholders

In compliance with Section 5.3 of the Dutch Financial Supervision Act, the following notifications have been recorded in the major interests register held by the Dutch Authority for the Financial Markets (AFM). The percentages reflect the number of shares on the register on the dates listed and the current number of shares.

Shareholder	Notification date	Interest
Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen	24 May 2013	96.80%

Depositary receipt holder	Notification date	Interest
APG Asset Management NV	30 January 2018	9.89%
LDDM Holding BV	3 June 2014	9.68%
Janus Henderson Group plc	17 October 2016	5.56%
Reggeborgh Invest BV	9 April 2018	5.00%
FMR LLC	7 July 2016	4.96%
Wellington Management Group LLP	9 April 2019	4.90%
NN Group NV	23 December 2019	3.23%
CRUX Asset Management Limited	14 September 2017	3.23%
T. Rowe Price Group, Inc.	9 May 2017	3.06%
Investec Asset Management Limited	22 August 2019	2.99%
Invesco Limited	11 April 2019	2.98%

Disclosure is required once a shareholder’s interest reaches, exceeds or falls below certain threshold values, and it should be noted that current stakes of listed shareholders and/or depositary receipt holders may have changed since notification date. Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen currently holds more than 99.99% of the Class A ordinary shares.

For transactions in associates, see “Disclosures of interest in other entities”.

DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Key judgements and assumptions
We rely on key judgements and assumptions when determining control and significant influence. We have included these under the headings “Basis of consolidation” and “Summary of significant accounting policies”.

Interests in subsidiaries
The consolidated statement of financial position and statement of income comprise subsidiaries and entities in which Van Lanschot Kempen has control, but excludes the names of relatively minor subsidiaries and entities.

Subsidiaries (%)	2019	2018
Van Lanschot Kempen Wealth Management NV	100	100
F. van Lanschot Bankiers (Schweiz) AG	100	100
Kempen & Co NV (part of VLKWM from 1 January 2020)	100	98
Van Lanschot Participaties BV	100	100
Quion 17 BV	100	100
AIO II BV	–	72
Allshare BV	100	97
Holowell Holding BV	93	90

No restrictions apply between Van Lanschot Kempen and its subsidiaries.

Consolidated structured entities controlled by Van Lanschot Kempen
In the consolidated statement of financial position, we consolidate structured entities. These are designed in such a way that the voting rights are not the dominant factor in deciding who controls the entity, and the relevant activities are governed by contractual arrangements. Van Lanschot Kempen is exposed to substantially all of the risk of the structured entity and thereby controls it. Therefore, these structured entities do not qualify as a transfer of financial assets and are not derecognised from our statement of financial position.

We consolidate the following structured entities:
- Van Lanschot Conditional Pass-Through Covered Bond Company BV
- Van Lanschot Conditional Pass-Through Covered Bond Company 2 BV

Courtine RMBS 2013-I BV
The Courtine RMBS 2013-I securitisation transaction, which became active in 2013, was redeemed on 26 September 2019.

Conditional Pass-Through Covered Bond Programme (CPTCB)
Van Lanschot Kempen established a CPTCB programme in March 2015. Investors have a dual recourse claim: initially against Van Lanschot Kempen, and, in the event of the bank’s failure, against a pool of cover assets. In April 2015 the bank launched the first bond loan of €500 million (maturity of seven years: coupon of 0.275%). The second bond loan of €500 million was placed in March 2016 (maturity of seven years: coupon of 0.375%) and the third bond loan of €500 million was placed in February 2017 (maturity of ten years: coupon of 0.875%). All loans were placed with institutional investors.

Conditional Pass-Through Covered Bond Programme 2 (CPTCB2)
Van Lanschot Kempen established a retained CPTCB programme in July 2019. In September 2019, the bank launched the first bond loan of €300 million (maturity of five years: coupon of 0.40%). All loans were retained.

The tables below show the total amounts of the mortgage loans involved in each securitisation transaction.

Securitised loans at 31/12/2019	Fair value	Carrying amount	Stage 1	Stage 2	Stage 3	Impairments
Total	**2,163,289**	**2,101,257**	**1,936,380**	**164,174**	**703**	**–**
Covered Bond Programme	1,812,359	1,758,025	1,625,096	132,929	–	–
Covered Bond Programme 2	350,930	343,232	311,284	31,245	703	–

Securitised loans at 31/12/2018	Fair value	Carrying amount	Stage 1	Stage 2	Stage 3	Impairments
Total	**2,322,251**	**2,213,905**	**1,941,492**	**269,985**	**2,427**	**409**
Courtine RMBS 2013-I BV	478,648	460,461	390,018	68,016	2,427	409
Covered Bond Programme	1,843,603	1,753,444	1,551,474	201,970	–	–

Van Lanschot Kempen provides no financial or other support to the securitisation entities, and has no intention of providing such support.

Non-consolidated structured entities

Asset-backed securities are classified as financial assets at fair value through other comprehensive income. These investments are structured entities. We do not consolidate these because Van Lanschot Kempen is not exposed to substantially all of the risk of the structured entity. The table below shows Van Lanschot Kempen's investments in non-consolidated structured entities and the total income from these investments. The Investments column shows the carrying value as recognised in the consolidated statement of financial position.

Van Lanschot Kempen has no other interests in non-consolidated structured entities such as commitments, guarantees, provisions, derivatives or other obligations. The maximum exposure to non-consolidated structured entities is equal to the acquisition cost and amounted to €387.3 million at 31 December 2019 (2018: €501.3 million).

Van Lanschot Kempen provides no financial or other support to non-consolidated structured entities, and has no intention of providing such support.

Non-consolidated structured entities 2019	Interest income	Comprehensive income	Total income	Investments
Total	**833**	**1,903**	**2,736**	**385,661**
Asset-backed securities	833	1,903	2,736	385,661

Non-consolidated structured entities 2018	Interest income	Comprehensive income	Total income	Investments
Total	**1,856**	**–2,549**	**–693**	**497,760**
Asset-backed securities	1,856	–2,549	–693	497,760

Non-controlling interests

The consolidated statement of financial position and statement of income include a number of non-controlling interests; a list of non-controlling interests in Van Lanschot Kempen subsidiaries is provided below.

Non-controlling interests	31/12/2019	31/12/2018
Total	**4,029**	**12,213**
Kempen MIP	4,122	5,103
Consolidated investment funds	67	38
Consolidated shareholdings	–159	7,072

Van Lanschot Kempen's minority interests are recognised under non-controlling interests as part of equity.

Movements in non-controlling interests	2019			2018		
	Non-controlling interests	Undistributed profit attributable to non-controlling interests	Total	Non-controlling interests	Undistributed profit attributable to non-controlling interests	Total
At 1 January	6,529	5,684	12,213	10,827	5,437	16,264
Profit appropriation	5,376	–5,376	–	4,542	–4,542	–
Dividend	–	–309	–309	–	–895	–895
Result for the reporting period	–	423	423	–	5,684	5,684
Other changes	–8,298	–	–8,298	–8,840	–	–8,840
At 31 December	3,606	423	4,029	6,529	5,684	12,213

Kempen Management Investment Plan (MIP)

Before the Kempen Management Investment Plan (MIP) was implemented in 2010, all Kempen shares were held by VLKWM (formerly Van Lanschot NV until 31 December 2019). These shares were all converted into Class A ordinary shares following the implementation of the MIP. At the same time, within the scope of this implementation, Kempen issued 1,658,671 new Class B ordinary shares to Coöperatie MIP in exchange for a total purchase price of €15.0 million.

In 2013, the MIP's structure changed, with Class A ordinary shares converted to ordinary shares and Class B shares to ordinary shares and profit-sharing certificates.

Coöperatie MIP has two members, Stichting MIP and VLKWM, which hold the membership rights issued by Coöperatie MIP, with Van Lanschot's membership being legally required. Stichting MIP issued depositary receipts for its membership right in Coöperatie MIP to selected Kempen employees who accepted the offer to invest in the MIP. The total purchase price of the depository receipts amounted to €15.0 million.

In 2019, Kempen employees who owned depositary receipts in the MIP exchanged a total of 998 depositary receipts (2018: 6,649). At 31 December 2019, there were 15,000 depositary receipts in issue, i.e. 100% of the total available underlying depositary receipts under the MIP.

As a consequence of the merger as at 1 January 2020 between Van Lanschot and Kempen, Kempen ceased to exist. In view of this merger, the Executive Board decided to wind up the MIP in 2020. The participants in the MIP will share in Kempen's full results for 2019.

Coöperatie MIP transferred its shares in Kempen to VLKWM on 27 December 2019 at a price consisting of 1) the nominal value of the MIP certificates, plus 2) the payment that the participants in the MIP will receive based on Kempen's net profit for 2019. VLKWM paid the amount under 1) to Coöperatie MIP in 2019. The amount under 2) will be paid by VLKWM in the first quarter of 2020 after Kempen's net profit for 2019 has been established. After receiving both amounts and after deducting any costs, Coöperatie MIP will make a payment to Stichting MIP, and Stichting MIP will pay this benefit to the participants. After this payment, the certificates will expire (Article 7.1 sub-paragraph (b) of the Terms of Administration of Stichting MIP). After this, both Coöperatie MIP and Stichting MIP will become shell entities. At that time (expected at the end of Q1 2020), VLKWM will start the dissolution of Coöperatie MIP and Stichting MIP, and this is expected to be completed in Q2 2020.

Kempen MIP	31/12/2019	31/12/2018
Number of depositary receipts issued to Kempen employees	3,801	4,799
Legally required contribution by Van Lanschot Kempen (€)	100	100

Financial information for Kempen MIP	2019	2018
Total assets	16,285	15,965
Total liabilities	–	–
Equity attributable to shareholders	12,163	10,862
Equity attributable to non-controlling interests	4,122	5,103
Total income from operating activities	1,285	965
Total expenses	–	–
Taxes	–	–
Net income	1,285	965
Of which attributable to shareholders	959	656
Of which attributable to non-controlling interests	326	309

Consolidated investments

We consolidate two investments in which non-controlling minority interests of third parties are included. These non-controlling interests of third parties in consolidated investments comprise of minority stakes in Holowell Holding BV of Tholen, the Netherlands (7.37%) and in Allshare BV of Hoofddorp, the Netherlands (0.20%). The figures for 2018 include AIO II BV of Breda, the Netherlands.

The table below provides aggregated information on consolidated investments.

Financial information consolidated investments	2019	2018
Total assets	13,661	49,400
Total liabilities	12,568	36,523
Equity attributable to shareholders	1,253	5,805
Equity attributable to non-controlling interests	–159	7,072
Total income from operating activities	8,431	52,126
Total expenses	6,579	34,142
Taxes	309	3,521
Net income	1,542	14,464
Of which attributable to shareholders	1,474	9,305
Of which attributable to non-controlling interests	68	5,158

Associates

Investments in associates using the equity method

As part of our investment policy, we invest in medium-sized companies in the Netherlands, only holding minority interests of between 20% and 49%. These investments are classified as investments in associates using the equity method.

The table below shows the largest investments in associates based on the carrying amount.

Name	Activities	Head office	Interest
Bolster Investments Coöperatief UA	Bolster is a long-term investor specialising in taking minority shareholdings of 20-50% in private companies and pursuing a flexible, long-term investment horizon, allowing its companies' portfolios to realise their long-term growth potential.	Amsterdam	29.75%
Fire Safety Holding BV (Gerco)	Gerco is the Dutch market leader in the field of fire compartmentation of buildings.	Schoonhoven	42.50%
Movares Group BV	Movares provides engineering and consultancy services in the fields of mobility, infrastructure, spatial planning and transport systems.	Utrecht	35.00%
OGD Beheer BV	OGD provides ICT services to medium-sized and large companies, public and semi-public and non-profit organisations. Its services include service management, outsourcing, software development and ICT training.	Delft	32.20%
Ploeger Oxbo Holding BV	Ploeger Oxbo develops, manufactures and sells a wide range of specialist harvesting equipment to customers across the world.	Roosendaal	11.87%
Quint Wellington Redwood Holding BV	Quint is an independent consultancy focusing on the strategic management, sourcing and outsourcing, and implementation of IT-related processes in organisations.	Amstelveen	18.00%
Tecnotion Investment BV	Tecnotion designs, produces and sells linear motors across the world, to the semiconductor, electronics, LCD, automotive and robotics industries among others.	Almelo	37.98%

Aggregated financial information of associates for which Van Lanschot Kempen applies the equity method	2019		2018	
	Associates, equity method	Attributable to Van Lanschot Kempen	Associates, equity method	Attributable to Van Lanschot Kempen
Total	**208,636**	**52,452**	**134,451**	**54,071**
Current assets	197,762	40,928	132,049	45,461
Non-current assets	351,481	71,935	385,906	89,198
Current liabilities	–86,740	–22,246	–90,040	–25,562
Non-current liabilities	–253,866	–36,549	–293,464	–54,296
Goodwill		11,411		7,653
Impairments		–6,455		–6,496
Other		–6,572		–1,887
Other financial information				
Dividend received		4,516		3,473
Income from operational activities		9,642		10,683
Share of net income		13,606		11,759
Unrecognised share of losses		120		3,517
Comprehensive income		–		–

The table below shows the income and expenses that we report in the statement of income and the positions included in the statement of financial position, as well as guarantees issued at year-end in respect of these entities.

Transactions with associates using the equity method	2019	2018
Income	19	7
Expenses	–	30
Amount receivable	0	850
Amount payable	1,193	1,142
Guarantees	29	29

Loans granted to entities in which we exercise significant influence but do not have decisive control are granted on market terms and secured on collateral provided. No impairments were applied to the receivables in either 2019 or 2018.

Van Lanschot Participaties

Investments using the equity method are managed by Van Lanschot Participaties, with the exception of our stakes in Bolster Investments Coöperatief. As part of its direct holdings, Van Lanschot Participaties issues subordinated loans and cumulative preference shares, while it also invests in a portfolio of equity funds. In addition, Van Lanschot Participaties is the controlling shareholder of a stake resulting from debt conversions and consolidated in the Van Lanschot Kempen accounts (note that this is not a core activity for Van Lanschot Participaties). The table below shows Van Lanschot Participaties' financial impact on the consolidated statement of financial position and statement of income. The table does not include information about controlling interests.

Investment activity	Item	Carrying value	Interest	Income from securities and associates	Impairments	Total
Direct investment	Investment in associates using the equity method	33,140	–	11,944	–50	11,894
Shareholdings	Financial assets at fair value through profit or loss	2,024	2,648	–	195	2,843
Subordinated loans	Loans and advances to the public and private sectors	579	63	–	–	63
Fund investment	Financial assets at fair value through profit or loss	8,149	–	3,284	–	3,284
Total		**43,892**	**2,712**	**15,228**	**145**	**18,084**

Joint ventures in which Van Lanschot Kempen is a partner

We have no joint ventures.

COMMITMENTS

IT contracts

In the past, Van Lanschot Kempen entered into several IT contracts e.g. for hiring services and capacity, and for licensing and maintenance of our systems. Our future contractual payment commitments for the new and existing IT contracts amount to €24.5 million, as shown below.

Future payments for IT contracts	
Total	**24,476**
Within 1 year	8,643
1 to 5 years	15,346
More than 5 years	488

Early termination of these contracts could result in additional costs. Exit fees are linked to the remaining term of the contracts.

SEGMENT INFORMATION

Segmentation of our activities is based on operating segments, as our risk and return profile is chiefly affected by differences in our products and services. Internal cost allocation is based on use of services. Our activities break down into five operating segments, while intrasegment transactions are conducted on an arm's length basis.

Private Banking

Private Banking offers private clients and entrepreneurs a broad range of products in the private banking market, while also focusing on business professionals and executives, healthcare professionals, foundations and associations. In 2019, we integrated our remaining corporate banking activities into our Private Banking segment and comparative figures have been adjusted accordingly.

Evi

Evi, Van Lanschot Kempen's online investment coach in the Netherlands and Belgium. Its activities also specifically target mass affluent individuals and Millennials.

Asset Management

A specialist asset manager, Asset Management focuses on a range of investment strategies while also offering fiduciary services to domestic and international institutional clients such as pension funds and insurers.

Merchant Banking

Merchant Banking offers specialist services including equities research and trading, mergers & acquisitions services, structured investment activities, capital market transactions and debt advisory services to institutional investors, corporates, financial institutions and public and semi-public entities.

Other activities

These comprise activities in the fields of interest rate, market and liquidity risk management, staff departments, as well as the activities of Van Lanschot Participaties/ Bolster and consolidated investments.

Operating segments in 2019 (€ million)

	Private Banking	Evi	Asset Management	Merchant Banking	Other activities	Total
Statement of income						
Net interest income	154.0	3.2	0.1	–0.1	17.7	174.9
Income from securities and associates	–	–	–0.7	–	87.3	86.5
Net commission income	130.1	5.1	101.7	52.2	1.2	290.4
Result on financial transactions	1.2	–	0.0	2.6	–11.3	–7.4
Other income	–	–	–	–	8.8	8.8
Total income from operating activities	**285.3**	**8.2**	**101.1**	**54.7**	**103.8**	553.2
Staff costs	97.0	3.5	49.8	25.3	75.0	250.6
Other administrative expenses	63.2	5.4	16.3	8.8	41.3	135.1
Allocated internal expenses	69.5	2.2	13.3	10.2	–95.2	–
Depreciation and amortisation	1.6	0.0	0.1	0.0	23.5	25.2
Impairments	–11.2	0.0	–	–	34.0	22.9
Total expenses	**220.1**	**11.1**	**79.5**	**44.4**	**78.6**	433.7
Operating result before tax	**65.2**	**–2.9**	**21.6**	**10.4**	**25.2**	119.5
Operating result of discontinued operations before tax	–	–	–	–	–	–

Operating segments in 2018 (€ million)	Private Banking	Evi	Asset Management	Merchant Banking	Other activities	Total
Statement of income						
Net interest income	159.3	2.5	–0.0	–0.0	13.5	175.2
Income from securities and associates	–	–	–0.2	–	31.5	31.3
Net commission income	128.9	4.4	100.0	58.0	1.9	293.2
Result on financial transactions	1.1	–	–0.0	1.0	–2.8	–0.8
Other income	–	–	–	–	7.3	7.3
Total income from operating activities	**289.2**	**6.9**	**99.8**	**58.9**	**51.4**	506.3
Staff costs	106.6	4.2	45.8	26.3	80.7	263.7
Other administrative expenses	67.7	9.1	23.8	9.1	52.3	162.0
Allocated internal expenses	71.5	2.9	12.8	9.9	–97.1	–
Depreciation and amortisation	5.8	0.0	1.0	0.0	7.6	14.4
Impairments	–13.5	0.0	–	–0.0	0.1	–13.4
Total expenses	**238.1**	**16.2**	**83.4**	**45.3**	**43.7**	426.8
Operating result before tax	**51.1**	**–9.3**	**16.3**	**13.6**	**7.8**	79.5
Operating result of discontinued operations before tax	–	–	–	–	16.3	16.3

The tables below give additional information on the geographical spread of income from operations.

Geographical segments in 2019 (€ million)	Netherlands	Belgium	Other	Total
Statement of income				
Total income from operating activities	**499.1**	**33.0**	**21.1**	553.2
Of which income from other segments	–4.9	3.7	1.2	–
Statement of financial position				
Due from banks	193.6	–	–	193.6
Investments in associates using the equity method	52.5	–	–	52.5
Total non-current assets[1]	**246.1**	–	–	246.1

Geographical segments in 2018 (€ million)	Netherlands	Belgium	Other	Total
Statement of income				
Total income from operating activities	**450.0**	**30.5**	**25.8**	506.3
Of which income from other segments	–4.2	3.6	0.6	–
Statement of financial position				
Due from banks	158.3	–	–	158.3
Investments in associates using the equity method	54.1	–	–	54.1
Total non–current assets[1]	**212.4**	–	–	212.4

1 Other than financial instruments, deferred tax assets and post-employment assets.

Country-by-country reporting on a consolidated basis at 31 December 2019

Country	Name of main subsidiary	Nature of activities	Average number of staff (FTEs)	Total income from operating activities (€ million)	Operating result before tax (€ million)	Income tax (€ million)	Government subsidies (€ million)
Total			**1,698**	**553.2**	**119.5**	**21.1**	**–**
Netherlands	VLKWM NV	Wealth management	1,515	498.8	120.6	20.9	–
Belgium	VLKWM NV branch	Wealth management	133	32.9	–3.5	–0.5	–
Switzerland	F. van Lanschot Bankiers (Schweiz) AG	Wealth management	28	11.9	1.5	0.4	–
United Kingdom	Kempen & Co NV branch	Asset management	16	6.0	0.2	0.0	–
United States	Kempen & Co USA Inc.	Securities trading and research distribution	6	3.2	0.6	0.2	–
France	Kempen Capital Management NV branch	Asset management	–	0.4	0.0	–	–

Country-by-country reporting on a consolidated basis at 31 December 2018

Country	Name of main subsidiary	Nature of activities	Average number of staff (FTEs)	Total income from operating activities (€ million)	Operating result before tax (€ million)	Income tax (€ million)	Government subsidies (€ million)
Total			**1,747**	**506.3**	**79.5**	**12.1**	**–**
Netherlands	VLKWM NV	Wealth management	1,553	450.0	83.2	12.6	–
Belgium	VLKWM NV branch	Wealth management	141	30.5	–5.3	–1.3	–
Switzerland	F. van Lanschot Bankiers (Schweiz) AG	Wealth management	24	11.2	0.8	0.2	–
United Kingdom (England)	Kempen Capital Management NV branch	Asset management	14	6.3	0.3	0.3	–
United Kingdom (Scotland)	Kempen Capital Management (UK) Ltd	Asset management	9	5.3	0.4	0.1	–
United States	Kempen & Co USA Inc.	Securities trading and research distribution	6	3.0	0.5	0.2	–
France	Kempen Capital Management NV branch	Asset management	–	–	–0.4	–	–

PROFIT APPROPRIATION

If the annual general meeting of shareholders approves the dividend proposal as included in these financial statements, the appropriation of net result will be as follows:

Profit appropriation	2019	2018
Total	**92,929**	**74,631**
Addition to/withdrawal from reserves	33,594	15,156
Dividend on Class A ordinary shares	59,335	59,475

REMUNERATION OF THE STATUTORY AND SUPERVISORY BOARDS

For further details of remuneration received in 2019, see “Remuneration” on page 76.

Total direct compensation of the individual members of the Statutory Board in 2019

	Fixed salary, amount in cash	Fixed salary, amount in shares[1]	Total fixed salary
Total	**2,087**	**1,323**	**3,410**
Karl Guha	773	387	1,160
Constant Korthout	438	312	750
Arjan Huisman	438	312	750
Richard Bruens	438	312	750

Total direct compensation of the individual members of the Statutory Board in 2018

	Fixed salary, amount in cash	Fixed salary, amount in shares[1]	Total fixed salary
Total	**2,087**	**1,323**	**3,410**
Karl Guha	773	387	1,160
Constant Korthout	438	312	750
Arjan Huisman	438	312	750
Richard Bruens	438	312	750

Pension and disability insurance costs for the individual members of the Statutory Board	2019	2018
Total	**1,110**	**1,110**
Karl Guha	378	378
Constant Korthout	244	244
Arjan Huisman	244	244
Richard Bruens	244	244

Total remuneration related to 2019, consisting of fixed salary, pension and disability insurance, amounted to €1,538,000 for Karl Guha (2018: €1,538,000); €994,000 for Constant Korthout (2018: €994,000); €994,000 for Arjan Huisman (2018: €994,000); and €994,000 for Richard Bruens (2018: €994,000).

1 Expenses recognised under IFRS-EU accounting for Van Lanschot Kempen shares differ due to treatment under IFRS 2. For 2019, expenses under IFRS for Karl Guha amounted to €432 (2018: €404), for Constant Korthout to €346 (2018: €324), Arjan Huisman to €346 (2018: €324), and for Richard Bruens to €346 (2018: €324). A proportion of fixed salary is paid in the form of Van Lanschot Kempen shares. Karl Guha received 18,953 shares (2018: 15,165) and the other members of the Statutory Board each received 15,273 shares (2018: 12,168). The number of shares granted is based on the average share price for the first four trading days of 2019: €20.45 (2018: tranche 1 €26.28 and tranche 2 €24.53). IFRS takes the share price at grant date as the basis for recognition. This price also amounted to €20.45 (2018: tranche 1 €26.28 and tranche 2 €24.53).

Number of depositary receipts for shares held by Statutory Board members in 2019	At 1 January	Bought/awarded	Sold/post-employment	At 31 December
Total	**187,080**	**38,343**	**–**	**225,423**
Karl Guha	52,502	11,220	–	63,722
Constant Korthout	53,001	9,041	–	62,042
Arjan Huisman	32,614	9,041	–	41,655
Richard Bruens	48,963	9,041	–	58,004

At 31 December 2019, the members of the Statutory Board held no options for depositary receipts for shares.

Loans to Statutory Board members at 31 December 2019	At 31 December	Repaid	Interest	Collateral
Total	**1,375**	**613**		
Constant Korthout	–	357	2.30%	Mortgage
	–	150	1.90%	Mortgage
Arjan Huisman	–	80	Floating	Mortgage
Richard Bruens	600	–	1.90%	Mortgage
	519	18	1.72%	Mortgage
	256	8	1.72%	Mortgage

Loans to Statutory Board members at 31 December 2018	At 31 December	Repaid	Interest	Collateral
Total	**1,988**	**349**		
Constant Korthout	357	93	2.30%	Mortgage
	150	–	1.90%	Mortgage
Arjan Huisman	80	230	Floating	Mortgage
Richard Bruens	600	–	1.90%	Mortgage
	537	18	1.90%	Mortgage
	264	8	1.90%	Mortgage

No advances or guarantees have been granted to members of the Statutory Board. No impairments or write-offs have occurred on loans granted to Statutory Board members.

Remuneration of the Supervisory Board	2019	2018
Total	**613**	**556**
Willy Duron	127	127
Manfred Schepers	95	95
Frans Blom (from 5 October 2018)	77	19
Jeanine Helthuis	76	76
Bernadette Langius	80	79
Godfried van Lanschot (until 31 May 2018)	–	32
Maarten Muller (from 31 May 2018)	73	43
Lex van Overmeire	85	85

No loans or advances had been granted to members of the Supervisory Board at 31 December 2019 and 31 December 2018.

The company and its subsidiaries only grant personal loans, guarantees and the like to Supervisory Board members within the scope of normal operations and in keeping with conditions laid down in the financial services regulations for directors of Van Lanschot Kempen, subject to the approval of the Supervisory Board. Loans are not forgiven.

's-Hertogenbosch, 20 February 2020

Supervisory Board
- Willy Duron, *Chairman*
- Manfred Schepers, *Vice–Chairman*
- Frans Blom
- Jeanine Helthuis
- Bernadette Langius
- Maarten Muller
- Lex Van Overmeire

Statutory Board
- Karl Guha, *Chairman*
- Constant Korthout
- Arjan Huisman
- Richard Bruens

EVENTS AFTER THE REPORTING PERIOD

Legal merger

On 1 January 2020, the legal merger between Van Lanschot NV and Kempen & Co NV into Van Lanschot Kempen Wealth Management NV became effective. As a result of this merger, Kempen & Co NV ceased to exist as a separate legal entity and Van Lanschot NV acquired all assets and liabilities of Kempen & Co NV under universal title of succession.
In addition, the Executive Board has decided to end the Kempen Management Investment Plan in 2020 (see "Disclosure of interests in other entities").

Company statement of financial position and income

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER (€1,000)

Assets		2019	2018[1]
Investments in subsidiaries	(a)	1,210,853	1,243,663
Total assets		**1,210,853**	**1,243,663**

Equity and liabilities		2019	2018[1]
Equity	(b)	1,210,853	1,243,663
Total equity and liabilities		**1,210,853**	**1,243,663**

COMPANY STATEMENT OF INCOME (€1,000)

Statement of income		2019	2018
Income from subsidiaries	(c)	92,929	74,631
Net result		**92,929**	**74,631**

The letter beside each item refers to the relevant Note to the company financial statements.

ACCOUNTING POLICIES GOVERNING COMPANY FINANCIAL STATEMENTS

The company financial statements of Van Lanschot Kempen have been prepared in accordance with the legal requirements as set out in Part 9, Book 2 of the Dutch Civil Code. We have availed ourselves of the facility offered by Section 362(8), Book 2 to use the same accounting policies (including those for the presentation of financial assets as equity or debt) as used in the consolidated financial statements. This does not apply to investments in associates, which are recognised at net asset value.

The consolidated financial statements are denominated in euros, the functional and reporting currency of Van Lanschot Kempen. Unless stated otherwise, all amounts are given in thousands of euros.

1 Prior year figure adjusted due to restatement related to provisions for pensions (see "Summary of significant accounting policies", subsection "Disclosure relating to prior period error").

NOTES TO THE COMPANY FINANCIAL STATEMENTS (€1,000)

a Investments in subsidiaries

VLKWM is measured at net asset value, with our share in the result recognised in the statement of income under Income from subsidiaries. Movements in this item were as follows:

Investments in subsidiaries	2019	2018[1]
At 1 January	1,243,663	1,306,617
Share premium payment	–61,396	–61,526
Revaluations	–64,342	–76,060
Group company results	92,929	74,631
At 31 December	**1,210,853**	**1,243,663**

Further information on the revaluations can be found in Note 25 to the consolidated financial statements, Equity.

Van Lanschot Kempen has issued undertakings pursuant to Article 403, Book 2, of the Dutch Civil Code for:
– Kempen & Co NV
– NNE BV
– Efima Hypotheken BV
– Van Lanschot Participaties BV
– BV Beheer- en Beleggingsmij Orthenstraat

b Equity

Equity	31/12/2019		31/12/2018	
Total		**1,210,853**		**1,243,663**
Issued share capital		41,362		41,362
Treasury shares		–10,007		–8,678
Share premium reserve		323,719		385,115
Revaluation reserve	1,831		–3,065	
Actuarial results on defined benefit schemes	–37,682		–29,910	
Cash flow hedge reserve	–15,221		–13,509	
Own credit risk reserve	–6,819		–11,394	
Statutory reserves	20,142		29,338	
Reserves under the Articles of Association	872		104	
Available reserves	799,728		779,669	
Other reserves		762,852		751,233
Result for the current financial year		92,929		74,631

For movements in equity, see Note 25 to the consolidated financial statements, Equity.

In the year under review, conditional rights to 60,039 depositary receipts for Class A ordinary shares were awarded, for no consideration. To cover its open positions, Van Lanschot Kempen retains 440,895 depositary receipts for Class A ordinary shares (2018: 344,647).

The statutory reserves comprise a reserve in the amount of the share in the positive income from associates (Article 389(6), Book 2, of the Dutch Civil Code) of €18.1 million and a reserve for currency translation differences on associates of €0.9 million.

c Income from subsidiaries

This item includes the net profit attributable to shareholders.

Related parties

For related parties information, see “Related parties” on page 184.

1 Some prior year figures adjusted due to restatement related to provisions for pensions (see "Summary of significant accounting policies", subsection "Disclosure relating to prior period error").

Other information

INDEPENDENT AUDITOR'S REPORT

To: the general meeting and the supervisory board of Van Lanschot Kempen N.V.

Report on the financial statements 2019

Our opinion

In our opinion:

- the consolidated financial statements of Van Lanschot Kempen 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 2019 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 Van Lanschot Kempen N.V. ('the Company') give a true and fair view of the financial position of the Company as at 31 December 2019 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 2019 of Van Lanschot Kempen N.V., Den Bosch. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the following statements for 2019: the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2019;
- the company statement of income for 2019; and
- the notes, comprising the accounting policies applied and other explanatory information.

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

The basis for our opinion

In expressing this opinion, we believe that the audit evidence we have obtained is sufficient and appropriate. Our audit has been undertaken, and our opinion expressed, in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities and those of the boards are explained in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We reviewed the details of services provided by the PwC network of firms and concluded that we are independent of Van Lanschot Kempen N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountants-organisaties' (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 requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Dutch Code of Ethics).

Our audit approach

Overview and context of the 2019 audit

Van Lanschot Kempen N.V. is a Dutch wealth management institution operating through the business segments Private Banking, online investments and savings platform Evi, Asset Management, Merchant Banking, Corporate Banking and Other. 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 executive board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the section 'Summary of significant accounting policies', subsection 'Significant accounting judgements and estimates' on page 112 of the financial statements the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Of the judgements and estimates mentioned in this section we considered the impairments of loans and advances to the public and private sectors, the risk of impairment of goodwill and the determination of fair value of financial instruments as most significant for the financial year 2019. Given the significant estimation uncertainty and significance of the impact on both the organisation and the Group results, we considered the following matters as key audit matters, as set forth in the key audit matter section of this report: 'impairments of loans and advances to the public and private sectors', 'risk of impairment of goodwill' and 'fair value measurement of level 2 and 3 financial instruments'.

The various IT change initiatives (such as the outsourcing of payment services to third parties, implementation of digital solutions together with a move to the cloud and the realisation of a more integrated IT environment across the Group) bring inherent operational and reputation risks that could also have an indirect and direct impact on the business and financial reporting processes of the Group. Since these change initiatives affect systems, (outsourcing) processes and the effectiveness of controls they could affect the financial statements and our audit. Therefore, we also included 'reliability and continuity of IT systems' as a key audit matter.

Other areas of focus in our audit of the financial statements, that were not considered to be key audit matters, were the implementation of the new accounting standard IFRS 16, valuation of share-based payments, the divestment of participation AIO II (note 13 in the financial statements) and other provisions. As part of our responsibility, we ensured that the audit teams at both group and component level included the appropriate skills and competences, which are needed for the audit of a wealth management organisation with banking operations. We therefore also included specialists and experts in the areas of IT, accounting and valuation of financial instruments, impairment of goodwill, employee benefits and pensions, real estate valuation and taxation in our team.

The outline of our audit approach was as follows:

Materiality
- Overall materiality: €4.1 million.

Audit scope
- We conducted audit work primarily in the Netherlands.
- Site visits were conducted to Belgium and Switzerland.
- Audit coverage: 98.2% of consolidated revenue, 99.2% of consolidated total assets and 95.2% of consolidated profit before tax.

Key audit matters
- Impairments of loans and advances to the public and private sectors.
- Risk of impairment of goodwill.
- Fair value measurement of level 2 and 3 financial instruments.
- Reliability and continuity of IT systems.

Materiality
The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall Group materiality	€4.1 million (2018: €4.7 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 5% of profit before tax from continuing operations, excluding the gain from the sale of one of the Group's non-strategic operations.
Rationale for benchmark applied	We used profit before tax as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that profit before tax is an important metric for the financial performance of the Company. We excluded results from divesting non-strategic investments like AIO II. However, these transactions were subject to specific audit procedures with a lower materiality than our overall group materiality.
Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €1.4 million and €4.1 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €200 thousand (2018: €235 thousand) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit
Van Lanschot Kempen 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 Van Lanschot Kempen N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by each component auditor.

The group audit primarily focused on the significant component Van Lanschot Kempen Wealth Management N.V. (formerly: Van Lanschot N.V.),as this component is considered to be individually financially significant to the Group. Additionally, we selected four other components (Van Lanschot Belgian Branch, Kempen & Co N.V., F. van Lanschot (Schweiz) AG and Van Lanschot Participaties B.V.) for full scope audit procedures and one other component (Quion 17 B.V.) for the audit of account balances with a higher risk of material misstatement, to achieve appropriate coverage on financial line items in the consolidated financial statements.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	98.2%
Total assets	99.2%
Profit before tax	95.2%

None of the remaining components represented more than 1% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

For the components Van Lanschot Belgian Branch, F. van Lanschot Bankiers (Schweiz) AG and Quion 17 B.V., we instructed component auditors that are familiar with the local laws and regulations to perform the audit work. For the other components, the group audit team performed the work.

Where component auditors performed the work, we determined the level of involvement we needed to obtain from their audit work to be able to conclude whether sufficient appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole is obtained. We issued instructions to the component audit teams in our audit scope. These instructions included amongst others our risk analysis, the expected materiality to be applied and requested scope of the work to be performed by them. We had individual calls with each of the in-scope component audit teams during the year, including upon conclusion of their work. During these calls, we discussed the instructions, the significant accounting and audit issues identified by the component auditors, the reports of the component auditors, the findings of their procedures and other matters and developments, which could be of relevance to the consolidated financial statements.

In the current year, we visited the components in Belgium and Switzerland. On an annual basis we select working papers of component auditors that we review. For this year, we reviewed a selection of working papers of the Belgian and Swiss component auditor.

The group engagement team performed the audit work on the Group consolidation, financial statement disclosures and a number of complex items at the group level. These included derivative financial instruments, hedge accounting and the impairments of loans and advances to the public and private sectors.

Van Lanschot Kempen N.V. has outsourced various parts of its services to third parties amongst which: payment services, mortgage administration services and parts of its IT software management. In our assessment related to these service providers, we evaluated the design and tested the operating effectiveness of the internal controls in place at Van Lanschot Kempen N.V. over the outsourced services. Furthermore, where available, we evaluated the ISAE 3402 type 2 assurance reports rendered by independent auditors and/or we performed additional substantive audit procedures ourselves. Based on the procedures performed, we conclude that in the context of our audit of the financial statements of Van Lanschot Kempen N.V., we could rely on the ISAE 3402 type 2 assurance reports in combination with our substantive audit procedures performed.

By performing the procedures above at components, combined with additional procedures at group level and over the outsourced processes, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Our focus on the risk of fraud and non-compliance with laws and regulations
Our objectives
The objectives of our audit are as follows.
In respect of fraud:
- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

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

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the executive board with oversight by the supervisory board. We refer to the section 'Risk Management' of the annual report where the executive board included its fraud risk assessment and the same section of the annual report where the executive board included its risk assessment on non-compliance with laws and regulations. We refer to sections 'Report of the Supervisory Board' where the supervisory board reflects thereon.

Fraud

As in all of our audits, in assessing the risks of material misstatement in the financial statements, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the executive board that may represent a risk of material misstatement due to fraud. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks, performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by Van Lanschot Kempen N.V. Finally, we incorporated elements of unpredictability in our audit.

We refer to the key audit matters 'Impairments of loans and advances to the public and private sectors', 'Risk of impairment of goodwill' and 'Fair value measurement of level 2 and 3 financial instruments' that are examples of our approach related to an area with higher risk due to accounting estimates where management makes significant judgements.

Laws and regulations

There is an industry risk that emerging compliance or litigation areas have not been identified and/or addressed by the executive board for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory processes.

In line with Standard 250 we made a distinction between those laws and regulations which:

- have a direct effect on the determination of material amounts and disclosures in the financial statements. We obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements; and
- do not have a direct effect on the determination of material amounts and disclosures in the financial statements (e.g. Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft)), but where compliance may be fundamental to the operating aspect of the business, to the Company's ability to continue its business or to avoid material penalties. As to the other laws and regulations, we inquired with management and/or those in charge with governance as to whether the entity is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities.

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 executive board and 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 describe the key audit matters and include a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context. Compared to prior year's auditor's report we have included one new key audit matter related to the risk of impairment of goodwill considering the goodwill impairment in 2019. The other key audit matters remained relevant considering these relate to the core operations of the Company.

Key audit matter	Our audit work and observations
Impairments of loans and advances to the public and private sectors *See note 7 to the financial statements for the disclosures of loans and advances to the public and private sectors including impairments, the section 'Impairments' of the summary of significant accounting principles and subsection 2.8 of the risk management section containing the disclosures in view of credit risk.* *The gross loans and advances to the public and private sectors amount to €8,661 million, the total impairment as at 31 December 2019 amounts to €64 million.* In accordance with the requirements of IFRS 9 'Financial instruments', the Company applies a three-stage expected credit loss impairment model. The Company determines loan impairments in stage 1 (allowance equal to 12-month expected credit loss), and stage 2 (amount equal to the life-time expected credit loss) on a modelled basis. For stage 3 exposures, a loan-by-loan impairment is determined on which a model overlay is applied to account for macro-economic variables and forward-looking	**Control design and operation effectiveness** We evaluated the design and tested the operating effectiveness of key controls in the following areas: – the loan origination process; – the internal credit risk management process to assess the loan quality classification to identify impaired loans; – the methodology and controls applied in measuring and determining significant increase in credit risk; – the review and approval process that management has in place for timely, accurate and complete determination of stage 3 specific impairment allowances; and – the review and approval process that management has in place for the outputs of the impairment models, and the top-level adjustments that are applied to the model outputs. Based on the testing of controls, we determined that it was appropriate to place reliance on the above controls for the purpose of our audit.

Key audit matter	Our audit work and observations

Model methodology and inputs (stage 1 and 2)
For the modelled loan impairments, the Company utilises the point in time probability of default (PD), the loss-given default (LGD) and the exposure at default (EAD) models for the majority of the loan portfolio. The critical data elements as input for these models are retrieved from the core banking source systems. Three global macro-economic scenarios are incorporated into these models and the probability of the scenarios is weighted in order to determine the expected credit losses. When specific macro-economic exposures are not sufficiently covered by the models or when data limitations or other inherent model limitations are identified, a top-level adjustment is made.

Stage 3 – specific impairment allowance
For each individually impaired loan, the Company determines an impairment allowance based on the most likely scenario taking into account timely identification of impairment triggers, expected future cash flows, discount rates and the value and recoverability of the corresponding collateral. This impairment allowance is the neutral scenario (baseline). A model overlay is applied to calculate for alternative scenarios and the impact of macro-economic variables and forward-looking information. The final ECL is a weighted average over scaled ECLs under the neutral and alternative scenarios.

Judgements and estimation uncertainty
The judgements and estimation uncertainty in the impairment allowance of loans and advances is primarily linked to the following aspects:
- the identification of impaired loans including the assessment for which loans credit risk has significantly (de)/increased since inception (stage transfers); and
- the determination of the future cash flows based on the appropriate use of key parameters (such as forward-looking information) and the valuation of the recoverable collateral for the specific loan by loan (stage 3) impairment allowance. Furthermore, the probability weighting of each impairment scenario in this category is inherently subjective in nature;
- the assumptions regarding the PDs, LGDs and EADs applied including the assumptions applied in overlay models in the model-based impairment allowances (stages 1 and 2); and
- any top side adjustments that management applies across the model-based impairment allowances (stages 1 and 2).

Given the complexity, judgements and the impact it may have on the results, this area is subject to a higher risk of material misstatement. Therefore, we consider the impairments of loans and advances to the public and private sectors as a key audit matter in our audit.

Assessment of model-based impairments stages 1 and 2
With support of our internal valuation experts, we challenged management on the model-based impairments (stages 1 and 2) by inquiry and review of the applied model methodology, the (updated) model performance monitoring dashboard, the evaluation of the macro-economic scenarios and macro-economic variables applied and the assessment of stage transfers as at 31 December 2019.

Together with our internal valuation experts we reviewed and reperformed the model performance monitoring dashboard for critical model inputs. And, with support of our IT specialists, we tested the reliability of the dataflow that is input to the models.

Based on the above, we assessed the methodology and inputs for the stage 1 and 2 models to be in line with market and industry practice.

Assessment of specific impairment allowance stage 3
Considering the inherent estimation risk of individually impaired loans, we performed risk-based sample testing for which we selected samples from:
- the total loan portfolio to gather evidence as to the correct classification of exposures as being in stage 1, 2 or 3; and
- the stage 3 population to gather evidence as to the correct estimate for the impairment allowance made by management.

We analysed the latest developments at the borrower as described below and considered whether the key judgements applied in the impairment allowance are acceptable for the balance as at 31 December 2019.

The following judgemental areas were tested for the risk-based sample:
- classification as a performing or non-performing loan based on the (non-)existence of triggering events;
- nature and accuracy of the expected future cash flows with reference to the current economic performance, the assumptions most commonly used in the industry, and a comparison with external evidence or historical trends;
- the accuracy of the applied discount rate with reference to external sources; and
- the valuation of the corresponding collateral (for example using appraisal reports and/or other information) with support of our valuation experts, with reference to industry standards and the inspection of legal agreements and supporting documentation to confirm the existence and legal right to collateral.

Based on the above, we assessed the methodology and inputs in determining the stage 3 impairment allowance to be in line with market and industry practice.

Finally, we assessed the completeness and accuracy of the disclosures relating to the provision for impairment losses, as disclosed in note 9 to the financial statements, to evaluate compliance with disclosure requirements included in EU-IFRS 9.

Risk of impairment of goodwill
See note 11 to the financial statements for the disclosures of Goodwill and other intangible assets and the section 'Impairments of Goodwill' of the summary of significant accounting principles.

The goodwill balance amounts to €95.2 million as at 31 December 2019, that is allocated to the following cash-generating units (CGUs), that match to operational segments of Van Lanschot Kempen N.V.:
- asset management €49.2 million;
- merchant banking €41.3 million;
- non-strategic investments €3.0 million;
- private banking €1.7 million.

As at 31 December 2019, an impairment has been recognised on the merchant banking goodwill amounting to €35 million.

Annual impairment testing
Goodwill is subject to an annual impairment test.

For its impairment testing, in accordance with IAS 36, management applies the value in use (ViU) approach. The ViU is determined by discounting the future cash flows generated by a CGU to its net present value. If the recoverable amount of a CGU is lower than its carrying amount, an impairment for that CGU is in place.

With the support of our valuation experts, we assessed management's goodwill impairment testing, challenged the impairment methodology and tested the source data used in the impairment models.

Initial audit procedures
We evaluated the current year actual results with the prior year forecast to consider whether any forecasts included assumptions that, with hindsight, had been too optimistic.

We furthermore evaluated the appropriateness of the CGU structure and level of goodwill testing applied by management.

We evaluated the methodology of the derivation of carrying amount, including assessment of the consistency of the carrying amount and the recoverable amount in accordance with IAS 36 and we assessed the valuation methodology.

Detailed testing procedures
We tested the mathematical accuracy of the valuation models on a sample basis and we validated management's cash flow forecasts by challenging cash flow projections applied and comparing prognoses with analyst's forecasts.

We have reviewed the cost of capital calculations by validating the methodology and testing input factors (like discount rates and risk premiums) against comparable market data.

Key audit matter

This year, the ViU for the CGU merchant banking was lower than the carrying value, which resulted in the recognition of the impairment amounting to €35 million. The main drivers for the impairment in this year are the applicable discount rate and flattening growth expectations for this CGU.

Judgements and estimation uncertainty
Given the significant estimation uncertainty in the use of valuation models, the assumptions made by management and the impact it has on the results, the impairment of goodwill is subject to a higher risk of material misstatement.

Therefore, we consider the risk of impairment of goodwill as a key audit matter in our audit.

During the year, an impairment amounting to €35 million was booked in relation to the goodwill for the CGU merchant bank. This impairment was mainly driven by the discount rate applicable and flattening growth expectations for this CGU.

Our audit work and observations

Specifically, for the CGU merchant banking, taking the impairment into account, we additionally performed:

– peer group analysis to assess whether the market capitalisation falls within an acceptable range; and
– sense checks of the sensitivity of management's estimate by performing several downward scenarios.

Based on the above, we assessed the valuation methodology and assumptions applied in the goodwill impairment testing to be within our range of expectations.

Finally, we assessed the completeness and accuracy of the disclosures relating to the goodwill, as disclosed in note 11 to the financial statements.

Fair value measurement of level 2 and 3 financial instruments

See subsection 14 'Fair vale' of the Risk management section in the financial statements that contains the fair valuation policies, its disclosures and the split of financial instruments into level 1, 2 and 3.

The total asset value of financial instruments measured at fair value level 2 and 3 as at 31 December 2019 amounts to €398.4 million (2018: €356.4 million) and the total liability value amounts to €1,328 million (2018: €1,369.8 million).

The fair value measurement of financial instruments consists of:

– financial assets and liabilities from trading activities;
– derivatives;
– financial assets and liabilities at fair value through profit or loss; and
– financial assets at fair value through other comprehensive income.

Level 2 and 3 financial instruments
For level 2 and 3 financial instruments, directly observable market prices or other market information are not available causing the fair value to be subject to (significant) judgement.

The fair value of such financial instruments is determined using either proxy valuations (level 2) or valuation techniques (such as discounted cash flow models and option valuation models) (level 3) in which judgements made by management and the use of assumptions and estimates such as: market prices, credit spreads, yield curves, correlations and volatilities are important factors.

Due to the magnitude of the level 2 and 3 financial instruments measured at fair value, the complexity of the valuation techniques used in measurement of such financial instruments, and the judgements applied by management, this area is subject to a higher risk of material misstatement. Therefore, we determined this to be a key audit matter for our audit.

Control design and operating effectiveness
We evaluated the design and tested the operating effectiveness of the internal controls with respect to the governance over the applied valuation models, the financial instrument deal capturing process, the source data management and the valuation of financial instruments.

We determined that we could rely on these controls for the purpose of our audit.

Assessment of the fair value valuation of financial instruments
For each type of level 2 and 3 financial instruments, we tested, with the support of our valuation specialists, the outcome of management's valuation process as follows:

– comparing on a sample basis the observable input data with independent data sources and externally available market data (where available), which included assumptions and estimates such as market prices, credit spreads, yield curves, correlations and volatilities;
– evaluating the inputs and models used in determining the unobservable inputs via independent sources where available;
– independently re-performing, on a sample basis, the valuation using our own valuation tools and with external data sources where available; and
– assessing the appropriateness of the classification as either level 1, level 2 or 3.

Based on the above addressed procedures, we found that management's outcome of the models and classification of the fair value of the level 2 and 3 financial instruments are reasonable.

We assessed the completeness and accuracy of the disclosures relating to the financial instruments measured at fair value and verified compliance with disclosure requirements from EU IFRS 7.

Reliability and continuity of IT systems

The Group relies on the reliability and continuity of information technology (IT) systems for its operational, regulatory and financial reporting processes.

The Group's accounting and reporting processes are heavily dependent on IT general controls (ITGCs) that establish and preserve the ongoing integrity of the system access rights and restrictions intended in the design of internal control.

The Group is executing a significant number of IT projects to continue to meet the high reporting standards and expectations from stakeholders relating to operating effectiveness, efficiency, cybersecurity and data quality. This way, the Group is accommodating the ongoing regulatory changes imposed to the banking industry. These projects result in changes to several of the Group's control activities related to financial reporting. This could increase the risk of material misstatement in financial reporting.

We consider the migration to a new payments platform, following the outsourcing of payment services, the most significant IT project that was completed during the year.

Deficiencies in ITGCs as such could have a pervasive impact across the Group's internal control framework. Also, the outsourcing to third-party service providers is considered an additional focus area to our audit as this brings extra complexity to the IT environment. Through the period of change, there is an increased risk that ITGCs are not operating as intended. Therefore, we identified the reliability and continuity of information technology of the Group as a key audit matter.

As part of our audit, our efforts were focused on:

- entity-level controls over information technology in the IT organisation, including IT governance, IT risk management and cybersecurity management;
- governance over the strategic IT transformational projects including vendor risk and third-party assurance;
- for the procedures performed on the outsourced activities relevant to our audit scope, we refer to the section 'The scope of our group audit' above;
- management of access to programmes and data, including user access to the network, access to and authorisations within applications, privileged access rights to applications, databases and operating systems;
- management of changes to applications and IT infrastructure, including the change management process and the implementation of changes in the production systems; and
- computer operations, including batch monitoring, back-up and recovery and incident management.

The outsourcing of the payment services including the migration to the new platform was part of our audit procedures. We performed both controls testing and test of details to evaluate the proper migration of data relevant to the audit of the financial statements.

We focused on the ITGCs to the extent relevant for the purpose of our audit of the financial statements.

Our audit procedures indicate that we could place reliance on these controls for the purpose of our audit.

Report on the other information included in the annual report

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

- Chairman's message,
- 2019 highlights,
- About Van Lanschot Kempen,
- Our strategy,
- Our business themes,
- Progress report,
- Report of the Supervisory Board,
- Corporate governance,
- Our Executive and Supervisory Boards,
- Reconciliation of IFRS and management reporting,
- Other information, including the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The executive board is responsible for the preparation of the other information, including the report of the executive board (consisting of Our strategy, Our business themes and Progress 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 on 13 May 2015 as auditor of Van Lanschot Kempen N.V. by the general meeting following a recommendation by the supervisory board. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of four years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 36 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the executive board and the supervisory board for the financial statements

The executive board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the executive 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 executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going-concern basis of accounting unless the executive board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 20 February 2020

PricewaterhouseCoopers Accountants N.V.

Original has been signed by
R.E.H.M. van Adrichem RA

APPENDIX TO OUR AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS 2019 OF VAN LANSCHOT KEMPEN 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 executive board.
– Concluding on the appropriateness of the executive 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 communicated 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 issued an additional report to the audit and compliance 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 safeguards.

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.

ASSURANCE REPORT OF THE INDEPENDENT AUDITOR

To: the general meeting and the supervisory board of Van Lanschot Kempen N.V.

Assurance report on the sustainability information 2019

Our conclusion

Based on our procedures performed nothing has come to our attention that causes us to believe that the sustainability information included in the annual report 2019 Van Lanschot Kempen N.V. does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year ended 31 December 2019,

in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria as included in the section 'reporting criteria'.

What we have reviewed

We have reviewed the sustainability information for the year ended 31 December 2019, as included in the annual report 2019, pages 4 until 57, and the 'our value creation story 2019' supplement (hereafter together referred to as: the sustainability information). This review is aimed at obtaining a limited level of assurance.

The sustainability information comprises a representation of the policy and business operations of Van Lanschot Kempen N.V., Den Bosch (hereafter: 'Van Lanschot Kempen') with regard to corporate social responsibility and the thereto related business operations, events and achievements for the year ended 31 December 2019.

The basis for our conclusion

We have performed our review in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assuranceopdrachten inzake maatschappelijke verslagen' ('Assurance engagements on corporate social responsibility reports'). Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the sustainability information' of this assurance report.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Independence and quality control

We are independent of Van Lanschot Kempen in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other for the engagement relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS – Regulations for quality systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

Reporting criteria

The sustainability information needs to be read and understood in conjunction with the reporting criteria. The executive board of Van Lanschot Kempen is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria, as disclosed in the section 'Reporting principles' of the 'our value creation story 2019' supplement. The absence of an established practice on which to draw, to evaluate and measure non financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Limitations to the scope of our review

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments. Inherently, the actual results are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and the achievability of prospective information in the sustainability information.

The links to external sources or websites in the sustainability information are not part of the sustainability information reviewed by us. We do not provide assurance over information outside of the section mentioned in paragraph 'What we have reviewed'.

Responsibilities for the sustainability information and the review

Responsibilities of the executive board and the supervisory board

The executive board of Van Lanschot Kempen is responsible for the preparation of reliable and adequate sustainability information in accordance with the reporting criteria as included in section 'reporting criteria', including the identification of stakeholders and the definition of material matters. The choices made by the executive board regarding the scope of the sustainability information and the reporting policy are summarized in the section 'Reporting principles' of the 'our value creation story' supplement. The executive board is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The executive board is also responsible for such internal control as the executive board determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or errors.

The supervisory board is responsible for overseeing the company's reporting process on the sustainability information.

Our responsibilities for the review of the sustainability information

Our responsibility is to plan and perform the review engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence to provide a basis for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included amongst others:

- Performing an analysis of the external environment and obtaining insight into relevant social themes and issues and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the executive board.
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review.
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatement, whether due to fraud or errors. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and business level responsible for the sustainability strategy, policy and results;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information;
  - Obtaining assurance evidence that the sustainability information reconciles with underlying records of the company;
  - Reviewing, on a limited test basis, relevant internal and external documentation;
  - Performing an analytical review of the data and trends;
  - Reconciling the relevant financial information with the financial statements.
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our review.
- Evaluating the presentation, structure and content of the sustainability information.
- To consider whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

Amsterdam, 20 February 2020
PricewaterhouseCoopers Accountants N.V.

Original has been signed by
R.E.H.M. van Adrichem RA

ARTICLES OF ASSOCIATION ON PROFIT APPROPRIATION

Profit is appropriated in accordance with Article 32 of the Articles of Association. This article states that the dividend on Class C preference shares[1] must first be paid from distributable profits (Article 32(1)). The Statutory Board, with the approval of the Supervisory Board, will then determine what portion of remaining profits after dividend distribution on Class C preference shares will go to reserves (Article 32(3)).

The portion of the profit remaining after the distribution on Class C preference shares and transfer to the reserves will be at the disposal of the annual general meeting of shareholders, providing that no further distributions shall be made on Class C preference shares.

If losses have been suffered in any financial year which could not be covered by a reserve or in any other way, no profit distributions will be made until such losses have been recovered (Article 32(5)).

The Statutory Board may decide that a dividend distribution on Class A ordinary shares will be made in full or in part in the form of shares or depositary receipts rather than in cash. This decision is subject to the approval of the Supervisory Board (Article 32(8)).

1 There are no Class C preference shares in issue.

STICHTING ADMINISTRATIEKANTOOR VAN GEWONE AANDELEN A VAN LANSCHOT KEMPEN

Board report

The board (“the Board”) of Stichting Administratie-kantoor van gewone aandelen A Van Lanschot Kempen (“the Stichting”) reports on its activities in 2019.

Purpose, policies and activities

The Stichting issues depositary receipts for shares that are exchangeable for their underlying Class A ordinary shares in Van Lanschot Kempen NV (“Van Lanschot Kempen”). The Stichting’s policy is solely aimed at pursuing what is described in its objects clause as included in Article 2 of its Articles of Association ("statutaire doelomschrijving"). Its activities exclusively concern holding and managing shares in Van Lanschot Kempen; the Stichting does not engage in any commercial activities.

In line with the Dutch Corporate Governance Code, at every Van Lanschot Kempen general meeting the Stichting grants a proxy to depositary receipt holders that either attend the meeting in person or are represented by a third party. In other words, depositary receipt holders can always vote at their own discretion for the number of shares for which they hold depositary receipts.

In 2019, the Stichting’s activities consisted of:

- Convening board meetings (at which the matters mentioned below were discussed);
- Granting proxies for Van Lanschot Kempen’s general meetings;
- Attending Van Lanschot Kempen’s general meetings;
- Exercising the voting rights on Van Lanschot Kempen shares held by the Stichting at Van Lanschot Kempen’s general meetings, to the extent that no proxies had been granted to depositary receipt holders.

The Stichting holds a meeting of depositary receipt holders once every two years, which is due again in 2020. The Stichting will continue to pursue its policies and activities in 2020 in accordance with its objects clause and in keeping with past practice.

The Stichting’s income consists of an “independence donation” paid by Van Lanschot NV. The costs incurred by the Stichting typically only consist of the remuneration due to its Board members and administrative charges (such as account fees). As the Stichting does not have any discretionary funds, it has no policies in place related to such spending. The Board expects the Stichting’s budget for 2020 to be similar to the budget (as well as the profit and loss account) for 2019.

Board meetings

In 2019, the Board held two board meetings, on 23 April 2019 and 2 October 2019. Topics covered in these meetings included:

- Van Lanschot Kempen’s 2018 financial statements;
- The agenda of the general meeting of Van Lanschot Kempen held on 22 May 2019 (“the AGM”) and the Stichting’s voting intentions;
- The updating of and amendments to the Stichting’s trust conditions;
- Van Lanschot Kempen’s 2019 half-year results;
- The agenda of the extraordinary general meeting of Van Lanschot Kempen held on 9 October 2019 (“the EGM”) and the Stichting’s voting intentions.

Van Lanschot Kempen’s general meetings

The Board attended both the AGM and the EGM. For each of these general meetings, the Stichting granted proxy votes to holders of depositary receipts for shares that attended the meeting in person or were represented by third parties. This enabled these depositary receipt holders to vote at their own discretion for the number of Class A ordinary shares corresponding to the depositary receipts of Class A ordinary shares held by them at record date. The Stichting voted, at its own discretion, on the Class A ordinary shares for which no proxy votes had been requested. Such shares represented 28.78% and 30.43% respectively of the total number of votes that could be cast at the AGM and the EGM. After careful consideration, the Board decided to vote in favour of all items put to the ballot.

Changes to trust conditions

The changes to the Stichting’s trust conditions that were discussed by the Board in 2017 and 2018 were implemented in 2019.

The most important change to the trust conditions concerns the name of the Stichting: as of 16 January 2018, Stichting Administratiekantoor van gewone aandelen A Van Lanschot became Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen. Elsewhere, too, references to Van Lanschot have been replaced with Van Lanschot Kempen. In addition, certain other amendments have been made in connection with changes to the Euronext Rule Book. Neither the objects clause nor the operation of the Stichting have been changed, as the amendments to the trust conditions were not of a substantive nature. Consequently, the amendments did not result in changes to the rights of depositary receipt holders.

Composition of the Board

In 2019, there were no changes to the composition of the Board. Based on the rotation schedule, the current terms of Mr J.M.T. Thijssen and Ms C.M.P. Mennen-Vermeule will end in 2020. Both have indicated that they are available for reappointment, and the Board intends to reappoint Mr Thijssen for an additional period of two years and Ms Mennen-Vermeule for an additional period of four years. Pursuant to Article 5 of the Stichting's Articles of Association, the Board will grant the depositary receipt holders the opportunity, in advance, to make recommendations in relation to the vacancies in the Board.

The Board's current members are:

J. Meijer Timmerman Thijssen, Chairman
C.M.P. Mennen-Vermeule, Secretary
W.F. Hendriksen

Mr Meijer Timmerman Thijssen is a consultant with Freshfields Bruckhaus Deringer.

Ms Mennen-Vermeule is Chief Executive Officer at Brand Loyalty Group.

Mr Hendriksen is a partner at Van Doorne.

The annual remuneration of the Chairman of the Board amounts to €10,000 (excluding VAT) and that of each other Board member to €7,500 (excluding VAT).

Expenses

Other expenses incurred by the Stichting amounted to €10,129 in 2019.

Outstanding depositary receipts

On 31 December 2019, the Stichting held 41,360,667 Class A ordinary shares with a nominal value of €1 each, for which depositary receipts with the same nominal value have been issued.

Other

The Stichting is a legal entity independent of Van Lanschot Kempen, as referred to in Section 5:71 (1) sub-paragraph (d) of the Financial Supervision Act (Wft).

Stichting contact details

The Stichting's Board can be contacted at:
Secretariat of Stichting administratiekantoor
gewone aandelen A Van Lanschot Kempen
PO Box 1021
5200 HC 's-Hertogenbosch
The Netherlands

The Board

's-Hertogenbosch, the Netherlands, 8 January 2020

STICHTING PREFERENTE AANDELEN C VAN LANSCHOT KEMPEN

Board report

The board (“the Board”) of Stichting Preferente aandelen C Van Lanschot Kempen (“the Stichting”) reports on its activities in 2019.

Purpose, policies and activities

The Stichting was set up on 28 December 1999 and has its seat in ’s-Hertogenbosch, the Netherlands.

The purpose of the Stichting is to safeguard the interests of Van Lanschot Kempen NV (Van Lanschot Kempen) and its stakeholders, and to avert outside influences that could threaten its continuity, autonomy or identity to the detriment of such interests. The Stichting pursues its purpose by acquiring Class C preference shares in the capital of Van Lanschot Kempen, and by exercising the rights attached to these shares.

The Stichting and Van Lanschot Kempen have signed a call option agreement granting the Stichting the right to acquire Class C preference shares up to 100% of the value of Van Lanschot Kempen’s share capital in issue before the exercise of the call option, less one share. When acquiring Class C preference shares, the Stichting is required to pay a minimum of 25% of the nominal amount. To ensure it will be able to pay when the time comes, the Stichting has a funding agreement with ING Bank in place.

Van Lanschot Kempen aims to keep any period with outstanding Class C preference shares as brief as possible, and has committed itself to a maximum of one year as the term within which Van Lanschot Kempen will propose to the general meeting to redeem any Class C preference shares.

The Stichting’s policy is exclusively aimed at pursuing the purpose as described above. The Stichting does not in any way engage in commercial activities, or any other type of activities as long as there are no circumstances that, pursuant to its objects clause, would give the Stichting cause to act and exercise its powers.

In 2019, the Stichting’s activities consisted of convening a Board meeting as well as holding ad hoc consultations as and when required.

The Stichting’s income consists of an “independence donation” paid by Van Lanschot NV. The costs incurred by the Stichting typically only consist of a commitment fee due to ING Bank in relation to the funding agreement, the remuneration due to its Board members and administrative charges (such as accountancy fees). As the Stichting does not have any discretionary funds, it has no policies in place in relation to such spending. The Board expects the Stichting’s budget for 2020 to be similar to the budget (as well as the profit and loss account) for 2019.

Board meetings

In 2019, the Board convened for one meeting, on 25 June 2019. Topics discussed at that meeting included:

- Van Lanschot Kempen’s figures for 2018;
- The minutes of the Board meeting of 13 June 2018.

Composition of the Board

The Board appoints its own members.

The present members of the Board are:
A.A.M. Deterink, Chairman
P.J.J.M. Swinkels
H.P.M. Kivits

Mr Deterink is a former partner of Deterink Advocaten en Notarissen.

Mr Swinkels is the former Chairman of the Board of Directors of Bavaria.

Mr Kivits is the former Chairman of Stage Entertainment.

The annual remuneration of the Chairman of the Board amounts to €10,000 (excluding VAT), and that of each other Board member to €7,500 (excluding VAT).

Expenses

Other expenses incurred by the Stichting amounted to €121,140 in 2019.

Other

The Stichting is a legal entity independent of Van Lanschot Kempen, as referred to in Section 5:71 (1) sub-paragraph (d) of the Financial Supervision Act (Wft).

The Board

's-Hertogenbosch, the Netherlands, 3 January 2020

GLOSSARY

Advanced internal ratings-based approach (A-IRB)
The most sophisticated credit risk measurement technique. Under A-IRB, a bank is allowed to develop its own models, based on direct or indirect observations, to estimate parameters for calculating risk-weighted assets. Credit risk under A-IRB is determined by using internal input for probability of default (PD), loss given default (LGD), exposure at default (EAD) and maturity (M).

Amortised cost
The amount for which financial assets or liabilities are initially recognised less redemptions, plus or minus accumulated depreciation/amortisation using the effective interest rate method for the difference between the original amount and the amount at maturity date, less impairments or amounts not received.

Assets under administration (AuA)
Assets which are entrusted by clients to Van Lanschot Kempen purely for custody or for which solely administrative services are performed. Clients take their own investment decisions, over which Van Lanschot Kempen has no influence.

Assets under discretionary management
Client assets entrusted to Van Lanschot Kempen under a discretionary management agreement, irrespective of whether these assets are held in investment funds, deposits, structured products (Van Lanschot Kempen index guarantee contracts) or cash.

Assets under management (AuM)
Assets deposited with Van Lanschot Kempen by clients, breaking down into assets under discretionary management and assets under non-discretionary management.

Assets under monitoring and guidance
Client assets that are only subject to monitoring, plus minor advisory and related services. Clients make their own investment decisions and Van Lanschot Kempen has little or no influence on the management of these assets.

Assets under non-discretionary management
Client assets held for clients by Van Lanschot Kempen, irrespective of whether these assets are held in investment funds, deposits, structured products (index guarantee contracts) or cash, with either a Van Lanschot Kempen investment adviser advising the client on investment policy or clients making their own investment decisions without Van Lanschot Kempen's input.

Basel III
The new framework drawn up by the Basel Committee on Banking Supervision, which introduces a stricter definition of capital and several new ratios and buffers with which banks must comply. The gradual transition from Basel II to Basel III is taking place over a period of five years and started in 2014.

Basel IV
The reform of Basel III, commonly referred to as "Basel IV", involves the final calibration and design of capital output floors, based on revised standardised approaches. It also includes reforms of the IRB approach and the standardised approach for credit and operational risk.

Capital conservation buffer
Capital Requirements Directive IV (CRD IV), Van Lanschot Kempen is required to maintain Common Equity Tier 1 capital equivalent to 2.5 times total risk exposure as a capital conservation buffer.
If an institution fails to maintain this capital conservation buffer, it will be restricted in making discretionary distributions.

Cash flow hedges (hedge accounting)
Instruments to hedge the exposure to fluctuations in cash flows of assets, liabilities or future transactions, arising as a result of interest rate changes and/or inflation.

Client option positions
Clients are unable to buy or sell share options directly on the stock exchange. Van Lanschot Kempen purchases or sells on behalf of these clients and covers this with offsetting transactions on the stock exchange. Such receivables and payables are recognised under Derivatives.

Combined buffer requirements
From 2016, subject to transitional provisions, institutions are required to maintain capital buffers in addition to the own funds requirements contained in the Capital Requirements Regulation (CRR). For Van Lanschot Kempen, the combined buffer requirement consists of the capital conservation buffer extended by the institution-specific countercyclical capital buffer. The G-SII buffer, O-SII buffer and systemic risk buffer are not applicable to Van Lanschot Kempen.

Common Equity Tier 1 (CET 1) capital
Also referred to as core capital. CET 1 capital encompasses a bank's share capital, share premium and other reserves, adjusted for deductions as specified by regulators, such as goodwill, deferred tax assets and IRB shortfall.

Common Equity Tier 1 (CET 1) ratio
CET 1 capital as a percentage of total risk-weighted assets.

Contingent liabilities
All commitments arising from transactions for which the bank has given a guarantee to third parties.

Countercyclical capital buffer
Common Equity Tier 1 capital equivalent to the total risk exposure amount (calculated in accordance with the CRR) multiplied by the weighted average of the countercyclical buffer rates. The countercyclical buffer rates are set by the designated authority in each member state on a quarterly basis. The buffer is determined by calculating the weighted average of the countercyclical buffer rates that apply in the jurisdictions of the relevant credit exposures.

Credit-linked swaps
Swaps where variable interest payments linked to Euribor, possibly with a lower or upper limit, are exchanged for credit guarantees in respect of a third party. The counterparty is obliged to pay out if the third party is no longer able to meet its payment obligations. The contract will identify specific payment-triggering events.

Credit risk
The risk that loans are not repaid, not fully repaid or not repaid on time.

Credit support annex (CSA)
Forming part of an international swaps and derivatives agreement (ISDA), a CSA regulates credit support (collateral) for obligations resulting from derivatives.

Credit valuation adjustment (CVA)
An adjustment made on the valuation of derivatives transactions with a counterparty, reflecting the current market value of counterparty credit risk.

Currency options
Currency options grant their buyer the right, but not the obligation, to buy or sell a quantity of a certain currency at a pre-determined exchange rate during or at the end of a pre-determined period. The currency option constitutes an obligation for the seller. Van Lanschot Kempen's currency options mainly relate to client transactions covered by offsetting transactions in the markets.

De Nederlandsche Bank (DNB)
The Dutch central bank. dnb.nl/en

Defined benefit scheme
A pension scheme other than a defined contribution scheme (see below). In a defined benefit scheme, the company has the constructive obligation to make up any deficit in the scheme. This does not have to be based on any legal requirements, but may be simply on the basis of an historical intention on the part of the company to make up any deficits.

Defined contribution scheme
A scheme in which the company makes agreed contributions to a separate entity (a pension fund) to secure pension rights. The company is not obliged, either legally or effectively, to pay additional contributions if the pension fund does not have enough assets to cover all of its current and future obligations.

Derivatives
Financial assets whose value derives from the value of other financial assets, indices or other variables. Van Lanschot Kempen holds both derivatives whose size (face value), conditions and prices are determined between Van Lanschot Kempen and its counterparties (OTC derivatives), and standardised derivatives traded on established markets.

Discounted cash flow (DCF)
A method to value an investment by estimating future cash flows, taking account of the time value of money.

Duration of equity
A measure of the interest rate sensitivity of equity that reflects the impact on equity of a 1% parallel shift in the interest curve.

Dutch Authority for the Financial Markets (AFM)
The Dutch regulator for financial institutions in the Netherlands. afm.nl/en

Economic hedges
Derivatives used to manage risks without applying hedge accounting, carried at fair value. At Van Lanschot Kempen, these primarily take the shape of interest rate derivatives.

Effective interest rate
The rate that discounts estimated cash flows to the net carrying amount of the financial asset over the life of an instrument, or, where appropriate, over a shorter period.

Efficiency ratio
Operating expenses excluding impairments and result from the sale of public and private sector loans and advances, as a percentage of income from operating activities.

Engagement
A sustainability strategy that seeks to persuade companies, fund managers, borrowers and other stakeholders through active dialogue that their sustainability policies should be made compatible with international treaties and conventions.

Expected loss (EL)
Expected loss on loans, expressed in the formula EL=PD*EAD*LGD.

Exposure at default (EAD) Basel
Exposure at the time of a client's default, also referred to as net exposure.

Exposure at default (EAD) IFRS 9
The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Fair value hedges (hedge accounting)
A fair value hedge comprises one or more swaps concluded to cover the changes in fair value resulting from changes in interest rates, of debt securities, for example. Hedge relations are typically exact hedges, involving debt securities with fixed rates and terms being offset by swaps with exactly the same terms and fixed interest rates.

Fiduciary management
Holding assets as a trustee or in another fiduciary role for individuals, trusts, pension providers and other institutions. These assets are not included in the consolidated financial statements because they are not Van Lanschot Kempen's assets.

Fitch
Credit rating agency. fitchratings.com

Forbearance
Making a concession regarding the terms and conditions of a loan agreement due to actual or anticipated financial difficulties which prevent a client from meeting its obligations vis-à-vis Van Lanschot Kempen. The concession enables the client to meet the revised obligations.
This may also include the whole or partial refinancing of the existing loan.

Forum Ethibel
A Belgian consultancy in the field of corporate social responsibility (CSR) and socially responsible investment (SRI). forumethibel.org

Forwards
Contractual obligations to purchase or sell goods or financial assets at a future date at a pre-determined price. Forward contracts are customised contracts traded on the OTC markets.

Foundation internal ratings-based approach (F-IRB)
An advanced credit risk measurement technique. Under F-IRB, a bank is allowed to develop its own models, based on direct or indirect observations, to estimate parameters for calculating risk-weighted assets. Credit risk under F-IRB is determined by using internal input for probability of default (PD). In contrast to A-IRB, the loss given default (LGD) is included, based on prescribed values.

Funding ratio
The ratio between public and private sector liabilities and total loans and advances (excluding bank borrowing and lending).

Futures
Contractual obligations to purchase or sell goods or financial assets at a future date at a pre-agreed price. Futures are standardised contracts traded on organised markets, with stock exchanges acting as intermediaries and requiring daily settlement in cash and/or deposits of collateral. Van Lanschot Kempen has a number of futures on share indices on its books, partly for own use and partly for clients, for offsetting transactions in the markets.

General meeting
The body formed by voting shareholders and others with voting rights.

Global Reporting Initiative (GRI)
An independent organisation which develops guidelines for sustainability reports. Van Lanschot Kempen's integrated annual report is based on GRI. globalreporting.org

Gross exposure
The value at which receivables are recognised in the consolidated statement of financial position, with the exception of derivatives. Gross exposure is calculated on the basis of an add-on percentage of the nominal value (fixed percentages in accordance with the Financial Supervision Act) and the positive replacement value.

Hedge
Protection of a financial position – against interest rate risks in particular – by means of a financial instrument (typically a derivative).

IFRIC (International Financial Reporting Interpretations Committee)
The interpretative body of the International Accounting Standards Board (IASB). IFRIC interprets the application of International Financial Reporting Standards (IFRS) to ensure consistent accounting practices throughout the world and provide guidance on reporting issues not specifically addressed in IFRS.

Impairment
Amount charged to the result for possible losses on non-performing or irrecoverable loans and advances. Alternatively, an impairment test may suggest lower asset values, if fair values have dipped below carrying amounts and/or the fair value of investments and associates have moved below cost.

Interest rate option
An agreement between a buyer and a seller, under which the seller guarantees the buyer a maximum interest rate (cap) or minimum interest rate (floor) for a fixed term.

Interest rate risk
The risk that profit and equity are impacted by changes in interest rates, in particular in the event of an intentional or unintentional mismatch in the terms of funds lent and borrowed.

Interest rate swaps
A contract in which two parties exchange interest payments for a pre-agreed period and a notional principal amount, while not swapping the face value. An interest rate swap typically involves exchanging fixed-rate cash flows for floating-rate cash flows in the same currency, with the floating rate based on a benchmark interest rate (usually Euribor).

Internal capital adequacy assessment process (ICAAP)
Strategies and procedures designed for the bank's continuous assessment as to whether the amount, composition and distribution of its equity still reconcile with the size and nature of its current and potential future risks.

Internal ratings-based approach (IRB)
An advanced approach used to calculate credit risk. Van Lanschot Kempen applies both the foundation internal ratings-based (F-IRB) and advanced internal ratings-based (A-IRB) approaches. In this report, IRB refers to both internal ratings-based models.

International Financial Reporting Standards (IFRS)
Accounting and reporting standards drawn up by the International Accounting Standards Board. These standards have been adopted by the European Union and have been applied by us from the 2005 financial year.

Irrevocable commitments
All obligations resulting from irrevocable commitments that could result in loans being granted.

KCM
Kempen Capital Management NV

Kempen
Kempen & Co NV

Level 1: Quoted prices in active markets
The fair value of financial instruments traded in an active market is based on the price at the reporting date (market price). The bid price is applied for financial assets and the offer price for financial liabilities. Since these instruments are traded in an active market, their prices adequately reflect current and frequent market transactions between unrelated parties.

Level 2: Inputs observable in the markets
The fair value of financial instruments not traded in active markets (e.g. over-the-counter financial derivatives) is established using cash flow and option valuation models. On the basis of its estimates, Van Lanschot Kempen selects a number of methods and makes assumptions based on the market conditions (observable data) at the reporting date.

Level 3: Significance of unobservable market data
The financial assets in this category have been assessed on an individual basis. Their valuation is based on management's best estimate by reference to the most recent prices, prices of similar instruments and, to a not insignificant extent, information not observable in the market.

Leverage ratio (LR)
The leverage ratio represents the relationship between total assets plus contingent items and the Basel III Tier 1 capital. It is calculated in accordance with the Delegated Act.

Liquidity coverage ratio (LCR)
The LCR represents the ratio between high-quality liquid assets and the balance of cash outflows and cash inflows in the next 30 days.

Liquidity risk
The risk that the bank has insufficient liquid assets available to meet current liabilities in the short term.

Loss given default (LGD) Basel
An estimate of the loss for Van Lanschot Kempen after liquidation of the received collateral.

Loss given default (LGD) IFRS 9
The loss given default is an estimate of the loss arising in the event of a default occurring at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is typically expressed as a percentage of EAD.

Market risk
The risk that the value of a financial position changes due to movements in stock exchange prices, foreign exchange and/or interest rates.

Morningstar
Morningstar rates mutual funds and ETFs from 1 to 5 stars based on how well they have performed in comparison to similar funds and ETFs.

Net stable funding ratio (NSFR)
The relationship between available stable funding and the required amount of stable funding.

Non-performing loans (NPL)
Loans are classed as non-performing if they meet one or more of the following criteria: 1) significant limit overrun for a period of more than 90 days; 2) a probability of default of 1; 3) a provision has been taken; 4) forborne exposures for which the two-year probation period has not started.

Operational risk
The risk of direct or indirect losses as a result of inadequate or defective internal processes and systems, inadequate or defective human acts, or external events.

Net Promoter Score (NPS)
The NPS provides information on client loyalty and the number of promoters of the organisation. The score lies within a range of –100 to 100 points, the higher the better. The formula is as follows: NPS = % promoters - % detractors. Promoters give the organisation a score of 9 or 10, whereas detractors award a score of between 0 and 6.

Non-controlling interests
Non-controlling interests in entities that are fully consolidated by Van Lanschot Kempen.

OECD Guidelines
The OECD Guidelines describe what the Dutch government expects from multinational enterprises when it comes to corporate social responsibility. The Guidelines provide companies with guidance in the field of e.g. supply chain management, human rights, child labour, environment and corruption.

Principles for Responsible Investments (PRI)
The Principles for Responsible Investment (PRI) provide a framework for incorporating environmental, social and governance criteria in investment policies.

Probability of default (PD) Basel
The likelihood that a client will default within one year.

Probability of default (PD) IFRS 9
The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time during the assessed period if the facility has not been previously derecognised and is still in the portfolio.

Proxy voting
Kempen regards it as its fiduciary responsibility to vote at shareholder meetings for its own (Kempen) funds and – at the request of clients – for discretionary mandates. Its proxy voting policy describes how it fulfils this responsibility.
kempen.nl/proxyvoting

Residential mortgage-backed securities (RMBS)
Securities backed by residential mortgages. A provider of residential mortgages (typically a bank) will sell these on to a separate entity, a special purpose vehicle (SPV). To finance the mortgages, the SPV will then issue securities called RMBS, which are secured by the mortgages.

Risk-weighted assets (RWA)
The assets of a financial institution after being adjusted by a weighting factor, set by its regulators, that reflects the relative risk attached to the relevant assets. Risk-weighted assets are used to calculate the minimum amount of capital the institution needs to hold. CRR/CRD IV uses the term "total risk exposure amount" instead of RWA, but for now we follow common usage.

Settlement risk
The risk for financial transactions that are not settled within five days of the agreed deadline if the difference between the agreed settlement price and the price at the reporting date could lead to a loss.

Shortfall
The difference between the calculated expected loss (EL) and the provision made for a loan for which the capital adequacy requirement is calculated using the IRB method. If the calculated EL exceeds the provision made, the difference must be deducted from Common Equity Tier 1 capital.

Solvency
The bank's buffer capital expressed as a percentage of risk-weighted assets.

Standard & Poor's
Credit rating agency. spratings.com

Standardised approach (SA)
A method used under Basel to measure operational, market and credit risks, based on a standardised approach, in which risk weightings are prescribed by the regulators.

Strategic risk
Current or future threats to the bank's results or equity resulting from not or inadequately responding to changes in the environment and/or from taking incorrect strategic decisions. This is a part of the business risk.

Structured products
Synthetic investment instruments specially created to meet specific needs that cannot be met by the standardised financial assets available in the markets.

Sustainable Development Goals (SDGs)
In 2015, the United Nations set out the Sustainable Development Goals (SDGs) for 2030: a set of 17 highly ambitious goals relating to climate, poverty, healthcare, education and other challenges.

Tier 1 capital ratio
The ratio between total Tier 1 capital and risk-weighted assets.

Total capital ratio
The percentage of a bank's capital adequacy, calculated by dividing qualifying capital by the risk-weighted assets as defined by the Bank for International Settlements (BIS).

Total Tier 1 capital
Total Tier 1 capital of the bank includes share capital, share premium and other reserves, adjusted for certain deductions set by the regulator, such as goodwill and shortfall.

Total Tier 2 capital
Capital instruments and subordinated loans may be designated Tier 2 capital under certain conditions.

UN Global Compact
A non-binding United Nations pact to encourage and support global businesses to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for companies, setting out ten principles in the areas of human rights, labour, the environment and anti-corruption.

Value at risk (VaR)
Statistical analysis of historical market trends and volatilities, used to estimate the likelihood that a portfolio's losses will exceed a certain amount.

Van Lanschot Kempen
Van Lanschot Kempen NV

VLKWM
Van Lanschot Kempen Wealth Management NV (formerly Van Lanschot NV)

Weighted average cost of capital (WACC)
A measure of the average cost of a company's capital, in which debt and equity are proportionally weighted.

Wft (Financial Supervision Act)
Wft governs the supervision of the financial sector in the Netherlands.

Wholesale funding
A type of funding, in addition to savings and deposits, used by banks to fund operations and manage risks.

TEN-YEAR FIGURES

	2019	2018[1]	2017	2016	2015
Results (€1,000)					
Total income from operating activities	553,222	506,282	522,539	524,400	561,140
Operating expenses	410,840	440,193	428,990	440,729	422,516
Impairments	22,854	–13,416	–11,461	–2,115	61,937
Operating profit before tax	119,529	79,504	105,010	85,785	54,284[3]
Net result (group profit)	98,414	80,315	94,945	69,800	42,754
Statement of financial position (€1,000)					
Equity attributable to shareholders	1,210,853	1,243,663[5]	1,332,860	1,340,470	1,299,358
Public and private sector liabilities	9,545,095	9,090,939	9,145,119	9,679,764	9,908,391[2]
Loans and advances to the public and private sectors	8,597,894	8,561,497	9,103,327	9,624,048	10,504,423[2]
Total assets	14,318,853	13,983,184[5]	14,658,875	14,877,411	15,831,775
Key data					
Number of ordinary shares at year-end (excluding treasury shares)	40,920,773	41,017,021	40,846,973	40,873,462	40,961,353
Average number of ordinary shares	40,974,330	41,004,769	40,959,989	40,908,194	40,919,503
Earnings per ordinary share based on average number of ordinary shares (€)	2.27	1.82	2.19	1.61	0.83
Dividend per ordinary share (€)	1.45	1.45	1.45	1.20	0.45
Efficiency ratio (%)	74.3	86.9	82.1	84.0	75.3

1 The 2018 figures have been prepared in accordance with IFRS 9; those for the years from 2009 to 2017 in accordance with IAS 39.
2 The 2015 figures have been adjusted to reflect the discontinuing of offsetting current account balances.
3 Includes the Result on loans and advances to the public and private sectors amounting to €22.4 million negative.
4 Some amounts differ from the 2012 financial statements, reflecting changes resulting from the implementation of revised standard IAS 19 Employee Benefits.
5 Some amounts differ from previously published reports, reflecting changes that result from the accounting changes related to provisions for pensions.

	2014	2013	2012	2011	2010
Results (€1,000)					
Total income from operating activities	566,187	551,193	541,764 [4]	552,386	630,887
Operating expenses	337,138	408,633	449,200 [4]	426,456	439,893
Impairments	95,529	105,117	258,021 [4]	79,394	102,458
Operating profit before tax	133,520	37,443	-165,457 [4]	46,536	88,536
Net result (group profit)	108,701	33,506	-147,281 [4]	43,127	66,710
Statement of financial position (€1,000)					
Equity attributable to shareholders	1,292,274	1,283,487	1,262,348 [4]	1,507,245	1,461,676
Public and private sector liabilities	10,499,160	10,161,397	11,368,814	13,100,131	13,545,650
Loans and advances to the public and private sectors	11,021,107	12,490,723	13,464,234	14,270,431	15,710,224
Total assets	17,259,438	17,670,365	17,940,865 [4]	18,453,522	20,325,117
Key data					
Number of ordinary shares at year-end (excluding treasury shares)	40,826,361	40,926,249	40,879,922	40,809,337	40,819,359
Average number of ordinary shares	40,918,849	40,917,566	40,883,330	40,870,488	38,366,748
Earnings per ordinary share based on average number of ordinary shares (€)	2.42	0.71	-3.67 [4]	0.84	1.47
Dividend per ordinary share (€)	0.40	0.20	0.00	0.40	0.70
Efficiency ratio (%)	59.5	74.1	82.9 [4]	77.2	69.7

1 The 2018 figures have been prepared in accordance with IFRS 9; those for the years from 2009 to 2017 in accordance with IAS 39.
2 The 2015 figures have been adjusted to reflect the discontinuing of offsetting current account balances.
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We welcome your views and opinions – please see our contact details above.

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