Annual Report 2018

VAN LANSCHOT KEMPEN

NOTES TO THE READER

Unrounded figures

The management report uses unrounded figures and the total amounts may deviate from the sum of the parts. Percentage changes are based on these unrounded figures.

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 CSR Supplement 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 table 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.

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CHAIRMAN'S MESSAGE

Dear shareholders and other stakeholders,

I'd like to start by thanking you for your continued support during the reporting year. We are very grateful.

We have had a reasonably good year in terms of our performance and our ability to pursue our goals with respect to wealth management. Like most financial institutions operating in our space, we felt the impact of market volatility, particularly towards the end of 2018, on our earnings. We were, however, able to mitigate some of the market impact through a very rigorous cost control process in the second half of the year. In terms of assets under management (AuM), our net inflows were robust for the year, but it was not enough to fully offset the impact of market performance. As consequence, AuM declined for 2018. With respect to capital and balance sheet, we have maintained a very strong position through the year, and have stayed well within our risk appetite. As such, strong capital discipline coupled with good operational performance meant we were able to provide a healthy return to our shareholders.

Changes in 2018

There were several changes to the management team (Executive Board) over the course of the last year-and-a-half. We have several new members on the Board, and have taken this opportunity to build on the foundations of our team. We have made very good progress in this regard.

At a personal level, many of us had to cope with the untimely and tragic death of our colleague Paul Gerla. A constant reminder that life is fragile and that we ought to focus on what is important and meaningful. While it was not easy emotionally for many of us, we have focused our energies on defining a clear strategy for 2023. Much of what we had set out to achieve in our last strategic review in 2013, and the subsequent update in 2016, we have achieved. A new strategic review is not a natural consequence but it is warranted in the context of technological, economic and geopolitical changes. In short, what is next for our company?

While some of our objectives remain largely unchanged, some have evolved and new objectives have emerged. As such, we have taken into account the impact of technology and advanced analytics on our clients, the societies we serve, and therefore on ourselves – when considering our tactical and strategic next steps.

It is good to reiterate that we are a wealth management house, and our principal goal is to be pre-eminent in our chosen areas of operation. We offer and will continue to offer an integrated wealth management proposition in private banking, asset management and merchant banking.

Financial targets

Our financial goals with respect to return on CET 1 and capitalisation remain unchanged – an RoCET 1 of 10-12% through the cycle on a sustainable basis, and a capitalisation level of 15-17% CET 1. We have added "on a sustainable basis" to signal our awareness of risks and our societal obligations. Given our capital ratio targets and the fact that we are comfortably above the target ratios, an explanation is warranted as to what our capital strategy is and will be in the future. We remain fully committed to our ROE and dividend pay-out policies. We also believe that it is time for us to reinvest some of that excess capital in our existing businesses and in acquiring new assets. As in the past, we are committed to being disciplined in terms of capital, but it is also fair to say that we will continue to explore and seek out acquisition targets in the wealth management space.

We have changed our target efficiency ratio from 60-65% to 70-72%. The changes to the efficiency ratio are a consequence of the changes to our business model (from universal banking to wealth management) and balance sheet (from asset-heavy model to asset-light, long-liability model). It is broadly in line with our peers in wealth management. We are not there yet, but we do realise that the outcome of the management focus must be to ensure that we reach this target by 2023.

At current operating levels, this will entail an improvement in our operational performance (both revenues and cost). We have assumed that the shape of the yield curve will remain more or less the same. In other words, we have assumed no benefit from an upward move towards a more normalised curve. The focus therefore is on improved productivity through digitalisation and active use of advanced analytics – ironing out the remaining inefficiencies in terms of processes, organisational structures and a reassessment of unproductive activity. It is noteworthy that we have successfully executed disentangling, and the subsequent closure of, several legacy systems. We have built a successful omni-channel platform for the private bank, launched several applications for clients, created a sustainable mortgages platform, and are in the process of launching a new payment system. We are confident that we can and will achieve our productivity targets.

The next phase in our strategy
The essence of our strategy 2023 is to move towards a fully integrated wealth management model – servicing client groups across the spectrum, from private to institutional/corporate – and in the process to increase efficiency and productivity. The execution is underpinned by two elements: embracing technology to improve productivity; and transforming the existing workforce. We believe that the plan as envisaged will deliver a superior service to our clients and return to our shareholders, while serving the broader needs of society at large.

There is no doubt in our minds that to be successful we need to be deeply embedded in the societies we serve. However, it is important to be tangible in our goals – to avoid the conundrum of good intention but no (or limited) impact. To this end, we have not only aligned our investment strategies, products and services but also our sponsorship programmes towards preservation of cultural icons and sustainability objectives.

Many of you have asked about our values: what defines us and what guides our behaviour. Please refer to page 6 for a more detailed explanation. Needless to say, we take our values very seriously – they never have been and never will be just a box-ticking exercise. We strive to live them in our day-to-day work. Our behaviour and our decisions are a reflection of our values. Like all companies, Van Lanschot Kempen is run by humans and that makes us fallible. Consequently, we endeavor to be vigilant, and will remain so in the future.

As to the year ahead, we expect it to be challenging on multiple fronts – geopolitical events from Brexit to European elections, the tangible signs of an economic slowdown in Europe, and so on. We are also acutely aware of public opinion and the lack of trust in the financial industry. We know that it will take time and hard work on our part to change this. We have to take responsibility for our actions. It is therefore all the more important for us to keep an ear to the ground, and to do the right thing. Needless to say, we will continue to focus on our goals – both financial and non-financial.

Allow me once again to thank you on behalf of my colleagues on the Executive Board and throughout the organisation.

‘s-Hertogenbosch, the Netherlands, 20 February 2019

Karl Guha
Chairman of the Statutory Board

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 embodies the bloodstream of several entities; the common thread that links us all is trade.

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

We believe that wealth is not just about financial assets; essential as it 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 the re-distribution of it through taxation – are critical to the process of creating and maintaining stable, successful societies. We also believe that the rule of law and stable societies are intertwined. Without a stable society, it is near impossible to generate wealth responsibly. The reverse is also true: societal or common wealth helps create stable societies. Given that societal cohesion necessitates that wealth creation, we believe that wealth management cannot be the preserve of a few but 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 clients – with a singular mission: to be a trusted partner, and to assist our clients in preserving and creating wealth responsibly. We believe that serving the long-term interests of our clients helps create a platform for responsible investing and societal stability.

Our values

Values and principles are important and 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**: In our day-to-day pursuit of life and business, we strive to be entrepreneurial and innovative. We believe that respecting differences while challenging each other to do our best for our clients and for each other is crucial to the process of being entrepreneurial.
- **Craftsmanship**: Craftsmanship underpins our commitment as professionals in our field of expertise to our clients. It simply cannot be otherwise. In and of itself, craftsmanship represents a broader range of values, including knowledge, expertise and integrity. We embrace it with all its myriad characteristics.
- **Dedication**: We also believe in the power of an individual to make a difference for the better. It is the pursuit of dedication at an individual level within our group that ensures that we collectively reach our full potential, and in doing so make a difference to our clients and society at large.
- **Discretion**: We believe in the importance of privacy at an individual, institutional and societal level. We understand that notions of privacy are undergoing a change in this era of social media and digital transformation. We believe that respecting the privacy of our clients is key to earning their trust. We have therefore defined discretion as a core value.
- **Specialisation**: As a company, we have chosen to specialise in areas of our core expertise in private banking, asset management and merchant banking. Specialisation helps us to focus on what we do well and eschew all that is peripheral to the needs of our clients.

We believe that 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 units to create innovative solutions for clients
- In-house, specialist asset manager with multiple differentiating investment strategies and fiduciary expertise
- Strong track record in transformation processes and de-risking of the company
- Relatively small-scale organisation and high level of executive involvement
- Inspiring and professional work environment
- Strong belief in corporate social responsibility and responsible investing

Sound financial and risk management

- Strong capital position and balance sheet
- Capital increasingly freed up by winding down corporate loan portfolio
- Increased focus on core activities, creating opportunities for further growth

Key investor information

Key figures	2018	2017
Net result (€ million)	80.3	94.9
Underlying net result[1] (€ million)	103.0	112.3
Underlying earnings per share (€)	2.37	2.61
Dividend per share (€)	1.45[2]	1.45
Efficiency ratio, excluding special items (%)	79.4	76.2
CET 1 ratio (%)	21.4	20.3
Return on average CET 1 based on underlying net result (%)	9.8	10.4
Balance sheet total (€ billion)	14.0	14.7
Total loan portfolio (€ billion)	8.6	9.1
Client assets (€ billion)	81.2	83.6
Assets under management (€ billion)	67.0	69.0[3]
Employees (FTEs at year-end)	1,621	1,658

VAN LANSCHOT KEMPEN

Van Lanschot SINDS 1737

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
- 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
- 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
- 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, financial institutions & fintech, infrastructure, maritime & offshore, and the Benelux region
- Offices in the Netherlands, Belgium, the UK and the US

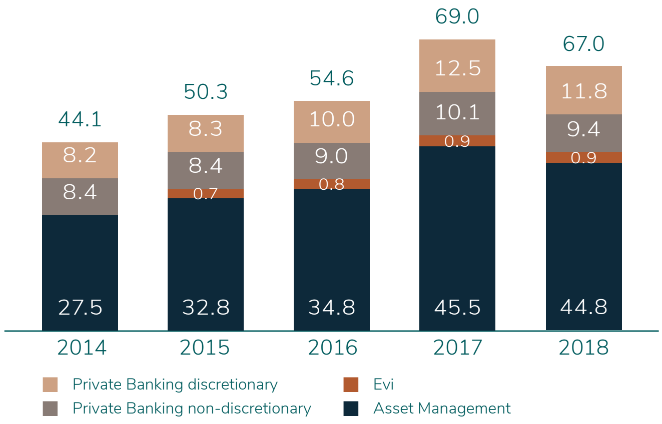
1 The underlying net result is the net profit adjusted for one-off charges related to the costs incurred for the Strategy 2020 investment programme and restructuring. 2017 also adjusted for a one-off charge for the derivatives recovery framework.

2 Proposed dividend per share for 2018.

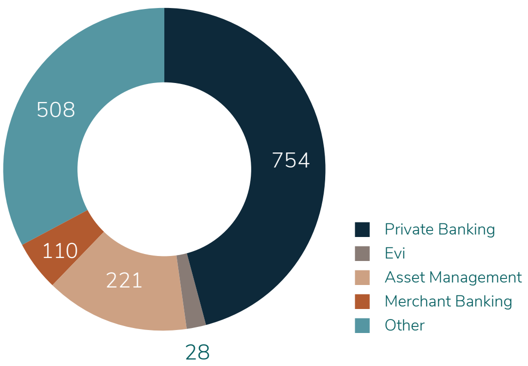
3 As of 1 January 2018, €0.2 billion in AuM has been transferred to AuA. The comparative figures for 31 December 2017 have been adjusted accordingly.

The graphs below show the key data per brand or business activity.

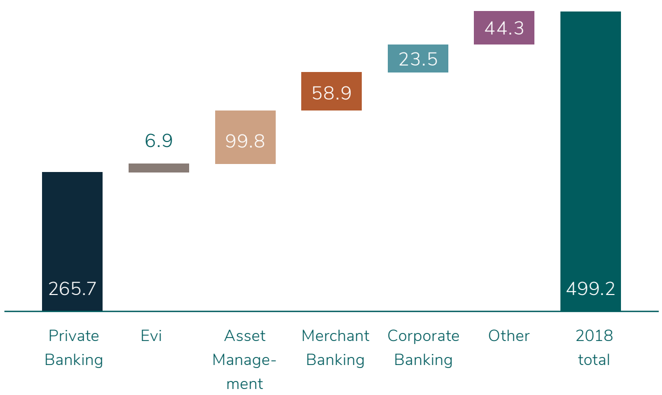
Assets under management (€ billion, at year-end)



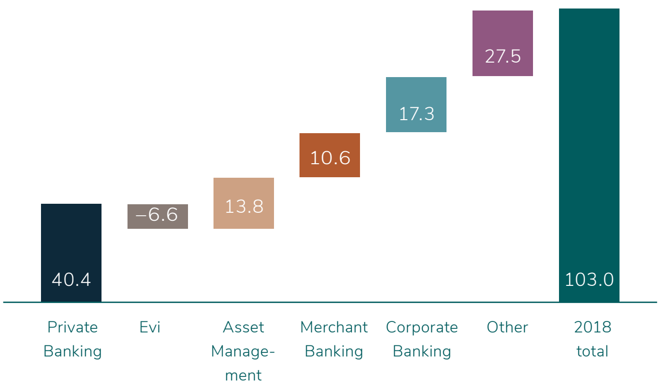
FTE overview (1,621 total)



Income from operating activities, by segment (€ million)



Underlying net result (€ million)



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 and environmental aspects all need to be taken into account.

Our value creation model on page 10 provides an overview of our impact and the value we create in the long term. The model is organised into five columns: input, business model, output, outcome and impact. Our strategy, influenced by trends and stakeholder interests[4], results in the inputs and business model. The outputs and outcomes show the result of the allocation of inputs and our business model over the past financial year. These relate to short-term impacts. Most of our key performance indicators (KPIs) can be found in these columns, the results of which are explained in the "Performance" section on page 33, and mentioned along with our material topics, themes and risks on pages 19-20 and in our CSR Supplement. The last column captures the societal relevance and long-term impact we aim to achieve. We aim to mitigate negative impacts (as we also take social and environmental criteria, such as human rights and climate change, into account in our activities) and to enhance our positive impact (via sustainable and impact investing solutions). We also work with several external parties to encourage this (see our CSR Supplement for more information).

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 these goals. Of the 17 SDGs, there are five to which we currently contribute specifically via our core activities:

- **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.

Details about our contributions to the SDGs can be found on vanlanschotkempen.com/responsible.

4 For more information, see pages 13 and 16.

HOW WE CREATE VALUE

INPUT

Human capital
- Knowledge of economies, capital markets and sectors
- Strong advisory skills
- 1,707 employees, average age of 43.8, 64% male and 36% female
- €4.5m spent on training and development
- €0.3m spent on employee well-being

Social capital
- Our history, brands and reputation
- Our values: entrepreneurial spirit, craftsmanship, dedication, discretion and specialisation
- Expectations of our stakeholders
- Approx. €2m spent on sponsorships

Financial capital
- Client assets €81.2bn
  - AuM €67.0bn
  - Savings and deposits €9.1bn
- Capital base and wholesale funding
  - Share capital €1.3bn
  - Wholesale funding €2.6bn

Manufactured and environmental capital
- €22.0m spent on investment programme
- 11 offices and 21 client reception facilities
- 444 lease cars, 609 public transport subscriptions
- 4,570 flights

BUSINESS MODEL

VAN LANSCHOT KEMPEN

Preserving and creating long-term wealth

Private Banking, Evi and Asset Management clients

Client assets

Performance | Fee | Interest

Wealth management solutions
- Fiduciary management
- Investment solutions
- Investment strategies

Banking solutions
- Savings and deposits
- Lending
- Payments

Corporate Finance | Equity Capital Markets | Securities

- Advisory services
- Access to markets and liquidity
- Research

Fee

Merchant Banking and Private Banking clients

OUTPUT

Investment in employees
- 51% of employees participated in Vitality Programme
- Average time spent on training: 9.7 days per FTE
- 2.7% absenteeism
- 13% employee turnover

Continuous effort in meeting stakeholder expectations
- Launch of 6 new, innovative wealth management solutions
- Networking events for clients
- Memberships of associations
- Stakeholder dialogues
- 91 engagement cases

Performance
- Performance for clients
  - PB: average 3-yr performance vs. benchmarks of –0.1%
  - AM: Average Morningstar rating investment strategies of 4.0
  - Evi: Average 3-yr performance vs. benchmarks of –0.4%
  - MB: €37bn of M&A, debt advisory and ECM transactions in 10 countries
  - €5.8bn in mortgages, €2.9bn in other loans
- Financial performance
  - Net result €80.3m
  - 79.4% efficiency ratio

Focus on digitalisation
- Digitalised services and applied advanced analytics
  - Innovative client features
  - Increase in sales effectiveness

Environmental output**
- Carbon emissions
  - AuM: 3.8m tonnes CO_2
  - Balance sheet: 60,949 tonnes CO_2
  - Own organisation: 4,679 tonnes CO_2

OUTCOME

Skilled, motivated staff
- Employee engagement survey score: 81% (2017)***
- Employer NPS: ***

Stable, long-lasting relationships
- Client satisfaction
  - NPS PB: 2
  - NPS Evi: –20
  - NPS AM: 44 (2017)
- Long-lasting client relationships
- Stable shareholder base
- High positions in rankings and benchmarks

Achieving sustainable growth
- Net inflow of AuM €1.0bn
- Growth of sustainable and impact investing 15% to €1.3bn (Private Banking)
- Shareholder return
  - Dividend €1.45
  - Special capital return €1.50

Improved operations
- Omni-channel client experience
  - 72% PB clients accessed online portal
  - 21% PB clients with an investment product downloaded an investment app to gain insight

Decrease in environmental footprint
- Decrease in carbon emissions vs. last year
  - Decrease of 17% CO_2 emissions in balance sheet
  - Decrease of 11% absolute CO_2 emissions in our own organisation

IMPACT*

- Contribution to achievement of clients' business, personal and social goals
- High quality employment and development opportunities
- Positive business environment
- More responsible companies and financial sector
- Social engagement
- Contribution to the Sustainable Development Goals (SDGs)

* For examples see vanlanschotkempen.com/responsible/policy.

** Our carbon measurement covers about two-thirds of our balance sheet and around half of our AuM. The figures are best estimates and will be further refined next year; for more information, see page 28.

*** We did not conduct an employee engagement survey in 2018. This means there is no 2018 data on the level of employee engagement, nor an Employer NPS.

2018 figures

2018 HIGHLIGHTS

Based on our wealth management strategy, in 2018 we focused on the changing needs of our clients and on digitalisation. An overview of the key highlights of Van Lanschot Kempen in 2018 is presented below.

2018

JANUARY

Launch of Global Impact Pool
A new wealth management solution for both private and institutional clients with the aim of achieving both financial return and positive social and environmental impact.

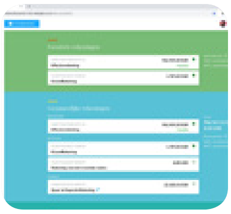
MARCH

Introduction of strategic advice
A new proposition for Private Banking clients in which we monitor and provide advice about all their assets, whether they are invested via our propositions or those of third parties.

MAY

Launch of Private Markets Fund
We set up the Kempen Private Markets Fund to enable both private and institutional clients to invest in private equity, for example.

MAY



Launch of new client portal
The new client portal "Mijn Van Lanschot" for Private Banking clients provides them with easy access to their products and digital documents.

JULY

Licence to act as underwriter in equity issues on US market granted
Our US subsidiary was authorised to act as underwriter. The licence will be used to further assist our European life sciences clients.

JULY

Ban on tobacco in funds
Kempen committed to making its investment funds tobacco-free by year-end 2018. Sustainable investing is essential to us as long-term stewards.

SEPTEMBER

Introduction of Evi Go
Evi Go is a self-directed investment solution for mass-affluent clients and Millennials. Evi clients can choose to invest in five different funds with varying risk profiles.

OCTOBER

Appointment of Chief Analytics Officer and Chief Digital Officer
A CAO and CDO have been appointed to prioritise and improve group-wide digitalisation and advanced analytics.

NOVEMBER

Set-up of dedicated Family Solutions team
In order to serve high net-worth families and their individual members with the full range of our services, a new team has been set up that will act as a linking pin between family offices and the specialists across our organisation.

DECEMBER

Special capital return
€1.50 per share, totalling over €60 million, was returned to shareholders. This brought the total capital returned since 2016 to €210 million.

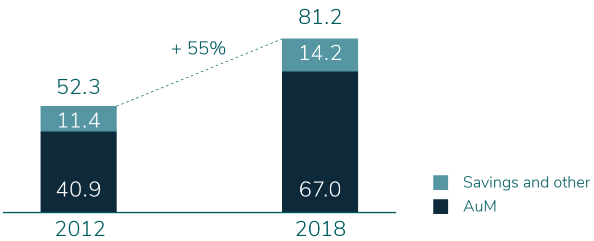
2019

OUR STRATEGIC TRANSFORMATION

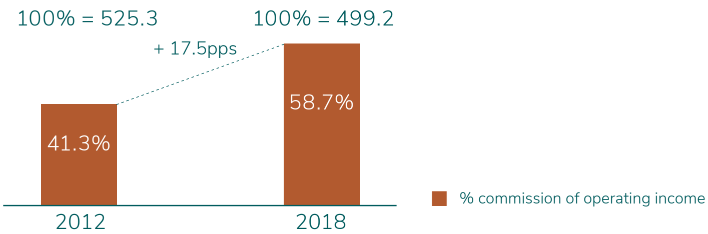
Our transformation began in 2013, when we chose to position ourselves as a specialist wealth manager instead of a small universal bank.

As a wealth manager, we aim for growth in assets under management (AuM) on the one hand, while we have scaled back our corporate loan book on the other. This has led commission income to become our key source of income, while our capital position has substantially improved as our activities have become less capital intensive. The charts on this page illustrate this transformation. Our strong foundation puts us in a good position for further growth.

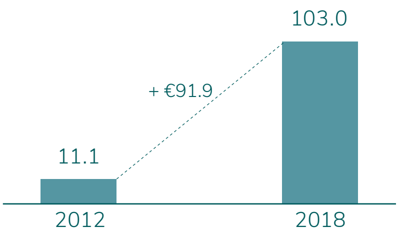
Client assets and AuM[1] (€ billion)



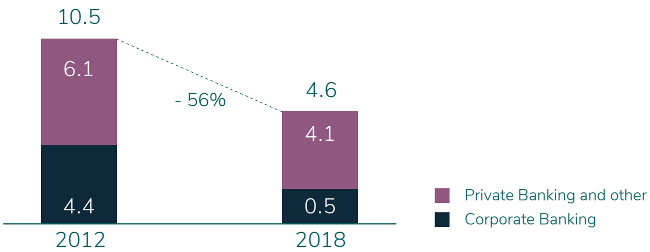
Commission as % of operating income (€ million)



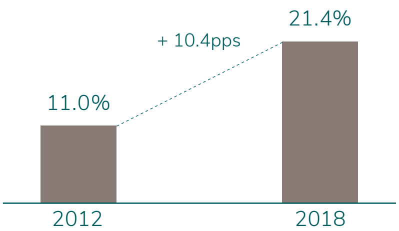
Underlying net result[2] (€ million)



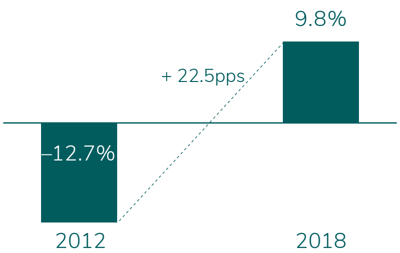
Risk-weighted assets (€ billion)



Common Equity Tier 1 ratio[3]



Return on Common Equity Tier 1[3]



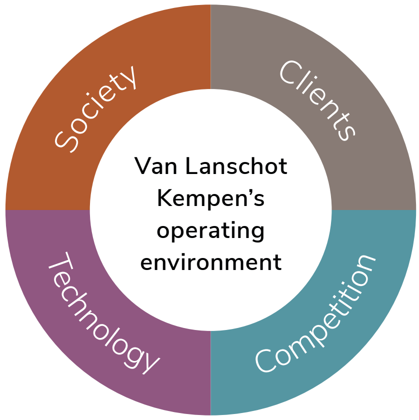
1 Other consists of deposits, assets under administration and assets under monitoring and guidance.

2 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. 2012 has also been adjusted for an impairment on goodwill and intangible assets.

3 2012 phase-in; 2018 fully loaded.

TRENDS AND DEVELOPMENTS

New trends, technologies and services are drastically reshaping our society, economy and the financial sector.



We briefly outline the most relevant developments in our operating environment below. We take these developments into account in adjusting our strategy and approach. For more details on Van Lanschot Kempen's response to these trends and developments, see the sections under "Our business themes".

Societal change

Importance of self-reliance

The average age of the Western European population will increase over the next few decades, and this is expected to put pressure on the current social system. In the near future, it is therefore expected that self-reliance will become more important; the supporting role of the government will continue to diminish, and the role of a support network of friends and family or commercial providers will grow. People are increasingly becoming aware of the need to start building such a support network, and to acquire the means to finance their chosen solution to become self-reliant. This will increase the need for wealth management solutions at a structural level.

Shift to doing good

Reducing and preventing negative impact on the environment and society is encouraged, both by government and by the corporate sector. Due to the attention that NGOs, governments and media are giving to sustainability, people are increasingly becoming aware of the consequences of non-sustainable behaviour. In the near future, we expect this "doing no harm" movement to shift towards "doing good". Organisations are not only expected to limit their negative impact on the environment and society, but are increasingly challenged on their positive contribution. At the same time, more and more clients are demanding sustainable investments and impact investment solutions, while employees and potential employees are increasingly taking sustainability into account when considering their careers.

Advanced technology

Digitalisation to improve client experience

Over recent years, many processes and operations have been automated across industries. Automated processes increase efficiency and reduce the number of errors, thereby reducing costs. Jobs are increasingly changing from carrying out operations manually to overseeing and reviewing the digital process and checking the data for errors. This change has also been felt in the financial sector: many back- and mid-office activities have been automated, and the use of digital tools for monitoring has increased.

Digitalisation also enhances interaction with clients. The use of multiple communication channels allows clients to choose their preferred channel, which could significantly improve client experience.

Increasing availability of data

Advanced online services and applications allow improved data collection. Increasing data availability and computational power are opening up opportunities for advanced analytics, thereby creating insights into client needs, possible solutions and business efficiency. As the use of technology and advanced analytics increases and applications become more sophisticated, the value of the data collected increases. Advanced analytics go beyond pattern recognition, and include predictive models that can be used to suggest actions or behaviour, for example.

Having the ability to use data enables organisations to be more relevant to clients, to offer tailored products at more attractive prices, and to be more transparent about the exact details of a product. The use of data also requires organisations to change their way of working. New jobs are created, requiring a different set of capabilities and more adaptive performance.

Security of information

As the overall amount and quality of information and data gathered increases, information security is becoming even more critical. This encompasses both physical security (access to the premises of organisations) and online security (storage of data). Cybercrime is becoming more common, and organisations need to be able to guarantee their clients' privacy. Investments in future-proof security measures are required, as the value of information is expected to increase even further.

Changing client needs

Provide relevant information

Technology allows us to be online and connected, every moment of the day, quickly leading to information overload. The need for organisations to be able to send relevant content to clients that offers the solution they need at the right moment is increasing. The information provided to clients needs to be customised, brief and clear, and include a call to action. Additional content should be easy to find if needed, and should provide sufficient information to meet the growing need for transparency.

Demand for tailored services and products

There has been a shift from providing generic products to providing tailored services. Clients want solutions that instantly answer their needs. They prefer solutions that require minimal effort and low maintenance. Transparency, ease of access and use, and immediate availability are key. This has caused industries to integrate: via one organisation's platform, clients can acquire related services/ products from other organisations.

The institutional sector has also seen a change in demand for products and services. Fiduciary mandates are increasingly being broken down into sub-parts, with clients choosing which types of services they would like to obtain instead of buying the full package. In addition, some fiduciary clients are more involved in the actual set-up of the investment mandate to make sure that the investments fit perfectly in line with their requirements.

Passing down wealth to the next generation

As time passes, new generations will inherit their elders' wealth and acquire their own. As with all service providers, wealth managers depend on their abilities to build relationships with their current and future clients. Different generations have different preferences regarding services and products, and this should be acknowledged by organisations. Different attitudes, skill-sets and knowledge might be required.

Increased competition

Competitive landscape

There is strong competition for new assets among existing and new wealth managers with different business models. The higher educational level of clients and their ability to compare service providers facilitates shopping around and comparing active and passive investment solutions. In addition, fintechs and robo-advisers are entering the market with new propositions for clients, offered at low prices and making use of new technology and low-maintenance platforms.

The consolidation of the financial and wealth management industry is a trend that's continuing due to several developments: regulation forces wealth managers to reduce or ban inducements and make fees transparent to clients; wealth concentration leads to margin compression; and the persistent low-interest environment results in lower interest income.

In addition to competition from peers, wealth managers also need to address clients' interest in investing their wealth in a broader range of assets. Investments in start-ups or real estate have grown over recent years, reducing the assets clients entrust to their wealth manager.

Development of sophisticated solutions

Wealth managers are increasingly specialising and differentiating their products and solutions. The strong inflow in passive products and outflows from undistinguished, semi-active, generic investment products underlines increased client investment knowledge and transparency. In order to remain relevant and profitable, wealth managers should move away from offering undifferentiated products and focus on developing high-growth specialist products.

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 2018, we identified the following key risk themes:

- Financial market volatility
- Cybercrime
- Trust in the financial sector (e.g. anti-money laundering)
- Labour market

See the "Risk and capital management" section (page 62) for more details.

MOVING FORWARD MEANS BEING INNOVATIVE

I started my career as a consultant on business improvement and change management before moving into HR, advising managers on how to unlock their employees' potential. Those two things came together in my current role as Client Support Manager: firstly, because I get to manage a great team of people, and secondly, because so much of our daily work is about improving efficiency and embracing technological change.

Our biggest challenges are how to meet ever-changing client expectations, and how to become a fast, lean, client-oriented mid-office. To meet those challenges, we're always improving workflows, processes and automation. In 2018, we introduced our first robot! It handles client requests for withdrawals from their investment portfolios. Of course, it took a while to perfect but it's working really well so we're investigating other tasks that we can outsource to robots too. When it comes to automation and robots, it's crucial to encourage a new way of thinking: once people understand it frees up their time to do more interesting tasks, they're keen to get involved. It's important to be innovative if you want to move forward.

My job is demanding (as are my husband and kids, at times) so I'm very conscious that I need to look after my own well-being, too. I try to eat healthily, get enough sleep, play sports – the key is to keep moving. In May 2018, ten of us in the team ran the 10-km *Vestingloop* in 's-Hertogenbosch. A fantastic challenge!

Muriel Zeegers – Client Support Manager,
Van Lanschot Private Banking

STAKEHOLDERS' EXPECTATIONS AND OUR DILEMMAS

Our objective is to be aligned with the world around us. This means, for instance, that we work with consideration for future generations, the environment, and the ROI 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 others, including all those who might be affected by the decisions and activities of Van Lanschot Kempen (e.g. society at large, suppliers and competitors).

Stakeholders' expectations

These stakeholder groups have varying expectations regarding Van Lanschot Kempen. The graphic below[4] 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, training, development and growth opportunities, and personal recognition

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)

Other stakeholders

Fair business opportunities and limited negative impact

Our dilemmas and how we approach them

Our ambition to be a responsible wealth manager regularly confronts us with dilemmas in practice. 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. Some dilemmas we faced in 2018 are presented here.

High-end, innovative tools vs. profitability in the short term

Our private clients expect high-end, innovative, interactive tools that provide them with relevant information and insights into their accounts 24/7, as part of our offering without additional costs. In order to benefit from technological opportunities and improve the client experience, investments are required. In contrast, our shareholders expect us to increase our profitability by increasing revenues and decreasing costs in the short term. So how do we align these contrasting interests?

To meet the expectations of both stakeholder groups, we carefully assess potential use cases and their required investments. We then prioritise those investments that have the largest potential to improve client experience and reduce costs.

Tailored solutions vs. scalability

As the investment knowledge of clients has increased, clients arrive at investment beliefs that go beyond expected returns, and include specific themes. Clients expect us to deliver on their personal investment beliefs, which results in a higher demand for tailored mandates for which clients are only willing to pay to a limited extent. However, such mandates require more dedicated time compared to pooled assets, thereby decreasing operational efficiency and consequently profit. This presents a clear trade-off between operating efficiently, as requested by our shareholders, and meeting specific client demands.

Due to our scale, we are able to use standardised, pooled vehicles for groups of clients who have aligned investment beliefs. For individual investment beliefs, we need to carefully assess the profitability of the requested product or service. In some cases, this means that we cannot meet client expectations because we are not willing to allocate capacity to develop the solution or provide the service requested.

Ease of access for clients vs. stringent regulatory requirements

Our clients expect quick registration channels, easy access to online tools, and to be able to switch easily between products and solutions. They expect us to filter the information and send them exactly what they need. We want to build strong personal relationships with our clients and understand their needs. Regulators have stringent requirements, and expect us to have all client information on record as well as an audit trail showing how we comply with our duty of care. For example, due to legislation, potential clients have to go through several steps of an identification and registration process before they can become clients and obtain the products they are looking for. In a world where new, online players across sectors have set a standard of easy access to products and services, how can we make sure we don't alienate clients due to all the formalities that we and our clients have to comply with?

While we have to comply with all regulation and legislation, we aim to minimise the effort clients need to put into registration, identification and other processes. In addition, we explain to our clients why these measures have been

4 See our CSR Supplement for further details (the most important expectations per material topic, how we met them, forms of dialogue for each stakeholder group, etc.).

taken. However, we're still regularly obliged to confront our clients with questions or information that seem unnecessary to them, and could have a negative effect on client satisfaction levels.

Employee motivation vs. cost effectiveness

Improving our efficiency is a key priority for our shareholders. Our employees are therefore continuously working on the automation, digitalisation and improvement of our way of working. However, these improvements result in changes in the skills required from our workforce, and consequently in changes in the makeup of that workforce. How do we keep our people motivated to do the work that might ultimately make them redundant or not qualified to continue to work at our organisation?

We aim to be an attractive employer, and are keen to provide ample opportunities for training and redeployment in other suitable roles. By providing clarity and guidance to those employees who might become redundant, we aim to retain the employees for the time needed. If they intend to leave, we endeavour to hire temporary staff to cover their work in a timely manner. In addition, we look for the right pace in changing our way of working to avoid change fatigue among our staff.

Client-centricity vs. sustainability

Social organisations regularly challenge us on sustainability issues. They expect us to contribute significantly to a better world by focusing on sustainable investment products and solutions. The criteria for these sustainable investments are rapidly becoming more extensive and stricter. We are aware of the positive impact we can achieve via our clients' assets. Although an increasing number of clients are interested in sustainable investment products, not all of our clients opt for these solutions. As all clients are equally important to us, how can we keep up with the pace of sustainability without losing clients?

To substantially increase our positive impact, we strive to grow our sustainable assets under management by informing and educating our clients about the positive impact of sustainable and impact investing solutions. For now, we will continue offering our clients a broad range of products and services, among which are several that prioritise sustainability. In addition, we will show more clearly which initiatives we pursue in the field of sustainability and what their impact is via our dialogue with clients, potential employees and society at large.

FOCUSING ON MATERIAL TOPICS

To determine what kind of information is valued most by our stakeholders, we conduct a survey among stakeholders every two years. Our latest survey was conducted in 2017. For 22 topics, stakeholders were asked to assess:

- The extent to which each topic influences the decisions they make regarding Van Lanschot Kempen;
- The significance of the impact Van Lanschot Kempen has via each topic. Impact refers to positive impact and prevention of negative impact, and may be economic, environmental or social in nature.

The highest-scoring topics on both criteria are considered most material to our stakeholders. The topics can be grouped under four broader themes: financial and risk management, client-centricity, products and services, and operating practices.

The table below shows the 13 material topics (out of the 22 in total) and a reference to the page where more information can be found. Further details can be found in the materiality matrix in the CSR Supplement.

Themes	Material topics	Descriptions	References
Financial and risk management	1. Economic performance	Van Lanschot Kempen is financially healthy and able to meet its obligations	p. 33
	2. Risk management	Van Lanschot Kempen has prudent risk management	p. 62
Client-centricity	3. Added value	Van Lanschot Kempen offers only products and services that our clients need	p. 34
	4. Fair pricing, marketing and labelling	Van Lanschot Kempen provides accurate, clear and non-misleading product information	CSR Supplement
	5. Customer privacy and data security	Van Lanschot Kempen guarantees the privacy of clients and secures the data received and processed	p. 25
Products and services	6. Responsible investment	Van Lanschot Kempen invests client assets responsibly (investments meet basic ESG criteria)	p. 27
	7. Sustainable investing and impact investing	Van Lanschot Kempen invests client assets sustainably (investments meet strict ESG criteria) and in impact investing solutions (investments focused on positive environmental and/or social impact)	p. 27
	8. Responsible lending	Van Lanschot Kempen finances responsibly; i.e. it takes ESG criteria into account in its lending process	p. 64
	9. Prevention of financial economic crime	Van Lanschot Kempen is not (via its clients) involved in financial economic crime such as money laundering, terrorist financing, fraud and corruption	p. 62
Operating practices	10. Transparency and reporting	Van Lanschot Kempen's public reports meet the highest international standards	p. 2
	11. Ethics and integrity	Van Lanschot Kempen has an ethical and honest corporate culture and meets society's norms and values	p. 31
	12. Stakeholder involvement	Van Lanschot Kempen engages in an active dialogue with stakeholders, and strives to achieve its objectives in harmony with all stakeholders	p. 16
	13. Healthy, professional and knowledgeable staff	Van Lanschot Kempen creates the right conditions for its workforce to excel, in which education, training and well-being are key	p. 29

NEXT PHASE IN OUR STRATEGY

Today, 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 want to be a leading player in our relevant markets and geographies. This means being:
– A leading wealth manager in the Benelux region;
– A prominent, active investment manager that delivers alpha in illiquid markets, as well as income 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;
– The number one online wealth management alternative for the mass affluent in selected markets.

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. We can achieve the most significant social and environmental impact via our clients' assets. We aim to increase our positive contribution and the visibility thereof.

We have set our financial targets for 2023. To reflect both our wealth management profile and the economic environment in which we operate, we have redefined our efficiency ratio target:
– CET 1 ratio: 15-17%;
– RoCET 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 have developed a strong capital base. Our CET 1 ratio currently stands at 21.4%, well above our target level. In the future, we aim to optimise our capital base in terms of level and type of instruments, while leaving room for potential acquisitions. In addition, we will consider paying out excess capital to our shareholders. Since 2016, we have redistributed around €210 million to our shareholders.

Strategic pillars
We have taken successful steps in simplifying and focusing our business model, yet we see the need to continue our transformation. Changing client needs, societal change, advanced technology, and increased competition all change our operating environment. We need to respond to these changes in order to deliver on our promises. For this purpose, we have defined four strategic pillars:

Accelerate growth – organically and inorganically
In order 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 demands a product-led approach, clients are looking for a solution that fulfils multiple needs.

On the back of a surge in personalised individual online experience in several sectors, clients – whether private individuals or professionals representing institutional clients – expect a higher level of personalisation in the financial sector as well. This is why we will shift to a solutions-led approach, in which a solution can consist of several building blocks that together answer the clients' needs.

In recent years, we have successfully expanded our activities through selective bolt-on acquisitions and hiring teams. Our high post-acquisition client retention rates show that clients value our proposition. Moreover, we have expanded our client offering with additional solutions following on from these acquisitions. We will consider acquisitions to accelerate our growth and increase our scale.

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. This will enable us to better grasp opportunities, and to be flexible and adaptive in responding to our clients' needs. We will further develop our client segmentation based on these needs. We believe that by providing clients access to the full range of services and products across our business lines, we will be able to fulfil client needs in a sustainable manner. Acting as one allows us to benefit from knowledge sharing, to make optimal 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. Streamlined products, processes and systems are a prerequisite for this. 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 also key to our omni-channel approach in Private Banking, as it offers both clients and employees increased flexibility in terms of means of communication and the time needed to communicate. We will roll out our digital programme across all business segments, so other client groups can benefit as well.

In order to truly understand our clients' needs and offer them suitable solutions, we will apply advanced analytics. 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. Insight into patterns of behaviour will enable early detection and improved identification of client needs. Supported by frequent human contact, this will strengthen our client relationships.

As the €60 million Strategy 2020 investment programme will come to a close in 2019, further investments will be funded from our current cost base.

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 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 technology and to work in a more agile manner. We will also hire new talent to bring different skills and capabilities into the organisation that will help drive our development and the changes required to stay ahead.

How we steer our business

During 2018, a new set of key performance indicators (KPIs) was developed, focusing on the creation of long-term value. The various steps in developing these are described below.

Our themes and mission

Based on strategic relevance, client needs, stakeholder interests, and industry trends and developments, we have defined six overarching themes, which all contribute to our mission. The six themes and our mission include the "most material" and "material" topics (see below) indicated by our stakeholders. For more information on materiality, see our CSR Supplement.

Three themes lay the foundation for our operations:
- **Financial and risk management:** These are key to our organisation, as all stakeholders benefit from a solid capital position and sustainable performance.
- **Ethics and integrity:** We operate in an ethical manner, and encourage our employees to behave ethically and with integrity.
- **Licence to operate:** For us, business as usual means operating in line with the law, regulations and other generally accepted norms.

Three themes aim to create significant impact for our stakeholders:
- **Client relations:** 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 to our clients. We aim to improve our client experience by further digitalising our operations, processes and communication channels.
- **Responsibility and sustainability:** We see clear opportunities to create positive economic, environmental and social impact by investing the wealth of our clients in a responsible and sustainable manner. 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 training, development and health.

All six themes contribute to our mission:
- **Preservation and creation of wealth:** We preserve and create wealth for our clients and society, which requires our wealth management solutions to deliver positive, long-term performance.

Our performance on these themes and mission is measured via 59 financial and non-financial KPIs, of which 15 are reported externally. The complete list of KPIs is an integral part of our internal management information.

KPI definition process

In the diagram below, the interconnectivity between our strategy, themes, material topics and KPIs is shown.

We report externally on the most material topics, which form part of our mission and all themes except "Licence to operate"; information on these topics is included in this report on page 33. We do not report on the other six material topics externally because they relate to our "Licence to operate" theme – in other words, they relate to business as usual.

Our themes and mission	Related material topics as stated on page 17					
– Financial and risk management	1	2				
– Ethics and integrity	11					
– Licence to operate	4	5	8	9	10	12
– Client relations	3					
– Responsibility and sustainability	6	7				
– Employees	13					
– Mission: Preservation and creation of wealth	3					

Themes and mission	KPIs	Most material topics covered (p. 17)	Targets
Financial and risk management	1. CET 1 ratio (fully loaded)	1 and 2	15-17%[5]
	2. Return on equity (CET 1)	1 and 2	10-12%[5]
	3. Efficiency ratio	1	60-65%[5]
Ethics and integrity	4. Percentage of employees who feel the responsibility to act and behave ethically	11	> industry average
Client relations	5. Net Promoter Score (NPS): a. Private Banking b. Evi c. Asset Management	3	 PB: 10 Evi: 10 AM: 20
Responsibility and sustainability	6. Private Banking: AuM invested in sustainable and/or impact investment wealth management solutions	7	> last year
	7. Engagements with companies in which our funds invest	6	80-100 engagements
	8. Asset Management: percentage increase in (internal and external) fund managers on our approved list that are scored on their overall sustainability profile	6 and 7	> last year
	9. Decrease in carbon emissions: a. Direct emissions of our own organisation b. Indirect emissions via our balance sheet (mortgage portfolio)	7	 - 2.5%/FTE per year - CO_2/€ < last year
Employees	10. Employee engagement score	13	> 80%
	11. Employer Net Promoter Score (eNPS)	13	> 10%
	12. Gender balance in management positions	13	> 30% female > 30% male
Mission: Preservation and creation of wealth	13. Private Banking: 3-year performance of discretionary management mandates	3	> benchmark
	14. Evi: 3-year performance of discretionary management mandates	3	> benchmark
	15. Asset Management: average Morningstar rating of investment strategies (institutional share class)	3	> 3.5

5 Our 2020 financial targets applied to 2018. As of 2019, we are setting targets for 2023 (see page 18 for more information).

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. In January 2018, we announced a five-year partnership with Het Concertgebouw in Amsterdam that will see Van Lanschot Kempen act as its main sponsor from 2018. This partnership is a perfect fit with our focus on creating and preserving wealth in the broadest sense of the word. It enables us to support the wonderful experience offered to audiences at Het Concertgebouw – a place where people enjoy very special moments together. Van Lanschot Kempen has been an official partner of the Van Gogh Museum in Amsterdam since 2015. This partnership allows our clients to enjoy both the museum's beautiful collection and its world-class exhibitions. The Van Lanschot Kempen Art Prize is presented to a mid-career contemporary artist whose work best conveys the spirit of age to future generations. In the reporting year, the structure of the prize changed and we now work with jury selection of candidates. In 2018, the prize was awarded to Mark Manders. We are also a partner of the Nieuwe Kerk in Amsterdam, where the winner of the Van Lanschot Kempen Art Prize has an exhibition in 2019.

In line with Evi's positioning towards specific client groups, we sponsor various initiatives: women's beach volleyball duo Madelein Meppelink and Sanne Keizer, who won the European title in July 2018; and Justdiggit, which supports projects that contribute to cooling down the planet.

Kempen is the principal sponsor of the Nereus rowing club. We also sponsor the Holland Festival – an international event for theatre, music, dance, opera, film and the visual arts in Amsterdam. Both sponsorships will end in the course of 2020, as we will review Kempen's sponsorships and leverage our sponsorships within Van Lanschot Kempen as a whole.

VAN LANSCHOT KEMPEN FOUNDATION

We want to support community projects that help create a better world for future generations. To do this more effectively, we have brought initiatives that were already running within Van Lanschot and Kempen together in one organisation: the Van Lanschot Kempen Foundation. The Foundation was officially launched in November 2016 and saw a good second year in 2018. 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, hundreds of employees participated in around 20 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, Bart de Graaff Foundation, I-Sport Special, IEX Scholenstrijd and many others.

The Foundation has a board, comprising six employees and a member of the Van Lanschot Kempen Executive Board (Richard Bruens), as well as a large group of ambassadors throughout the organisation. In 2019, Richard Bruens will be succeeded by Godfried van Lanschot, who was a member of the Supervisory Board until 2018. We expect to further expand the Foundation's impact in 2019. For further details on the Foundation and its annual report, see vanlanschotkempen.com/en/vlkf.

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RUNNING THE DISTANCE

The saying goes: “It’s not a sprint; it’s a marathon.” But for me, it’s not a marathon – it’s an ultra-marathon! As an ultra-runner, I regularly run distances of over 100 kilometres – and to do that, you need months of preparation beforehand and time to recover afterwards. It’s the same with my work as Senior RFP Writer for Kempen Asset Management. We’re always thinking about the long term: it takes craftsmanship, teamwork, dedication and continuous improvement not just to meet today’s goals but to exceed them – and to prepare for future goals.

To give an example: in November 2017, a large pension fund started a tender process for a new fiduciary manager; the process took a year, and we succeeded in winning it. It’s a team effort, where my job involves setting the strategy for how to win clients and creating custom proposals for each one. It’s something I’ve been doing for around three years, but I actually started back in 1996 at a brokerage firm that later merged with Kempen. That’s certainly a long-term commitment!

In 2018, we discovered that more and more of Van Lanschot’s Private Banking clients are professionalising their selection process. So we set up a group-wide RFP team to enhance our service offering. The combination of the relationship management skills and market knowledge of our Van Lanschot colleagues with Kempen’s institutional approach and experience is a great example of working together to better serve the needs of our clients, now and in the future.

Bas Haasnoot – Senior RFP Writer,
Kempen Asset Management

OUR BUSINESS THEMES

New trends, technologies and services are reshaping our society, the financial sector and our operating environment. Our responses to the most relevant developments are covered by our business themes.

Economic and regulatory environment

Both the economic environment and ongoing regulatory developments are important in shaping a stable financial system. As a specialist wealth manager, our business is strongly affected by the economy – both in Europe and globally. Equally, our work must comply with a number of regulations, for example relating to our duty of care towards our clients.

Economic trends

The global economy in 2018 was relatively strong, but this was not always reflected in the performance of equity markets, especially in Q4. Growth in the US meant that the US Federal Reserve raised interest rates, while economies in emerging markets remained in flux. Europe occupies a position in between: there are solid fundamental conditions for sustained economic growth, but interest rates remain low as inflation rates remain below the European Central Bank's targets. Growth and political uncertainties increased as 2018 developed, with fallout over Brexit, the political situation in Italy, and tensions between the US and China all having an impact – more so in Europe than elsewhere.

The economy in late 2018 and early 2019 can be characterised by three clear trends:

– **Desynchronisation**: Inequalities between different markets and sectors mean that various global economies are responding differently to market shifts. EU markets were the first to show tension, but by the end of 2018 the US proved not to be immune either.
– **Politicisation**: While politics have slowly come to exert more influence over the economy over the last couple of years, 2018 was the first year in which investors could no longer ignore the politicians. Political debates about populism, deregulation and globalisation are effecting a shift from monetary policy to fiscal policy.
– **Normalisation**: While some economies (the US, in particular) have normalised more quickly than others following the 2008 financial crisis, overall normalisation means that we are slowly starting to see growth in inflation and wages. But the situation remains fragile, as doubts about sustainable economic growth illustrated in the last few weeks of 2018.

Impact on our clients

The corporate sector has been doing well over the past year – with above-average margins, strong cash flow, and money being returned to shareholders. During the last few months of the year, however, equity markets declined on the back of the trade tensions between the US and China and uncertainty around Brexit. This led to negative price movements in our clients' investment portfolios as well. Of course, there are differences in investment horizons and risk appetites between institutional and private clients – and these lead to differences in impact.

Historically low interest rates in the Netherlands have had an impact on the Dutch housing market, and by extension on private clients, some of whom have been investing in real estate as an alternative to lower-yield investments and savings. Growth uncertainty and higher policy rates combined to make for an eventful end to 2018. As markets were illiquid, this amplified volatility. The base case is one in which growth can be sustained and market moves offer private clients more opportunities to diversify. Interest rates are still low, but credit spreads have widened. Lower equity multiples mean that equities will still deliver higher returns than lower-risk assets over the long term. The difference in returns will, however, continue to shrink as corporate margins revert back to average. If inflation begins to rise, there will be opportunities to take advantage of assets that have shorter maturities and/or offer compensation for inflation.

Institutional investors may react in different ways: either taking on greater risks due to the strong economy, or becoming more prudent due to political uncertainty. Looking for new opportunities to generate yield – such as through impact investing or infrastructure funds – is more important than ever. And portfolios that comprise a variety of different asset classes are almost always a safe choice.

Regulatory environment

Like other financial institutions, Van Lanschot Kempen has to deal with a large number of complex guidelines and regulations. In 2018, we faced the implementation of several new regulations. We finalised the implementation of the Markets in Financial Instruments Directive II (MiFID II), the General Data Protection Regulation (GDPR) and the new accounting standard IFRS 9 for financial instruments. All of these were major and potentially impactful changes, but we were able to implement them on schedule, and the ultimate impact is relatively limited. Finally, we've performed a comprehensive analysis of the finalised Basel reform package, referred to as Basel IV. For more information, see the "Risk and capital management" section on pages 62-70.

In terms of regulations, 2018 was an exceptional year, with several major changes running in parallel – putting severe pressure on our resources and infrastructure. In 2019, the situation will be less severe, but significant resources will still be needed. We will continue our dialogue with the National Resolution Authority on Resolution Planning, although no major impact is foreseen for this. In the regulatory domain, preparation for Brexit scenarios is on the agenda (for more information, see page 69), as well as the replacement of LIBOR and Euribor rates.

On the back of several money laundering incidents that took place in the financial industry in 2018, much public attention was paid to the role of banks in detecting any form of money laundering in the financial system. This is adding pressure on financial institutions to play their role as gatekeeper even more effectively, and we expect increased scrutiny from regulators over the coming months and years.

We have an advanced monitoring system and a team of experts in place to carry out client due diligence (CDD) and transaction monitoring. In 2018, the system received a sophisticated upgrade, by implementing advanced analytics tools to detect integrity risks. Also, given the incidents we've seen around us, additional assessments were made to double-check our processes. See the "Risk and capital management" section on page 69 for more information on CDD.

Solutions for clients

Our ambition is to act as a guide for our private, corporate and institutional clients – financially, of course, but also non-financially – to help them achieve their long-term goals. In order to create this trusted relationship with our clients, we need to be relevant to them – today, tomorrow and in the future. And to do this, we need to truly understand them – who they are and what they need – so that we can help them fulfil their wishes. We believe that shifting from a product-based approach to a real solution-led approach will help both us and our clients to be successful.

Solutions-driven approach

In order to be solutions-driven, it's imperative that our starting points are the clients' needs and their investment beliefs; we then co-create solutions with them that are customised to their specific wishes. As a secondary objective, we aim to create products that are useful to other clients in the future, too. Building on our vast experience, there are four elements in our solutions-driven approach:

- **Open architecture**: Working with an open architecture means not only using our in-house knowledge, but also being specialists in selecting external fund managers for a mandate, for instance. This is how we create a range of high-quality options for clients, to make sure we can fulfil their needs.
- **Sustainability**: There is empirical evidence that sustainable portfolios are more robust in the long term. This is one of the reasons why we encourage our clients to look at the sustainability of their assets in the long term, including their social and environmental footprint.
- **Innovation**: One of our goals is to use business and market intelligence to come up with investable ideas and create new categories for our internal advisers, bankers and relationship managers to bring forward and discuss with their clients.
- **Simplification**: Investing can be a complex process. We aim to simplify investment and asset management for our clients by essentially outsourcing the complexity to Van Lanschot Kempen.

Several examples from the reporting year show how we have brought together a combination of these elements in order to find high-quality solutions to our clients' needs.

Family solutions

In 2018, our solutions-driven approach led to a group effort for our family office clients. The requirements of these clients are unique: they may have private banking needs as individuals, reporting and asset management needs from an institutional perspective, and they could be interested in private placements from Merchant Banking's clients. In 2018, we put together a dedicated "Family Solutions" team to act as the linking pin between family office clients and the entire organisation, so that we can provide them with the full range of our services. And their needs are the starting point for the solutions we develop.

CLIENT-CENTRICITY

We aim only to offer solutions that suit our clients' needs. In addition, these solutions must be easy to understand, cost-efficient and not unnecessarily complicated. In order to balance client interests, risks and returns, we approve new products and services before they are launched via the product approval process. Products and services are tested periodically to check whether they still meet the needs of our clients. Representatives from across the organisation are involved in the approval process. The final evaluation lies with the Product Boards, in which members of the Executive Board are also represented.

Strategic advice

As part of our acquisition of UBS's wealth management services in the Netherlands, we introduced a new proposition for Private Banking clients in which we provide strategic advice about all their assets – including a consolidated report on those assets – whether they are invested via our own propositions, third parties or in real estate, for instance. And we act as the client's representative towards other parties, ensuring that their investment goals stay on track. In a nutshell, we offer full support and advice, management of external mandates, and monitoring of the quality of external asset managers.

Investing in illiquid, private markets

When looking for yields, people are increasingly investing in illiquid, private markets. We aim to provide solutions that make investing in private markets more accessible to all our clients:

- Spinning off the management company of Van Lanschot Participaties (at the end of 2017) opened up our private equity business to third parties, including our Private Banking clients, via a newly established fund: Bolster Investments Coöperatief U.A.
- In May 2018, we set up the Kempen Private Markets Fund. By the end of 2018, the assets under management in the fund had grown to €43 million. The fund has been attracting interest from the UK, some family offices and wealth managers, as well as new clients to Van Lanschot Private Banking.
- In 2018, we worked on the set-up of the new Kempen European Private Equity Fund. The fund was launched in January 2019 and we are already seeing interest from existing clients and prospects.

Sustainable solutions

At Van Lanschot Private Banking and Kempen Asset Management, there is increasing demand from our clients for more sustainable solutions. We are therefore continuing to expand our impact investing services, and our Duurzaam+ sustainable discretionary management offering continues to be popular among our Private Banking clients.

In 2018, we worked on the introduction of the Van Lanschot Groenhypotheek (green mortgage) to help finance renovations to make properties more sustainable against a lower interest rate – this will be launched for clients in 2019.

Many clients find environmental, social and governance (ESG) criteria as important as financial returns criteria. The long-term Sustainable Value Creation Fund, which was launched in 2017, stood at €182 million at year-end. At the beginning of 2018, we created the Kempen Global Impact Pool together with our pension fund clients – selecting the SDG criteria that are most relevant to their wishes. With an open architecture approach and by investing in the best external managers, the fund currently has €66 million in assets under management, and we expect more clients to join in the future.

Digitalisation and advanced analytics

Personalised service is key to our business, and technology helps us to strengthen the quality of this service. In recent years, the use of technology to customise each individual's online experience has become mainstream. Meanwhile, the rise in the use of mobile is a trend that's only set to accelerate further. Van Lanschot Kempen is well positioned to take advantage of the opportunities that such trends offer – both to better serve our clients and to improve the efficiency and profitability of our business.

Data-driven client solutions

For some years now, Van Lanschot Kempen has been leveraging business intelligence to truly understand the drivers behind our business. This has allowed us to extrapolate past data into future forecasts that help us to better understand client behaviour and to act on it more effectively. The next step is to use both internal and external data to predict situations and anticipate events before they happen.

There are several examples of how the use of data can improve client experience. In Private Banking, the Compass app sends bankers information that will help them to serve their clients better. Through Compass, we alert bankers of likely upcoming events so they can proactively approach their clients to discuss options, or act quickly to suggest an appropriate course of action.

At Evi, our digital capabilities are used in two main areas. On the one hand, we use advanced analytics to follow the client's digital journey and to offer them tailored, personalised information that meets their individual needs and interests, on the website and via email. On the other, we use predictive modelling of inflow and outflow patterns to detect significant anomalies and fine-tune our client acquisition and retention processes.

Kempen Asset Management's real estate team applies a data-driven investment process in which large amounts of data are processed into investment decision-making. Real estate data, such as distance to public transport, commuting times of employees, education levels and so on, are collected and used to improve our knowledge of the 200,000 buildings the listed real estate space comprises. Ultimately this leads to better risk-adjusted returns for our clients.

At Kempen Merchant Banking, our project to build a data warehouse was completed in 2018, allowing for more data-driven decision-making when it comes to our clients and research. We've also implemented an approach that allows us to develop digital solutions and dashboards when needs arise: for example, Kempen has created dashboards that record a daily flow of market and client information, a digital planner for conferences, and dashboards that enable us to read the value of a particular client to Kempen's business.

Personalisation powered by artificial intelligence

Our added value comes from the human interaction and personalised service we can give to our clients. While it's difficult for algorithms to deal with complex issues and tailor solutions accordingly, tracking and interpreting a client's financial situation is a data analytics-intensive task which can be automated and scaled across a banker's client portfolio. By automating these tasks, bankers become more relevant and productive – and they can spend more time on where they add most value: serving clients to meet their unique needs. As a result, client satisfaction increases, leading to higher loyalty and – ultimately – a larger share of their assets being invested with us.

To support this, artificial intelligence (AI) can provide automated insights and information by analysing huge data sets that are growing all the time. On the product side, AI generally leads to fewer mistakes and is more reliable than humans, resulting in better intelligence to drive product development. On the sales and distribution side, AI can automate processes that were previously done manually, thereby creating efficiencies. For instance, we use predictive models to be able to proactively mitigate client attrition.

Digital initiatives and tools

Digital tooling enables us to improve our client offering and to process the insights we gain from data analytics to make sure our response reaches the right destination. This could include changing our website content, sending a personalised email to a client, or notifying a relationship manager that they need to take action. Our aim is to be relevant for our clients – when, where and how they want – now and in the future.

CLIENT PRIVACY AND DATA SECURITY

As a wealth manager, we place a high value on our clients' privacy – and handling large amounts of private client data is a responsibility we take very seriously. The Privacy Statement on our websites describes how we handle our clients' personal information. We are also subject to the General Data Protection Regulation (GDPR), which came into force on 25 May 2018. We have integrated the GDPR requirements into our policies on processing personal data and into the specific processes and procedures involved. We have appointed a Data Protection Officer, and we pay regular attention to building employee awareness of client privacy and data security issues. We have also created a Privacy Framework for managing the processing and protection of personal data. Reporting according to GDPR is included in our compliance reports, and is reviewed by several committees. We have procedures in place to handle and record complaints, information requests, and any eventual breaches of client data. We have not registered any material complaints from clients or regulators relating to this in 2018.

THINKING LIKE OUR CLIENTS

Having started as a consultant at KPMG and worked as a business controller for BinckBank, I was keen to switch to the front office and work on more client-facing projects. So I came on board at Van Lanschot Kempen in 2015 to work on the digitalisation programme. It's my job to think outside-in. As a client, what would I expect from a digital wealth manager? If I look at where we've come from over the past three years, we're sitting on a wealth of digital possibilities now compared to then. 2018 has been a successful year, with the continuous improvement of our investment app, a brand new "Mijn Van Lanschot" (online portal) for all our clients, the introduction of *Vermogenshorizon* (goal monitoring and scenario analyses), the Compass app for bankers and the Messaging Centre for investment advisers. The coming year will be about connecting the dots so that we have a more integrated approach and can lift our digital services to the next level.

Our aim is to be the benchmark within the Benelux region for omni-channel wealth management, so we're developing tools that surprise our clients and bankers with amazing features that you won't find at our competitors. This contributes to the long-term value that Van Lanschot Kempen adds for our clients – and if they're more satisfied, we can improve client retention. Our digital tools and human touch reinforce each other and create even better relationships.

And when I'm not eating, sleeping and breathing digital? I'm fanatical about cycling and mountain biking!

Peter Huiskamp – Product Owner Investments, Van Lanschot Private Banking

We started with our private banking business as part of our Strategy 2020 investment programme in 2016, with the aim of bringing new digital tools to other areas of the business in due course. In 2018, Van Lanschot Private Banking's website was rebuilt, and we also launched a new "Mijn Van Lanschot" client portal. Both have a new design and are built to work seamlessly across all platforms. The website also provides tailored content to clients that is relevant to their specific needs. For example, a client who already has a mortgage with Van Lanschot would not be shown content about taking out a mortgage with us.

Our investment app now allows investment advisers to send tailored messages or push notifications to specific clients or sub-groups of clients. Meanwhile, our client service centre has also been improved so that all calls and emails are automatically scanned into the CRM system. The next time a client makes contact via whichever channel they choose, they can more quickly and easily be routed to the right person to handle their query.

Group-wide initiatives

Within the organisation, we have already started several initiatives to use advanced analytics and digitalisation to facilitate our services offering and effective distribution, as described above. The next phase in our wealth management strategy will accelerate and strengthen these activities by making them group-wide initiatives. We therefore plan to roll out our digital programme across all business segments, so that our other clients can benefit from Van Lanschot Private Banking's omni-channel learnings, too. We have appointed a Chief Analytics Officer and a Chief Digital Officer, who will focus on implementation and development of advanced analytics tools, and on further digitalising our operations and processes.

Responsible business

Consideration of sustainability factors – environmental, social and governance (ESG) issues – is no longer a separate niche. It's a mainstream concern that we take into account. At Van Lanschot Kempen, this translates in practice into three areas: the assets we manage for our clients, our balance sheet-related activities, and our own organisation. We focus mainly on the first area because this is most material. In short: what we do with our clients' money – whether in Private Banking, Evi or Asset Management – has the most impact on the environment and society. The final part of this section goes into more depth about two ESG themes that were on our 2018 agenda: climate change and human rights.

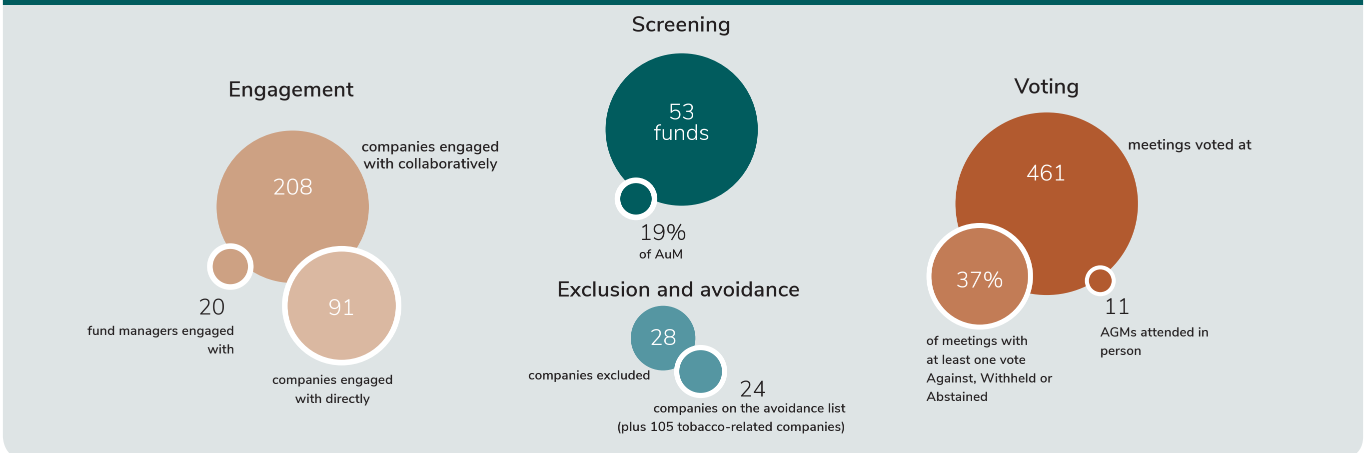
Our approach to sustainability in client investments

The investment market as a whole is clearly shifting from "doing no harm" to "doing good". Driving this shift are important international developments such as climate change and an increasing focus on addressing global challenges through the Sustainable Development Goals (SDGs).
As a responsible wealth manager and as long-term stewards of our clients' assets, we encourage positive change by taking financial and non-financial factors into account when making investment decisions. Non-financial factors include environmental, social and employment conditions, human rights, anti-corruption and bribery. We have an extensive responsible investment policy 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. Companies that cannot improve (due to their products), or show no willingness to improve, can be excluded. See our CSR Supplement for more details.

Screening

Screening our assets against ESG criteria is part of our responsible investment process. In 2018, we further improved our ESG scoring methodology for (external) fund managers[1]. On the basis of this new methodology, every fund is now assigned an ESG score, ranging from 1 (inadequate) to 5 (leading). Currently, we have scored 53 funds, contributing to 19% of our AuM. Their ESG scores range between 2 and 4.5. As a percentage of AuM the scores are: 2% embryonic; 11% sufficient; and 6% maturing. The distribution of the 53 funds' ESG scores are: 11% embryonic; 53% sufficient; 34% maturing; and 2% leading. In 2019, we will extend this scoring methodology to more funds.

Responsible investment dashboard



1 Until 2017, we calculated assets under screening; this metric only indicates whether an asset can be screened but not what the ESG quality of the asset is. We address this through ESG scoring for funds.

Engagement
Through our engagements, we seek to encourage positive change at companies and investment funds. During the reporting year, we engaged with 299 companies on environmental, social and governance issues. Of these engagements, 91 were directly with companies (environmental (21%), employee and social (15%), human rights (10%), corruption & bribery (0%) and governance (54%)); 208 were collaborative engagements with companies; and 20 were dialogues with external fund managers. The latter include Eumedion, Carbon Action 100+, Platform Financials Living Wage, PRI and IIGCC. For more details and examples, see our CSR Supplement.

Voting
As a responsible wealth manager, we exercise voting rights. In 2018, we voted at 461 meetings, or 93% of all votable meetings, at which we voted 6% against management.

Exclusion and avoidance
Based on a company's behaviour or products and services, we may choose to exclude or avoid that company. In 2018, Kempen Asset Management decided to exclude tobacco companies from its funds due to their negative impact on society. The companies we exclude can be found via: kempen.com/en/asset-management/responsible-investment.

New sustainable and impact investment solutions for clients
In 2018, several developments have provided our clients with more opportunities to contribute to a sustainable society via their investments.

The Kempen (Lux) Global Sustainable Value Creation Fund offers investors the opportunity to invest in a diversified portfolio of listed companies worldwide which comply with strict sustainability criteria. It selects investments with a focus on long-term value creation for all stakeholders. This new fund reflects investors' growing interest in sustainable investments. Together with our other sustainable and impact-focused Kempen funds, the total sustainable assets under management amounted to around €0.9 billion in 2018 for Kempen Asset Management.

In 2018, we also expanded our impact investing proposition by creating the Kempen Global Impact Pool, an investment solution that targets positive impact across four themes that relate to the SDGs and invests across listed and non-listed asset classes. It was made available to institutional as well as Private Banking clients.

In Van Lanschot Private Banking, our assets under sustainable discretionary management grew to €1,318 million in 2018 (2017: €1,138 million). Growth was driven mainly by our sustainable product offering, Duurzaam+.

In addition, our central Charity and Impact Investing Service continued to roll out its services through the local Van Lanschot network, and extended additional contributions in the form of pitches and workshops for clients and employees. We use personal advisory discussions to identify our clients' wishes and needs in terms of social impact, and then help them choose the most appropriate donation or investment strategy.

Climate change
Climate change continues to be an important issue globally, and is therefore an integral part of our responsible business strategy. The biggest contribution we can make is – again – via our client investments.

Client investments
For the second year running, we have assessed the carbon footprint of our client investments. The aggregate carbon footprint of our clients' managed assets was 3.8 million tonnes of CO_2, approximately the same as last year (2017: 3.9 million tonnes). To be able to ultimately steer the climate impact of our assets under management, for the first time in 2018 we also carried out a climate scenario analysis on two of our strategies in order to assess the impact that transitional and physical climate risks may have on our investment portfolios. Read more about climate scenario analysis and our initiatives in our Task Force on Climate-related Financial Disclosure (TCFD) statement online: vanlanschotkempen.com/responsible/environment.

Assets on our balance sheet
In 2018, we also further developed and applied our methodology (using 2017 data) to determine the carbon emissions of the total assets on our balance sheet, arriving at a total of 60,949 tonnes (2017: 73,525 tonnes); see our CSR Supplement for more information. As most of these balance sheet-related carbon emissions relate to mortgages, we developed the Van Lanschot Groenhypotheek (green mortgage). This new mortgage product, which comes with customised green energy advice, offers clients the opportunity to borrow extra money at attractive interest rates, to modify their homes in order to make them more sustainable. We expect to launch the Van Lanschot Groenhypotheek in 2019.

Our own organisation
Although the climate impact of our own organisation is relatively limited, we take measures to reduce it. In 2018, we were once again on track to meet our objective of reducing carbon emissions per FTE by 2% a year in the 2015-25 period. At the end of 2018, we raised our reduction target to 2.5% a year. In the reporting period, our carbon emissions per FTE were 2.54 tonnes. For more details, see our CSR Supplement.

Carbon footprint of our assets under management

CO_2 assets under management[2]	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)	1.5	111.8	–	60%
Asset Management	2.3	114.5	185.6	45%
Total	**3.8**	**113.5**	–	**50%**

2 CO_2 figures based on 2017 data (scope 1 and 2); the coverage in 2017 was 55%.

Human rights

As we recognise the crucial importance of this topic, we have integrated it into all our businesses and activities.

Client investments

At the end of 2018, pension funds in the Netherlands signed a Responsible Investment (RI) covenant, as a follow-up to the covenant that was signed by insurance companies earlier in the year. The covenant is underpinned by the OECD's *Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights*. We expect these covenants to further contribute to the importance and growth of ESG implementation in the Netherlands.

Human rights has always been one of our focus areas. Since the OECD published its *Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence under the OECD Guidelines* in 2017 (as well as the RI pension and insurance covenants mentioned above), this has become an even more prominent topic. Kempen Asset Management has joined two collaborative engagement initiatives that specifically focus on addressing salient human rights risks in supply chains. One is an existing initiative relating to sustainability issues in the cobalt supply chain; the other is the Platform Living Wage Financials (PLWF), a new initiative of which Kempen was a founding member. PLWF encourages, supports, and monitors investee companies on their commitment to paying a living wage to the workers in their supply chains.

Assets on our balance sheet

Although relatively less material, human rights are also a topic in relation to our balance sheet. In 2016, we signed the IMVO banking covenant on human rights, mainly focusing on human rights improvements in lending activities and our own organisation. After implementing most of the requirements from the covenant in 2017, we published our first compliance report in early 2018. We later organised a fruitful meeting with our stakeholders, ranging from clients to industry experts. The result was a list of relevant suggestions for further improvements that we will implement in due course.

Our people

As a professional services company, Van Lanschot Kempen relies on the knowledge, experience and professionalism of its employees. To stay relevant to our clients and the world around us, we need to adapt to change. Our approach to our workforce reflects this.

Finding the right people

As part of our strategy to deliver solutions to clients, we need to know and understand the needs of our clients in a broader sense. In order to be a solutions-led organisation, we need people with data and analytical skills, but also people with inquiring minds and strong social skills. The prevalent trend towards digital transformation means that we need to balance digital channels with real human contact. To add value, we need to adapt to this new way of working – and that means developing our employees to be digitally savvy and even more people-centric.

Building and maintaining strong relationships is key to staying relevant and reliable for our clients. We believe that digitalisation, advanced analytics and new technologies will help us to create and preserve the wealth of our clients. This will fundamentally change the way we operate. Digital tools and data will enable our client-facing employees to increase their efficiency, but most of all to enhance client relationships and experience by providing the right service at the right time. Supported by human contact, through which we distinguish ourselves from others, this will strengthen the service we provide.

Leadership programme

The transformation that's taking place both outside and inside our organisation requires our leaders to be competent in facilitating change: they need in-depth knowledge on the impact of digitalisation, and they need to learn to lead mixed teams of more traditional finance professionals as well as young digital talents. We're therefore putting in place specific (on the job) learning interventions for this.

One example of the ways in which we're linking our leadership programme to the specific business challenges we face is a series of breakfast talks. In 2018, inspiring external speakers came to share their knowledge with managers a total of nine times – with topics ranging from diversity and inclusion to blockchain. An average of 60% of managers attended the sessions live in person, while many others followed the presentations online afterwards. Our evaluation has shown that the breakfast talks are highly appreciated among our leaders.

Recruitment

In addition to more traditional commercial and support roles, we now increasingly seek people with strong digital and data analytics skills as so much of the financial services industry is now IT-based. With historically low unemployment in the Netherlands, it's becoming ever more difficult to attract the right people. Our competitors are all facing the same challenge, which means that the talent pool is even smaller and more competitive. During the reporting year, we have been running targeted recruitment campaigns – through agencies, social media and elsewhere – in a bid to grow our pipeline of digitally savvy people for the future.

Continuous dialogue

Across businesses in general, there is a trend towards more open, transparent and continuous performance management throughout the year – rather than one or two appraisals at specific points. In line with this thinking, in 2018 Van Lanschot Kempen started a performance management pilot in around a dozen teams to promote continuous dialogue between employees and managers. Based on the feedback and results of the pilot, we're confident that continuous dialogue is the way forward, and are now exploring how it can be implemented across the organisation.

Employee engagement

We conducted an employee engagement survey in late 2017, which has given us the full year 2018 to evaluate and act on the results. Strengths that came out of the survey overall were identified as: positive cooperation between departments; a culture that invites opinion sharing; recommendation of Van Lanschot Kempen as a good employer to others; clarity on our objectives; and optimism about the future. Several opportunities were also identified, namely: the need to improve on client-centricity through innovation and more efficient processes; the desire for better recognition and attention to well-being; the need for more transparency surrounding promotion and performance; and the wish for more attention to be paid to our overall Van Lanschot Kempen values.

Based on these results, concrete actions were taken across all teams. For example, individual in-depth interviews were set up to explore the reasons for some below-average scores, with the goal of reducing staff turnover, increasing satisfaction, and using the full potential of the team members who were interviewed.

Our next employee engagement survey will take place in the first half of 2019, and will be reported on in our 2019 annual report. We will conduct an employee engagement survey every two years.

Encouraging diversity and inclusion

In 2018, all commercial business units and support functions drew up their own diversity plans, which they discussed with the Executive Board. For example, both Kempen Asset Management and Kempen Merchant Banking have been carrying out training on unconscious bias during recruitment. Managers tend to hire people like themselves, which by definition curtails diversity; by training our brains not to give into our unconscious bias, we can ensure that we're including all relevant candidates in our potential talent pool. Within Private Banking, a special Diversity & Inclusion Team has been created, comprising ten representatives from different fields. The aim is to create more awareness of diversity and to encourage the hiring and appointment of a broader range of employees. In addition, we introduced a KPI on gender balance in management positions in 2018. As of year-end 2018, 20% of employees in management positions are female. For more information on this KPI, see page 33.

This need for diversity and inclusion will become ever more important as we strive to attract the different types of talent required to transform our workforce. For example, by hiring people with more digital and technical skills, we believe that the profiles of employees entering the company will become more diverse.

We believe it's important to support people with an occupational disability to find employment. During the reporting year, we made a positive start by hiring several people, such as Francis Bogmans, within various parts of the organisation – read her testimonial on page 32.

Vitality Programme

To support a better work-life balance, in 2018 we allocated each employee their own individual budget to put towards the Vitality Programme that suits them best: physical, mental, emotional or spiritual. The majority have used the budget for activities such as mindfulness and health coaching.

Staff composition

The number of FTEs employed at Van Lanschot Kempen slightly decreased in 2018 to 1,621 (2017: 1,658) due to our ongoing focus on process optimisation and efficiency. Of that total, 36% are women – the same as the previous year. The percentage of female members on the Executive Board is 33%.

Key staff data	2018	2017
Employees (FTEs at year-end)	1,621	1,658
Absenteeism (%)	2.7	2.7
Investment in training (€ million)	4.5	4.2
Training hours (total number of hours, individually and collectively)[3]	125,361	113,959
Male/female ratio (%)	64/36	64/36

Staff per business	2018		2017	
	Number	FTEs	Number	FTEs
Private Banking	804	754	810	757
Evi	28	28	34	33
Asset Management	228	221	236	230
Merchant Banking	111	110	113	112
Other (support functions)	536	508	554	525
Total	1,707	1,621	1,747	1,658

Education and training

All our employees receive a regular performance review, and in 2018 we invested €4.5 million (2017: €4.2 million) in education and training programmes for our staff. The number of training hours averaged 9.7 days per employee per year[4], an increase compared to 2017 (8.6 days)[5].

Absenteeism

The rate of absenteeism remained unchanged in 2018 (2.7%). Absenteeism policies and prevention are a continual focus. For more information about our staff numbers, see our CSR Supplement.

3 Number of training hours for Van Lanschot Netherlands and Kempen only. The figure is calculated and not based on registration.
4 The figure is calculated and not based on registration.
5 In 2018, the amount of training per employee averaged 9.7 days for men and 9.6 for women.

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 85). 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. While there were no ethical incidents in 2018, there was one potential material incident resulting from a failure to comply with our Code of Conduct, Banking Code or Banker's Oath.

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.

FINDING THE RIGHT BALANCE

My background is in HR – specifically in diversity, learning and recruitment. Ten years ago, I was diagnosed with multiple sclerosis. For seven years, I managed to continue full-time in my job at another company. But over the past two years, I needed work that better corresponds with my energy levels and brain damage. In March 2018, I joined Van Lanschot Kempen in a part-time, specialist role. My work consists of recruiting employees with a physical or mental disability, coaching them and their teams, researching regulations, and maintaining contact with the UWV (Dutch Employee Insurance Agency). As well as my own position, we've created several positions with the help of a special corporate budget made available for people with a disability – an initiative the company sees as an important part of our role in society.

For all employees, but especially when you have a disability, finding balance is extremely important. Not only a work-life balance, but also a balance in terms of your physical and mental energy. In this challenging labour market, it's vital not only to keep an eye on your well-being but also on your development: what gives you energy? How can you make a unique contribution? What do you want to do with your life, not just today but tomorrow and in the future? By taking small steps to look after our well-being and development, we can challenge ourselves to make a big impact in the long term.

Francis Bogmans – Adviser Inclusion, Group HRM

PERFORMANCE

Financial and non-financial KPIs

During 2018, a new set of key performance indicators (KPIs) was developed in addition to the existing KPIs, focusing on long-term value creation. These financial and non-financial KPIs reflect both the interests of our stakeholders and our ambitions as a wealth manager.

Please note that Van Lanschot Kempen did not conduct an engagement survey in 2018. As a result, no scores are reported within the "Ethics and integrity" theme (KPI 4) and for KPI 11. For more information on the development of our KPIs, please refer to page 34.

An overview of our performance on the KPIs that we report externally is shown in the table below.

Themes and mission	KPIs	Targets	Score 2018	
Financial and risk management	1. CET 1 ratio (fully loaded)	15-17%[1]	21.4%	
	2. Return on equity (CET 1)	10-12%[1]	9.8%	
	3. Efficiency ratio	60-65%[1]	79.4%	
Ethics and integrity	4. Percentage of employees who feel the responsibility to act and behave ethically	> industry average	n/a	n/a
Client relations	5. Net Promoter Score (NPS):			
	a. Private Banking	PB: 10	2	
	b. Evi	Evi: 10	–20	
	c. Asset Management	AM: 20	44[2]	
Responsibility and sustainability	6. Private Banking: AuM invested in sustainable and/or impact investment wealth management solutions	> last year	2018: €1,318m 2017: €1,138m	
	7. Engaging with companies in which our funds invest	80-100 engagements	91 engagements	
	8. Asset Management: percentage increase in (internal and external) fund managers on our approved list that are scored on their overall sustainability profile	> last year	2018: 53 funds 2017: 0 funds	
	9. Decrease in carbon emissions:			
	a. Direct emissions of our own organisation	- 2.5%/FTE per year	–8.1%	
	b. Indirect emissions via our balance sheet (mortgage portfolio)	- CO_2/€ < last year	–7.4%	
Employees	10. Employee engagement score	> 80%	81%[2]	
	11. Employer Net Promoter Score (eNPS)[1]	> 10	–	–
	12. Gender balance in management positions	> 30% female > 30% male	20% female 80% male	
Mission: Preservation and creation of wealth	13. Private Banking: 3-year performance of discretionary management mandates	> benchmark	–0.1%	
	14. Evi: 3-year performance of discretionary management mandates	> benchmark	–0.4%	
	15. Asset Management: average Morningstar rating of investment strategies (institutional share class)	> 3.5	4.0	

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

1 Our 2020 targets applied to 2018. As of 2019, we set targets for 2023 (please refer to page 18).

2 Score for 2017.

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 2018, our CET 1 fully loaded ratio increased to 21.4% and our return on CET 1 decreased to 9.8%. The efficiency ratio amounted to 79.4%. As of 2019, we have adjusted our target for the efficiency ratio from 60-65% 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 35-42.

Ethics and integrity

We 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 item in our employee engagement survey. In 2018, no employee engagement survey was conducted so no score is reported this time. Our next employee engagement survey will take place in the first half of 2019 and will be conducted every second year.

Client relationships

The relationship with our clients is one of our most important assets. To measure the satisfaction and loyalty of our clients, 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 the Relationship NPS. The Relationship NPS differs from the Transactional NPS, which is also commonly used. The Transactional NPS measures client satisfaction after a single transaction and tends to lead to a higher score than the Relationship NPS.

We measure the Relationship NPS once a year for Private Banking and Evi. Our Private Banking clients awarded us an NPS of 2, below our target of 10. Evi clients awarded an NPS of –20, below our target of 10. Both NPS scores were impacted by disappointing absolute results on clients' investment portfolios. For Asset Management, we measure the NPS once every two years as the relationship with – and the solutions provided to – institutional clients do not change as quickly as in the case of private clients. The NPS of 44 awarded by clients of Asset Management in 2017 was above our target of 20.

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. The Private Banking AuM invested in sustainable and impact investment rose to €1,318 million in 2018, from €1,138 million in 2017. Over the year, we undertook 91 engagements for change and awareness, well within our target of 80-100 cases. In 2018, we also started rating external fund managers on ESG criteria and were able to score 53 fund managers. In addition, we decreased the carbon emissions caused by our mortgage portfolio by 7.4% and those caused by our own organisation by 8.1% per FTE.

Employees

As a professional services company, Van Lanschot Kempen is dependent 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. At year-end 2018, 20% of the employees in management positions were female. We are also focusing on developing an additional KPI to reflect our ambition of encouraging diversity within our organisation (e.g. in terms of background). As mentioned above, no employee engagement survey was conducted in 2018, which is why the 2017 employee engagement score is reported and no Employer Net Promoter Score is provided for 2018. Our next employee engagement survey will take place in the first half of 2019 and will be conducted every second year.

Mission: preservation and creation of wealth

As our mission is to preserve and create wealth for our clients, our wealth management solutions should deliver a positive performance in the long term, and our investment strategies should perform well compared to their benchmarks. At year-end 2018, the three-year performances of Private Banking and Evi discretionary management mandates relative to their benchmarks stood at –0.1% and –0.4% respectively. In 2018, performance was slightly below the benchmark due to the decision to take less interest rate risk than the benchmark by investing in credits and liquidity funds and due to the underperformance of the external equity funds selected. 2016 and 2017 showed an outperformance compared to the benchmark. At Asset Management the average Morningstar rating of our investment strategies is 4.0, well above our target of 3.5.

For more information on our KPIs, see our CSR Supplement.

Results

2018 was a good year for Van Lanschot Kempen. A net result of €80.3 million coupled with an underlying net result of €103.0 million allow us to propose a dividend of €1.45 per share. Client assets fell to €81.2 billion from €83.6 billion, while our assets under management (AuM) were down 3% to €67.0 billion. The decline was driven by a negative market performance, offset in part by a net inflow of €1.0 billion. Commission income rose by 10% to €293.2 million, driven by higher average AuM volumes and a high deal flow at Merchant Banking. At €396.4 billion, operating costs were up on last year. As expected, the larger proportion of costs was recorded in the first half of 2018, reflecting lower regulatory levies and charges in H2 2018 together with our focus on cost-saving measures (which also involved us taking a restructuring charge of €8.3 million). In 2018, the quality of our loan portfolio was back up, sparking a significant release from loan loss provisions.

Results (€ million)	2018	2017	%
Commission	293.2	267.0	10%
– Of which securities commissions	238.5	230.6	3%
– Of which other commissions	54.7	36.3	50%
Interest	175.6	196.6	–11%
Income from securities and associates	31.1	37.0	–16%
Result on financial transactions	–0.8	14.1	
Income from operating activities	**499.2**	**514.8**	**–3%**
Staff costs	244.4	236.0	4%
Other administrative expenses	146.8	150.2	–2%
– Of which regulatory levies and charges	10.5	10.9	–4%
Depreciation and amortisation	5.2	5.8	–11%
Operating expenses	**396.4**	**392.1**	**1%**
Gross result	**102.8**	**122.7**	**–16%**
Addition to loan loss provision	–12.7	–11.9	7%
Other impairments	–0.9	–2.6	–63%
Impairments	**–13.7**	**–14.4**	**–5%**
Operating profit before tax of non–strategic investments	17.8	12.6	41%
Operating profit before special items and tax	**134.3**	**149.8**	**–10%**
Strategic investment programme	22.0	21.4	2%
Derivatives recovery framework	–	1.7	
Amortisation of intangible assets arising from acquisitions	8.3	6.1	36%
Restructuring charges	8.3	–	
Operating profit before tax	**95.8**	**120.5**	**–21%**
Income tax	15.5	25.6	–40%
Net result	**80.3**	**94.9**	**–15%**
Underlying net result	**103.0**	**112.3**	**–8%**

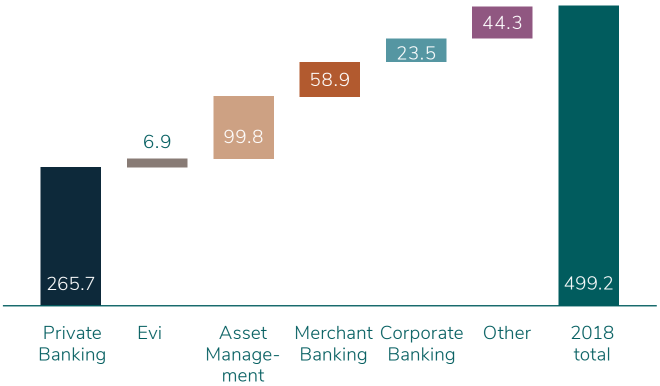
Underlying net result (€ million)	2018	2017	%
Net result	**80.3**	**94.9**	**–15%**
Strategic investment programme	22.0	21.4	2%
Derivatives recovery framework	–	1.7	
Restructuring charges	8.3	–	
Tax effects	–7.6	–5.8	30%
Underlying net result	**103.0**	**112.3**	**–8%**

Income from operating activities

Total operating income decreased by 3% from €514.8 million in 2017 to €499.2 million in 2018. Commission income showed an increase of 10% to €293.2 million. Interest income decreased by 11% and other sources of income were down by 41%.

Private Banking, Evi, Asset Management and Merchant Banking together generated 86% of total income from operating activities. These four segments accounted for 99% of commission income (on a par with 2017) and 80% of interest income (2017: 79%).

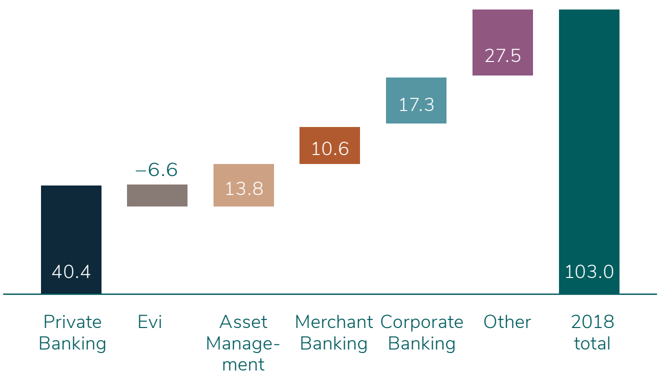
Income from operating activities, by segment
(€ million)



All operating activities made a positive contribution to the underlying net result, with the exception of Evi. The underlying net result for 2018 is the net result adjusted for costs associated with the strategic investment programme and restructuring charges (respectively €22.0 million and €8.3 million gross).

As of 2019, we will integrate our Corporate Banking activities into our Private Banking segment. In line with our strategy we successfully reduced the Corporate Banking loan portfolio, which stood at €0.5 billion at the end of 2018 (year-end 2017: €0.9 billion).

Underlying net result
(€ million)

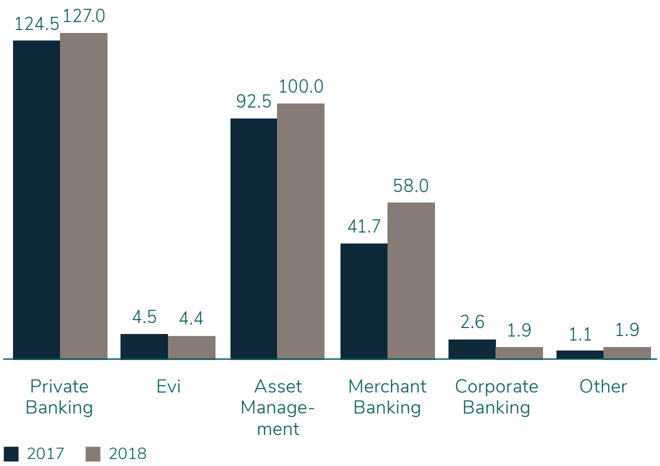


Commission

Commission (€ million)	2018	2017	%
Securities commissions	238.5	230.6	3%
- Management fees	215.2	199.8	8%
- Transaction fees	23.4	30.8	-24%
Other commissions	54.7	36.3	50%
Commission	**293.2**	**267.0**	**10%**

Commission income accounted for 59% of our total operating income. Total commission rose 10% to €293.2 million in 2018, driven by higher management fees and other commission income. The net increase in management fees of 8% was the result of a higher average volume of AuM and a slightly lower margin due to the AuM composition. Compared with 2017, transaction fees were down by 24%. This was the result of lower transaction volumes due to less favourable market conditions. Other commissions were up by 50% on the back of high deal flow at Merchant Banking. Compared with the first half of 2018, commission income in H2 2018 showed a decline. This was visible in all commission items.

Commission income by segment
(€ million)



Private Banking's total commission income was up by €2.5 million compared with 2017. Securities commissions were up by €4.2 million thanks to AuM net inflows and the acquisition of UBS's wealth management activities in the Netherlands (UBS Netherlands), with management fees up by €6.7 million and transaction fees down by €3.3 million. During the second half of 2018, commission income was negatively impacted by a decrease in AuM as a result of negative market performance.

Evi's commission income came in slightly lower (2018: €4.4 million, 2017: €4.5 million), due to cash incentives for new clients offered as part of a marketing campaign.

At Asset Management, new fiduciary mandates and the acquisition of UBS Netherlands led to a €7.5 million rise in commission income on 2017. The average margin decreased slightly, mainly due to a change in the composition of AuM; see "Client assets" on page 39.

Commission income at Merchant Banking rose by €16.3 million in 2018, to €58.0 million (2017: €41.7 million). This was mainly driven by higher advisory income from M&A and capital market transactions. Our real estate and life sciences teams were involved in several successful transactions in Europe and the US. The increase driven by higher advisory income was partly offset by the introduction of MiFID II, which impacted commissions earned by our securities team.

Interest

Interest (€ million)	2018	2017	%
Gross interest margin	186.9	212.6	–12%
Interest equalisation	–13.8	–11.0	26%
Miscellaneous interest income and charges	–0.1	–8.7	
Loan commission	2.6	3.7	–29%
Interest	**175.6**	**196.6**	**–11%**

The current interest rate climate continues to put pressure on our interest income. Our 2018 interest income of €175.6 million was 11% down on the €196.6 million recorded in 2017, mostly due to margin pressure. This was the combined result of the issuance of new loans and repricing of current Private Banking loans against a lower interest rate and a smaller loan portfolio. The loan portfolio declined by €0.5 billion to €8.6 billion. In 2018, we did not reduce the interest rates on savings and deposits further, as the "natural floor" in client rates of 0% had already been reached by the end of 2017. Furthermore, during 2018 wholesale funding was reduced as a senior unsecured bond (€0.4 billion) and an RMBS (€0.4 billion) were redeemed.

The interest margin fell by 11 basis points to an average of 121 basis points. The "clean" interest margin[3] declined by 12 basis points compared with its level at the end of 2017, to 115 basis points.

Miscellaneous interest income and charges went up from a negative -€8.7 million to -€0.1 million, driven by lower amortisation on previously discontinued interest rate hedges (€6.0 million down on 2017) and income from penalty interest.

Income from securities and associates

Income from securities and associates (€ million)	2018	2017	%
Dividend	3.2	4.6	–31%
Capital gains	15.5	17.1	–9%
Valuation gains and losses	12.5	15.4	–19%
Income from securities and associates	**31.1**	**37.0**	**–16%**

Income from securities and associates relates to investments of our equity investment company Van Lanschot Participaties and investments in Bolster Investments Coöperatief U.A. which was launched in 2017. We occasionally also take positions in our own investment funds, for instance by providing seed capital or to be aligned with our clients' interests.

Capital gains were down by €1.6 million to €15.5 million in 2018. The capital gain of €14.2 million in H2 2018 includes the sale of part of our minority stake in Ploeger Oxbo of €10.4 million and the sale of our stake in Ormit Holding.

Valuation gains and losses were down to €12.5 million, from €15.4 million in 2017. H2 2018 valuation gains and losses showed a negative figure of -€1.3 million, reflecting the lower value of the companies in which we hold minority interests and the investment funds in which we hold positions. The reduced value of these investment funds reflects less favourable market conditions.

Over the last ten years, income from securities and associates on average amounted to around €25 million a year.

Result on financial transactions

Result on financial transactions (€ million)	2018	2017	%
Securities trading	–0.7	–0.4	62%
Currency trading	8.0	7.9	2%
Investment portfolio	1.9	6.9	–72%
Interest rate hedges	–2.6	1.8	
Other income	–7.5	–2.1	
Result on financial transactions	**–0.8**	**14.1**	

The -€0.7 million recorded on securities trading reflects the negative result on positions in our own issued debt securities, partly offset by positive results on the trading book.

The result on currency trading was relatively stable compared with 2017.

The €1.9 million profit on the investment portfolio breaks down into two separate parts: realised gains on the financial assets at fair value through other comprehensive income and results on the mark-to-market portfolio. The 2017 result of €6.9 million included more realised gains on the financial assets at fair value through other comprehensive income.

The result on interest rate hedges decreased by €4.4 million to -€2.6 million, mainly due to the negative result of the hedge on 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.

Other income decreased as a result of lower gains on our structured products, due to a lower volume issued.

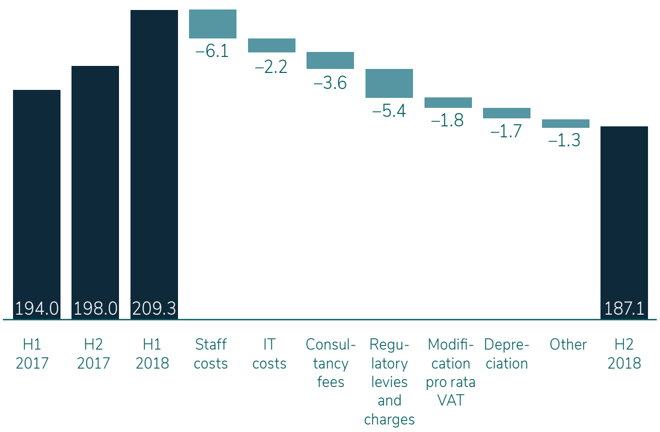
Operating expenses

Operating expenses (€ million)	2018	2017	%
Staff costs	244.4	236.0	4%
Other administrative expenses	146.8	150.2	–2%
- Of which regulatory levies and charges	10.5	10.9	–4%
Depreciation and amortisation	5.2	5.8	–11%
Operating expenses	**396.4**	**392.1**	**1%**

3 The interest margin is calculated on the basis of a 12-month moving average. The clean interest margin equals the gross interest margin adjusted for interest equalisation and interest-related derivatives amortisation.

Total operating expenses rose by 1% to €396.4 million (2017: €392.1 million), mainly reflecting higher staff costs. As expected, the larger proportion of costs was recorded in the first half of 2018 (H1 2018: €209.3 million; H2 2018: €187.1 million). The lower cost level in H2 2018 reflects lower regulatory levies and charges together with our focus on cost-saving measures. As part of these measures, a restructuring charge of €8.3 million has been incurred.

Operating expenses
(€ million)



Staff costs
At €244.4 million, staff costs were 4% up on 2017 (€236.0 million). This increase is driven by factors including salary increases (mainly as a result of the competitive labour market), costs associated with the acquisition of UBS Netherlands and a higher contribution to the Dutch government's sector fund (to cover social security costs).

At the end of 2018, we employed 1,621 full-time equivalent staff (FTEs), excluding employees of our non-strategic investments. This was 37 FTEs fewer than at year-end 2017 (1,658) and was largely the result of staff reductions in group functions and Private Banking.

Other administrative expenses
Other administrative expenses amounted to €146.8 million in 2018, 2% below the figure for 2017 (€150.2 million). As expected, the larger proportion of the costs was recorded in the first half of the year (€80.6 million in H1 2018 vs. €66.3 million in H2). The decrease in the second half of 2018 was mainly related to lower regulatory levies and charges and lower consultancy fees, as well as a lower cost resulting from changes in the pro rata VAT percentage. As of 2018, regulatory levies and charges are shown separately and amounted to €10.5 million.

IT change expenses, excluding our strategic investment programme, amounted to €21.8 million. Given the upward pressure related to technological developments such as digitalisation and data analytics and our regulatory environment, we expect a normalised annual level of IT change costs between €20 million and €25 million.

Depreciation and amortisation
Depreciation and amortisation was down by 11% to €5.2 million. The lower figure of €1.7 million for H2 2018 was attributable mainly to the profit from the sale of office buildings that we accounted for as an adjustment on depreciation.

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, restructuring charges and a one-off charge for the derivatives recovery framework) to income from operating activities, deteriorated to 79.4% in 2018 from 76.2% in 2017. This increase was driven by lower interest income, a lower result on financial transactions and higher costs related to staff. We have set our financial targets for 2023 and as a result we have redefined our efficiency target to 70-72% to reflect both our wealth management profile and the economic environment in which we operate.

Impairments

Impairments (€ million)	2018	2017	%
Private Banking	–3.2	–3.3	–3%
Corporate Banking	–10.6	–6.0	76%
Other	1.0	–2.6	
Addition to loan loss provision	**–12.7**	**–11.9**	**7%**
Impairment on investments and participating interests	–0.9	–2.7	–65%
Impairment on assets obtained through the seizure of collateral	–	0.1	
Other impairments	**–0.9**	**–2.6**	**–63%**
Impairments	**–13.7**	**–14.4**	**–5%**

Addition to loan loss provision
A total of €12.7 million was released from loan loss provisions in 2018, with Corporate Banking accounting for €10.6 million deriving from both the SME and real estate loan portfolios. Private Banking accounted for a release of €3.2 million. As in 2017, the favourable economic climate contributed to the release from loan loss provisions.

In 2018, the release from loan loss provisions relative to average risk-weighted assets worked out at 27 basis points (2017: 22 basis points).

Other impairments
Other impairments show a release of €0.9 million. This amount is a combined effect of impairments and reversal of impairments on our investments and participating interests. Reverse impairments were the result of the increase in the fair value of the minority holdings in some of our private equity investments to which impairments had been applied previously.

Non-strategic investments
During 2018, we held majority stakes in three non-strategic investments, AIO II (Medsen), Holonite (Holowell BV) and Allshare. Operating profit before tax from non-strategic investments amounted to €17.8 million in 2018 against €12.6 million in 2017, mainly thanks to the improved operating result at Medsen. In December 2018, we announced the sale of our stake in Medsen. The transaction was closed in February 2019 will generate a book profit of around €35 million in 2019. Our aim is to divest our shareholdings in these non-strategic investments over time.

Special items

We recognised €38.5 million in special items in 2018 compared with €29.3 million in 2017; the following table gives a breakdown.

Special items (€ million)	2018	2017	%
Strategic investment programme	22.0	21.4	2%
Derivatives recovery framework	–	1.7	
Amortisation of intangible assets arising from acquisitions	8.3	6.1	36%
Restructuring charges	8.3	–	
Special items	**38.5**	**29.3**	**32%**

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 plan to invest €60 million in developing an omni-channel private banking model, outsourcing our mortgage business and payment services, and completing the transformation of our IT landscape. Over the course of 2016-2018, total investments under the programme amounted to €50.7 million, charged directly to profit and loss. A total of €22.0 million was invested in 2018. Good progress was made on the development of our omni-channel service for our clients, as we launched our new website and the new client portal together with the introduction of new digital tools for our investment advisers and private bankers. In addition, we are working on the outsourcing of our payment service activities to Fidor. We will be rolling out the new platform and payment app to our clients in the course of 2019. The outsourcing of the mortgage administration to Stater also formed part of the strategic investment programme and was completed on schedule in September 2017. Our investment programme is scheduled for completion over the course of 2019. As of 2020, IT investments are included in our regular IT costs.

Other special items

Amortisation of intangible assets arising from acquisitions rose by €2.2 million as a result of the acquisition of UBS Netherlands.

In the course of 2018, management took several cost-saving measures, such as:

- Migrating the Belgian IT activities to the IT infrastructure in the Netherlands;
- Restructuring various departments, including pooling all investment expertise in a single Kempen Asset Management investment office;
- Centralising small-cap strategies in Amsterdam, and the resultant closure of the Edinburgh office.

These measures have led to a one-time restructuring charge of €8.3 million, which also includes the outsourcing of payments announced previously as well as switching off the mainframe, both of which should generate cost savings. These cost-saving measures were initiated in 2018 and will be further implemented in 2019, leading to lower operating expenses. Taking into account possible investments and indexation, Van Lanschot Kempen aims for a net cost level of around €390 million.

Income tax

Income tax for 2018 amounted to €15.5 million (2017: €25.6 million), which translates into an effective tax rate of 16.1% compared with 21.2% in 2017. The main reason for the lower effective tax rate in 2018 was the tax-exempt gain on two sales in our participation portfolio combined with a lower operating profit before tax. Our effective tax rate is lower than the general Dutch tax rate of 25% due to income covered by equity exemption rules.

Earnings per share (€ million)	2018	2017
Net result	80.3	94.9
Share of non-controlling interests	–5.7	–5.4
Net result for calculation of earnings per ordinary share	**74.6**	**89.5**
Earnings per ordinary share (€)	**1.82**	**2.19**
Underlying net result for calculation of earnings per ordinary share	**97.3**	**106.9**
Underlying earnings per ordinary share (€)	**2.37**	**2.61**
Weighted number of outstanding ordinary shares (x 1,000)	41,005	40,960

Profit attributable to non-controlling interests of €5.7 million in 2018 largely relates to non-controlling interests in our non-strategic investments, while also including the management investment plan launched in 2010 for selected staff at Kempen & Co (Kempen MIP). In the first half of 2018, Van Lanschot Kempen offered participants in Kempen MIP the opportunity to exchange certificates in MIP for shares in Van Lanschot Kempen. As a result, the share of non-controlling interests related to Kempen MIP decreased.

We will propose to pay a 2018 cash dividend to Van Lanschot Kempen shareholders of €1.45 per share, a pay-out ratio of 61% based on the underlying net result attributable to shareholders (2017: €1.45, pay-out ratio of 56%). The pay-out ratio based on the net result amounts to 80%.

Client assets

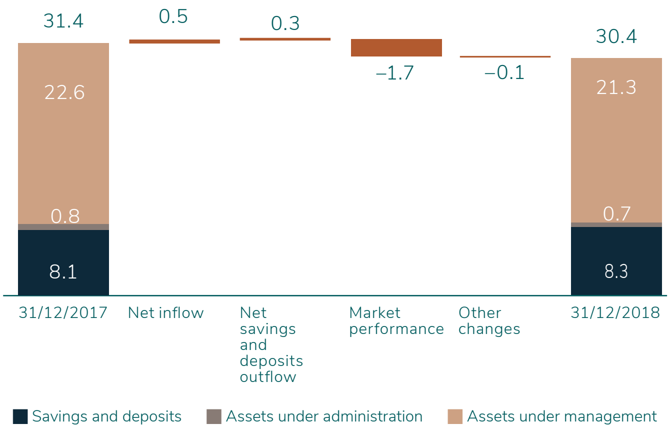
Client assets (€ billion)	31/12/2018	31/12/2017	%
Client assets	**81.2**	**83.6**	**–3%**
Assets under management	67.0	69.0	–3%
Assets under monitoring and guidance	3.4	3.5	–3%
Assets under administration	1.7	2.0	–16%
Savings and deposits	9.1	9.1	–1%
Client assets	**81.2**	**83.6**	**–3%**
Private Banking	30.4	31.4	–3%
Evi	1.4	1.5	–6%
Asset Management	48.2	49.0	–1%
Other	1.2	1.7	–34%

Client assets (€ billion)	Private Banking	Evi	Asset Management	Other	Total
Client assets at 31/12/2017	31.4	1.5	49.0	1.7	83.6
Assets under management in/outflow	0.5	0.0	0.4	0.0	1.0
Market performance of assets under management	–1.7	–0.1	–1.2	0.0	– 3.0
Change in assets under monitoring and guidance	–	–	–0.1	–	– 0.1
Change in assets under administration	0.0	–	–	–0.3	– 0.3
Internal AuM transfer	–0.1	0.0	0.1	0.0	0.0
Change in savings and deposits	0.3	0.0	0.0	–0.3	– 0.0
Client assets at 31/12/2018	30.4	1.4	48.2	1.2	81.2

Van Lanschot Private Banking

The negative market performance of -€1.7 billion impacted client assets at Private Banking. However, total client assets decreased by only €1.1 billion in 2018 to €30.4 billion. Net inflows amounted to €0.5 billion, of which €0.2 billion was discretionary and €0.4 billion non-discretionary. At the end of 2018, assets under discretionary management made up 56% of total AuM (year-end 2017: 55%). Total discretionary AuM stood at €11.8 billion (year-end 2017: €12.5 billion) and total non-discretionary AuM was €9.4 billion (year-end 2017: €10.1 billion).

Client assets at Private Banking
(€ billion)

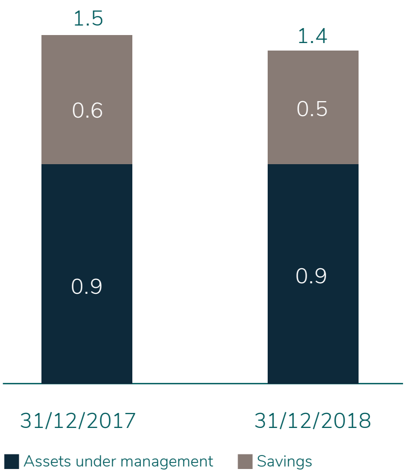


Assets under administration decreased slightly during 2018 to €0.7 billion (year-end 2017: €0.8 billion). These assets are partly administered by Van Lanschot Private Banking; we have little or no control over them and their earnings are relatively limited.

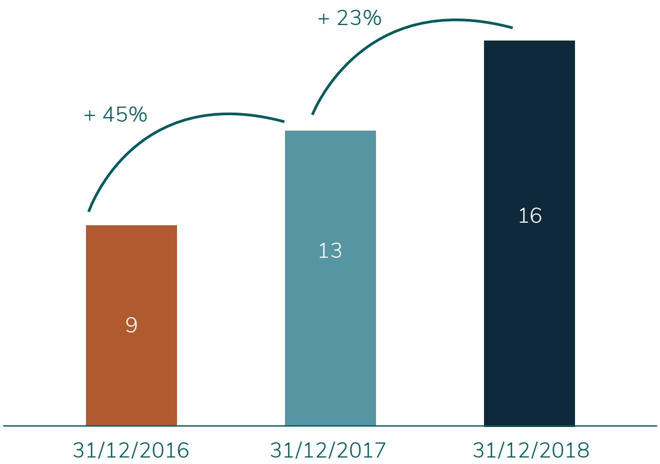
Evi van Lanschot

AuM decreased slightly and stood at €0.9 billion per year-end 2018, despite the challenging market conditions that led to negative market performance. Evi's AuM client base expanded further by 23% to over 16,000 clients, although AuM growth was less strong. The volume of savings declined by €0.1 billion, which also means that total client assets decreased by €0.1 billion from €1.5 billion to €1.4 billion.

Client assets at Evi
(€ billion)

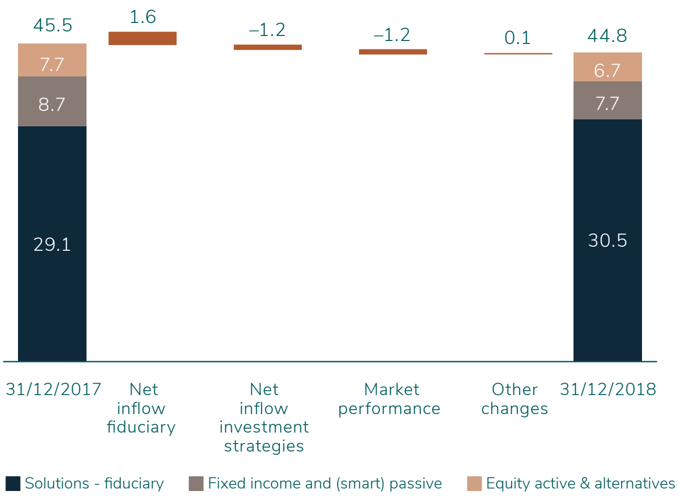


Development of Evi's AuM client base
(1,000)



Kempen Asset Management
AuM at Asset Management declined to €44.8 billion, driven by a negative market performance of €1.2 billion. Fiduciary mandates showed an inflow, thanks to Stichting Pensioenfonds Arcadis Nederland (via Het nederlandse pensioenfonds) of €1.1 billion and Covra. We saw an outflow from investment strategies, partly as a result of the discontinuation of our Fundamental Index Strategy and as a result of rebalancing of clients' portfolios. In 2018, we extended our investment strategies offering with the addition of the Private Market Fund, the Global Impact Fund and the Global Value Fund. Total client assets at Asset Management stood at €48.2 billion (2017: €49.0 billion).

AuM Asset Management
(€ billion)



In addition to third-party funds, Kempen Asset Management also manages our Private Banking discretionary management mandates and the Evi Beleggen products, with total AuM of €10.7 billion at the end of 2018 (this amount is not included in Asset Management's total AuM of €44.8 billion).

Statement of financial position

Statement of financial position (€ million)	31/12/2018	31/12/2017	%
Equity attributable to shareholders	1,256	1,333	–6%
Equity attributable to non-controlling interests	12	16	–25%
Savings and deposits	9,091	9,145	–1%
Loans and advances to clients	8,561	9,103	–6%
Total assets	13,980	14,659	–5%
Funding ratio (%)	106.2	100.5	
Return on assets (%)	0.74	0.77	

Loan portfolio

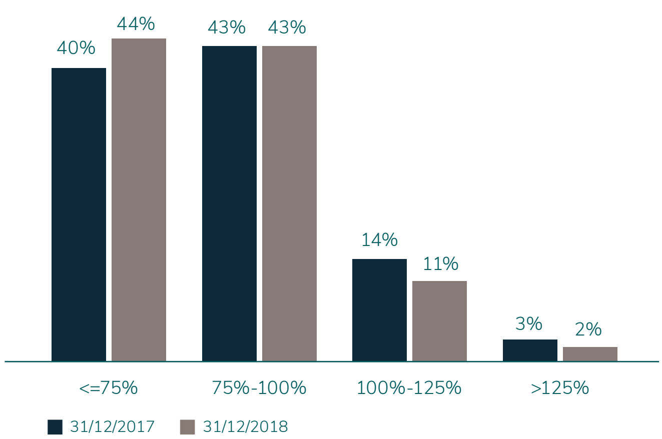
Loan portfolio (€ million)	31/12/2018	31/12/2017	%
Mortgages	5,756	5,712	1%
Other loans	1,793	2,045	–12%
Private Banking	**7,550**	**7,756**	**–3%**
Loans to SMEs	251	457	–45%
Real estate financing	271	411	–34%
Corporate Banking	**523**	**868**	**–40%**
Mortgages distributed by third parties	602	600	0%
Total	**8,674**	**9,224**	**–6%**
Impairments	–114	–120	–6%
Total	**8,561**	**9,103**	**–6%**

Our loan portfolio contracted by 6% to €8.6 billion in 2018, due to the Corporate Banking run-off (-40%) and the Private Banking Other loans (-12%). Our mortgages portfolio remained stable at €5.8 billion.

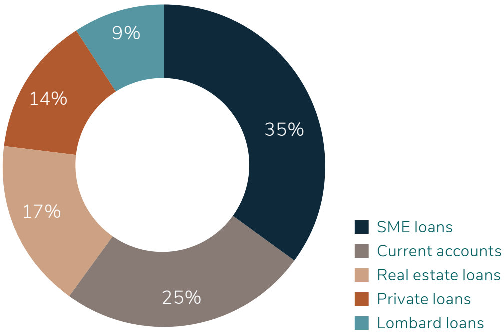
Van Lanschot Private Banking
The Private Banking loan portfolio breaks down into mortgages and other loans. Private Banking mortgages increased marginally to €5.8 billion. Over 66% of our loan portfolio consists of these Private Banking mortgages, primarily to high net-worth individuals. The weighted average loan-to-value (LTV) ratio improved further to 76% (year-end 2017: 81%), on the back of prepayments and rising house prices.

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 decreased to €1.8 billion (year-end 2017: €2.0 billion), mainly driven by prepayments as we no longer offer interest compensation as of Q4 2018 and as a result of low client rates on savings combined with the unfavourable market conditions for investing. General repayments are also a cause of the decline in other loans.

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



Private Banking other loans: type of loan
(100% = €1.8 billion)



Van Lanschot Corporate Banking

At the end of 2018, the commercial real estate loan portfolio and SME loans totalled €0.5 billion (year-end 2017: €0.9 billion). Risk-weighted assets came down by €0.2 billion and worked out at €0.5 billion (year-end 2017: €0.7 billion).

SME loans at Corporate Banking were 45% lower at €0.3 billion at the end of 2018, accounting for 3% of our total loan portfolio. This portfolio is well diversified across sectors. The real estate loan portfolio (€0.3 billion), which is well diversified in terms of collateral, contracted by 34%. The collateral assets against which the loans are secured are typically located in the Randstad conurbation comprising the cities of Amsterdam, Rotterdam, Utrecht and The Hague.

Mortgages distributed by third parties

The portfolio with 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 7% 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 €331 million at the end of 2018. The provisions for these loans amounted to €101 million, working out at a coverage ratio of 30%. As of 1 January 2018, we implemented accounting standard IFRS 9 – Financial Instruments. As a result, total impairments are not fully comparable with those reported in previous periods. The tables below break down the total loan portfolio and provisions.

The total impaired ratio decreased from 4.0% to 3.8% at the end of 2018 and the total coverage ratio was relatively stable at 30% (year-end 2017: 31%). The proportion of impaired loans at Private Banking decreased to 2.3% (year-end 2017: 2.5%). The coverage ratio for mortgages decreased to 12%, driven by rising house prices. The coverage ratio for other loans increased to 62%. The impaired ratio at Corporate Banking rose to 29.8% (year-end 2017: 20.2%), primarily as a result of the portfolio's run-off. Our Corporate Banking coverage ratio decreased to 15% (year-end 2017: 19%). The relatively low coverage ratio is explained by the sufficiently high quality of the collateral pledged to secure these loans.

Provision 31/12/2018 (€ million)	Loan portfolio	Impaired loans	Provision	Impaired ratio	Coverage ratio	Impaired ratio 2017	Coverage ratio 2017
Mortgages	5,756	63	8	1.1%	12%	1.0%	20%
Other loans	1,793	112	69	6.2%	62%	6.8%	50%
Private Banking	**7,550**	**175**	**77**	**2.3%**	**44%**	**2.5%**	**41%**
Loans to SMEs	251	125	22	49.9%	17%	29.2%	21%
Real estate financing	271	31	2	11.3%	8%	10.3%	16%
Corporate Banking	**523**	**156**	**24**	**29.8%**	**15%**	**20.2%**	**19%**
Mortgages distributed by third parties	602	0	0	0.0%	3%	0.0%	15%
Total	**8,674**	**331**	**101**	**3.8%**	**30%**	**4.0%**	**31%**
Provision	–114						
Total	**8,561**		**101**				
ECL stage 1 and 2 (IFRS 9)			13				
Total ECL (IFRS 9)			**114**				

Capital and liquidity management

Our fully loaded Common Equity Tier 1 ratio (CET 1 ratio) improved from 20.3% to 21.4% in 2018, reflecting our robust capital position. In 2016, we announced our ambition to distribute at least €250 million to shareholders in the period up to and including 2020. A total of over €210 million has now been paid out, in the form of both dividends and capital returns. Including the proposed 2018 dividend, a total of over €270 million will have been returned in 2019. This means that we have already achieved this ambition. In the future, we will continue to optimise our capital base in terms of level and type of instrument, while leaving room for possible acquisitions. If possible, we will also consider paying out excess capital to shareholders, subject to approval by the regulator.

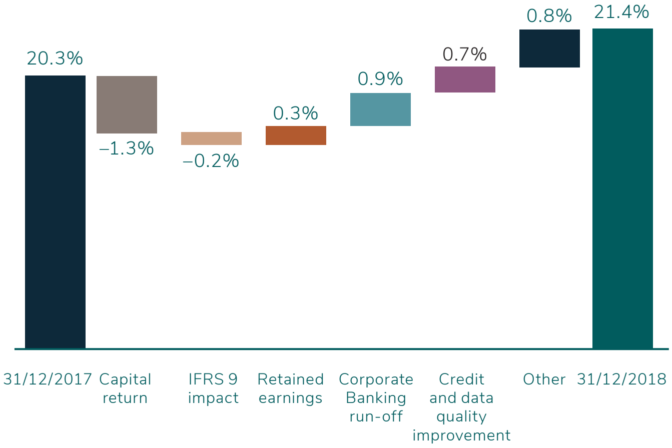
Capital and liquidity management (€ million)	31/12/2018	31/12/2017	%
Risk-weighted assets	4,580	4,979	–8%
Common Equity Tier 1 ratio, fully loaded (%)[4]	21.4	20.3	
Common Equity Tier 1 ratio, phase-in (%)[4]	21.4	20.5	
Tier 1 ratio, fully loaded (%)[4]	21.4	20.3	
Tier 1 ratio, phase-in (%)[4]	21.4	20.5	
Total capital ratio, fully loaded (%)[4]	23.5	22.1	
Total capital ratio, phase-in (%)[4]	23.6	22.3	
Leverage ratio, fully loaded (%)[4]	6.9	6.7	
Leverage ratio, phase-in (%)[4]	6.9	6.7	

Capital management

Our CET 1 fully loaded ratio improved once again, to 21.4% at the end of 2018, mainly driven by an 8% decline in risk-weighted assets to €4.6 billion (year-end 2017: €5.0 billion).

The total capital ratio strengthened to 23.5% (year-end 2017: 22.1%).

Common Equity Tier 1 ratio
(fully loaded) (%)



As expected, the CET 1 ratio decreased by 1.3 percentage points due to the capital return and by 0.2 percentage points due to the impact of IFRS 9. The €0.2 billion reduction in risk-weighted assets at Corporate Banking due to run-off had a positive impact on the CET 1 ratio of 0.9 percentage points. The ratio also gained 0.7 percentage points from an improvement in credit and data quality.

Basel IV

In December 2017, the Basel Committee on Banking Supervision (BCBS) published the final instalments of its reforms for the calculation of risk weighted assets and capital floors. The finalised reforms are collectively referred to as "Basel IV". Assuming no delay in translating this into EU regulation, Basel IV will come into effect on 1 January 2022. Our expectation as to the impact of Basel IV remains unchanged. Based on our current balance sheet and credit models, provisional calculations suggest that our risk-weighted assets should increase by no more than 10% on the implementation of Basel IV. These calculations are based on assumptions about the actual implementation of the Basel IV proposals in legislation.

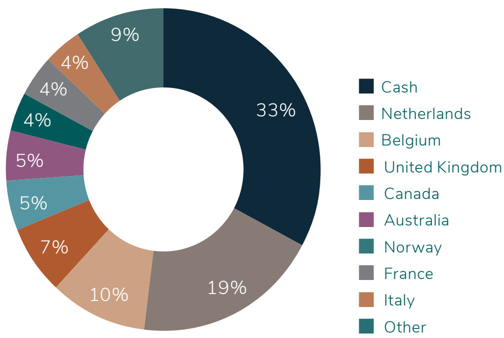
IFRS 16

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 impact of applying IFRS 16 as of 1 January 2019 is expected to result in an increase in risk-weighted assets of €60-70 million. The effect of this increase in risk-weighted assets on our CET 1 ratio is a decrease of approximately 0.3 percentage points.

Investment portfolio and cash

The total investment portfolio and cash[5] amounted to €3.9 billion at the end of 2018 (year-end 2017: €4.4 billion). Relative to its end-2017 level, cash held with central banks decreased by €0.3 billion. Other financial assets at amortised cost portfolio[6] stood at €0.6 billion at the end of 2018 and had hardly changed in size or composition. 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 31/12/2018
(100% = €3.9 billion)



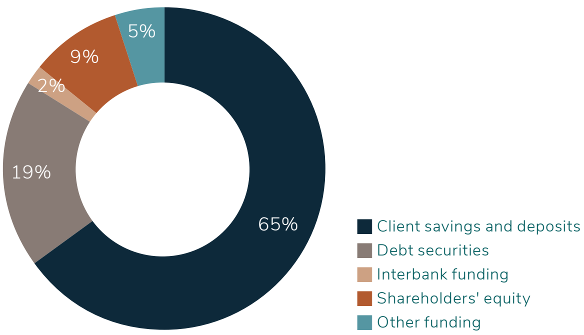
4 Full year 2018 and 2017 including retained earnings; half-year 2018 excluding retained earnings.
5 Investment portfolio and cash comprises the balance of financial assets at fair value through other comprehensive income, other financial assets at amortised cost, financial assets designated at fair value through profit or loss, cash withdrawable on demand from central banks, and highly liquid (cash) investments.
6 Previously known as held-to-maturity investments.

Funding

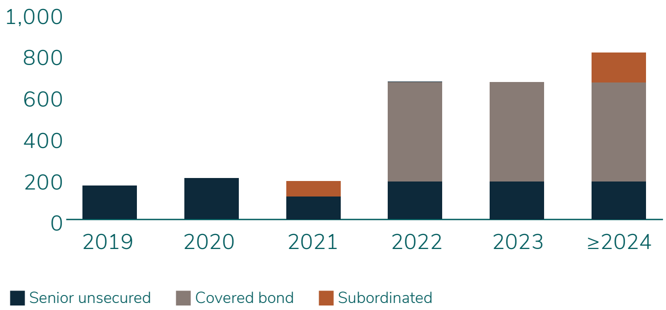
We aim to retain access to both retail and wholesale markets through diversified funding. At the end of 2018, our funding ratio had increased by 5.7 percentage points to 106.2% (year-end 2017: 100.5%) in the wake of a decline in loans and advances to clients (-6%) and in savings and deposits (-1%).

In June 2018, a senior unsecured bond was redeemed and in December 2018 an RMBS was redeemed. Overall issued debt securities fell by €0.9 billion in 2018. We no longer have RMBS and benchmark unsecured debt issuances placed with investors.

Funding mix at 31/12/2018
(100% = €14.0 billion)



Funding redemption profile
(€ million)



Ratios

At the end of 2018 our liquidity ratios based on Basel III rules as currently known were as follows:

Ratios	31/12/2018	Requirement	31/12/2017
Liquidity coverage ratio (%)	140.6	> 100	163.6
Net stable funding ratio (%)	129.8	> 100	129.2

Events after the reporting period

On 19 February 2019, Van Lanschot Kempen announced the sale to De Goudse Verzekeringen of its interest in Van Lanschot Chabot | Mandema & Partners. The proposed transaction is expected to be completed in the first half of 2019 and to generate a book profit of around €15 million, with possibly a minor earn-out in the first half of 2020.

WORKING TOWARDS LONG-TERM RELATIONSHIPS

My career at Van Lanschot Kempen is perhaps unusual: from 2002 until 2007 I was a business banker at Van Lanschot, but I was offered the opportunity to manage a young team at Rabobank and left the company for ten years. Then in July 2017, I came back as Branch Director of Hilversum and Laren – that says a lot. I like the way of working – everyone works with clients, from receptionists through to Board members. I also like the lack of hierarchy – it's like a family business where everyone rolls up their sleeves and works together.

I see relationships with my clients and colleagues the same way I see personal relationships: in order for them to work in the long term, there has to be a click. You need to communicate, you need to work at the relationship, and you need to have fun. Building long-term relationships with clients also means knowing yourself: if you don't click, perhaps someone else on your team will. That's where diversity comes in – we need different types of people to build relationships with different types of clients.

And creating that connection with your clients is easier when you're feeling fit and healthy too. That's why I chose a health coach to help me improve my work-life balance through the Van Lanschot Kempen Vitality Programme. The coach helped me set goals and motivated me to meet them. Sometimes it's just about the little things – like taking a walk around the block or having a chat with a colleague.

Susan Leerkes – Branch Director of Hilversum and Laren, Van Lanschot Private Banking

VAN LANSCHOT PRIVATE BANKING

Guiding our clients during every phase of their lives

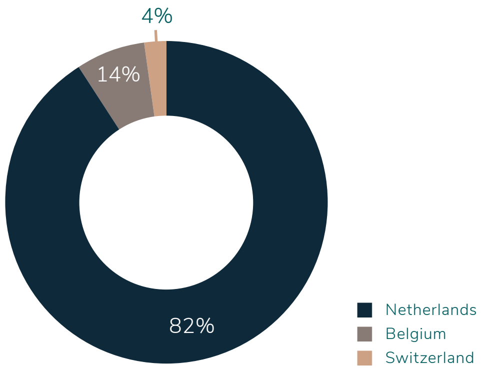
Financial performance

Private Banking (€ million)	2018	2017	%
Commission	127.0	124.5	2%
Interest	137.7	151.4	–9%
Other income	1.1	1.0	1%
Income from operating activities	**265.7**	**276.9**	**–4%**
Staff costs	99.4	96.5	3%
Other administrative expenses	48.0	51.3	–6%
Indirect costs	61.5	57.9	6%
Depreciation and amortisation	1.0	1.3	–28%
Operating expenses	**209.9**	**207.0**	**1%**
Gross result	**55.9**	**69.9**	**–20%**
Impairments	–3.2	–3.2	–
Operating profit before special items and tax	**59.0**	**73.1**	**–19%**
Strategic investment programme	22.0	21.4	3%
Amortisation of intangible assets arising from acquisitions	4.8	3.0	60%
Restructuring charges	3.8	–	–
Operating profit before tax	**28.4**	**48.6**	**–42%**
Income tax	7.4	13.4	–45%
Net result	**21.0**	**35.2**	**–40%**
Underlying net result	**40.4**	**51.3**	**–21%**

Despite a somewhat unpredictable market in 2018, Private Banking saw a net inflow in assets under management of €0.5 billion, driven by organic growth from existing clients as well as new clients. And there are many reasons for this. We have broadened the range of investment strategies and products available to clients, which has helped to encourage our existing clients to do more business with us as well as contributing to referrals. We've also seen increased interest in our sophisticated investment advice product, which includes a highly innovative app. Moreover, our personal approach continues to make our service very popular among clients.

In the Netherlands, the strong economy made it easier for entrepreneurs to sell their businesses, which has also resulted in increased assets invested with us. Our mortgages portfolio has been stable as a result of a strong housing market on the back of low interest rates. On the flip side, however, interest income remains under pressure due to lower interest margins. Investments in riskier assets such as equities have increased during 2018 as they represent higher returns in a climate where lower risk investments

Assets under management: by country (€21.3 billion)



yield very little. We also see clients opting for alternative ways to make returns, for example by investing in real estate.

We continue to serve our defined target groups – entrepreneurs, family businesses, high net-worth individuals, business professionals and executives, healthcare professionals, and foundations and associations – within our markets in the Netherlands, Belgium and Switzerland. In the latter, we are the only Dutch bank catering specifically to Dutch and Belgian clients.

Improving client experience through technology

As part of our Strategy 2020 investment programme, in 2018 our Digital XL team made great strides in taking our omni-channel Private Banking model to the next level. The reporting year has seen the continuous improvement of our investment app, a new "Mijn Van Lanschot" (online portal) for all our clients, the introduction of *Vermogenshorizon* (goal monitoring and scenario analyses), the Compass app for bankers, and the Messaging Centre for investment advisers. All these tools have significantly strengthened our client offering, especially when coupled with our personal service.

Alongside our own omni-channel platform, we are collaborating with strategic partners for non-core wealth management services such as payments. Under the strategic investment programme, Van Lanschot Kempen is therefore forging ahead with the outsourcing of our payment services to German fintech company Fidor. The technical development of the new payments platform and payments app was completed at the end of 2018. Migration of all existing clients to the new platform is planned in the course of 2019.

In addition to our strategic investment programme, our work on advanced data analytics has already enhanced client experience in multiple ways. We were able to develop data applications for our bankers to help them to serve their clients better.

We also created an analytical tool to allow us to deep-dive into investment portfolios at multiple levels: for example, regional level and macro/company-wide level. We will continue to educate our employees to be able to make the best use of all the data and channels available to them, so they can play a guiding role for our clients. For full details, please read the "Digitalisation and advanced analytics" section on page 25.

Innovation in our processes
In our ambition to keep on innovating from an operations perspective, in 2018 we succeeded in launching our first process using Robotics Process Automation (RPA) – meaning we are using a robot for one of our administrative wealth management processes. In 2019, we plan to develop more RPA processes. By innovating on our operational processes, we're able to serve our clients more quickly and efficiently.

Our business in Belgium
Our Belgian Private Banking business saw strong growth in 2018, with net inflow in assets under management at more than 7% (2017: 5%) driven by organic growth from both new and existing clients. Reasons for this include our tax-efficient product proposition, simplicity and transparency in terms of costs and underlying assets in our funds, and our focus on liquidity events with our clients. We are pleased to report on our strong cooperation with Kempen Merchant Banking during the reporting year – both collaborating with the Structured Products team to create tailor-made structured products for our Belgian clients, and working with the Corporate Finance team in the life sciences and real estate sectors in particular.

Other highlights of progress made in 2018 include:
- Initiation of our migration to the same IT infrastructure as the Dutch Private Banking business in order to benefit from omni-channel development, enhanced security and greater efficiencies. Once completed, our Belgian clients will also gain access to far more digital capabilities than they have currently, including all the apps and the new website under the Strategy 2020 investment programme. This long and complex process started in April 2018 and is scheduled for completion over the course of 2019.
- Development of Lombard loans. We have created a new team and redesigned the credit department to help bankers offer these kinds of loans as a solution for our clients.
- Since the end of 2018, we are using the best-in-class method to manage our five profile funds, based on ESG research by MSCI ESG. Forum Ethibel has been appointed as an independent controller to monitor the application of this method every six months to ensure the funds comply with the chosen ESG approach.

Integration of UBS's domestic wealth management
Following our acquisition of the wealth management arm of UBS in the Netherlands in 2017, the integration was completed successfully in 2018. We are now also able to offer consolidated reporting and strategic advice to existing Van Lanschot clients as well as former UBS wealth management clients in the Netherlands.

Van Lanschot Private Service
We aim to act as a guide to our clients in every phase of their lives – in financial as well as non-financial services. We therefore offer Van Lanschot Private Service as an additional, complimentary advice service to our investment advisory clients. Accessible via our investment app, Van Lanschot Private Service offers access to a range of possibilities covering six services: lifestyle, travel, concierge, healthcare, wine circle and trusted advisers. Our clients value this service because of the strong and trusted reputation of the Van Lanschot brand.

Net Promoter Score
Our clients with at least €500,000 in assets under management gave Private Banking an average rating of 7.8 in 2018, bringing our Net Promoter Score (NPS) to 2. This is a different methodology compared with previous years, when we measured client satisfaction and NPS amongst all our clients, including clients with less than €500,000 in assets under management. In 2017, our clients overall rated us at 7.6 (NPS: –4).

Priorities for 2019
In 2019 and beyond, we aim to grow further and to build on our ambition to provide customised solutions to clients, including by improving our new family solutions proposition. For full details, please read the "Solutions for clients" section on page 24. We will also continue building our predictive capabilities based on our data analytics for the benefit of bankers and clients, and improving our digital tooling so that our clients can reach us anywhere, anytime, and receive the service that's most relevant for them. We also plan to make our investment app a two-way communication channel so that investment advisers can send their clients an investment proposal, which clients can accept or decline immediately within the app.

KEEPING FIT, PHYSICALLY AND MENTALLY

The clue is in my job title: I manage two teams – Operations and Development. On the operations side, we deal with Evi clients' administration and assets under management. On the development side, we develop the app and website so that new clients can be quickly on-boarded and existing clients can get easy insights into their portfolios. Evi made good progress in 2018: we updated our app and launched a new product, Evi Go, especially for starters in discretionary portfolio management – to name just two of the developments last year. These online tools, in combination with the opportunity for personal contact between clients and advisers, put us in a good position for the longer-term future.

For me personally it was a big year, too: I moved from working for Van Lanschot Private Banking in 's-Hertogenbosch to working for Evi in Amsterdam and Antwerp. That means I have to do quite a bit of traveling, so it's important that I keep in shape physically as well. I play hockey twice a week and go running once a week – I strongly believe that your physical fitness has a big impact on your work. Which is why I think it's great that Van Lanschot Kempen facilitates this: Evi is a young team, and around 80% of us make use of the facilities to run, use the gym, get chair massages or join mindfulness training. It not only reduces absenteeism – it increases people's happiness at work, too.

Joost van 't Hullenaar – Operations & Development Manager, Evi

EVI VAN LANSCHOT

Making investment easy online

Financial performance

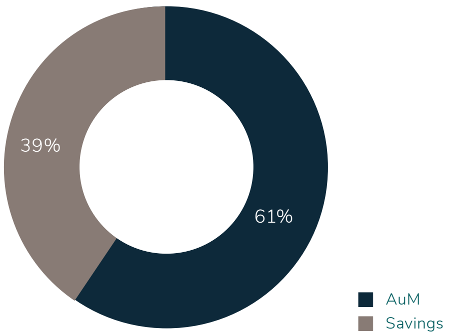
Evi (€ million)	2018	2017	%
Commission	4.4	4.5	–2%
Interest	2.5	3.3	–25%
Other income	–	–	–
Income from operating activities	**6.9**	**7.9**	**–12%**
Staff costs	4.2	4.6	–9%
Other administrative expenses	9.1	7.9	15%
Indirect costs	2.9	7.0	–59%
Depreciation and amortisation	0.0	0.0	–18%
Operating expenses	**16.1**	**19.5**	**–17%**
Gross result	**–9.2**	**–11.6**	**–21%**
Impairments	0.0	–	–
Operating profit before special items and tax	**–9.2**	**–11.6**	**21%**
Restructuring charges	0.1	–	–
Operating profit before tax	**–9.3**	**–11.6**	**20%**
Income tax	–2.6	–2.0	28%
Net result	**–6.7**	**–9.6**	**31%**
Underlying net result	**–6.6**	**–9.6**	**31%**

Evi is Van Lanschot Kempen's online savings and investment coach in the Netherlands and Belgium. It is mobile-first, easy to use and available to everyone who can invest at least €1,000. Evi's strength is to keep it simple and insightful for both first-time and experienced investors.

Continued focus on client growth has led to a 23% increase in the number of clients entrusting their assets under management to Evi – from 13,000 in 2017 to over 16,000 in 2018. This growth was across all target groups – including Millennials, mass-affluent individuals (with over €100,000 in liquid assets) and the children of our Private Banking clients.

Despite client growth, assets under management were relatively stable at €0.9 billion. Increased financial market volatility and negative price movements made clients hesitant to invest, in particular in the last quarter of the year. In addition, we have seen Evi clients withdrawing money for consumption purposes, especially those who have been clients for a while. Total client assets stood at €1.4 billion at year-end (2017: €1.5 billion).

Client assets by product (€1.4 billion)



The trend from savings to investments continued in 2018 – partly due to continued low interest rates, and partly due to Evi's goal to demystify asset management. The share of assets under management within total client assets increased slightly from 60% to 61% in the reporting year. The average account size of clients investing with Evi amounts to around €55,000.

Mobile first
In line with our clients' increasing adoption of mobile technologies, Evi has now fully embraced a mobile-first approach. The Evi app has seen several developments during the reporting year:
- Full digital on-boarding enables users to become clients via mobile, without the need for any other devices.
- Evi's products – Evi Beheer, Evi Pensioen, Evi Doelbeleggen, Evi4Kids and Evi Go – are now accessible via one single app.
- In Evi Beheer, clients can now continuously withdraw money or make additional investments, with no blackout period.
- Clients can opt to receive push notifications about their investments.
- The app has been fully revamped with a new look & feel and new functionality – including the ability to see the performance of each client's particular product(s) and fund, specific to their profile.

Evi Go
Our new Evi Go product was introduced in September 2018 as a self-directed investment solution for clients. The tool enables clients to choose their own risk profile from the five on offer, and then start investing personal savings quickly and easily.

Net Promoter Score
In 2018, our clients gave Evi an average rating of 7.3 (2017: 7.5), and our Net Promoter Score (NPS) decreased from –3 in 2017 to –20. Part of this drop can be explained by disappointing returns on clients' investment portfolios; this NPS survey was conducted in November, in the midst of equity market turbulence. On the positive side, the 60% open rate of our monthly newsletter shows that our clients appreciate Evi's communication and provision of information.

Priorities for 2019

The reporting year marked Evi's fifth anniversary. Now that our online asset manager is becoming a mature e-commerce organisation, less IT and product development spend will be needed going forward. In 2019, our main challenge is to grow Evi's business, by increasing the average assets under management per client and improving financial results. In order to do this, Evi is aiming for even greater efficiency and improvements in mobile functionality. Ease of use and quality of service will continue to be improved, especially via our Evi avatar that enables conversational on-boarding of clients through the use of digital technologies. We will also continue to use advanced marketing analytics to make personalised offers to clients that satisfy their individual needs and interests. Finally, we will look for possible partnerships – for example, with parties that also serve mass-affluent clients.

PREPARING FOR THE FUTURE

Together with eight colleagues, I'm responsible for the total service package to our pension fund clients. We're dedicated to a few clients each, and everyone has their own specialist area. Mine is asset allocation, and includes responding to changes to the pension system in the Netherlands. This job suits me well and gives me a lot of energy because I have plenty of client contact, and those clients already have a high-level knowledge of the subject matter – I really enjoy the combination.

There have been a lot of changes since I started with the company in 2009, but one I'm particularly proud of is the realisation of Kempen's growth ambitions. We introduced a new strategy to grow and diversify our client base around three years ago, and this really paid off in 2018: we won several new clients including the big PostNL account – it's been an exciting and profitable year. But we're also ready for the longer-term future: no one knows which way the pensions market will move in the decades to come, but we're well prepared to offer all different types of solutions to our clients.

Two years ago, we were invited to evaluate our current lifestyle and set goals. That gave me the motivation to exercise at least twice a week, and I've really stuck to it. I do something called BBB (beauty, body, balance) – it's a workout but in a hot cabin. It's intense but the heat helps your muscles recover quickly – and it's fun too!

Florentine Hanlo – Senior Fiduciary Manager, Kempen Asset Management

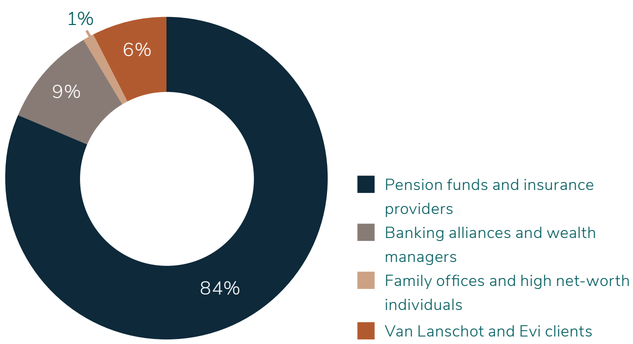
KEMPEN ASSET MANAGEMENT

Specialising in investment strategies and fiduciary management

Financial performance

Asset Management (€ million)	2018	2017	%
Commission	100.0	92.5	8%
Interest	–0.0	–0.0	–
Other income	–0.2	–1.3	84%
Income from operating activities	**99.8**	**91.2**	**9%**
Staff costs	43.6	39.6	10%
Other administrative expenses	23.5	21.9	7%
Indirect costs	12.8	10.9	18%
Depreciation and amortisation	0.1	0.1	–3%
Operating expenses	**80.1**	**72.5**	**10%**
Gross result	**19.7**	**18.7**	**6%**
Impairments	–	–	–
Operating profit before special items and tax	**19.7**	**18.7**	**6%**
Amortisation of intangible assets arising from acquisitions	0.8	0.5	83%
Restructuring charges	2.5	–	–
Operating profit before tax	**16.3**	**18.2**	**–10%**
Income tax	4.4	5.0	–12%
Net result	**11.9**	**13.2**	**–9%**
Underlying net result	**13.8**	**13.2**	**5%**

AuM breakdown by client type (€44.8 billion)



Kempen Asset Management, trading as Kempen Capital Management (KCM), is a specialist asset manager in two main areas: investment strategies, and client solutions in the area of fiduciary management. Our net inflows of AuM amounted to €0.4 billion in 2018, which combined with a €1.2 billion negative market performance to push down total assets under management to €44.8 billion in the reporting year (2017: €45.5 billion). Fiduciary management recorded robust AuM inflows on the back of various new mandates. Our investment strategies faced a net AuM outflow over the year, due to portfolio rebalancing on the part of various clients. Traditionally an active manager, Kempen Asset Management decided to stop fundamental index investing as part of its product offering in 2018, which also contributed to the AuM outflow from our investment strategies.

Growing our fiduciary business

Kempen Asset Management has once again been the fastest growing fiduciary manager in 2018 – acquiring several new pension schemes. Notable fiduciary mandates that came in during the reporting year included the acquisition and on-boarding of pension fund Arcadis (after winning the pension fund in collaboration with Hnpf in 2017), a new €8.5 billion mandate from Stichting Pensioenfonds PostNL (won in 2018 and coming into effect in 2019), and a new mandate from Covra. Our success in the pensions market is down to the client focus of the team as well as the highly specialist and long-term nature of the solutions we create with our clients, both in the Netherlands and in the UK, putting us in a good position for future execution.

Growth in our UK fiduciary business has been flat in 2018, but there is a growing pipeline as a result of a review by the Competition Market Agency (CMA) into the consultancy and fiduciary marketplace in the UK. As a result, Kempen Asset Management is well positioned to take opportunities to win fiduciary mandates in the UK. Moreover, 600 pension funds that currently have fiduciary arrangements in place need to re-tender in the near future.

From a regulatory perspective, we've seen an increase in supervision and regulation in the savings and pension market – especially with the implementation of MiFID II during the reporting year. While some see this as a constraint, this represents an opportunity for our fiduciary business. It both rewards us for the clarity of our advice to clients, and creates barriers to new fiduciary managers entering the market. We have already been providing clients with advice on solutions and underlying investment managers for many years – allowing them to select their own investment policy.

Developments in our investment strategies

For investment strategies, we saw inflow in all of our core markets: the Netherlands, the UK, Germany and Switzerland. The overall total effect on our assets under management was down, however, due to the effect of closing our passive fundamental indexation products and some asset allocation shifts out of our credit and dividend strategies.

In order to free up resources, create efficiencies and focus on future growth, in some cases we may need to discontinue certain products or strategies - for example, the closing of our passive fundamental indexation investment strategy and funds. We also decided to close our Edinburgh office in order to centralise our small-cap capabilities in Amsterdam. The results of most of our investment strategies in 2018 were again very good. Over the last three years, 80% of our funds outperformed their benchmarks. Most of our investment strategies score first quartile within their international peer group and have high Morningstar ratings.

During 2018, we also further improved the sustainability of our funds and strategies. As long-term stewards, we strongly believe in active ownership of the companies we invest in on behalf of our clients. Also last year we made good progress on this front. Please read the “Responsible business” section on pages 27-29 for more details.

New solutions introduced
In 2018, we co-created the Global Impact Pool together with our clients – the fund brings together the knowledge of assets, investments and ESG of both our impact team and our fiduciary team. Throughout the year, this fund has been extended to be used more in the portfolios of both Private Banking clients and Asset Management clients as part of our broader solutions framework.

Our Kempen Private Markets Fund was also successfully launched in 2018, with €43 million in assets under management by the end of the year. This is a unique proposition for investing in less liquid markets, such as private equity, infrastructure and land.

Redesign of distribution strategy
In 2018, we started implementing our strategy to grow internationally, adding clients in all our core markets. We are focusing on the Netherlands, Germany, the UK and France, with an emphasis on particular products that meet local needs. In the UK, we made two new distribution agreements, extending our relationships in the UK market.

Meanwhile, we have also been future-proofing our business by making significant investments in data infrastructure and application management. Distribution no longer takes place solely on a person-to-person level. In addition to direct distribution by Kempen employees, we are increasingly introducing agents and call centres, databases, consultants and multi-managers. Internationally, we are focusing more on this B2B2C business: no longer selling our investment strategies directly to clients, but instead to distributors. We are using data infrastructure – including databases and third-party distributors – to improve our distribution capabilities. We are also enhancing the information we provide to databases such as Morningstar in order to strengthen our distribution power.

Operational developments
Acquiring significant numbers of new clients also requires us to on-board those new clients – something we successfully achieved in 2018. We were able to help new clients change custodians and start serving them within the agreed time period. With several new funds being launched, we were able to get these approved by the regulators and put everything in place in time to introduce and establish them successfully.

We also put a lot of effort into further enhancing our data architecture so that we are better able to service the information demands of our clients in the future.

Teaming up with Private Banking and Evi
Kempen Asset Management aims to support Van Lanschot Kempen’s private clients in meeting their financial goals – both in Van Lanschot Private Banking and Evi. In 2018, we focused on performance in terms of variety of solutions, asset allocation and manager selection. For Van Lanschot Private Banking, we created more specialist products, selected different managers for specific clients, made better advice products and so on – all to help meet client objectives. We’ve seen a high success rate in on-boarding the former UBS clients, in which the two sides of the business have conducted meetings together – demonstrating our strength when we act as one. In collaboration with Evi, we created Evi Go, which was successfully launched in 2018.

Net Promoter Score
Asset Management measures its Net Promoter Score (NPS) every two years. Our NPS in 2017 was a very strong 44. Although we did not conduct an NPS survey in 2018, we continue to receive positive feedback from our clients.

Awards and rankings
Kempen Asset Management was recognised with a number of awards and rankings in the reporting year:
- **Lipper Fund Awards:** Kempen won five prizes at the annual Lipper Fund Awards.
- **Morningstar ratings:** Due to the strong long-term performance of our investment funds, the average Morningstar rating of our funds is a very strong four stars (out of five).
- **RI Reporting Award:** Kempen’s annual responsible investment report 2016-17 won the Responsible Investor Award for Best Report by an asset owner of large funds over $25 billion.
- **UN PRI:** PRI awarded Kempen’s responsible investment process with an average score of A or A+ on three ESG-related modules.
- **Institutional Investor Benelux Awards:** Kempen won this award in the “Best Fund Selection Team Alternative Investments” category and in the “Best ESG programme” category.

Priorities for 2019
In 2019, we aim to continue the growth of our fiduciary business – focusing on diversification and quality in our portfolio of businesses and clients. We will also reinforce our sales approach by increasing our sales to distributors and pension funds rather than directly to the end-client. Additional priorities will be further expansion in the UK, and family solutions in cooperation with Van Lanschot Private Banking.

Within the investment strategies side of the business, we are already focusing more on niche products in areas where we can really add value. Given the long-term track record and performance of our existing investment strategies, in 2019 we will leverage our capabilities to grow further in this area.

Focusing capital on the long term has always been an important concept for us, which is why sustainability and ESG factors are an increasing priority and growth area – not only in the Netherlands but increasingly in the UK and France as well. Our continued focus on ESG puts us in a good position for the future.

Selection of Kempen investment strategies

	AuM overview (€ million)	Performance overview[1] vs. benchmark (3-year horizon, %): Kempen Strategy	Benchmark
Dutch Small-caps[2]	320	3.8	4.4
European Participations[2]	570	14.2[3]	
European Small-caps	466	–0.6	1.1
European Sustainable Small-caps	346	–2.1	1.1
Global Small-caps	308	11.3	4.2
European Dividend	579	2.6	0.4
Global Dividend	1,936	7.5	4.5
Global Sustainable Equity	90	7.2	4.5
Euro Credit	4,397	2.7	1.9
Euro Credit Plus	308	3.0	1.9
Euro Sustainable Credit	201	2.5	1.9
Euro Government Bonds	2,291	1.6	1.5
European Real Estate	697	0.8	–0.9
Global Real Estate	303	3.3	1.0
Global Diversified Hedge Fund Solutions[2]	476	1.2	–2.1
Global Non-Directional Hedge Fund Solutions[2]	419	3.1	–2.1

Kempen Strategy
Benchmark

1 Annualised performance figures based on a representative account gross of fees until end of December 2018.
2 Performance figures net of fees.
3 No benchmark available.

FINDING OPPORTUNITIES TO IMPROVE

As Senior Business Analyst in Securities at Kempen Merchant Banking, my role is very broad. My team's main task is to ensure that analysts and traders can serve clients as easily as possible. We do everything from running projects (whether regulatory, technical or commercial), to engaging with brokers, to monitoring developments in the market.

2017 was a really busy year for us with preparing for the MiFID II regulation, and the implementation went well in 2018. It's been a good year for us as a team because we've had more breathing space to find new opportunities, open our new office in Antwerp, and generally make improvements. Our team's focus is always on the long term – figuring out how we can improve quality of service to our clients, how we can optimise revenues by using market and client intelligence, and how we can prepare for upcoming regulatory changes. The more time we can spend on following developments in the market and understanding what's happening in the outside world, the better we can stay relevant to our clients and help develop the business.

My average working day starts at 7.30 am and ends at 6 pm, so I like to clear my head after a busy day in the office. I try to go running every evening after work, especially during the summer months, both to stay fit and to unwind. Personal well-being has always been important to me, and finding time to do sport is an integral part of both my life and my performance at work.

Marco Stommel – Senior Business Analyst, Kempen Merchant Banking

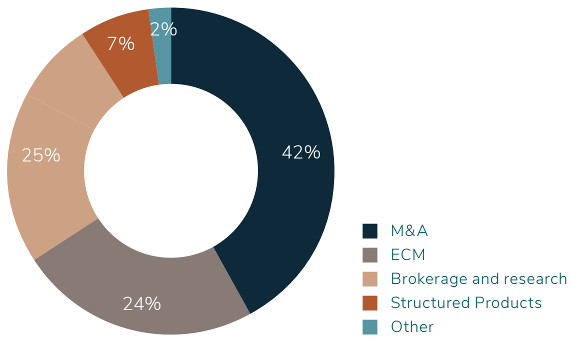
KEMPEN MERCHANT BANKING

Focusing on sectors to create a strong franchise

Financial performance

Merchant Banking (€ million)	2018	2017	%
Commission	58.0	41.7	39%
Interest	–0.0	0.0	–
Other income	1.0	4.5	–79%
Income from operating activities	**58.9**	**46.2**	**27%**
Staff costs	26.2	23.4	12%
Other administrative expenses	9.1	8.0	15%
Indirect costs	9.9	9.2	7%
Depreciation and amortisation	0.0	0.0	–9%
Operating expenses	**45.2**	**40.6**	**11%**
Gross result	**13.7**	**5.6**	–
Impairments	–0.0	–	–
Operating profit before special items and tax	**13.7**	**5.6**	–
Restructuring charges	0.1	–	–
Operating profit before tax	**13.6**	**5.6**	–
Income tax	3.1	1.7	83%
Net result	**10.5**	**3.9**	–
Underlying net result	**10.6**	**3.9**	–

Commission income by type of transaction (€58.0 million)



Kempen Merchant Banking is a unique boutique that combines Corporate Finance and Equity Capital Markets (ECM) with a Securities franchise. In 2018, we were able to harvest positive results due to a strong focus on our selected sectors coupled with close collaboration between the two parts of the business. Overall, our commission income in 2018 saw a strong increase compared to last year at €58.0 million (2017: €41.7 million). In Corporate Finance and ECM, we successfully completed €37 billion in M&A, debt advisory and ECM transactions for our clients in ten countries.

Our sectors

Kempen Merchant Banking combines strong execution skills with in-depth expertise in financial institutions & fintech, infrastructure, life sciences & healthcare, maritime & offshore, real estate, and the Benelux region. We have realised growth in all our sectors during the reporting year. Our real estate business has expanded in Spain, the UK, Belgium and France. In infrastructure, we executed our first ECM, M&A and debt advisory mandates. In our life sciences business, we've executed our first ECM transactions in the US.

Our geographies

In 2018, we continued to expand our activities in Europe as well as in the US.

When our European life sciences clients grow and need additional capital, they often seek a secondary listing in the US, for which they ask for our help. As a result, we decided to explore the possibility of assisting them in raising capital in this way; and in July 2018, we were granted approval by the US regulator FINRA to offer our services as an underwriter in ECM transactions in the US. In September, we executed our first two deals: both Galapagos and argenx were looking to raise additional capital in the US, and we were able to participate as underwriter – helping them to raise $345 million and $301 million respectively in capital.

Also in 2018, we made good progress on our Belgian business. In January, we obtained a licence from the Belgian regulators, as a result of which we were able to carry out our activities from Belgium. We therefore opened an office in Antwerp. This has allowed us both to tap into the Belgian talent pool in terms of new hires, and to create a stronger commercial position for ourselves among Belgian institutional investors. As a result, we've seen an increase in our number of Belgian clients in Securities, from 10 in 2017 to 18 in 2018, as well as a couple of new prospects.

In the UK market, the reporting year saw our first UK ECM transaction completed: we acted as joint global coordinator for logistics real estate company Tritax EuroBox in their £300 million IPO. Having been actively targeting the UK market as part of our international growth strategy, this is an important step for our franchise.

Corporate Finance and ECM transactions

Of the 38 transactions we carried out in 2018, a few were particular highlights. When Unibail-Rodamco acquired Westfield in the largest real estate takeover seen to date, we were advisers on the $24.7 billion transaction. We were also proud to advise residential housing operator Vesteda in their acquisition of a portfolio of residential real estate from NN Group for €1.5 billion.

In Belgium, we were joint bookrunner in the €575 million IPO of Shurgard, whilst in Germany we were a bookrunner on the €1 billion capital increase for Vonovia. And in Spain, Kempen Merchant Banking acted as sole financial adviser to Lazora in the €750 million capital increase for its residential fund.

In our other sectors, we advised Van Oord on the acquisition of MPI Offshore, a specialist offshore wind installation contractor; and we acted as sole financial adviser to UnifiedPost in the issuance of their pre-IPO convertible. Finally, we were involved in raising almost €1 billion in equity financing for life sciences and healthcare companies, mostly in leading syndicate roles. For instance, for repeat client Mithra Pharmaceuticals, we acted as joint bookrunner in their €77.5 million capital increase. In addition, we were sole financial adviser to pharmacy chain Medsen and wholesale chemist Ceban in its proposed sale to Bencis Capital Partners.

All companies to which Corporate Finance provides services are first subjected to screening. Screening based on our ESG criteria also forms an integral part of our research reports. If a company does not meet these ESG criteria, we engage its management.

Securities
In 2018, we continued to implement our strategy to expand the reach of our existing activities. Our financial results were impacted by the volatile markets during the last two months of the year. Global Property Research had another solid year. In addition to providing our Structured Products services to Van Lanschot Private Banking, we've been able to do more business in the over-the-counter market. In 2018, we closed a total of 143 deals (2017: 194) worth €181 million in new notional (2017: €294 million).

MiFID II has a substantial impact on our Securities business because of its requirement to unbundle research fees and execution commission. This is partly reflected in our results. Both before and since the regulation came into effect on 3 January 2018, a lot of effort has been made in terms of implementation and mitigation, but we expect it to take up to two years before the implications are fully clear. Our strong focus on, and deep knowledge of, our sectors continue to add value to our clients in all areas of our Securities business.

Our project to build a data warehouse was completed in 2018, allowing for more data-driven insights and decision-making when it comes to our clients and research. We are now better able to develop digital solutions and dashboards – for example, to monitor the progress of our business, to monitor interactions with clients, and to provide more customised services to clients. For more details, please see the "Digitalisation and advanced analytics" section.

Conferences
In 2018, we organised six successful conferences: in New York (real estate), Amsterdam (life sciences and real estate), Paris (local alpha), London (local alpha) and Stockholm (real estate). A record number of corporates and investors joined the events; in total, we welcomed over 140 corporates and over 200 investors.

Priorities for 2019
In 2018, we continued executing on the priorities we set in 2017. Given the positive results so far, we intend to continue our activities based on the same strategy in 2019. Our aim is to focus particularly on realising the full potential of our specialist approach, through further cooperation between the different sectors and services within Merchant Banking. Other priorities include developing tools to better benefit from the use of data; and attracting, developing and retaining the best talent.

Selected Kempen Merchant Banking transactions in 2018

grainger plc	WDP	LUCAS BOLS	erytech	Blue Sky Group	ÁRIMA
Acquisition of non-held shares in GRIP	Accelerated Bookbuild Offering	Refinancing	Block Trade in ERYTECH Shares	Sale of shares in	Initial Public Offering
£696 million	€45.0 million	€130 million	c. 18%	€51.7 million	€100 million
Financial Adviser	Joint Bookrunner	Financial Adviser	Sole Block Placing Agent	Placing Agent	Co-Lead Manager
December 2018	November 2018	November 2018	November 2018	November 2018	October 2018
Kempen	Kempen	Kempen	Kempen	Kempen	Kempen

Kiadis pharma	SHURGARD SELF-STORAGE	Van Oord Marine ingenuity	Boskalis	argenx	Galapagos
Accelerated Bookbuild Offering	Initial Public Offering	Acquisition of mpi	Block Trade in Boskalis Shares	US Public Offering	US Public Offering
€31.2 million	€575 million	Undisclosed	€30.0 million	$301 million	$345 million
Joint Bookrunner	Joint Bookrunner	Sole Financial Adviser	Sole Block Placing Agent	Co-Manager	Co-Manager
October 2018	October 2018	October 2018	September 2018	September 2018	September 2018
Kempen	Kempen	Kempen	Kempen	Kempen	Kempen

Lazora	ProQR	CIF Communication Infrastructure Fund	TRITAX EUROBOX	vesteda	XIOR STUDENT HOUSING
Capital increase	US Public Offering	Sale of data centers to DATACENTERGROUP	Initial Public Offering	Acquisition of Delta Lloyd Portfolio from nationale nederlanden	Rights Issue
€750 million	$104 million	Undisclosed	£300 million	€1.5 billion	€134 million
Sole Financial Adviser	Financial Adviser	Sole Financial Adviser	Joint Global Coordinator & Joint Bookrunner	Sole Financial Adviser	Joint Bookrunner
September 2018	September 2018	August 2018	July 2018	June 2018	June 2018
Kempen	Kempen	Kempen	Kempen	Kempen	Kempen

dacadoo It's all about you.	unibail·rodamco	Celyad	VONOVIA	mithra Women's Health	UnifiedPost
Capital Increase	Public Offer for Westfield	Global Offering	Accelerated Bookbuild Offering	Accelerated bookbuild offering	Fundraise
Undisclosed	$24.7 billion	$54.4 million	€996 million	€77.5 million	€25.0 million
Financial Adviser	Financial Adviser	Financial Adviser	Joint Bookrunner	Joint Global Coordinator & Joint Bookrunner	Sole Financial Adviser
May 2018	May 2018	May 2018	May 2018	May 2018	April 2018
Kempen	Kempen	Kempen	Kempen	Kempen	Kempen

RETAIL ESTATES	ADLER REAL ESTATE	VONOVIA	TINC	MDxHealth	PGGM
Rights Issue	Public Offer for BCP	Public Offer for BUWOG	Rights Issue	Accelerated bookbuild offering	Sale of Dynamic Portfolio
€123 million	€1.5 billion	€5.2 billion	€77.7 million	€36.0 million	Undisclosed
Joint Bookrunner	Financial Adviser	Financial Adviser	Joint Bookrunner	Joint Global Coordinator & Joint Bookrunner	Sole Financial Adviser
April 2018	April 2018	March 2018	March 2018	March 2018	March 2018
Kempen	Kempen	Kempen	Kempen	Kempen	Kempen

Colonial	MAINSTAY MEDICAL	MEDIVIR	ANGELO, GORDON & CO.	alstria	LACO TECHNIEK
Public Offer for axiare	Capital Increase via Direct Share Placement	Accelerated Bookbuild Offering	Sale of Residential Portfolio	Accelerated Bookbuild Offering	Acquisition of Kiekens Desuperheater and Breedveld & Weaver
€2.0 billion	€30.1 million	SEK 154 million	€234 million	€193 million	Undisclosed
Financial Adviser	Financial Adviser & Coordinating Placement Agent	Joint Bookrunner	Sole Financial Adviser	Co-Lead Manager	Financial Adviser
February 2018	February 2018	February 2018	January 2018	January 2018	January 2018
Kempen	Kempen	Kempen	Kempen	Kempen	Kempen

PRIVATE EQUITY INVESTMENTS

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

1. 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

In December 2017, we spun off the management company of Van Lanschot Participaties, now Bolster Investment Partners. This enabled us to open up our private equity business to our Private Banking clients as well as to third parties, via a newly established fund: Bolster Investments Coöperatief U.A.. Bolster Investment Partners' investment strategy is in line with Van Lanschot Participaties' original focus: investing in well-managed Dutch companies with strong market positions and convincing growth strategies. Bolster Investment Partners specialises in taking primarily minority shareholdings in private companies, and 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.

Bolster Investments Coöperatief U.A. raised €135 million in its first closing in December 2017. In addition to Van Lanschot Kempen, which holds a significant minority interest, other investors mainly comprise Van Lanschot Private Banking clients. In February 2018, Bolster Investments Coöperatief U.A. raised an additional €25 million in a second and final closing, through which it reached its hard cap of €160 million committed capital. In 2018, two new investments were added to the fund: Esschert Design and Careflex Zorg Groep. In the coming years, Bolster Investment Partners will strive to put the capital raised to work by making additional investments.

MARKET VALUE
At year-end 2018, our total portfolio of private equity investments reflected a market value of over €170 million (2017: over €160 million).

Maintaining direct minority holdings in our Van Lanschot Participaties portfolio

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 nine companies on 31 December 2018. 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 July 2018, our portfolio company Ploeger Oxbo Group attracted NPM Capital as a new major (40%) shareholder. As a result, we were able to realise a net profit of over €10 million as part of the recapitalisation and sale of approximately 9% of our equity shares. NPM Capital is the strong financial partner that the manufacturer of specialty agricultural equipment has been looking for to further support its long-term growth strategy. This strategy is aimed at bolstering innovation and product development as well as bolt-on acquisitions to further strengthen Ploeger Oxbo's leading position in its worldwide niche markets. We currently still hold a stake of around 12% in Ploeger Oxbo Group.

In October 2018, our 30.5% equity stake in ORMIT was sold to a new shareholder, HR investment group Pyramid. Van Lanschot Participaties acquired its stake in ORMIT in 2010. Since then, ORMIT and its shareholders have successfully expanded the business in the Dutch and Belgian markets for recruitment, retention and development of talent.

Direct minority holdings[1]

2. 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.

In December 2018, Van Lanschot Kempen announced the sale of its stake in chemists chain AIO II (Medsen) to funds under management of Bencis. The relevant regulators and competition authorities have since approved the deal and the transaction was completed in February 2019. Book profit works out at around €35 million and will be recognised in 2019 results. AIO II is the holding company of pharmacy chain Medsen and wholesale chemist Ceban. Van Lanschot Kempen has held an equity stake in AIO II since 2009, when it acquired a minority interest through a debt-for-equity swap. The company staged robust growth in the years that followed. In 2016, Van Lanschot Kempen exercised its option to expand its stake to a majority interest of 72%.

At this point, we hold two non-strategic interests: Holonite and Allshare. Holonite, in which we hold a 90% stake, makes high-quality composite stone products and finishing elements. Allshare, in which we hold a 97% stake, develops software for the financial sector and is a key supplier to Van Lanschot Kempen.

Non-strategic investments

3. 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.

1 For more information on our investments in associates using the equity method, see page 196.

PULLING DATA, PLUCKING STRINGS

I work in the Business Intelligence Competence Centre, and it's our job to pull data from all Van Lanschot Kempen's systems, and produce various reports that help management to make company decisions. Even though I only started working here in December 2016, I've always worked with data. So I'm enjoying our current challenge, which is to migrate all our reports from the current tools to one standard company tool. It's a long and complex project (we started in mid-2018 and expect to finish at the end of 2019) but I believe it's the right decision in the long term: not only is it more cost efficient – it also enables us to share knowledge and information between departments better.

Outside of my daily work, I get a lot of positive energy from playing bass guitar in the company band: VLK Collective. We only formed in October 2017, but our goal was to play at the company's summer party in 2018. On 21 June, we succeeded: the 10 of us got up on the festival stage and played our hearts out. It might not be what's usually meant by "vitality" but it certainly contributes to my well-being. I think it's important to know that the company management really cares about us – its employees – and about the balance we have between our work and private lives.

Jos Hermans – Finance Business Intelligence Specialist, Finance, Reporting & Control

RISK AND CAPITAL MANAGEMENT

Key risk themes for Van Lanschot Kempen

Financial market volatility The 2018 financial year was marked by a continuation of strong growth in economies around the world. However, several indicators are pointing towards an end to this cycle. Financial markets are more volatile than before and, despite some monetary tightening in the United States, interest rates in the Eurozone remain relatively stable at low levels. The risk of severe shocks in financial markets in the shorter term is increasing, amplified by uncertainties such as Brexit and tense trade relations as well as high government debt levels in some countries. As a result of its focus on wealth management, Van Lanschot Kempen is increasingly exposed to financial markets: direct effects of financial market shocks could include pressure on fee income as a result of decreasing assets under management, and the challenge of excess liquidity as a result of increasing levels of savings and deposits.	**Actions** The Asset & Liability Committee (ALCO) monitors and discusses developments in financial markets on a monthly basis, with extra attention devoted to interest rate risk management, stress testing and analysis of changes in client behaviour. We are actively managing our funding profile in order to balance funding diversification and liquidity buffers. Considering current risk levels and uncertainties, we are keeping our equity duration low, mainly by using interest rate swaps. We maintain solid capital buffers and the risk appetite for our investment portfolio has traditionally been conservative.
Cybercrime Although Van Lanschot Kempen did not face any serious cybercrime issues in 2018, the news is dominated by incidents and this risk is considered to be permanently high. While the impact of DDOS attacks and payments fraud seems to be stabilising, the focus is shifting to areas such as hacking between nations, identity fraud and fake news. Digitalisation and technological developments such as cloud computing and blockchain 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 emphasis is put on security awareness and on preparing the organisation to act quickly in case of incidents.	**Actions** Van Lanschot Kempen's cyber defence is at par with industry standards; in 2018, several steps were taken to further enhance the level of sophistication. Measures such as intrusion detection and reinforced security of servers and devices were combined with automated code reviews of internally developed software and attack simulation, such as red teaming and ethical hacking. Van Lanschot Kempen has strengthened its governance on IT security, and extra attention was devoted to security awareness and staff training. For example, phishing and password protection campaigns have increased awareness throughout the organisation.
Trust in the financial sector Trust in the financial sector remains low despite efforts by the financial services industry supervisory authorities to put various regulations in place in the wake of the 2008 financial crisis. In 2018, several incidents – for example, regarding anti-money laundering – received prominent media attention and led to outrage in the public and political domain. Apart from financial measures such as substantially higher risk buffers and preparatory measures such as recovery and resolution planning, several additional measures were taken, in terms of corporate responsibility and employee integrity. Public confidence is critical for financial stability: it is the joint and individual responsibility of financial institutions to protect their own reputations and to contribute to the reputation of the financial services sector as a whole, as well as to make decisions that take into account the needs and expectations of society at large.	**Actions** One of the leading principles in Van Lanschot Kempen's risk appetite statement is that "we take the requirements and expectations of all stakeholders into account". Within the organisation, and especially within product management and via our investment strategies, corporate responsibility and ESG are becoming increasingly important priorities. We are embedding these further into the organisation. In 2018, much attention was paid to preventing money laundering. We implemented additonal analytics tools to detect integrity risks, in addition to our advanced monitoring system and team of experts. To understand the position of our stakeholders, we organise various engagements in different forms. We hold meetings and events (e.g. with clients, investors, regulators or NGOs) about various sustainability topics. Our annual report (see Stakeholders' expectations and our dilemmas", page 16) and our CSR Supplement (see "Stakeholder dialogue") provide an extensive overview of our approach to stakeholder dialogue. Furthermore, we introduced a new set of KPIs in 2018 that include both financial and non-financial KPIs. In defining these, we have taken into account both the interests of our stakeholders and our ambitions as a wealth manager.
Labour market Van Lanschot Kempen is becoming a more specialist organisation: simpler, more routine tasks are being outsourced or automated, while the remaining professional roles are becoming harder to fill. Strong economic growth means that the labour market for professionals is tightening and competition between financial institutions for top talent is fierce. If we are unable to find and retain the right employees, it could limit our capacity for growth. As a people business, we need both to develop a strong network to attract new talent, and to offer attractive benefits and development opportunities to retain existing talent.	**Actions** Van Lanschot Kempen offers professionals the unique combination of a highly reputable organisation with an informal, non-hierarchical work environment in which individuals enjoy challenging work and can make a big impact. This is recognised by our staff and actively used in our recruitment process. We are also currently modernising our HR processes. Finally, across the organisation, young talent programmes are a successful source of future specialists and leaders.

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 2018 are shown in this simplified version of the risk dashboard below. For more information on risk appetite and our management of the various risks, see the section on risk management in the financial statements.

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 the management by facilitating risk assessments, 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 results or continuity 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. 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. The size and development of strategic risks are discussed quarterly by the Executive Board and reported in our risk appetite report. Due to the challenging environment and the strategic transformation that we continue to undergo, we currently classify our strategic risk as "medium". To determine capital levels for Pillar 2 purposes, we use a risk model that is primarily based on the ratio between fixed and variable margins. In 2019, we will redevelop the model and include the impact of shocks in financial markets.

Credit risk

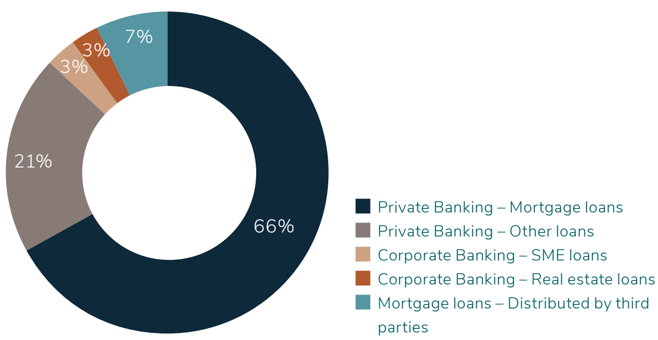
Credit risk is still our most significant financial risk type, albeit declining. Our loan portfolio amounts to €8.6 billion and has manageable risks. We aim to keep the size of exposure to the Private Banking residential mortgage portfolio constant by generating enough new business to offset prepayments and redemptions. Over 66% of the loan portfolio consists of mortgage loans, primarily to Private Banking clients who also hold assets under management within Van Lanschot Kempen.

In 2017, the Dutch banking industry investigated the risk of interest-only mortgages that will mature in the next 10–15 years. Repayment or refinancing might become difficult for some clients – particularly older clients – with decreasing incomes. In 2018, we developed a plan to limit the risks for this group of clients.

Credit quality in general further improved in 2018, reflecting a robustly growing economy, a continuing rise in house prices in the Netherlands, and declining unemployment levels. These effects continue to feed through to our loan portfolio with a slight lag.

Loan losses in 2018 continued to reach historically low levels. We use sophisticated risk models (internal ratings-based approach) to measure and monitor credit risks for most of our loan portfolios. We see positive rating migration in nearly all portfolios as another indicator of improved credit quality. Our loan portfolio and credit risks are concentrated in the Netherlands (96%); lending in Belgium and Switzerland is limited, and mainly concerns Lombard loans with low risk profiles.

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



In line with our wealth management strategy, Corporate Banking's loan portfolio – made up of small and medium-sized enterprises (SMEs) and commercial real estate loans – is being wound down in a careful and coordinated manner. This structurally lowers our risk profile. At year-end 2018, the size of the Corporate Banking portfolio amounted to €0.5 billion, which is only 14% of the original portfolio in 2013. As of 2019, this remaining portfolio is integrated within Private Banking, because the size, complexity and risks of the portfolio no longer justify a separate department.

Although our exposure to the Dutch housing market is quite significant, the risk of concentration in the overall loan portfolio on single line items is relatively limited. The ten largest loans to individual counterparties other than financial institutions totalled €225 million at year-end 2018 (2017: €237 million). A total of 95.9% of all borrowers held loans of less than €10 million at year-end 2018 (year-end 2017: 93.0%). Our policy is to actively reduce the highest limits for credit risks on single debtors in order to contain concentration risk and its potential impact on Van Lanschot Kempen's result.

Responsible lending policy

We have a responsible lending policy in place, which takes environmental and social impact into account. The policy, which was updated in 2018, provides for periodic sustainability screening (due diligence), via a risk filter, of all existing and new corporate loans, and includes themes such as human rights, social and labour issues, environment, anti-corruption and bribery. The screening did not identify any material sustainability issues in the portfolio. The number of potentially high-risk borrowers was stable at 17 in 2018 (2017: 19). We are currently talking to these borrowers about specific sustainability risks and how these might be mitigated. For more information on this policy and its results, see our CSR Supplement and vanlanschotkempen.com/responsible/core-banking-activities.

A separate policy was created a few years ago for assessing 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 instance – to institutions with weak or non-existent CSR policies. Van Lanschot Kempen challenges financial institutions that have not developed sufficiently visible policies. In 2018, we engaged with three such institutions to seek additional information on their sustainability policies. At the beginning of 2019, we added a fourth institution. Our engagement with these four companies is still ongoing.

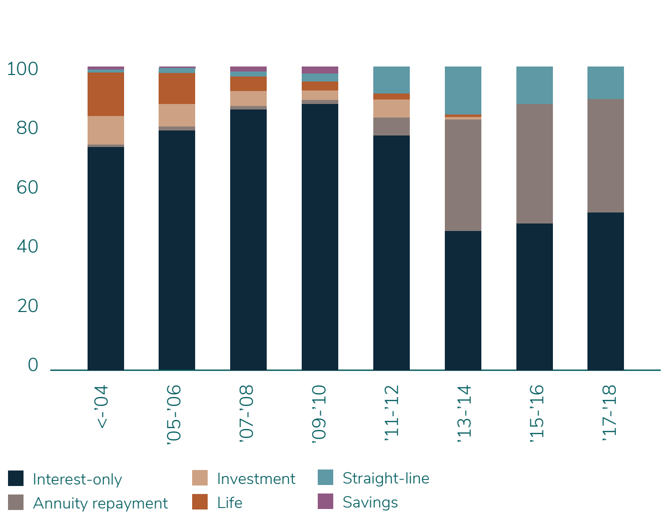
In 2018, the Belgian sustainability organisation Forum Ethibel carried out its sixth annual audit to verify our responsible use of client assets. We were pleased to once again receive their annual sustainability certificate.

Mortgage loans

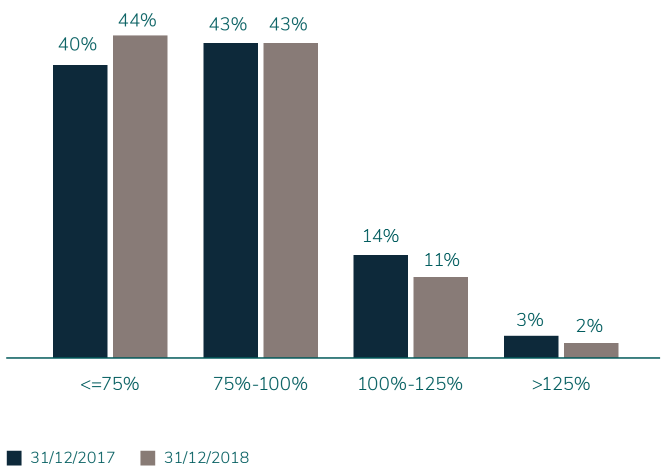
Over 66% of our loan portfolio consists of mortgages. Our portfolio differs somewhat from that of other Dutch mortgage lenders, for instance, in that the average loan amount of approximately €470,000 is higher, making it slightly more sensitive to a fall in underlying house prices. In 2018, the portfolio's weighted average loan-to-value (LTV) ratio was 76% at year-end (year-end 2017: 81%) thanks to both (p)repayments and significantly rising house prices, including at the higher end of the housing market. In addition to declining LTVs, a clear positive migration trend is also visible in our rating models, implying that credit quality is improving.

In 2015, we started to provide mortgages through a network of intermediaries, branded as Hypotrust and with Quion as our service provider. Our aim is to build and maintain a portfolio of regular Dutch mortgages to supplement our Treasury investment portfolio, enabling us to generate attractive returns on available liquidity with low credit risks. These mortgages are subject to strict acceptance criteria, and the size of this portfolio amounted to €602 million by year-end 2018 (year-end 2017: €600 million). This portfolio is currently stable at approximately 7% of the total Van Lanschot mortgage portfolio. The quality of the portfolio is high, with very few loan losses to date.

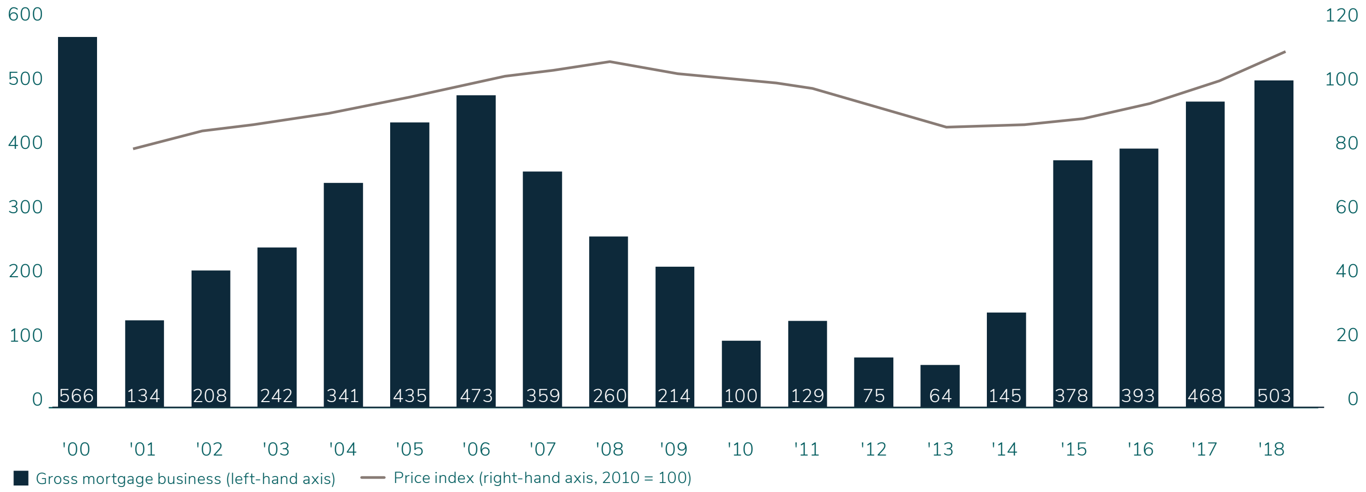
Mortgage loans: new production by type (%)



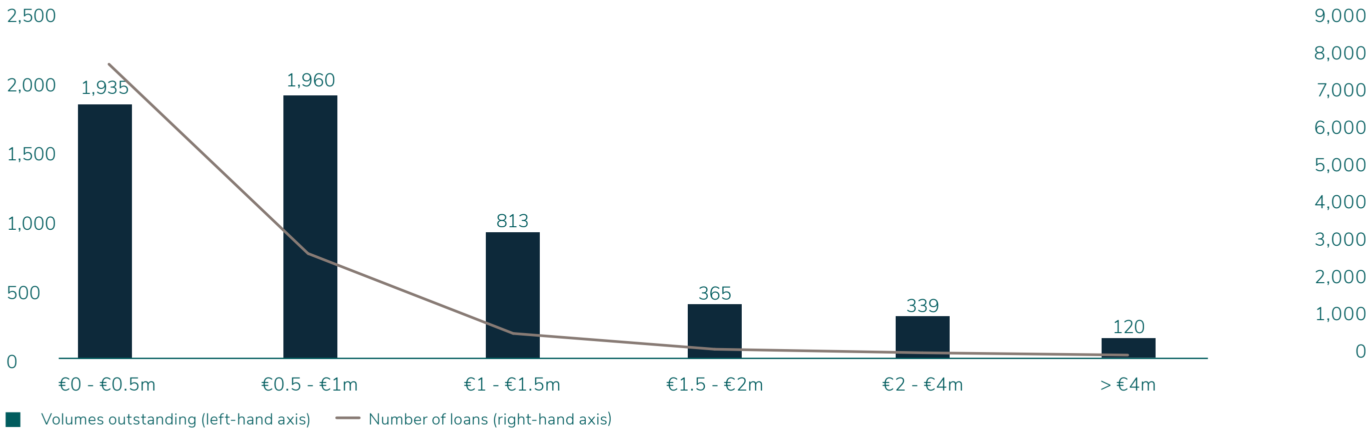
Private Banking in the Netherlands: mortgage loan-to-value (%)



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



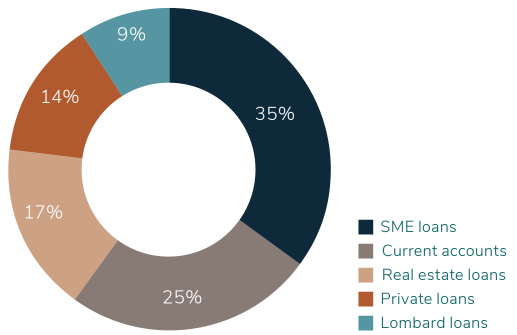
Mortgage loans: outstanding volumes (€ million) and number of loans by size



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. Our aim is to keep the size of this portfolio stable. The average loan size is approximately €86,000.

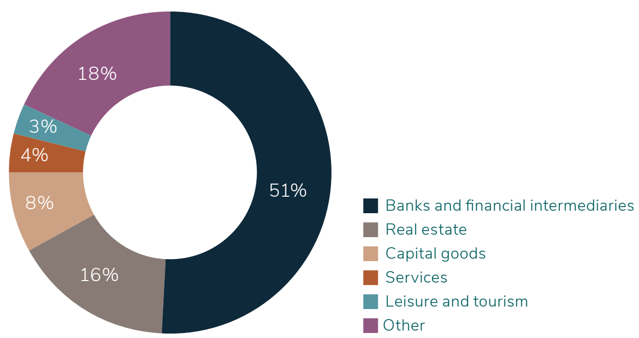
Private Banking other loans: type of loan
(100% = €1.8 billion)



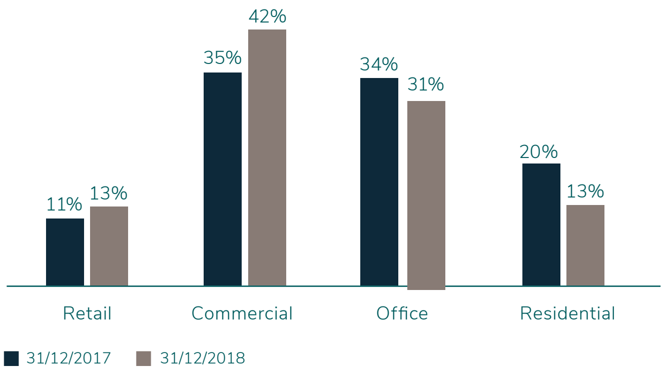
SME credit and real estate loans

In line with our strategy, in 2018 we continued to wind down our Corporate Banking loan portfolio, made up of SME credit and real estate loans. Some real estate exposures to individual clients within Private Banking will remain. The remaining SME loan portfolio is well diversified, with no dominant sector. The average loan size amounted to €1,16 million at year-end 2018 (year-end 2017: €1.01 million).

Corporate Banking: SME loans by sector
(100% = €251 million)



Corporate Banking: real estate loans by collateral
(100% = €271 million)



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 €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. In the case of one individual debtor, the court ruled that the transfer of the contractual relationship with the debtor to the buyer of the loan was invalid – a decision that we have appealed against. The transfer of the claims under the loan to the buyer of the loan (and the rights related to the loan), however, was upheld. The potential financial impact of the ruling is likely to remain limited.

Our portfolio of real estate loans is well diversified. Project development loans account for less than 1% of this portfolio. The average loan size of our real estate loans amounted to €1.7 million at year-end 2018 (year-end 2017: €1.5 million). Average LTV ratios improved to 66% (year-end 2017: 70%).

Our real estate loans are provided primarily on the basis of a total quality assessment of their borrowers. We also take into account the quality of the real estate object and the 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 2018, 78.2% 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 2017: 78.5%). Clients with a DSCR of less than 1 often have other income they can use to service their loan obligations. Lastly, the LTV of the loans also improved due to strong economic growth in the Netherlands, causing prices of most real estate to rise.

Impaired loans
Impaired loans are loans for which a provision has been taken. Impaired loans accounted for 3.8% of the loan portfolio at the end of 2018 (year-end 2017: 4.0%). A provision equal to 30% of these loans was taken (2017: 31%), resulting in specific provisions amounting to €101 million. In 2018, we reached a further net release of €12.7 million in provisions (2017: €11.9 million). Current provisions as well as expected losses have continued to fall significantly. The teams for preventive and intensive management continue to contribute to the reduced inflow into the Restructuring & Recovery department.

In 2018, we implemented the new IFRS 9 standard by developing sophisticated expected credit loss models. IFRS 9 entails a revised approach to calculating loan losses (from incurred losses to expected losses). The first-time adoption impact on loan loss provisions was €13.0 million. The impact was low since the incurred but not reported (IBNR) provision was simultaneously released. During 2018, the migration between the credit quality stages was limited, which is partly the result of the current phase of the economic cycle. See page 213 in the financial statements for more details on this change and its impact.

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 a limited degree of market risk through its client-servicing activities, as a result of 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 and Corporate 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.

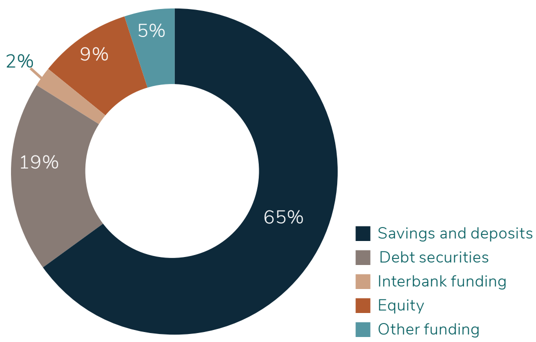
For further information on market risk, see Section 3, "Market risk", in the financial statements.

Liquidity risk and funding
As a result of active loan book reduction, our balance sheet has decreased structurally. As a wealth manager, we have a large client savings and deposits base, which can fund our entire loan portfolio. This is reflected in our 106.2% funding ratio. As such, our liquidity risk profile mostly consists of possible unanticipated outflows in the deposit base, especially the deposit share that is not covered by the deposit guarantee scheme. 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 are discussed by ALCO on a monthly basis. The results of the stress tests showed that Van Lanschot Kempen is capable of absorbing acute and persistent liquidity stress. The total liquidity buffer at year-end 2018 amounted to €3.6 billion (2017: €4.2 billion) with the liquidity coverage ratio standing at 140.6% (2017: 163.6%).

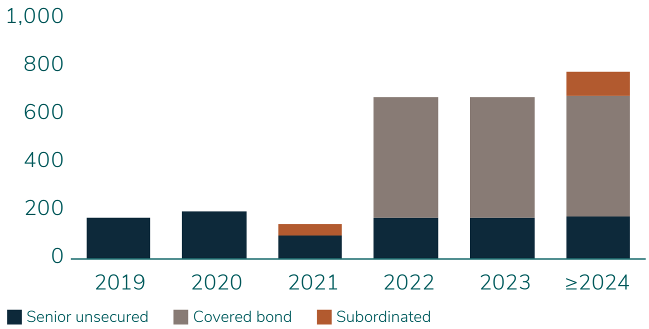
Although our loan portfolio can be entirely funded by client deposits, we aim to keep sufficient diversification in our funding mix by supplementing the savings and deposits base with issuances of secured debt under the Conditional Pass-through Covered Bond programme. As of December 2018, total outstanding debt under the covered bond programme was €1.5 billion. In 2018, we redeemed a benchmark senior unsecured loan in June and an RMBS in December. Due to our structurally high liquidity buffer, we did not replace these redemptions with new wholesale debt issuances. Net issued debt securities came down by €0.9 billion during the reporting year. We no longer have RMBS and benchmark unsecured debt issuances placed with investors.

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. 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 regulator every year. Our 2018 ILAAP was rated satisfactory on both qualitative and quantitative criteria.

Funding mix
(100% = €14.0 billion)



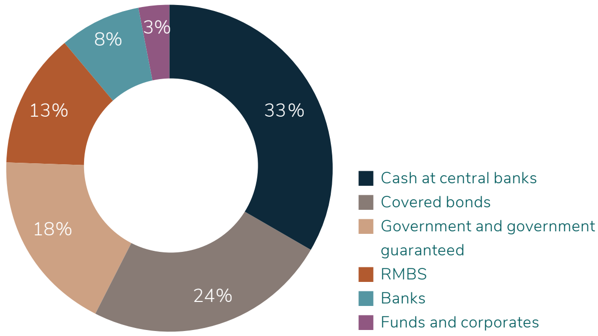
Funding redemption profile
(€ million)



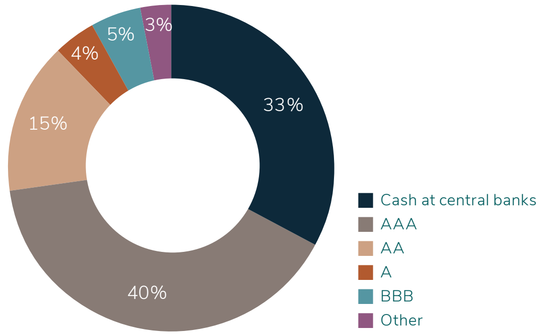
Investment portfolio
Our investment portfolio totalled €3.9 billion at year-end 2018, down from €4.4 billion at year-end 2017. It is maintained primarily for liquidity purposes and consists mainly of liquid, low-risk instruments. The composition of the portfolio was relatively stable in 2018, with only a limited number of transactions. There are strict limits on instrument types, counterparties, countries, ratings and credit spread risk.

We review our investment portfolio annually to ensure it meets our environmental, social and governance criteria. Investee financial services companies are subject to our CSR policy for financial institutions as outlined above (see "Responsible lending policy" on page 64). Corporates in the portfolio are assessed for compliance with our responsible investment policy (see page 27). We have not encountered any material sustainability issues in our investment portfolio to date.

Investment portfolio and liquidity by counterparty
(100% = €3.9 billion)



Investment portfolio and liquidity by rating
(100% = €3.9 billion)



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

Interest rate risk
In 2018, interest rates remained low and yield curves remained flat. This translated into a further reduction in rates for clients wishing to take out mortgages and loans. However, deposit rates could not be reduced any further, due to the "natural floor" in client rates of 0% that had already been reached by the end of 2017. These factors, combined with lower yields on new purchases in our relatively large investment portfolio, inevitably had a negative effect on 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 2018, approximately 31% of the mortgage portfolio consisted of loans with remaining fixed-rate terms of eight years or more. On the liability side of the balance sheet, clients held their balances in savings accounts, in the expectation of rising interest rates. Appetite for term deposits remained negligible. From an interest rate risk perspective, the combination of mortgages with long interest rate maturities, funded to a large extent by a variable-rate deposit base, continues to pose challenges: there is less room to adjust loan rates if future funding costs rise. We use balance sheet management instruments such as interest rate swaps to manage these risks. 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 remain within this limit. 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. Duration analysis is one of the main metrics used in the economic value calculation: the duration of equity reflects how much the economic value of our equity capital would change as a result of movements in market interest rates. During 2018, ALCO kept duration around a two-year range, balancing risk and return given the low and flat yield curve.

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

Non-financial 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. Within this, the control framework 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, 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 2018, we further strengthened our non-financial risk management competencies. 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 the risk culture is a structural way of further mitigating operational risk. In 2018, a campaign was launched to encourage people to actively report operational incidents, with the goal of learning from these and improving our operational effectiveness.

One of our key focuses is preventing cybercrime. We have invested significantly in this area and are currently at par with industry standards, but we aim to go one step further by investing more in technological and preventive measures such as awareness programmes and staff training. We also continue to develop intelligent solutions and work closely with industry partners.

For the continuation of operational processes during potential disruptions, threats and incidents, we have developed business continuity measurements. These include a policy, a governance structure with a Business Continuity Committee and Crisis Management Team, and working instructions. Moreover, several 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”.

Compliance risk

Our Compliance department aims to ensure that our employees adhere to legislation, internal regulations and our own Code of Conduct at all times. Non-compliance with legislation may result in significant reputational damage and/or financial losses. The Compliance department plays a key role in safeguarding our operational integrity. Both domestic and international laws continue to increase in volume and complexity. We therefore continue to assess whether our processes and procedures remain compliant with changing laws and regulations.

In 2018, our Compliance department paid special attention to our duty of care towards our clients, the review of our anti-money laundering (AML) policy, and data protection. The department’s activities focused on our approach to all aspects of AML, bribery, corruption and fraud prevention. The implementation of rules and regulations in our procedures and processes was also a focus point, together with testing and evaluating the implementation of MiFID II. In 2018, various departments were involved in the implementation of the GDPR privacy legislation. The protection of our clients’ privacy is a key element in our financial services offering.

During the course of business in 2018, we complied with legislation on our duty of care towards our clients, fraud, marketing communications and privacy. For more information about our extensive CDD processes, see page 69.

Together with five other Dutch banks, in 2016 Van Lanschot Kempen agreed to abide by the derivatives recovery framework to enable the efficient handling of the derivatives issue for SME clients in the Netherlands. Up until 2013, we sold interest rate derivatives to our SME clients as part of our corporate lending as an alternative to fixed-rate loans. In terms of both clients and interest rate swaps, the numbers were relatively small and arrangements were typically customised, with only plain vanilla interest rate swaps and a limited number of caps sold. In 2018, Van Lanschot Kempen completed the review of its portfolio and offered compensation to all affected (former) clients. Most (former) clients accepted such compensation.

In 2018, the Kempen Dutch Inflation Fund I was the subject of negative publicity regarding its ground lease fund, Grondvermogen. We became aware that the public prosecutor started an investigation into possible criminal offences committed by a specific counterparty in connection with some transactions in ground leases in Grondvermogen. Kempen is not considered to be a suspect. In 2017, we conducted an enquiry into financial transactions within the ground lease fund, as a result of which a number of internal organisational and procedural measures were taken to improve our processes. Supervisory authorities received full disclosure of the findings as well as the measures taken.

Regulatory impact

While there is still a risk that we may not have enough skilled experts in our team to implement new regulations in a timely manner, pressure from a regulatory perspective has decreased compared to previous years. Many of the regulations that could have a major impact on our business have now been successfully implemented – or impact assessments have been carried out that reveal limited impact in any case.

IFRS 9 – Effective as of 1 January 2018, International Financial Reporting Standards (IFRS) 9 was a major change in accounting standards, and we met the deadline for reporting on these new financial reporting standards. In January 2018, a one-off addition of €14.4 million was booked as a total result of the adoption of the new standards. We expect more volatility in provisions in the event of a downturn in the economy, because the new reporting standards methodology is more forward-looking and the state of the economy has more influence on the calculations of provisions compared to the previous methodology (IAS 39).

Basel IV – In 2018 we conducted an impact analysis regarding Basel IV, which confirmed that its impact on our business would be relatively limited. The 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. While implementing the new regulation will take a lot of work, it will not require any significant change to our strategy: the impact on our risk-weighted assets is estimated to be no more than 10%.

MiFID II – Although the Markets in Financial Instruments Directive II (MiFID II) regulation came into effect on 1 January 2018, we had spent much of 2017 preparing for it and implementing the processes to cope with it. This meant that the process went smoothly and the impact on the business was less than expected. Currently, advanced implementation is still ongoing to ensure effectiveness; for more information, see the “Merchant Banking” section.

GDPR – We take our clients’ privacy very seriously – it is essential to our business. Our clients have every right to know what we do with their data and how we use it, which is why we embrace privacy laws such as the General Data Protection Regulation (GDPR) that came into effect on 25 May 2018. As for many businesses in Europe, GDPR was a major project for Van Lanschot Kempen during the reporting year. We only use our clients’ data for the services we provide to them – we do not sell data to third parties. After a client chooses to close their account with us, their data is automatically destroyed after a period of ten years.

Client due diligence – To prevent money laundering, corruption, bribery and fraud, we check our clients and their financial transactions carefully. As part of the implementation of the fourth European Anti-Money Laundering (AML) Directive that came into effect in 2018, financial services companies such as ours are required to carry out more extensive client due diligence (CDD) procedures, in addition to the strict CDD procedures we already apply. In 2018, there was also much public attention on the role of banks in detecting any form of money laundering through the financial system, adding pressure on financial institutions to play their role as gatekeepers even more effectively. We have an automated monitoring system in place, which was upgraded in 2018, and we employ a team of experts to evaluate any signs that our clients may be involved in illegal activities. In such cases, the CDD Acceptance and Exit Committee will take appropriate measures. The use of smart technology and reliable systems is critical, as well as training staff members in recognising and acting on possible red flags.

Anacredit, RRE and DGS – We have implemented several new regulatory reporting requirements. Anacredit and Residential Real Estate (RRE) reporting involve periodical loan-by-loan reporting on our portfolios of commercial loans and mortgages. The requirements for the Deposit Guarantee Scheme (DGS) have changed. As of 2019, the Dutch Central Bank should – in cases of bankruptcy – be able to pay out money to creditors within seven days.

Brexit

Over the past few months, Van Lanschot Kempen has been preparing for Brexit, including the possibility of a hard Brexit as of 29 March 2019. Several working groups have identified risks, defined an approach, and coordinated the relevant preparatory actions taken. A group-wide steering committee has taken the lead in coordinating this process. The preparations concern various topics, such as continued authorisation for our UK business, uninterrupted performance/servicing in relation to derivative contracts, and determining Brexit’s impact on the offering of funds and instruments to our clients. We believe that we have taken (and continue to take) the necessary steps to mitigate risks for our organisation and for our clients, even in a no-deal scenario.

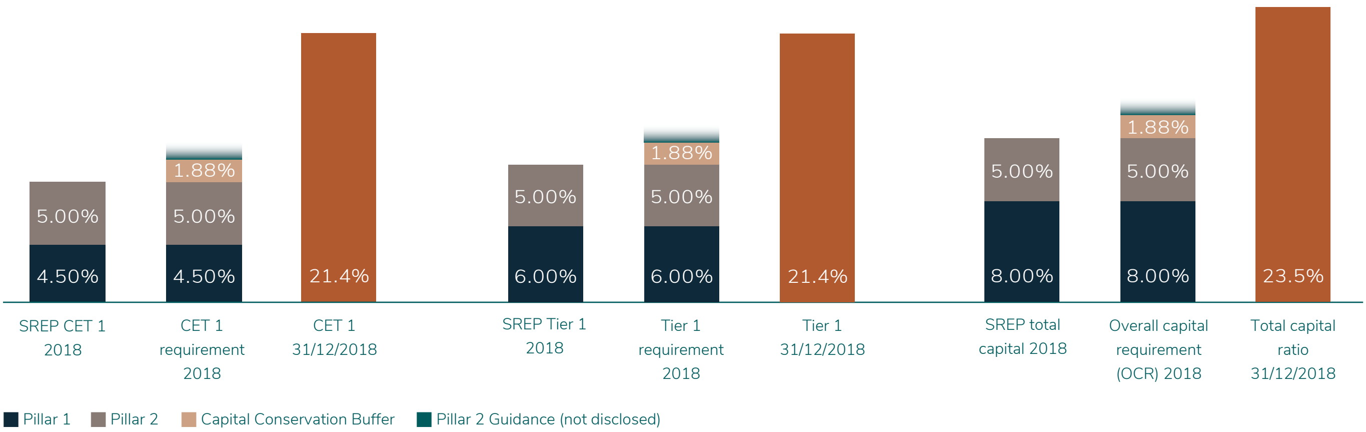
Capital management

In 2018, we made further progress on our capital strategy, which is aimed at operating on a more capital-light basis, predominantly by means of reducing our corporate loan exposure. Our Common Equity Tier 1 ratio (CET 1, fully loaded and including retained earnings) increased from 20.3% at year-end 2017 to 21.4% at year-end 2018, well above our target range of 15-17%. The total capital ratio rose from 22.1% to 23.5%. Active reduction of RWA (in the corporate loan book) continues to be the main contributor to the strong growth in solvency ratios, but underlying credit quality has also been improving.

The ongoing improvement in solvency continues to result in significant amounts of excess equity capital. In December 2018, we followed up on the first special capital return to shareholders in 2017 (€41 million), by means of a second special capital distribution of over €60 million (€1.50 per share). The special capital return was approved by shareholders in October 2018. We will continue to consider paying out excess capital to shareholders in the form of dividends and capital returns, subject to regulatory approval. Since 2016, €210 million has been returned to shareholders. In addition, we aim to engage in acquisitions, and intend to leave room for these in our capital position as well.

Following the annual supervisory review evaluation process (SREP), DNB informed us about the capital requirements that we had to meet from June 2018 onwards. The minimum capital requirements comprise a CET 1 ratio of 9.5%, a Tier 1 ratio of 11.0%, and a total capital ratio of 13.0%. The SREP requirements cover both Pillar 1 and Pillar 2 risks.

SREP requirement for 2018



In addition to the 9.5% CET 1 requirement, we need to comply with the combined buffer requirements, which must be met by CET 1 capital. The capital conservation buffer stood at 1.875% in 2018 and will reach its fully phased-in level of 2.5% in 2019. The countercyclical buffer for the Netherlands is currently set at 0%. As the systemic risk buffer does not apply to us, for 2018 the total CET 1 requirement adds up to 11.38% and the total capital ratio to 14.88%. This requirement excludes “Pillar 2 guidance” (P2G). Institutions 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 21.4% and a total capital ratio of 23.5% at year-end 2018, we meet all capital requirements, including P2G. The Basel III leverage ratio increased to 6.9% at year-end 2018 (year-end 2017: 6.7%), which is high compared with other Dutch banks and well above the minimum Basel requirement of 3%.

As bail-in (loss absorption) currently stands, we also comply with the minimum required eligible liabilities (MREL) requirements. So far, the National Resolution Authority has not imposed additional MREL requirements for Van Lanschot Kempen that are related to the resolution strategy. No total loss absorption capacity (TLAC) requirements apply, as we are not a global systemically important institution.

BEING A TRUSTED ADVISER

I'm trained as a chemist, but after completing my Master's in Chemistry I decided to pursue a business career. Working in the Life Sciences & Healthcare team within Corporate Finance at Kempen Merchant Banking is the best of both worlds. As well as IPOs and capital markets transactions, we also work on mergers & acquisitions and play an advisory role for clients. In fact, being a trusted adviser is the most important part of our business: when we create long-term relationships, our clients come back to us again and again – creating more value for them, and for us.

In the life sciences and healthcare sector, Kempen received a licence to underwrite US transactions in July 2018. This has been exciting for me personally: we carried out two successful transactions in September, and it was the first time that I'd been involved in a US investment banking environment. I've learnt a lot, and I'm happy to have been part of such a major milestone for the firm.

There can be a lot of pressure in our industry – not to mention a lot of sitting at a desk. So to relax, I've been taking advantage of the Vitality Programme and having a 15-minute chair massage once or twice a week. Logistically, it's perfect: the facilities are in our building, so it's easy to fit into a busy schedule. Yes, we're expected to work hard, but the firm really pays attention to our health and well-being, too.

Jan-Willem Plomp – Associate,
Kempen Merchant Banking

REMUNERATION

We pursue a remuneration policy that is in line with our strategy and contributes to long-term value creation. This section sets out our remuneration governance and the policies that apply to our employees, identified staff, the Statutory Board and the Supervisory Board.

Remuneration policy governance

The Statutory Board sets the remuneration policy for employees, based on the advice of the Human Resource Management (HRM), Finance, Reporting & Control, Group Risk Management and Compliance departments. These, together with Group Audit, also 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 our remuneration policy. The Supervisory Board approves our variable remuneration policy, including its general principles, and oversees its implementation. Approval by the Supervisory Board is also required for our variable remuneration pools, any significant 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.

Fixed remuneration

Employees' fixed remuneration reflects their relevant working experience and organisational responsibilities.

Variable remuneration policy for Van Lanschot Kempen employees

Van Lanschot Kempen has variable remuneration policies in place governing all employees of Van Lanschot and Kempen. Every employee can be considered for a variable remuneration award, provided that certain conditions are met (as mentioned under the "Award" section). Our policies comply with all relevant legislation and regulations.

Based on operating results, the Statutory and Executive Boards determine whether variable remuneration will be awarded and what amount is available, taking into account achievement of financial and non-financial performance criteria. The boards submit the proposed amount for the variable remuneration pool for the approval of the Supervisory Board, and any deviations also require Supervisory Board approval.

Once the amount available for variable remuneration at Van Lanschot and Kempen has been determined, the Statutory Board decides how this variable remuneration will be distributed at Van Lanschot, while Kempen's Management Board decides on its distribution at Kempen.

The average variable remuneration of all Van Lanschot Kempen employees who work (largely) in the Netherlands may not exceed 20% of their fixed remuneration, as prescribed by the Dutch Financial Supervision Act (Wft). Variable remuneration of up to 100% of fixed remuneration may be granted on special grounds in individual situations. This only applies to a relatively low number of employees.

Award

Variable remuneration to individual employees is awarded on the basis of individual performance, market competitiveness and special factors. An employee's personal performance is assessed on quantitative (i.e. financial) and qualitative (non-financial) performance criteria, with some departments applying only qualitative criteria. 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.

Individual performance is measured based on the degree to which employees have achieved targets set at the beginning of the year. Performance criteria include nothing that might encourage irresponsible risk-taking.

Variable remuneration is only awarded if 1) Van Lanschot Kempen's financial position allows; 2) it is justified by the performance of Van Lanschot Kempen, the relevant business unit and the individual employee; 3) 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; 4) the risks taken have been reassessed and no material risks have occurred that were not expected or factored in; and 5) 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.

Payment

Variable remuneration can be paid to employees entirely in cash up to a gross maximum of €50,000. If it exceeds this amount, 50% of the portion above the gross figure of €50,000 is paid immediately and unconditionally, and the remaining 50% conditionally and on a deferred basis over a period of three years following the year in which it was awarded. The deferred portion can only become unconditional if Van Lanschot Kempen still meets the prevailing buffer requirements.

The Statutory Board may, with the approval of the Supervisory Board, hold or claw back all or part of the:

- 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).

If payment has taken place on the basis of such incorrect information, or has been made in conflict with the variable remuneration policy and/or applicable legislation and regulations, the Statutory Board will exercise its authority in this respect.

Long-term share plan

Our 2011 long-term share plan (LTP) allows us to award variable remuneration to certain key employees, including identified staff. The plan is not open to members of the Statutory or Executive Boards. Offering variable remuneration in the form of depositary receipts for Class A Van Lanschot Kempen shares (“Van Lanschot Kempen shares”), the LTP is governed by our variable remuneration policy. Under the LTP, 60% of the Van Lanschot Kempen shares are awarded immediately and unconditionally, while 40% are awarded conditionally over a period of three years starting in the year after the year of conditional award (the vesting period).

Profit-sharing scheme

In 2017, we introduced a profit-sharing scheme for all Van Lanschot Kempen employees working in the Netherlands to further increase their alignment with Van Lanschot Kempen as shareholders. For the 2018 financial year, an equal number of Van Lanschot Kempen shares were granted to all employees in scope in February 2019. The number of shares is linked to Van Lanschot Kempen’s profit and is conditional on this exceeding a certain threshold. A lock-up period of two years applies.

Remuneration in 2018

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

Remuneration policy for identified staff

Identified staff are employees whose activities have a material impact on the risk profile of the business. Strict additional rules apply to the variable remuneration of this group of employees. The identified staff remuneration policy applies to all identified staff of Van Lanschot Kempen. Members of the Statutory and Executive Boards are not eligible for variable remuneration.

The criteria of the variable remuneration policy for identified staff are the same as for Van Lanschot Kempen’s variable remuneration policy. The variable remuneration of identified staff is paid 50% in cash and 50% in Van Lanschot Kempen shares, while the variable remuneration of identified staff of Kempen Capital Management NV (KCM) is paid 50% in cash and 50% in a flexible mix of Van Lanschot Kempen shares and investments in funds managed by KCM. In all cases, 60% of both parts of the variable remuneration is awarded immediately and unconditionally, and 40% conditionally and deferred. This deferred remuneration is then paid out over a period of three years following the year of award. Whether an award becomes unconditional depends on reassessment of the five predetermined criteria mentioned on the previous page. If this reassessment leads to a review of the deferred remuneration, the hold and/or claw-back system applies. A lock-up period of one year applies to Van Lanschot Kempen shares that have become unconditional.

More information about our remuneration policy for identified staff can be found at vanlanschotkempen.com/remunerationpolicies.

Statutory Board remuneration policy

The remuneration policy for members of Van Lanschot Kempen’s Statutory Board is adopted by the general meeting following a proposal by the Supervisory Board. The policy is aimed at ensuring a balanced, sustainable and competitive remuneration package. The current remuneration for the members of the Statutory Board was approved and adopted by the general meeting on 31 May 2018, and applied from 1 January 2018.

When adopting the Statutory Board remuneration package, we consider pay ratios within the company. A comparison of the remuneration package of the CEO and the average labour cost[1] of an employee within Van Lanschot Kempen results in a pay ratio of 10:1 (2017: pay ratio 9:1).

We ended all variable remuneration for the Statutory Board in 2015. As partial compensation, a fixed remuneration component was introduced in the form of Van Lanschot Kempen shares. In 2018, the lock-up period applicable to these shares was increased from three to five years.

In addition to the lock-up period applicable to these shares, Statutory Board members are also bound by the share ownership guidelines. These guidelines stipulate that Van Lanschot Kempen shares held by Statutory Board members must be equivalent to the cash portion of two years’ gross salary for as long as they remain in office. Statutory Board members will gradually meet this requirement over the years through the award of fixed remuneration in the form of Van Lanschot Kempen shares. The share ownership guidelines contribute to Van Lanschot Kempen’s long-term value creation.

In 2015, it was agreed that the remuneration policy of the Statutory Board would be revisited in 2017 and evaluated in light of developments and circumstances at the time.

In December 2017, Willis Towers Watson conducted a market assessment for the remuneration of the Statutory Board. The peer group for the market assessment was selected in keeping with the Dutch Banking Code, and consisted of:

- Dutch banks;
- Western European specialised standalone wealth management companies;
- Dutch corporates (cross-industry benchmark).

In this market assessment, the compensation from 1 January 2018 positions us in the 29th percentile of the reference group, well below the median.

For information on the composition of the reference group used for the market comparison of Statutory Board remuneration, please refer to vanlanschotkempen.com/remunerationpolicies. This information is an integral part of the Remuneration section.

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

Statutory Board remuneration package

The following table shows the remuneration package for members of the Statutory Board, who are not entitled to variable compensation. There are no early retirement schemes for Board members. Their severance remuneration is in line with current statutory and regulatory rules and amounts to one year's gross salary.

The remuneration of the Statutory Board consists of two components: fixed income and benefits.

Fixed income

Remuneration of the Statutory Board	Chairman	Members
Fixed in cash	€772,500	€437,750
Fixed in Van Lanschot Kempen shares	€387,500	€312,250

Statutory Board remuneration package	Type of payment	Purpose/rationale
Fixed income	Cash	Reflects responsibilities, performance and market trends
Fixed income	Van Lanschot Kempen shares	Achievement of long-term strategy
Benefits	Payment towards pension and disability insurance, fixed expenses reimbursement	Market competitiveness

Benefits

The members of the Statutory Board are responsible for their own pension provision, towards which they receive a payment. They also receive a payment for taking out disability insurance. For more information, see "Remuneration of the Statutory and Supervisory Boards" on page 208 of the 2018 financial statements.

Evaluation of the Statutory Board remuneration policy

Important factors in the Supervisory Board's decision to propose increasing the remuneration of the Statutory Board to the annual general meeting included our aims to:

- Attract and retain talent to continue the company's transformation and growth;
- Reward the strong performance of the Statutory Board;
- Align reward with long-term sustainable performance;
- Align the interests of the management with shareholders.

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 resulted in strong performance over recent years (see "Our strategic transformation" on page 12). In the future, the company will continue to pursue its wealth management strategy, and will utilise the latest technology and expertise in digitalisation and advanced analytics to grow the business and to make the organisation more efficient. This requires a 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 for the Board, which includes Board members from highly specialised wealth management and technology firms. In addition, the remuneration package of the Statutory Board must be structured to fit properly within the Dutch regulatory context.

As a result, a proposal was made at the annual general meeting to increase the fixed salary in shares in Van Lanschot Kempen of the Chairman of the Statutory Board from €231,750 to €387,500, and of the other members of the Statutory Board from €206,000 to €312,250. Their fixed salary in cash did not increase, and remained €772,500 (Chairman) and €437,750 (other board members). The proposal was to increase the total fixed salary of the Chairman by 15.5%, and of the other members by 16.5%. In comparison with the total remuneration policy that existed until 2015, when higher percentages of variable remuneration were still used, the new amounts of the new total remuneration represented an increase of 3.1% for the Chairman and a decrease of 11.7% for the other members of the Statutory Board.

A market survey showed that the Statutory Board's pension contributions were not in line with market practice. The percentage for pension contribution was changed from 20% (Chairman) and 21% (other members) to 30% of fixed salary, which remains below the median. After the amendment in remuneration, the total remuneration of the Statutory Board falls in the 29th percentile of the peer group and below the median.

The annual general meeting approved the remuneration proposal in 2018 and, although there was limited discussion at the shareholder meeting itself, the Remuneration Committee and the Supervisory Board recognised that there was a substantial number of votes against the proposal. Based on feedback received from investors, and following the Supervisory Board's evaluation of the process prior to the annual general meeting, the Supervisory Board initiated an engagement programme with shareholders and proxy advisers. The aim was to further understand their concerns and issues in relation to the proposal, and to broaden the scope of engagement with shareholders.

A delegation of the Supervisory Board/Remuneration Committee engaged with a large part of Van Lanschot Kempen's shareholder base and other stakeholders, including proxy voting advisers. During these meetings, an explanation was given about the Supervisory Board's view on rewarding long-term sustainable performance; the Dutch context, such as the Dutch law on remuneration of financial undertakings; the Capital Requirements Directives (CRD) IV rules; and the Dutch Corporate Governance and Banking Codes.

The dialogue with our shareholders and the proxy advisers was very constructive. Gaining their views on executive pay in general, and Van Lanschot Kempen's remuneration policy in particular, was very helpful. The main feedback concerned the preference for pay for performance, and the desire to be able to monitor the Statutory Board's performance against agreed KPIs. We explained that the Supervisory Board believes in rewarding long-term sustainable performance, which includes a large proportion of fixed salary in shares and with no (short-term focused) variable remuneration. Due to Dutch law and market practice in combination with CRD IV rules, a relatively small cash payment in the year after the performance can be awarded in case of variable remuneration. For these reasons, the remuneration policy was already amended in 2015, when we introduced the fixed salary in the form of shares instead of any form of variable remuneration. We also elaborated on the remuneration provisions in the Dutch Corporate Governance Code and Banking Code, which focus on long-term value creation for the company. There was broad recognition that the Dutch rules differ from common remuneration practices in other EU countries, including the UK.

Following these explanations, most shareholders confirmed that they now had a better understanding of our decision not to pay variable remuneration. Suggestions discussed with shareholders included the possibility to award variable remuneration within the Dutch legal framework, provision of details about the annual performance evaluation of the members of the Statutory Board, and the composition of the peer group.

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. Some of the current members of the Statutory Board worked for companies that are substantially bigger than Van Lanschot Kempen, and in practice we seek new talent from larger, complex companies rather than smaller companies. Based on information from Willis Towers Watson, we also explained that if some of the large Dutch companies had not been included in the peer group, the outcome would have remained that the remuneration was substantially below the median.

Some questions were asked about the considerations and governance of Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen ("Stichting Administratiekantoor"). We explained how Stichting Administratiekantoor is governed, particularly its independence from Van Lanschot Kempen. For further information about Stichting Administratiekantoor's considerations, see their Board report on page 224.

The Supervisory Board received detailed feedback about each of the engagement meetings. We are aware that it is very important that we carefully explain the relevance of the Dutch regulatory context in the evaluation of the remuneration of the Statutory Board, and the choice not to pay variable remuneration to the members of the Statutory Board. 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 shareholder engagement, and will liaise with shareholders and proxy voting advisers on sensitive matters well before these items are put on the agenda of the general meeting.

Supervisory Board remuneration policy

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

Remuneration Supervisory Board	Chairman	Deputy 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

REPORT OF THE SUPERVISORY BOARD

This report gives an overview of the activities of the Supervisory Board and its committees in 2018. A description of the composition and operation of the Supervisory Board is set out in the notes on corporate governance (see page 83).

Supervision

Achievement of corporate targets

The Supervisory Board can reflect on a commercially successful year for Van Lanschot Kempen, as is proven by the net inflow of assets under management and the increase in commission income. In addition, the capital position has been strengthened further, which allowed for a second special capital return. However, the rise in cost levels in the first half of the year combined with the continuing low interest rates, resulted in a higher efficiency ratio than targeted. We are confident that appropriate measures are being taken to mitigate this effect.

Having simplified and focused the business model, Van Lanschot Kempen has now defined the next phase in its strategy. This phase takes into account the competitive landscape, broader economic conditions, and behavioural changes driven by digital technology and the potential of advanced analytics.

We are pleased to see organic inflow, both of assets under management at Private Banking and from new fiduciary mandates at Asset Management. Merchant Banking had a strong year due to multiple successful transactions. Evi is growing its client base, although assets under management remained relatively stable.

During 2018, we've also seen an increased focus on digitalisation and advanced analytics. Throughout the organisation, projects were initiated to increase efficiency and improve the client experience. We are enthusiastic about these initiatives, and confident that they will lead to a more cost-efficient organisation. We support the appointment of a Chief Digital Officer and a Chief Analytics Officer, who will accelerate change through the whole organisation. Van Lanschot Kempen further aligned its business units by integrating teams with similar tasks and setting up a new cross-functional team for a specific client group. Moving from a product-based offering to a more solutions-led approach will enable clients to profit even more from the broad range of services Van Lanschot Kempen can provide, and is expected to result in further growth in assets under management.

A new set of financial and non-financial KPIs was introduced during 2018. We expect these KPIs to effectively measure both the financial and non-financial value created for stakeholders. For the main elements of Van Lanschot Kempen's strategy, please see pages 12-20.

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 2018, 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 2019 was approved at the Board's December meeting. The 2019-21 capital and funding plan was also discussed and approved.

Financial reporting

Financial reporting is discussed regularly at the Audit and Compliance Committee's meetings, which are also attended by the external auditors. In 2018, the committee gave special attention to the impact and implementation of Basel IV and IFRS 16, the implementation of IFRS 9 in the opening balance, and the 2018 interim financial statements. After each meeting, the chairman of the committee reports on committee discussions to the Supervisory Board. All members of the Supervisory Board were invited to attend the Audit and Compliance Committee's meetings in 2018 at which the annual and half-year figures were discussed. The Supervisory Board approved the financial statements for 2017 on 21 February 2018.

The Supervisory Board decided to propose to the general meeting held on 31 May 2018 that it reappoints PricewaterhouseCoopers Accountants NV (PwC) as external auditors for the 2018 and 2019 financial years. The general meeting has reappointed PwC as external auditors for the 2018 and 2019 financial years. In December 2018, the Supervisory Board decided to propose the reappointment of PwC for the 2020 financial year to the general meeting to be held in May 2019.

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. During the Supervisory Board meetings, there were regular updates on specific projects, such as client due diligence. The Supervisory Board was also informed periodically about the ongoing implementation of new legislation and regulations such as MiFID II, the General Data Protection Regulation (*Algemene Verordening Gegevensbescherming*), the EBA Guidelines on internal governance, and the EBA and ESMA Guidelines on the assessment of the suitability of members of the management body and key function holders.

Relationship with stakeholders

The Supervisory Board regularly discussed Van Lanschot Kempen's relationship with its shareholders. The most important topics Van Lanschot Kempen discussed with its shareholders were the general development of Van Lanschot Kempen, the progress made on executing Strategy 2020, and Van Lanschot Kempen's strong capital base, which enabled it to make a capital return payment to its shareholders in December 2018. The scope of engagement with shareholders was further expanded in 2018.

A delegation of the Supervisory Board had several meetings with Van Lanschot Kempen's shareholders and other stakeholders to discuss their views on the company's current remuneration policy, the essential components in the assessment of a remuneration policy, the 2018 annual general meeting and other governance topics. For further information on this engagement, see page 74.

In December 2018, Willy Duron and Jeanine Helthuis attended the Works Council's meeting with the Executive Board, at which the general course of business at Van Lanschot Kempen was discussed. The Supervisory Board values its constructive relationship with the Works Council.

Relevant aspects of corporate social responsibility

As part of the continuing education programme, in September 2018 the Head of CSR and the Director of Impact and Responsible Investment informed the Supervisory Board about recent developments in the area of CSR. The focus was on growing client demand for sustainable investment solutions, the increasing relevance of external sustainability frameworks, and the upcoming (European) regulations on sustainability. In addition, Kempen Capital Management's Chief Investment Officer informed the Supervisory Board about the relevant aspects of Focusing Capital on the Long Term: an initiative in which Kempen actively participates to emphasise the importance of investing in companies with a long-term focus.

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, CSR remains a topic that requires ongoing attention from Van Lanschot Kempen.

Internal organisation

Composition of the Statutory and Executive Boards

The composition of the Statutory Board did not change in 2018. 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 changed in 2018. Paul Gerla sadly passed away in November 2018 after having to step down as a member of the Executive Board for medical reasons on 5 February 2018. He was succeeded by Leni Boeren, responsible for Asset Management, who was appointed as a member of the Executive Board on 5 February 2018. As of that date she was also appointed as Chairman of the Managing Board of Kempen. The Executive Board consists of Karl Guha (Chairman), Constant Korthout, Arjan Huisman, Richard Bruens, Leni Boeren, and Leonne van der Sar. Constant Korthout, Richard Bruens and Arjan Huisman were reappointed as members of the Statutory Board for a period of four years by the annual general meeting in May 2018.

Composition of the Supervisory Board

Godfried van Lanschot stepped down as a member of the Supervisory Board at the general meeting on 31 May 2018. He had been a member of the Supervisory Board for a period of 12 years. The Supervisory Board is sincerely grateful to Godfried van Lanschot for his valuable contribution to the Board over the past 12 years.
At the general meeting on 31 May 2018, Maarten Muller was appointed as a new member of the Supervisory Board until the general meeting that will take place in 2022.
At the extraordinary general meeting on 5 October 2018, Frans Blom was appointed as a new member of the Supervisory Board until the general meeting that will take place in 2023.

According to schedule, Willy Duron's and Bernadette Langius's terms of office as members of the Supervisory Board will expire in May 2019.

Supervisory Board meetings

The Supervisory Board held 12 meetings in 2018. 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 strategy, developments within the various business lines, corporate governance, risk management, IT and operations, results and budget. In addition, the Board discussed the return of capital to shareholders, and the simplification of the legal structure of Van Lanschot Kempen.

The Supervisory Board also held 12 additional meetings – most of which were in advance of the regular Supervisory Board 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 proposal for the amendment of the remuneration of the Statutory and Supervisory Boards and the suitability matrix of the Supervisory Board. The Chairman of the Executive Board was invited to attend some of these closed meetings, depending on the topics being discussed. The table on the next page shows the composition of Supervisory Board committees, and the attendance rate of each member of the Supervisory Board at 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 themes 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 three sessions with the Executive Board which were fully dedicated to Van Lanschot Kempen's strategy. The strategy sessions were attended by all members of the Supervisory Board.

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. The table below shows the composition of the Supervisory Board and its committees, and their respective attendance rates.

Composition and attendance rate	Supervisory Board	Audit and Compliance Committee	Risk Committee	Selection and Appointment Committee	Remuneration Committee
Willy Duron	95.83% (Chairman)	80%	100%	100% (Chairman)	100%
Manfred Schepers	95.83%	100%	100% (Chairman)		
Jeanine Helthuis	91.67%	100%		100%	
Bernadette Langius	95.83%		100%		100% (Chairman[1])
Godfried van Lanschot	100%			100%	100% (Chairman[2])
Lex van Overmeire	91.67%	100% (Chairman)	100%		
Maarten Muller[3]	100%			100%	100%
Frans Blom[4]	100%		100%		100%

1 As of 1 June 2018.
2 Until 31 May 2018.
3 As of 31 May 2018.
4 As of 5 October 2018.

Audit and Compliance Committee
The Audit and Compliance Committee held five meetings in 2018. 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 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 below and overleaf.

Key items for discussion	Audit and Compliance Committee review and conclusion
Impairments of loans and advances to the public and private sectors As of 2018, impairments for individually identifiable loans are based on IFRS 9, which replaced IAS 39. 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 Restructuring & Recovery team 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 periodically discussed management reports, 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 9 to the financial statements.
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. 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.

Key items for discussion	Audit and Compliance Committee review and conclusion
Adoption of IFRS 9 (Financial Instruments) Van Lanschot Kempen adopted IFRS 9 as of 1 January 2018. This resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. Adjustments were recognised in the opening balance, including in retained earnings and other reserves. Under IFRS 9, impairments are based on an expected credit loss model rather than the incurred credit loss model used under IAS 39.	We have monitored the implementation of IFRS 9 and have reviewed the disclosures made in the financial report on the 2018 half-year results and in the 2018 annual report. Management informed us about the changes made in classification of financial instruments and in determining the level of impairments. PwC explained their audit procedures regarding IFRS 9, including validating the IFRS 9 models developed by Van Lanschot Kempen, and testing the internal control environment and relevant IT systems and applications.
Financial and non-financial KPIs During 2018, a new set of financial and non-financial Key Performance Indicators (KPIs) was developed, focusing on the creation of long-term value. These KPIs reflect both the interests of our stakeholders and our ambitions as a wealth manager.	In the process of preparing the annual accounts for 2018, we assessed the new KPIs in light of our strategy and made enquiries about how these KPIs link to the material topics prioritised by our stakeholders in the materiality matrix.
Implementation of 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, similar to the accounting for finance leases under IAS 17.	Management informed the Audit and Compliance Committee in detail on the progress of preparations for implementing IFRS 16. We find that Van Lanschot Kempen is prepared for this new standard.

The committee discussed the external auditors' audit plan, reports and the management letter 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 cyber security. In the December meeting, the functioning of PwC in 2018 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 2020 financial year.

The committee considered the annual plan and reports from Group Audit, and the annual plan and reports from the Compliance department. The Audit and Compliance Committee also discussed the report regarding the external recertification of Group Audit. The basis of this periodical recertification is the code of conduct and the standards of The Institute of Internal Auditors Inc. The committee was informed about contacts with, and correspondence and reports of, De Nederlandsche Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). The Audit and Compliance Committee also met separately with the internal and external auditors.

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 management of the loan portfolio, and the impact of the strategy on the organisation. Quarterly reporting from Compliance covered themes such as client-centricity, client due diligence, implementation of rules and regulations, and adherence to the applicable rules.

Risk Committee

Manfred Schepers was appointed as Chairman of the Risk Committee as of 1 January 2018. He replaced Willy Duron, who remained a member of the committee. In October 2018, Frans Blom was appointed as a new member of the Risk Committee. The Risk Committee met three times in 2018. Its meetings were also attended by the CFO/CRO and the directors of Group Risk Management and of Credit Risk and Credit Restructuring and 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. 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, data management risk, cyber risk and business continuity risk. Interest rate and market risk developments were discussed based on duration analyses, the development of value at risk, and stress tests.

The committee was also informed generally about the way in which Van Lanschot Kempen is preparing for the implementation of Basel IV and IRB model developments.

At the committee's December 2018 meeting, the capital and funding plan for 2019-21 and Van Lanschot Kempen's risk appetite for 2019 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 2018, the Risk Committee gave special attention to the following topics:

Key item for discussion	Risk Committee review and conclusion
Non-financial risk Operational and information risk management remains challenging given that Van Lanschot Kempen is still in the transition phase towards its envisaged end-state as a specialist wealth manager, with several strategic change projects running in parallel.	Management informed us about the developments in the risk profile across the organisation and all mitigating measures taken by Risk Management. Based on this information, we conclude that non-financial risks are 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 on the progress of the ambitious Cyber 5.0 plans. Apart from technological defence measures, emphasis is on security awareness and responsiveness. We conclude that the company is on par with industry standards, and that sufficient resources and attention are being dedicated to this important topic.
Credit risk Developments concerning risks in the overall loan portfolio and in the non-performing loan portfolio have been thoroughly discussed.	The Risk Committee received quarterly risk reports, including reporting on credit risk, and notes an ongoing improvement in the loan portfolio. Special attention was paid to the impact of Basel IV and to credit risk stress-testing. We conclude that credit risk is structurally decreasing and that developments in the loan portfolio are proceeding according to plan.
Reliability and continuity of the IT environment Van Lanschot Kempen is dependent on its IT environment for the reliability and continuity of its operations and financial reporting. In 2018, significant progress was made on improving the efficiency and effectiveness of the IT environment and data warehouse domain, but several large projects are still ongoing.	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 current 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. Sufficient attention from all stakeholders is necessary to mitigate these risks.
Grondvermogen (Inflation Breaker) The Public Prosecutor started an investigation into possible criminal offences committed by a counterparty in connection with some transactions regarding ground leases in Grondvermogen. Kempen is not considered as suspect. Triggered by this investigation, Kempen Dutch Inflation Fund I was confronted with negative publicity regarding its ground lease fund Grondvermogen.	Management has informed us extensively about the developments and issues relating to Grondvermogen. We were informed that management had already conducted an enquiry in 2017 into financial transactions within the ground lease fund prompted by a report concerning a limited number of potentially unusual transactions with a specific counterparty. As result of the enquiry, we discussed the actions that had been initiated with management, including a number of internal organisational and procedural measures to improve our prudence. We were informed that supervisory authorities received full disclosure of the findings as well as the measures taken. The negative publicity was a reason for management to send out additional communication to all staff on the actions taken.

Selection and Appointment Committee

The composition of the Selection and Appointment Committee was altered in 2018 due to Godfried van Lanschot's resignation as a member of the Supervisory Board, and consequently as a member of the Selection and Appointment Committee. Maarten Muller succeeded him as a member of the committee. The Selection and Appointment Committee met once in 2018 to discuss the recruitment and selection process and succession planning for new members of the Supervisory Board. The committee's meetings regarding the composition of the Supervisory and Executive Boards, and the selection of new members, were combined with the closed meetings of the Supervisory Board when this topic was on the agenda.

Remuneration Committee

As a result of the resignation of Godfried van Lanschot (with effect from May 2018) as a member of the Supervisory Board, and consequently as Chairman of the Remuneration Committee, the composition of the Remuneration Committee changed. Bernadette Langius succeeded Godfried van Lanschot as Chairman of the Remuneration Committee on 1 June 2018, while Maarten Muller and Frans Blom were appointed as new members of the committee on 1 June and 5 October respectively. The Remuneration Committee held five meetings in 2018. The Director HR also attended most of these meetings. The committee discussed the performance appraisal of the members of the Executive Board in 2017 and their individual targets for 2018.

The 2017 remuneration report was discussed, as was the 2017 variable remuneration paid to staff of Van Lanschot Kempen. The amount available for variable remuneration of Van Lanschot Kempen staff for 2018 was among the topics discussed at the December meeting.

In December 2017, Willis Towers Watson conducted a market assessment of the remuneration package of the Statutory Board and the Supervisory Board. The evaluation of the remuneration of the Statutory Board was initiated in accordance with the statements made when the remuneration policy for the Statutory Board was approved by the 2015 annual general meeting. The outcome of the assessment was that the remuneration of the Statutory Board and the Supervisory Board was significantly below median levels. The Supervisory Board decided to make proposals for the adjustment of the remuneration of the Statutory Board and the Supervisory Board. These proposals were both approved by the annual general meeting in May 2018.

The proposal for the adjustment of the remuneration of the Statutory Board led to critical comments from Eumedion and voting agencies, and 38% of the shareholders voted against the proposal. The Remuneration Committee evaluated the process for the adjustment of the remuneration package of the Statutory Board in September 2018, and discussed the outcome and recommendations with the Supervisory Board. The Supervisory Board concluded that the specific Dutch regulatory context that led to the proposal should have been explained in more detail, and that a broader engagement with shareholders and other stakeholders should have taken place when the proposal was prepared. As a result, in December 2018, a delegation of the Supervisory Board held several engagement meetings with shareholders to discuss their views on the current remuneration policy of Van Lanschot Kempen. Further details of the remuneration policy of the Statutory Board and our engagement with shareholders can be found in the “Remuneration” section (pages 72-75).

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. In the years in between, the evaluation process is carried out using a questionnaire completed by each board member. In 2018, the questionnaire was further supplemented based on the new EBA and ESMA guidelines on the assessment of the suitability of members of the management body and key function holders. 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, 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 2019; recommendations will be implemented as a result. The overall conclusion of the evaluation was that the Supervisory Board is 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 2019, 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 2018. 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 capital, the operating profit before tax, and the cost/income ratio. The non-financial KPIs include the implementation of the 2020 strategy, diversity and inclusion, and client NPS. 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 2018. The outcome was that the performance of the Executive Board in 2018 is slightly above target. The conclusions and recommendations relevant to the Statutory and Executive Boards were shared with the members of these boards.

The Executive and Statutory Boards evaluate their own functioning and effectiveness on a regular basis during their 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 2018, three continuing education sessions were organised. Topics covered included:

- Data, privacy and digital strategy;
- Sustainability and focusing capital on the long term;
- The Dutch Money Laundering and Terrorist Financing (Prevention) Act (Wwft) and the fourth European Anti-Money Laundering (AML) Directive.

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. 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 2018, 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 2018 and the 2018 financial statements. The 2018 financial statements have been audited by the external auditors, PwC. The independent auditors’ report can be found on page 213. We invite the annual general meeting to adopt the 2018 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 would also like to express our thanks to the Executive Board and to all staff for their personal dedication and ongoing commitment, as well as for their achievements in 2018.

We would particularly like to remember Paul Gerla, who sadly passed away in November 2018 after having to resign from the Executive Board for medical reasons earlier in the year. In him, we lost an experienced board member and ever-optimistic colleague. Paul Gerla played a key role in the successful integration of Van Lanschot and Kempen into Van Lanschot Kempen. We are very grateful for his important contribution to the company over the past years. He will be dearly missed by us all.

‘s-Hertogenbosch, the Netherlands, 20 February 2019

Supervisory Board

Willy Duron, *Chairman*
Manfred Schepers, *Deputy 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 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 is responsible for the continuity of the company and its associated business. It focuses on long-term value creation for the company and its associated business, 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 mission, 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.

Van Lanschot Kempen holds all the shares in Van Lanschot. The Statutory Board of Van Lanschot Kempen is also the Statutory Board of Van Lanschot. 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 aspects into account. Periodically, it determines the financial and non-financial key performance indicators (KPIs) at Van Lanschot Kempen.

Executive Board

Since 2015, Van Lanschot Kempen has had an Executive Board comprising the members of the Statutory Board of Van Lanschot Kempen and the members of the Management Board of Kempen.

The Executive Board oversees the implementation of 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.

We are exploring the possibilities for a legal merger between Van Lanschot and Kempen. If this goes ahead, we will consider expanding Van Lanschot's Statutory Board to include the members of Kempen's Management Board who are not yet members of the Statutory Board of Van Lanschot. This would take place starting from the date of the legal merger between Van Lanschot and Kempen.

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 Van Lanschot.

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. Willy Duron was reappointed as member of the Supervisory Board for a third term of four years in 2015. As stipulated in the Dutch Corporate Governance Code 2016, best practice provision 2.2.2 does not apply to him since his appointment complies with best practice provision III.3.5 of the Dutch Corporate Governance Code adopted in 2008.

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 2018, and consisted of Karl Guha (Chairman), Constant Korthout, Arjan Huisman and Richard Bruens. The composition of the Executive Board did change in 2018: Paul Gerla resigned from the Board on 5 February 2018 and Leni Boeren took over his positions from that date. The Executive Board comprises 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 2018 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 (Deputy Chairman), Frans Blom, Jeanine Helthuis, Bernadette Langius, Maarten Muller and Lex van Overmeire. More information about the changes in composition during 2018 can be found on page 77 of the report of the Supervisory Board.

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 78 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. The Supervisory Board has concluded that it would be desirable to appoint new members with a legal background as well as a background in change processes, disruption and strategic planning. For these reasons, Maarten Muller and Frans Blom were appointed as new members of the Supervisory Board in 2018.

1 The profile can be viewed at vanlanschotkempen.com/management-supervision.

The Supervisory Board 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 in the Supervisory Board are held by women. Given the size of the Supervisory Board, the aim for 30% of the positions to be held by women has in effect been achieved.

Dutch Corporate Governance Code

On 8 December 2016, the revised Dutch Corporate Governance Code 2016[2] (the Code) was published. It came into force starting in the 2017 financial year, and contains principles and best practice provisions that regulate relations between the management board, the supervisory board and the 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 stakeholders.

If the principles or provisions of this revised Code require changes to rules, regulations, procedures or other written records, a company is compliant with the revised Code if such changes have been implemented no later than 31 December 2017. In 2017, we carried out an extensive analysis of the impact of the Code. The regulations of the Statutory Board and of the Supervisory Board and its committees were amended in 2017 in order to comply with the revised Code. The lock-up period applicable to shares awarded to members of the Statutory Board was increased from three to five years. As a result, we fully complied with the Code in 2018.

Dutch Banking Code

The updated Banking Code[3] came into effect on 1 January 2015, superseding the original Banking Code which had been in force since 1 January 2010. The Banking Code 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 Van Lanschot, 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.

Application of the Banking Code

In 2018, Van Lanschot complied with the Banking Code. An explanation (in Dutch) of how Van Lanschot 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 2018. There were no outstanding Class C preference shares in 2018.

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 on 13 November 2018, holders of depositary receipts confirmed this. The Board reports on its activities annually. This report can be found on page 224.

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.

2 The 2016 Dutch Corporate Governance Code can be downloaded from mccg.nl.
3 The Banking Code can be downloaded from nvb.nl.

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 investors with an interest of 3% or more in Van Lanschot Kempen other than Stichting Administratiekantoor, APG Asset Management NV, Wellington Management Group LLP, LDDM Holding BV, Reggeborgh Invest BV, FMR LCC, Janus Henderson Group plc, T. Rowe Price Group, Inc., Invesco Limited, Investec Asset Management Limited and CRUX Asset Management Limited. 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 2018, 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 pages 96-97.

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 31 May 2018 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, to be increased by an additional 10% of the issued capital if the issue is made within the context of a merger or takeover.

This authority has been used for the issuance of 215,000 Class A ordinary shares in order to meet the company's obligations under the remuneration policies and related share schemes.

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 approval.

The Statutory Board was authorised at the general meeting held on 31 May 2018 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 of members of the Supervisory Board;
- Passing a motion of no confidence in the Supervisory Board;
- Determining 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.

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 2018, 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 62. The financial statements include also a more detailed explanation of risk management at Van Lanschot Kempen (see "Risk management", beginning on page 126).

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 2018 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 management letter 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 2018 and 2019 financial years at the general meeting on 31 May 2018. PwC's audit plan for 2018 and risk analysis were discussed in August 2018 at meetings of the Statutory Board and the Audit and Compliance Committee.

PwC issued a 2018 management letter in December 2018, and a board report for 2018 in February 2019. The subjects set out in this management letter and 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 2018.

Decree implementing Article 10 of the Takeover Directive

The Decree implementing Article 10 of the Takeover Directive (Decree dated 5 April 2006 implementing Article 10 of Directive 2004/25/EC of the European Parliament and the Council of the European Union of 21 April 2004 on takeover bids) imposed further requirements on the content of the directors' report.

The required information and, where applicable, the places where this information can be found in this annual report, where not already mentioned in this Corporate Governance section of this report, are summarised below.

1. *Significant agreements that are entered into, amended or terminated upon a change of control of Van Lanschot Kempen following a public bid within the meaning of Article 5:70 of the Financial Supervision Act.*

The shareholder agreement between Van Lanschot and De Goudse NV with respect to Van Lanschot Chabot Holding BV contains a change of control clause. By virtue of this clause, in the event of a change of control, De Goudse has the right, under certain circumstances, to acquire the shares held by Van Lanschot in Van Lanschot Chabot Holding (a call option) or to transfer the shares held by De Goudse in Van Lanschot Chabot Holding to Van Lanschot (a put option).

2. *Any agreement between Van Lanschot Kempen and a board member or employee providing for compensation upon termination of employment due to a public bid within the meaning of Article 5:70 of the Financial Supervision Act.*

Van Lanschot Kempen has not concluded any agreements with board members or employees that provide for compensation upon termination of employment due to a public bid within the meaning of Article 5:70 of the Financial Supervision Act.

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 2018 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 2018 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 2018 financial year, and describes the material risks that Van Lanschot Kempen faces.

’s-Hertogenbosch, the Netherlands, 20 February 2019

Statutory Board

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

PERSONAL DETAILS OF MEMBERS OF THE EXECUTIVE BOARD

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

Karl Guha

Chairman of the Statutory Board of Van Lanschot Kempen/ Van Lanschot

Born
1964, male

Nationality
Dutch

Appointed
2 January 2013

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

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, Member of the Management Board of Kempen

Born
1962, male

Nationality
Dutch

Appointed
27 October 2010

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

Total number of board and/or supervisory positions
Three

Background
1985 – ABN AMRO: Management trainee, senior account manager corporate clients
1990 – KPMG Management Consultants
1992 – Robeco: Group Controller, CFO and member of the 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

Born
1971, male

Nationality
Dutch

Appointed
6 May 2010

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

Total number of board and/or supervisory positions
Four

Significant supervisory board memberships and/or (board) positions
Van Lanschot Chabot Holding: 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

Born
1967, male

Nationality
Dutch

Appointed
15 May 2014

Areas of responsibility
Private Banking, Corporate Social Responsibility, Van Lanschot Switzerland

Total number of board and/or supervisory positions
Five

Significant supervisory board memberships and/or (board) positions
Van Lanschot Chabot Holding: Member of supervisory board
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 Product & Private Wealth Management at ABN AMRO Private Banking International

Leni Boeren

Chairman of the Management Board of Kempen

Born
1963, female

Nationality
Dutch

Appointed
5 February 2018

Areas of responsibility
Asset Management

Total number of board and/or supervisory positions
Five

Significant supervisory board memberships and/or (board) positions
Tata Steel Nederland: Member of supervisory board
Air France-KLM: Independent member of board of directors and audit 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 the group management board and chair/member of the boards of a number of Robeco Group subsidiaries

Leonne van der Sar

Member of the Management Board of 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
One

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, Lex van Overmeire, Willy Duron, Bernadette Langius, Manfred Schepers, 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; third term of office expires in 2019

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 or offices held
KBC Group: Chairman

Manfred Schepers

Deputy 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
Six

Significant other supervisory board memberships and/or (board) positions
NWB Bank: Member of supervisory board
Fotowatio Renewable Ventures: Member of supervisory board
Almar Water Solutions: Member of supervisory board

Principal other positions or offices 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 or offices 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 position
Boston Consulting Group The Netherlands: Chairman

Jeanine Helthuis

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

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: Member of supervisory board

Significant other positions or offices held
Nintes: Member of advisory council

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

Bernadette Langius

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

Born
1960, female

Nationality
Dutch

Appointed
13 May 2015; first term of office expires in 2019

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 or offices 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

Previous positions or offices 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 or offices held
EY Accountants LLP: Audit partner

VAN LANSCHOT KEMPEN SHARES

The issued share capital of Van Lanschot Kempen at 31 December 2018 consisted of 41,361,668 Class A ordinary shares ("shares") each having a nominal value of €1. In 2018, we increased the number of shares in issue by 215,000 to allocate shares to our staff under our remuneration policies. We held 344,647 treasury shares at year-end 2018.

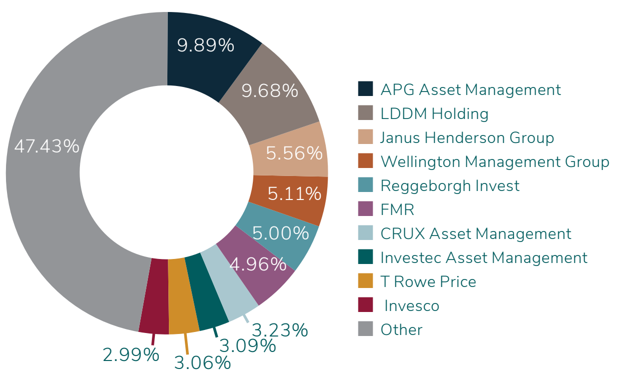
Depositary receipts for Van Lanschot Kempen's Class A ordinary shares have been traded on the Euronext Amsterdam stock market since 29 June 1999 (ISIN Code: NL0000302636; ticker: VLK.AS). For more information about the depositary receipts, turn to our Corporate governance section under "Depositary receipts for shares", on page 85. Van Lanschot Kempen's market capitalisation stood at €813 million at year-end 2018.

Shareholders

Van Lanschot Kempen's shareholder base remained roughly the same during 2018. 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. 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 2018, Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen held over 99.99% of Van Lanschot Kempen shares. For more information on the Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen, see the "Corporate governance" section on page 85.

Van Lanschot Kempen's depositary receipt holders



Management and employees jointly owned around 3.4% of our share capital at year-end. In 2017, we introduced a profit-sharing plan for all Van Lanschot Kempen employees working in the Netherlands to further increase their alignment with Van Lanschot Kempen as shareholders. Accordingly, in 2018, an equal number of Van Lanschot Kempen shares were granted to all employees in scope. The number of shares granted is linked to Van Lanschot Kempen's profit and is conditional on this exceeding a certain threshold. A lock-up period of two years applies. The profit-sharing plan also applied for the financial year 2018, and in February 2019 these shares were granted to our employees in scope. The same profit sharing plan will be in place for the financial year 2019.

CREDIT RATINGS
Our creditworthiness is periodically assessed by Fitch Ratings (Fitch) and Standard & Poor's (S&P). Van Lanschot Kempen maintains its high creditworthiness by deploying its assets for the benefit of its clients, as well as by taking on only such risks as can be understood and controlled. This ensures solid risk management processes and a strong capital and liquidity position. Our current credit ratings reflect our healthy capital and funding position plus our low risk profile.

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	19 July 2018	24 May 2018

Research coverage

Currently, four sell-side analysts actively track us and regularly publish equity research reports on Van Lanschot Kempen: ABN AMRO, ING, Kepler Cheuvreux and UBS. Their details can be found at vanlanschotkempen.com/share-information.

Dividend policy and dividend for 2018

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 and the net effect of selected special items. In 2018, we adjusted for two special items: costs relating to our Strategy 2020 investment programme, and a restructuring charge.

The underlying net result available for distribution to shareholders amounts to €97.3 million and works out at underlying earnings per share of €2.37[2]. Our results and solid capital position enable us to propose a dividend distribution equal to that of last year to our shareholders.

1 Credit ratings apply to Van Lanschot NV. Van Lanschot Kempen is the holding company of Van Lanschot NV. Its only asset is 100% of the shares in Van Lanschot NV.
2 Based on the weighted number of outstanding ordinary shares.

The shareholders at the general meeting to be held on 22 May 2019 will be invited to approve the distribution of a dividend for the 2018 financial year amounting to €1.45 per Class A ordinary share. Based on the number of shares in issue at 31 December 2018 (excluding treasury shares), the proposed dividend payments will total €59.5 million, corresponding to a pay-out ratio of 61.1% of the underlying net result attributable to shareholders. This percentage works out at 79.7% of net result attributable to shareholders. The proportion of net result attributable to shareholders that will not be paid out – i.e. €15.2 million – will be added to reserves.

Capital management policy

By running down our corporate loan portfolio and optimising the use of capital in our other divisions and departments, we sharply reduce risk-weighted assets and consequently our required capital. However, these actions result in a less efficient capital structure. By year-end 2018, our CET 1 ratio of 21.4% was well ahead of our target range of 15-17%.

As we can comfortably fund our current capital spending from profit and loss – including our IT investment programme – we do not need this level of excess capital. 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 a highly 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 premium repayment.

In 2016, we announced our ambition to distribute at least €250 million to shareholders in the period up to and including 2020. A total of over €210 million has now been paid out, in the form of both dividends and capital returns. Including the 2018 dividend, a total of over €270 million will have been returned in 2019. This means that we have already achieved this ambition. In the future, we will continue to optimise our capital base in terms of level and type of instrument, while leaving room for possible acquisitions. If possible, we will also consider paying out excess capital to shareholders, subject to approval by the regulator.

Special capital return

We proposed a special capital return to our shareholders of €1.50 per share in August 2018. This proposal and resolutions to amend the Articles of Association to this effect were approved by our shareholders at the extraordinary general meeting on 5 October 2018. Subsequently, a total of over €60 million was returned to shareholders in December. The capital return was charged to the share premium reserve available for distribution and is therefore exempt from Dutch dividend tax. The total share capital in issue remained unchanged.

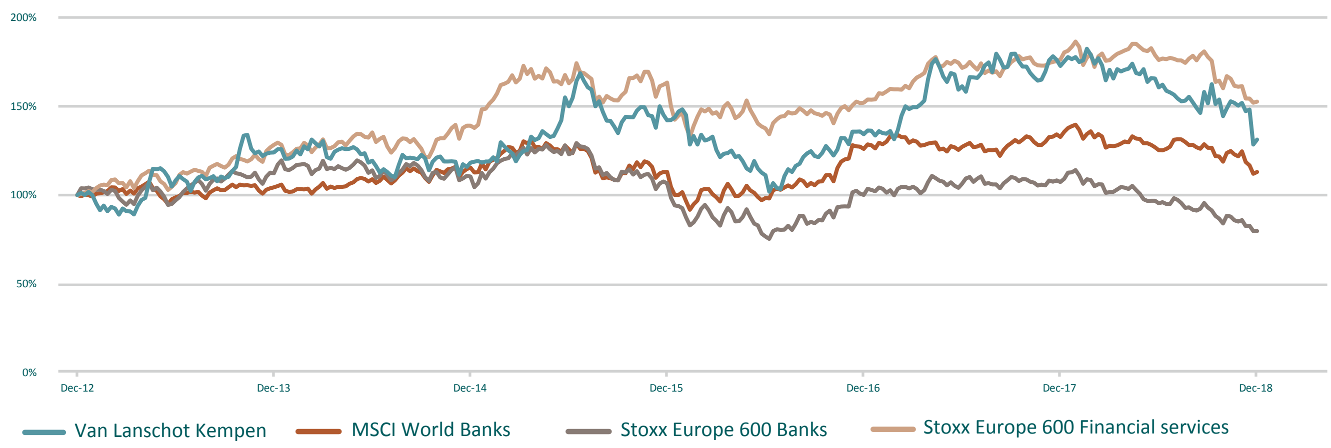
Key figures per ordinary share	2018	2017	2016	2015	2014
Share price (€):					
High	28.00	27.38	22.28	25.70	19.50
Low	18.40	19.46	14.73	17.00	15.51
Closing	19.82	26.15	19.98	21.23	17.40
Average daily trading volume in depositary receipts	23,333	46,232	28,505	21,305	4,827
Market capitalisation (€ million) (year-end)[3]	813	1,068	817	870	710
Net asset value per share (€)	30.39	32.39	32.62	31.68	31.51
Price-earnings ratio[4]	8.3	10.0	10.6	16.9	16.0

Information on dividend per ordinary share	2018	2017	2016	2015	2014
Underlying earnings per ordinary share (€)[4]	2.37	2.61	1.89	1.26	1.09
Dividend per ordinary share (€)	1.45	1.45	1.20	0.45	0.40
Dividend yield (%)	7.3	5.5	6.0	2.1	2.3
Pay-out ratio (%)	61.1	55.4	63.5	35.8	36.7
Total return for holders of ordinary shares (%)	–13	42	–4	24	–2

3 Calculated as: closing price x (issued share capital minus treasury shares).

4 2018 adjusted 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; 2014 adjusted for a pension scheme gain.

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 advisers with questions are welcome to contact our Investor Relations department by phone on +31 20 354 45 90 or by emailing investorrelations@vanlanschotkempen.com.

KEY DATES

Publication of 2019 Q1 trading update	24 April 2019
2019 annual general meeting	22 May 2019
Ex-dividend date	24 May 2019
Record date	27 May 2019
2018 dividend made payable	3 June 2019
Publication of 2019 half-year results	27 August 2019
Publication of 2019 Q3 trading update	31 October 2019

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	293.2	–	–	–	–	293.2
Interest	175.2	0.4	–	–	–	175.6
Income from securities and associates	31.3	–0.2	–	–	–	31.1
Result on financial transactions	–0.8	–	–	–	–	–0.8
Other income	7.3	–7.3	–	–	–	–
Income from operating activities	**506.3**	**–7.1**	**–**	**–**	**–**	**499.2**
Staff costs	263.7	–7.8	–3.9	–	–7.6	244.4
Other administrative expenses	162.0	3.2	–18.1	–	–0.4	146.8
Depreciation and amortisation	14.4	–1.0	–	–8.3	–0.0	5.2
Operating expenses	**440.2**	**–5.6**	**–22.0**	**–8.3**	**–8.0**	**396.4**
Gross result	**66.1**	**–1.5**	**22.0**	**8.3**	**8.0**	**102.8**
Impairments	–13.4	–	–	–	–0.3	–13.7
Operating profit before tax of non-strategic investments	–	17.8	–	–	–	17.8
Operating result before special items and tax	**79.5**	**16.3**	**22.0**	**8.3**	**8.3**	**134.3**
Strategic investment programme	–	–	22.0	–	–	22.0
Amortisation of intangible assets arising from acquisitions	–	–	–	8.3	–	8.3
Restructuring charges	–	–	–	–	8.3	8.3
Operating profit before tax	**79.5**	**16.3**	**–**	**–**	**–**	**95.8**
Income tax	12.1	3.4	–	–	–	15.5
Discontinued activities	12.9	–12.9	–	–	–	–
Net result	**80.3**	**–**	**–**	**–**	**–**	**80.3**

2018 financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018
Before profit appropriation (€1,000)

		31/12/2018	01/01/2018[1]	31/12/2017
Assets				
Cash and cash equivalents and balances at central banks	1	1,406,864	1,832,751	1,832,751
Financial assets from trading activities	2	62,468	38,234	38,234
Due from banks	3	539,180	186,459	186,459
Derivatives	4	332,719	322,258	322,258
Financial assets at fair value through profit or loss	5	218,583	416,899	394,898
Financial assets at fair value through other comprehensive income	6	1,803,584	1,716,354	–
Available-for-sale investments	7	–	–	1,738,355
Held-to-maturity investments	8	–	–	521,349
Loans and advances to the public and private sectors	9	8,561,497	9,092,207	9,103,327
Other financial assets at amortised cost	10	554,209	521,321	–
Investments in associates using the equity method	11	54,071	70,390	70,390
Property and equipment	12	48,238	63,468	63,468
Goodwill and other intangible assets	13	183,083	218,389	218,389
Tax assets	14	25,941	31,669	26,719
Assets classified as held for sale	15	68,058	–	–
Other assets	16	121,513	142,277	142,277
Total assets		**13,980,007**	**14,652,676**	**14,658,875**
Equity and liabilities				
Financial liabilities from trading activities	17	333	1,899	1,899
Due to banks	18	334,902	101,645	101,645
Public and private sector liabilities	19	9,090,939	9,145,119	9,145,119
Derivatives	4	469,316	318,417	318,417
Financial liabilities at fair value through profit or loss	20	940,361	971,453	971,453
Issued debt securities	21	1,521,504	2,411,671	2,411,671
Provisions	22	28,965	24,284	23,085
Tax liabilities	23	5,764	13,007	12,841
Liabilities classified as held for sale	24	20,871	–	–
Other liabilities	25	125,383	156,820	156,820
Subordinated loans	26	173,473	173,620	166,802
Total liabilities		**12,711,812**	**13,317,935**	**13,309,752**
Issued share capital		41,362	41,147	41,147
Treasury shares		–8,678	–7,869	–7,869
Share premium reserve		385,115	441,459	441,459
Other reserves		763,553	754,234	768,616
Undistributed profit attributable to shareholders		74,631	89,508	89,508
Equity attributable to shareholders		**1,255,982**	**1,318,478**	**1,332,860**
Non-controlling interests		6,529	10,827	10,827
Undistributed profit attributable to non-controlling interests		5,684	5,437	5,437
Equity attributable to non-controlling interests		**12,213**	**16,264**	**16,264**
Total equity	27	**1,268,195**	**1,334,742**	**1,349,124**
Total equity and liabilities		**13,980,007**	**14,652,676**	**14,658,875**
Contingent liabilities	28	134,449	122,189	122,189
Irrevocable commitments	29	853,276	861,342	861,342
		987,725	**983,530**	**983,530**

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

1 The consolidated statement of financial position reflects new presentation requirements related to the application of IFRS 9 as from 1 January 2018.

CONSOLIDATED STATEMENT OF INCOME FOR 2018 (€1,000)

		2018	2017
Income from operating activities			
Interest income calculated using the effective interest method		251,985	275,893
Other interest income		52,359	64,158
Interest expense calculated using the effective interest method		66,518	76,319
Other interest expense		62,612	67,882
Net interest income	30	**175,213**	**195,849**
Income from associates using the equity method		28,728	24,074
Other income from securities and associates		2,594	12,956
Income from securities and associates	31	**31,323**	**37,029**
Commission income		307,714	280,519
Commission expense		14,467	13,533
Net commission income	32	**293,247**	266,986
Result on financial transactions	33	**–805**	**14,127**
Net sales		11,020	12,020
Cost of sales		3,716	3,472
Other income	34	**7,304**	**8,548**
Total income from operating activities		**506,282**	**522,539**
Expenses			
Staff costs	35	263,724	246,343
Other administrative expenses	36	162,043	168,481
Staff costs and other administrative expenses		**425,766**	**414,824**
Depreciation and amortisation	37	14,427	14,166
Operating expenses		**440,193**	**428,990**
Impairments of financial instruments		–12,737	–11,875
Other impairments		–679	414
Impairments	38	**–13,416**	**–11,461**
Total expenses		**426,778**	**417,529**
Operating profit before tax		**79,504**	**105,010**
Income tax	39	12,086	22,129
Net profit from continuing operations		**67,418**	**82,881**
Net profit from discontinued operations	40	12,897	12,064
Net result		**80,315**	**94,945**
Of which attributable to shareholders		74,631	89,508
Of which attributable to non-controlling interests		5,684	5,437
Earnings per ordinary share (€)	41	1.82	2.19
Earnings per ordinary share from continuing operations (€)	41	1.51	1.89
Diluted earnings per ordinary share (€)	42	1.81	2.16
Diluted earnings per ordinary share from continuing operations (€)	42	1.49	1.87
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 FOR 2018 (€1,000)

		2018	2017
Net result (as per statement of income)		**80,315**	**94,945**
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		–12,881	–
Revaluation of available-for-sale equity instruments		–	–7,778
Revaluation of available-for-sale debt instruments		–	9,719
Realised return on financial assets at fair value through other comprehensive income		–3,764	–
Realised return on available-for-sale equity instruments		–	–911
Realised return on available-for-sale debt instruments		–	–6,407
Impairments of financial assets at fair value through other comprehensive income		–86	–
Income tax effect		3,985	–860
Total other comprehensive income through revaluation reserve	27	**–12,746**	**–6,237**
Other comprehensive income from value changes of derivatives (cash flow hedges)			
Increase in value of derivatives directly added to equity		–3,892	1,410
Income tax effect		208	–352
Total other comprehensive income from value changes of derivatives (cash flow hedges)	27	**–3,684**	**1,057**
Other comprehensive income from currency translation differences			
Other comprehensive income from currency translation differences		–1,499	–655
Income tax effect		–	–
Total other comprehensive income from currency translation differences	27	**–1,499**	**–655**
Total other comprehensive income to be reclassified in subsequent periods to profit or loss		**–17,929**	**–5,835**
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		–2,931	–
Income tax effect		733	–
Total change in fair value attributable to change in credit risk of financial liabilities at fair value through profit or loss		**–2,198**	**–**
Remeasurement of defined benefit plans			
Remeasurement of defined benefit plans		385	–580
Income tax effect		–91	38
Total remeasurement of defined benefit plans	27	**294**	**–542**
Total other comprehensive income not to be reclassified in subsequent periods to profit or loss		**–1,904**	**–542**
Total other comprehensive income		**–19,833**	**–6,377**
Total comprehensive income		**60,483**	**88,569**
Of which attributable to shareholders		54,798	83,131
Of which attributable to non-controlling interests		5,684	5,437
Total comprehensive income to shareholders			
Of which continuing operations		46,919	75,995
Of which discontinued operations		7,880	7,136
		54,798	**83,131**

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

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 profit	**Total equity attributable to share-holders**	Equity attributable to non-controlling interests	Total equity
At 31 December 2017	**41,147**	**–7,869**	**441,459**	**768,616**	**89,508**	**1,332,860**	**16,264**	**1,349,124**
Impact of adopting IFRS 9[2]	–	–	–	–14,382	–	–14,382	–	–14,382
At 1 January 2018	41,147	–7,869	441,459	754,234	89,508	1,318,478	16,264	1,334,742
Net result (as per statement of income)	–	–	–	–	74,631	74,631	5,684	80,315
Total other comprehensive income	–	–	–	–19,833	–	–19,833	–	–19,833
Total comprehensive income	**–**	**–**	**–**	**–19,833**	**74,631**	**54,798**	**5,684**	**60,483**
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 2018	**41,362**	**–8,678**	**385,115**	**763,553**	**74,631**	**1,255,983**	**12,213**	**1,268,196**

1 For additional information on the nature and composition of the share premium reserve and other reserves, see Note 27.

2 See page 113.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN 2017
Before profit appropriation (€1,000)

	Share capital	Treasury shares	Share premium reserve[1]	Other reserves[1]	Undistri-buted profit	**Total equity attributable to share-holders**	Equity attributable to non-controlling interests	Total equity
At 1 January	**41,092**	**–4,059**	**481,258**	**756,445**	**65,735**	**1,340,471**	**13,456**	1,353,926
Net result (as per statement of income)	–	–	–	–	89,508	89,508	5,437	94,945
Total other comprehensive income	–	–	–	–6,377	–	–6,377	–	–6,377
Total comprehensive income	**–**	**–**	**–**	**–6,377**	**89,508**	**83,131**	**5,437**	88,569
Shares issued	55	–1,403	1,348	–	–	–	–	–
Share plans	–	5,091	–	988	–	6,079	–	6,079
To other reserves	–	–	–	16,380	–16,380	–	–	–
Repurchased equity instruments	–	–7,799	–	–	–	–7,799	–	–7,799
Dividends / Capital return	–41,147	300	–	–	–49,355	–90,202	–672	–90,874
To share capital	41,147	–	–41,147	–	–	–	–	–
Other changes	–	–	–	1,179	–	1,179	–	1,179
Change in non-controlling interests	–	–	–	–	–	–	–1,957	–1,957
At 31 December	**41,147**	**–7,869**	**441,459**	**768,616**	**89,508**	**1,332,860**	**16,264**	1,349,124

1 For additional information on the nature and composition of the share premium reserve and other reserves, see Note 27.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2018 (€1,000)

		2018	2017
Cash flow from operating activities			
Operating profit before tax		79,504	105,010
Adjustments for			
– Depreciation and amortisation	37	16,799	16,024
– Costs of share plans		2,989	4,773
– Results on associates using the equity method		–11,759	–12,949
– Valuation results on financial assets at fair value through profit or loss		19,803	2,870
– Valuation results on financial liabilities at fair value through profit or loss		–46,177	–7,399
– Valuation results on derivatives		–4,818	–19,080
– Impairments	38	–13,416	–11,460
– Changes in provisions		8,458	3,322
Cash flow from operating activities		**51,383**	**81,112**
Net movement in operating assets and liabilities			
– Financial assets/liabilities from trading activities		–25,800	–19,427
– Due from/to banks		–33,238	–8,907
– Loans and advances to public and private sectors/Public and private sector liabilities		506,713	72,455
– Derivatives		129,920	3,099
– Withdrawals from restructuring provision and other provisions		–2,931	–15,021
– Other assets and liabilities		–15,640	–2,554
– Tax assets and liabilities		1,382	–
– Income taxes paid		–9,523	–9,358
– Dividends received		3,192	4,602
Total net movement in operating assets and liabilities		**554,076**	**24,889**
Net cash flow from operating activities		**605,459**	**106,001**
Net cash flow from discontinued operations		**–6,027**	**28,856**
Cash flow from investing activities			
Investments and acquisitions			
– Investments in debt instruments		–1,302,486	–973,327
– Investments in equity instruments		–48,331	–84,990
– Acquisitions (excluding acquired cash and cash equivalents)		–	–28,700
– Investments in associates using the equity method		–9,609	–27,147
– Property and equipment		–5,016	–7,291
– Goodwill and other intangible assets		–878	–7,318
Divestments, redemptions and sales			
– Investments in debt instruments		1,307,076	896,695
– Investments in equity instruments		92,589	25,170
– Investments in associates using the equity method		27,115	40,983
– Property and equipment		4,686	6,671
– Goodwill and other intangible assets		1,873	678
Dividends received		3,473	3,753
Net cash flow from investing activities of continuing operations		**70,492**	**–154,823**
Net cash flow from investing activities of discontinued operations		**154**	**–799**

The numbers in the statement of cash flows refer to the Notes to the consolidated statement of financial position and the Notes to the consolidated statement of income.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2018 (CONTINUED)
(€1,000)

	2018	2017
Cash flow from financing activities		
Share plans	11,345	2,255
Repurchased equity instruments[1]	–10,192	–7,499
Change in non-controlling interests	–8,133	–3,639
Redemption of subordinated loans	–113	–113
Receipts on issued debt securities	–	500,000
Redemption of issued debt securities	–907,256	–187,027
Receipts on financial liabilities at fair value through profit or loss	129,771	275,645
Redemption of financial liabilities at fair value through profit or loss	–116,872	–191,048
Dividends paid	–121,789	–91,174
Net cash flow from financing activities of continuing operations	**–1,023,239**	**297,399**
Net cash flow from financing activities of discontinued operations	–	–
Net change in cash and cash equivalents and balances at central banks	**–353,161**	**276,633**
Cash and cash equivalents and balances at central banks at 1 January[2]	1,826,733	1,550,100
Cash and cash equivalents and balances at central banks at 31 December[2]	1,473,572	1,826,733
Additional disclosure		
Cash flows from interest received	310,702	341,695
Cash flows from interest paid	135,195	146,007

The numbers in the statement of cash flows refer to the Notes to the consolidated statement of financial position and the Notes to the consolidated statement of income.

The table below provides a reconciliation of changes in liabilities arising from financing activities.

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 December	**166,802**	**2,411,671**	**971,453**	**3,549,926**
Impact of adopting IFRS 9	6,818	–	–	6,818
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**

Reconciliation of liabilities arising from financing activities in 2017	Subordinated loans	Issued debt securities	Financial liabilities at fair value through profit or loss	Total
At 1 January	**167,218**	**2,116,094**	**894,256**	**3,177,568**
Cash flows	–113	312,973	84,596	397,456
Non-cash changes				
– Fair value changes	–303	–17,396	–7,399	–25,098
At 31 December	**166,802**	**2,411,671**	**971,453**	**3,549,926**

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 2018 and 2017, 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
Van Lanschot Kempen NV is an independent wealth manager specialising in the preservation and creation of wealth for its clients and for society. Van Lanschot Kempen NV ("Van Lanschot Kempen") is the holding company of Van Lanschot NV (formerly F. van Lanschot Bankiers NV) ("Van Lanschot"). 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 2018 were prepared by the Statutory Board on 20 February 2019 and will be submitted to the general meeting for adoption on 22 May 2019. At the request of the general meeting, the financial statements may – subject to the consent of the Supervisory Board – be amended by the Statutory Board after publication. The amended financial statements will be submitted to the general meeting for adoption.

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. The assets and liabilities disclosed in the consolidated financial statements are measured in accordance with the accounting principles as set out below.

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.

Changes in presentation
In the first half of 2018, AIO II BV (Medsen) was classified as held for sale. In December 2018, an agreement was reached with funds under management of Bencis about the sale of the stake in AIO II BV.

The assets and liabilities of AIO II BV are recognised under Assets and liabilities classified as held for sale i.e. the disposal group; see Note 15, Assets classified as held for sale, and Note 24, Liabilities classified as held for sale. The result of AIO II BV is included under Discontinued operations; see Note 40, Discontinued operations. The cash flow statement and the income statement for 2017 have been adjusted accordingly.

In the second half of 2018, Van Lanschot Chabot Mandema & Partners was classified as held for sale. The assets and liabilities of Van Lanschot Chabot Mandema & Partners are recognised under Assets and liabilities classified as held for sale.

The presentation of Contingent liabilities now includes the credit card guarantees, due to a revised interpretation of the revocability of these facilities. The comparative figures have been adjusted for an amount of €56.6 million.

Changes in accounting policies
The accounting policies adopted in the preparation of our annual consolidated financial statements for the year ended 31 December 2018 remain unchanged, except for the adoption of new standards and interpretations effective from 1 January 2018.

Changes in published IFRS standards and interpretations
The IFRS standards listed below became effective from 1 January 2018 and have been applied to our financial statements for 2018. 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.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration. The impact is expected to be immaterial due to the limited volume of foreign currency transactions involving advance consideration.

Annual Improvements to 2014-2016 Cycle
Changes to standards concern:

IAS 28 Investments in Associates and Joint Ventures
The amendments clarify that measuring investments at fair value through profit or loss is an investment-by-investment choice.

IAS 1 Presentation of Interest Revenue Calculated Using the Effective Interest Method

With the adoption of IFRS 9, a consequential amendment to paragraph 82(a) of IAS 1 is introduced. Under this amendment, interest revenue calculated using the effective interest method for financial instruments measured at amortised costs must be separately presented as a component of revenue on the face of the balance sheet. As a result, we have made changes in our consolidated statement of income. The line item Interest income is split between Interest income calculated using the effective interest method and Other interest income.

Similar presentation has been applied to interest expense. Other interest income and other interest expense includes the interest revenue on all other financial instruments. The comparative figures have been reclassified accordingly.

IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2 focus on the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and accounting for when the classification of a share-based payment transaction changes from cash-settled to equity-settled.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all previous revenue requirements in IFRS. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 9 Financial Instruments

Van Lanschot Kempen adopted IFRS 9 as issued by the IASB in July 2014 with an effective date of 1 January 2018. This adoption resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. We had not early adopted any of IFRS 9 prior to 1 January 2018. Comparative figures in our financial statements are not restated as permitted by the transitional provisions of IFRS 9. Any adjustments to the carrying amounts of financial assets and financial liabilities at 1 January 2018, the transition date, are recognised in the opening balance of equity under the line item Other reserves. We have prepared and present transition disclosures at the end of this section, and have provided an opening consolidated statement of the financial position as at 1 January 2018.

Recognition and derecognition of financial assets and liabilities

Van Lanschot Kempen recognises a financial asset or financial liability in the statement of financial position when it becomes party to a contractual provision of the instrument. At origination, the financial asset or financial liability is recognised at fair value plus or minus transaction costs directly attributable to the acquisition or issue. After initial recognition, we measure financial assets at amortised cost and fair value through other comprehensive income, or at fair value through profit or loss. Financial liabilities are measured at amortised cost or fair value through profit or loss. Interest revenues and expenses on financial assets and liabilities are calculated using the effective interest method. The effective interest method is calculated for all financial assets and liabilities except for financial assets that should be classified as impaired assets and financial assets measured at fair value through profit or loss. For impaired assets, we calculate the credit-impaired effective interest rate, which is based on the amortised cost of the financial asset instead of the gross carrying amount, and incorporates the impact of expected credit losses in estimated future cash flows.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the rights to receive cash flows are transferred. When the cash flows of the financial asset are transferred we evaluate the extent to which we will retain the risks and rewards of ownership of the financial asset. A financial asset is only derecognised when substantially all of the risks and rewards of the ownership of the financial asset are transferred.

A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification or exchange at substantially different terms results in a derecognition of the financial liability and a recognition of a new financial liability. The difference between the carrying amount of the modified or exchanged financial liability and the consideration paid is recognised in profit or loss.

Modifications

If the contractual cash flows on a financial asset have been renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of the financial asset, we recalculate the carrying amount of the financial asset and recognise a modification gain or loss. We apply IFRS 9 modification accounting as follows:

- Changes in the prepayment terms of a loan at the request of a client;
- A switch from a fixed to a variable interest rate during a pre-agreed interest rate period;
- A switch to a current market interest rate with compensation paid;
- Interest rate averaging, which, although qualifying as modification, does not lead to a modification gain or loss;
- Excercising embedded options that are not separate but are part of the financial asset and are included in the contract's fair value. Exercising these options does not result in derecognition or in a modification gain or loss.

The following changes at the request of a client are significant changes to the agreement and do not qualify as modification:

- Switching to a different redemption period;
- Postponing the final repayment.

These changes lead to the financial asset being derecognised and a new financial asset being recognised.

Classification and measurement

We have made two assessments to determine the classification and measurement of debt instruments under IFRS 9: a business model assessment and an assessment of the contractual cash flows. The classification and measurement categories for financial assets under IFRS 9 are:

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

Business model assessment
The business model assessment represents an assessment of how the business is managed and how it is seen from a strategic point of view. The frequency and volume of sales are also taken into account. This assessment results in a classification:
- Hold to collect (HTC): where a financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; or
- Hold to collect and sell (HTCS): where the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; or
- Other business model.

The business model assessment is carried out at portfolio level, whereas the contractual cash flow assessment is done for each individual financial asset. We only reclassify debt instruments if the business model for managing those assets changes.

Our business models are based on the existing management structure and refined based on analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales.

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 Asset & Liability Committee (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 significant in value (both on individual and aggregated level) or are infrequent.

A debt instrument that is held within the hold to collect and sell business model and meets the solely payments of principal and interest (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.

All other debt instruments are measured at fair value through profit or loss. No restrictions are set for sales within the fair value through profit or loss portfolio. These debt instruments are governed by ALCO and sales need to be approved by ALCO.

Assessment of the contractual cash flows
To assess the contractual cash flow characteristics of financial instruments, we have designed a SPPI test. To pass the SPPI test, the contractual terms of the debt instruments need to result in payments that are solely principal and interest. A key element of the SPPI criteria is that the contractual cash flows of the financial instrument should be consistent with a basic lending arrangement. In a basic lending arrangement, the contractual cash flows may include compensation for the time value of money, credit risk, liquidity risk, administrative costs and a profit margin. When the cash flows of a financial instrument do not give rise to solely repayment of principal and payment of interest, the SPPI test is failed and the financial instrument is mandatorily classified and measured at fair value through profit or loss.

New classifications under IFRS 9
This section describes the outcome of our business model assessment and SPPI test. In general:
- Debt instruments from the IAS 39 HTM and L&R categories have been reclassified to the AC category;
- Debt instruments from the IAS 39 AFS category have been reclassified to the FVOCI category.

Debt instruments previously classified as available for sale but which fail the SPPI test
We hold cumulative preference shares that failed to meet the SPPI test. These instruments have no reasonable penalty to compensate the missing future cash flows in the event of prepayments. As a result, these instruments, which amounted to €10.9 million, have been reclassified (mandatorily) to FVPL from the date of initial application of IFRS 9.

Equity instruments
The equity instruments previously in the IAS 39 AFS category, amounting to €11.1 million, have been reclassified to the FVPL category from the date of initial application of IFRS 9. The revaluation reserve for these equity instruments has been reclassified to retained earnings. We have not used the option to make an irrevocable election on initial recognition to measure equity instruments at fair value with results through other comprehensive income.

Financial liabilities
The classification and measurement of financial liabilities remain for the most part unchanged under IFRS 9. Changes in the fair value of financial liabilities at fair value through profit or loss due to changes in Van Lanschot Kempen's own credit risk are recognised in other comprehensive income. The cumulative change in the fair value of financial liabilities through profit or loss which can be allocated to changes in own credit risk – amounting to €13.3 million at 31 December 2017 – has been reclassified, for an amount of €10.0 million, from retained earnings to the own credit risk reserve in other comprehensive income. In addition, a negative tax asset and a deferred tax asset have been recognised for an amount of €3.3 million.

Impairments
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 expected credit loss (Stage 2). For impaired loans (Stage 3), a lifetime ECL is recognised.

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. In general and without taking into account the passage of time, to be called “significant”, a larger relative increase in the risk of default will be required for an asset with a higher risk of default on initial recognition than for an asset with a low risk of default on initial recognition.

Furthermore, we evaluate individually whether objective evidence of impairment exists for financial instruments that are individually significant. We collectively assess financial instruments that are not significant and financial instruments which have no objective evidence of impairment available. This assessment includes quantitative and qualitative information based on our historical experience, credit risk assessment, days past due and forward-looking information.

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.

For more information, see the Risk management section, under 2.8 Impairments.

Hedge accounting

We have opted to continue to apply the hedge accounting guidance of IAS 39 under the EU carve-out, as explicitly permitted by IFRS 9. The hedge accounting disclosures as required by IFRS are included in Note 4, Derivatives.

Transition disclosures

The tables below provide information on the impact of adopting IFRS 9 as of 1 January 2018.

The following table shows the changes in classifications of financial assets and liabilities.

	IAS 39 measurement				IFRS 9 measurement	
	Category	Carrying amount	Reclassi-fications	Remeasure-ments	Category	Carrying amount
Assets						
Cash and cash equivalents and balances at central banks	AC	1,832,751	–	–0	AC	1,832,751
Financial assets held for trading – equity instruments	FVPL	35,673	–	–	FVPL	35,673
Financial assets held for trading – debt instruments	FVPL	2,561	–	–	FVPL	2,561
Due from banks	AC	186,459	–	–0	AC	186,459
Derivatives	FVPL	322,258	–	–	FVPL	322,258
Financial assets at fair value through profit or loss	FVPL	394,898	22,001	–	FVPL	416,899
Financial assets at fair value through other comprehensive income	n/a	–	1,716,354	–	FVOCI	1,716,354
Available-for-sale equity instruments	FVOCI	11,151	–11,151	–	n/a	–
Available-for-sale debt instruments	FVOCI	1,727,204	–1,727,204	–	n/a	–
Held-to-maturity investments	AC	521,349	–521,349	–	n/a	–
Loans and advances to the public and private sectors	AC	9,103,327	–	–11,121	AC	9,092,207
Other financial assets at amortised cost	n/a	–	521,349	–28	AC	521,321
Investments in associates using the equity method		70,390	–	–		70,390
Property and equipment		63,468	–	–		63,468
Goodwill and other intangible assets		218,389	–	–		218,389
Tax assets		26,719	–	4,950		31,669
Other assets		142,277	–	–		142,277
Total assets		**14,658,875**	**–**	**–6,199**		**14,652,676**

The following table shows the changes in classifications of financial assets and liabilities (continued).

	IAS 39 measurement				IFRS 9 measurement	
	Category	Carrying amount	Reclassifications	Remeasurements	Category	Carrying amount
Equity and liabilities						
Financial liabilities from trading activities	FVPL	1,899	–	–	FVPL	1,899
Due to banks	AC	101,645	–	–	AC	101,645
Public and private sector liabilities	AC	9,145,119	–	–	AC	9,145,119
Derivatives	FVPL	318,417	–	–	FVPL	318,417
Financial liabilities at fair value through profit or loss	FVPL	971,453	–	–	FVPL	971,453
Issued debt securities	AC	2,411,671	–	–	AC	2,411,671
Provisions		23,085	–	1,200		24,284
Tax liabilities		12,841	–	166		13,007
Other liabilities		156,820	–	–		156,820
Subordinated loans	AC	166,802	–	6,818	AC	173,620
Total liabilities		**13,309,752**		**8,183**		**13,317,935**
Issued share capital		41,147	–	–		41,147
Treasury shares		–7,869	–	–		–7,869
Share premium reserve		441,459	–	–		441,459
Other reserves		768,616	–	–14,382		754,234
Undistributed profit attributable to shareholders		89,508	–	–		89,508
Equity attributable to shareholders		**1,332,860**	**–**	**–14,382**		**1,318,478**
Non-controlling interests		10,827	–	–		10,827
Undistributed profit attributable to non-controlling interests		5,437	–	–		5,437
Undistributed profit of previous year attributable to non-controlling interests		–	–	–		–
Equity attributable to non-controlling interests		**16,264**	**–**	**–**		**16,264**
Total equity and liabilities		**14,658,875**	**–**	**–6,199**		**14,652,676**

The following table shows the impact on equity under other reserves of adopting IFRS 9.

Revaluation reserve available-for-sale investments	
Closing balance under IAS 39 (31 December 2017)	14,013
Reclassification of equity instruments from available-for-sale to retained earnings	–4,828
Reclassification of debt instruments from available-for-sale to financial assets at fair value through other comprehensive income	–9,185
Opening balance under IFRS 9 (1 January 2018)	–
Revaluation reserve financial assets at fair value through other comprehensive income	
Closing balance under IAS 39 (31 December 2017)	–
Reclassification of debt instruments from available-for-sale to financial assets at fair value through other comprehensive income	9,185
Recognition of expected credit losses under IFRS 9 for financial assets at fair value through other comprehensive income	663
Deferred tax effect	–166
Opening balance under IFRS 9 (1 January 2018)	9,682
Own credit risk reserve	
Closing balance under IAS 39 (31 December 2017)	–
Impact of recognising credit risk on financial liabilities at fair value through profit or loss in own credit risk reserve	–13,288
Deferred tax effect	3,322
Opening balance under IFRS 9 (1 January 2018)	–9,966
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	780,711
Impact of recognising credit risk on financial liabilities at fair value through profit or loss in own credit risk reserve	13,288
Tax effect relating to own credit risk reserve	–3,322
Reclassification of equity instruments from available-for-sale to retained earnings	4,828
Recognition of expected credit losses under IFRS 9	–13,012
Tax effect relating to expected credit losses under IFRS 9	3,247
Recognition of modification loss on certificates of indebtedness	–6,818
Tax effect relating to modification loss on certificates of indebtedness	1,704
Opening balance under IFRS 9 (1 January 2018)	780,626
Total change in equity due to adopting IFRS 9	**–14,382**

The table below provides a reconciliation of the impairment allowances in accordance with IAS 39 and the provisions in accordance with IAS 37 to the opening loss allowances determined in accordance with IFRS 9.

Measurement category	IAS 39 loan loss allowance 31 December 2017	Remeasurements	IFRS 9 loan loss allowance 1 January 2018
Cash and cash equivalents and balances at central banks	–	0	0
Due from banks	–	0	0
Financial assets at fair value through other comprehensive income	–	663	663
Other financial assets at amortised cost	–	28	28
Loans and advances to the public and private sectors	120,400	11,121	131,520
Provision for financial guarantees and loan commitments	–	1,200	1,200
Total	**120,400**	**13,012**	**133,412**

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.

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 2019. We have not applied the following standards in the 2018 financial statements. Unless stated otherwise, standards are applied as soon as they become effective and have been endorsed by the EU.

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 will elect to use 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.

We have performed a detailed impact assessment of IFRS 16 and concluded that this standard will have no material impact on the result of the group. We expect application of this standard to increase assets and liabilities within a range of €60-€70 million.

The standard is effective for annual periods beginning on or after 1 January 2019 and must be applied retrospectively; We will apply the standard from its mandatory adoption date of 1 January 2019 and use the modified retrospective approach.

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 that have yet to be accepted by the tax authorities. The interpretation is effective for annual periods beginning on or after 1 January 2019 and must be applied retrospectively; early adoption is permitted. The interpretation is not yet endorsed by the EU. The standard has no material impact on group results.

Annual Improvements to 2015-2017 Cycle

Changes to standards concern:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. These amendments are effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

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. These amendments are effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies these amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

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 statutes. Therefore we classify these minority interests articles of association and apply equity accounting instead of IFRS 9 fair value accounting. For furher information, see the disclosure on Investments in associates using the equity method.

Furthermore, we have applied critical judgement in determining the assets and liabilities held for sale. In cases where we have decided that we will recover the carrying amount through a sale of these assets or liabilities rather than through continuing use and the sale is highly probable within twelve months we will classify these assets as held for sale. We measure these assets or liabilities at the lower of its carrying amount and fair value less costs to sell. For further information on specific judgements made, see the note on Assets classified as held for sale.

Significant accounting estimates

Determination of fair value of financial instruments
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 the Risk management section, under 13, 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 the Risk management section, under 2.8 Impairments.

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. The impairments of financial assets are determined as a critical estimate. For more information on the discount rates used, see Note 13, Goodwill.

Other accounting estimates

Impairments of non-financial assets
The recoverable amount of non-financial assets is the higher of the fair value of an 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.

Share-based payments
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.

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 22, Provisions.

BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements of Van Lanschot Kempen comprise the financial statements of Van Lanschot and its subsidiaries. These have been prepared at 31 December 2018 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 13, 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. Translation differences relating to the sale of available-for-sale investments are treated as an inherent part of the realised/unrealised gains and losses and recognised under Income from securities and associates.

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.

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. Movements in the value of the hedging instrument are taken to the statement of income.

A hedge relationship ends if a 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 (FVTL). Additionally, any instrument for which the contractual cash flow characteristics are not solely payments of principal and interest (SPPI) must be measured at FVTL. No restrictions are set for sales within the fair value through profit or loss portfolio. These debt instruments are governed by 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 rate method.

Available-for-sale investments
This does not apply from 1 January 2018 onwards due to the adoption of IFRS 9.

Investments included in this line item have been classified by management as transactions held indefinitely and are carried as available for sale. This line item comprises investments in both equity instruments and debt instruments. These investments are initially measured for any changes occurring in the fair value of the investment after its acquisition. Unrealised gains and losses resulting from changes in the fair value of investments classified as available for sale are recognised on a net basis in equity.

On realisation of available-for-sale equity instruments, the accrued revaluation reserve is released to the statement of income under the line item Income from securities and associates. When calculating the transaction result, cost is determined using the average cost method.

Interest earned on these assets is recognised as interest income. Dividends are recognised under Income from securities and associates.

Available-for-sale investments may be sold as a result of liquidity control or changes in interest rates, exchange rates or share prices. Discounts or premiums on interest-bearing available-for-sale investments are amortised based on the effective interest rate and recognised in profit or loss. If the investments are sold or impairment losses occur, the adjustments to fair value are recognised in profit or loss.

We assess on a quarterly basis whether impairment losses have occurred. The fair value of an investment in an equity instrument being below cost significantly or for a prolonged period is an objective indication of impairment, and this is determined by the Impairment Committee on the basis of the policy adopted.

We treat unrealised losses on debt instruments in the investment portfolio due to interest rate fluctuations as temporary decreases in value. We aim to retain these investments in debt instruments for a term considered long enough to offset these unrealised losses, and expect to receive the full principal if they are held to maturity.

In the first year of investment, shareholdings are recognised at fair value and are adjusted where applicable for any changes in this value occurring after acquisition. The market value of shareholdings is based on reports prepared by the fund manager. This value is adjusted where applicable for carried interest arrangements and annual fund charges.

All purchases and sales of available-for-sale investments transacted according to standard market conventions are recognised on the transaction date. All other purchases and sales are recognised on the date of settlement.

Held-to-maturity investments
This does not apply from 1 January 2018 onwards due to the adoption of IFRS 9.

Investments for which the date of maturity and cash flows are known are classified as held-to-maturity investments in so far as the Asset & Liability Committee has both the intention and the ability to hold them until maturity. The Asset & Liability Committee determines the appropriate classification for its investments on their transaction dates.

Held-to-maturity investments are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, after any reduction of an allowance to account for impairment. Interest earned on held-to-maturity investments is recognised as Interest income. All transactions in held-to-maturity investments are recognised on the settlement date.

If there are objective indications that an impairment has occurred, the impairment is determined as the difference between the carrying value of the investment and the present value of estimated future cash flows (with the exception of future loan losses that have not yet occurred) calculated at the original effective interest rate of the investment.

The impairment is recognised in the statement of income. If the amount of the impairment reduces in a subsequent period and the reduction can be objectively related to an event that occurred after the impairment was applied, the earlier impairment is reversed. The amount of the reversal is recognised in the statement of income in so far as the carrying value of the asset does not exceed its amortised cost on the reversal date.

Loans and advances to the public and private sectors
Loans and advances to the public and private sectors are recognised at amortised cost using the effective interest method.

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 Asset & Liability Committee (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 significant in value (both on individual and aggregated level) or are infrequent. Under this measurement category, the financial asset is measured at fair value at initial recognition minus 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.

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

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.

Tax assets 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 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 stated at historical cost.

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. Financial liabilities held for trading are stated at fair value, with movements in value being 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;
- 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. The 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 presented 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 by us 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. Our main pension provider for defined contribution plans is Stichting Pensioenfonds F. van Lanschot. The starting point in determining the contribution is to maintain a balanced development of the pension costs over time.

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.

Provision for employee discounts
We have arrangements in place under which employees are granted discounts on mortgage interest rates, for example. The discount is calculated on an actuarial basis for the period during which the employee is inactive (retired) and is recognised in the statement of financial position as a provision.

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 will offer payments as a result of the implementation of the uniform recovery framework.

Other liabilities
Other liabilities are recognised at historical cost.

Subordinated loans
Subordinated loans are initially recognised at fair value excluding transaction costs. After initial recognition, they are carried at amortised cost. Purchases by us of our own subordinated loans are set off 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
Contingent liabilities are carried at the contract value and relate in particular to guarantees and irrevocable letters of credit.

Irrevocable commitments
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 in so far as 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. Prolonged or significant decreases in the value of equity instruments forming part of the available-for-sale investments are recognised in the statement of income as impairments. Gains or losses on the sale of available-for-sale investments in equity instruments and debt instruments are recognised under Gains/losses on sale of available-for-sale investments in equity instruments (Income from securities and associates) and Realised gains/losses on available-for-sale debt instruments (Result on financial transactions).

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 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 outstanding option rights, for example.

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.

Lease
Lease contracts, including operating sale and leaseback agreements, under which the risks and benefits of ownership of the assets are substantially retained by the lessor, are classified as operating lease contracts. We have entered into operating lease contracts as lessee. Operating lease payments (less any discounts granted by the lessor) are charged to the statement of income on a straight-line basis over the term of the lease. In the case of sale and leaseback, if the selling price of the asset falls below its fair value, the difference between the carrying amount and the selling price is recognised through profit or loss unless the difference between the fair value and the selling price is offset through future non-standard lease instalments.

Lease contracts, including financial sale and leaseback agreements, under which the risks and benefits of ownership of the assets are substantially transferred to Van Lanschot Kempen, are classified as financial lease contracts. We have entered into financial sale and leaseback contracts as lessee. Financial lease contracts are capitalised on the effective date of the lease contract at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The discount rate used in calculating the present value of the minimum lease payments is the implicit interest rate of the lease contract.

The leased property or asset is recognised under Property and equipment. Depreciation is applied using the same method as for wholly owned tangible assets. The lease obligation is recognised under Other liabilities. The interest component of the finance costs is charged to the statement of income over the term of the lease.

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, 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	Restructuring & Recovery	Corporate Banking

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 was created to advise 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. However, these are under constant review by the Statutory Board.

The Statutory Board also bears responsibility for ensuring the proper functioning 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. In order 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 Board, 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, operational incidents, etc.

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, Corporate Banking, Credit Approval, and 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). Van Lanschot 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. Van Lanschot is also exposed to market risk as 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 Executive Board;
- The Executive 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 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 the Asset & Liability Committee.

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 the website.

We hold regulatory capital to be able to mitigate Pillar 1 and Pillar 2 risks. This capital consists of Common Equity Tier 1 (CET1), which comprises share capital, share premium, retained earnings including current year profit, and other reserves less net long positions in own shares and after

1 The banking book comprises all assets that are not held for trading purposes under the regulatory definition.

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 component of our regulatory capital consists of Tier 2 capital instruments, including subordinated long-term debt.

Table 1.3 Capital requirements	2018		2017	
	Actual	Required[1]	Actual	Required[2]
Common Equity Tier 1 (CET1)	982,058	520,984	1,021,773	520,318
Tier 1	982,058	589,686	1,021,773	595,005
Total capital	1,078,984	681,287	1,108,678	694,587
Risk-weighted assets	4,580,083		4,979,120	
CET1 ratio (phase-in)	21.4%	11.4%	20.5%	10.5%
Tier 1 ratio (phase-in)	21.4%	12.9%	20.5%	12.0%
Total capital ratio (phase-in)	23.6%	14.9%	22.3%	14.0%

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);
- Compliance risk (Section 11);
- Financial reporting risk (Section 12).

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 has been outsourced for only a limited number of cases: mortgage loans to a maximum amount of €1 million and only for borrowers who are employed – and are not company directors, major shareholders or owner-directors.

We also offer residential mortgages via a third party under a white label. From a risk management perspective, the credit and outsourcing risk are of particular relevance here.

1 Required capital amount based on Pillar 1, Pillar 2 (5.0%) and capital conservation buffer (1.875%).

2 Required capital amount based on Pillar 1, Pillar 2 (4.7%) and capital conservation buffer (1.25%).

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 Corporate Banking loan portfolio is being purposely run down.

The credit risk concentration mainly lies with Van Lanschot in the Netherlands. Our foreign subsidiaries grant few loans. The limits depend entirely on the collateral provided and may change on a daily basis.

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 Restructuring & Recovery department or a combination of these measures. It may also lead to a stage transfer under IFRS 9 - see Section 2.9.

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 Policy 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 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 Restructuring & Recovery department draws up an impairment proposal. On the basis of this proposal, the Impairment Committee determines the impairment.

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 Restructuring & Recovery department will supervise the client. Increased credit risk occurs in the following situations:

- 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 of turnover, breach of one or more covenants, a debt service coverage ratio < 1, etc.

The primary goal of the Restructuring & Recovery department is to migrate clients back to accounts with regular status (i.e. not under the supervision of 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:
- 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 exceeding €2,000,000 (excluding residential mortgages) to natural persons;
- 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 the company statement of financial position of Van Lanschot. 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, like 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 the 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 vis-à-vis 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 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 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 are carried out by the Restructuring & Recovery department. Each quarter, and where appropriate more frequently for specific loans, an individual assessment is carried out of forborne exposures 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 Restructuring & Recovery department until the forbearance situation has ended.

Table 2.2.A Types of forborne exposure	31/12/2018	31/12/2017
Total	**69,731**	**98,254**
Repayments/reviews temporarily reduced/suspended	44,077	60,990
Provision of (temporary) additional funding (emergency loan)	16,269	22,658
Temporary reduction in interest rate or loan is made interest-free	9,087	12,796
Conditional and/or partial forgiveness of the loan	299	1,810

Table 2.2.B Movements in forborne exposures	2018	2017
At 1 January	98,254	116,558
New forborne exposures	16,074	24,624
Additions and repayments	−52,489	−69,920
Assets no longer designated as forborne exposures	−1,099	−4,591
Impairments	8,992	31,582
At 31 December	**69,731**	**98,254**

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, 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 31/12/2018

	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

Table 2.2.D Forborne exposures by collateral at 31/12/2017	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Total primary collateral	Secondary collateral and unsecured loans
Total	**98,254**	**23,295**	**27,014**	**29,226**	**79,535**	**19,293**
Mortgage loans	4,231	4,805	–	–	4,805	–
Current accounts	44,978	–	–	29,226	29,226	15,752
Loans	49,045	18,490	27,014	–	45,504	3,541

The geographical breakdown in Table 2.2.E is based on client locations.

Table 2.2.E Forborne exposures by geographical area	31/12/2018	31/12/2017
Total	**69,731**	**98,254**
Netherlands	69,258	95,155
Belgium	101	1,347
Other	373	1,751

2.2.1 Write-off policy

We write off loans immediately if there is sufficient certainty about the loss.

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 investment portfolios. 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. The Corporate Banking loan portfolio is being purposely run down. Corporate Banking loans are secured by real estate, receivables, and stocks and inventories.

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 with Van Lanschot. Our foreign subsidiaries grant few loans. The limits contain the revocable and irrevocable commitments and depend entirely on the collateral provided, and may change on a daily basis.

Table 2.3 Breakdown of loan portfolio by entity (excluding impairments)	31/12/2018		31/12/2017	
	Limit	Utilisation	Limit	Utilisation
Total	**9,346,945**	**8,674,307**	**9,602,824**	**9,223,727**
Van Lanschot	8,927,953	8,306,871	9,212,836	8,907,759
Kempen	212,069	212,069	203,559	203,559
Other	206,923	155,366	186,428	112,409

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 31/12/2018

	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

Table 2.4.B Loans and advances to the public and private sectors by collateral at 31/12/2017

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Guarantees	Total primary collateral	Secondary collateral and unsecured loans
Total	**9,103,327**	**6,149,948**	**650,352**	**529,396**	**288,112**	**7,617,808**	**1,485,519**
Mortgage loans	6,328,146	6,149,948	–	–	–	6,149,948	178,198
Loans	1,601,382	–	650,352	–	288,112	938,464	662,918
Current accounts	962,916	–	–	435,958	–	435,958	526,958
Securities-backed loans and settlement receivables	206,396	–	–	93,438	–	93,438	112,958
Subordinated loans	4,487	–	–	–	–	–	4,487

We adopt a cautious approach towards granting unsecured loans. 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, 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 77% (2017: 81%).

2.5 Concentration within the loan portfolio

About 85% of our loan portfolio consists of loans to private clients. The credit risk in this portfolio is limited. We aim for a diversified loan portfolio and have actively sought to reduce the concentration on individual counterparties. In 2018, this led to a 7% reduction in the total volume of the ten highest limits compared with 2017. 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 €220 million at year-end 2018, compared with a total loan portfolio of €8.7 billion (2017: €237 million; total loan portfolio €9.2 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	31/12/2018	31/12/2017
Total	**8,561,497**	**9,103,327**
Netherlands	8,048,335	8,554,024
Belgium	250,206	225,213
Other	262,956	324,090

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.

Not eligible as collateral:

– All other cash and cash equivalents and balances at central banks;
– All other receivables from banks;
– Debt and equity instruments which do not appear on the ECB eligible list of marketable assets;
– Securitised mortgage loans and advances underlying debt instruments which are held by us and which do not appear on the ECB eligible list of marketable assets;
– All other loans and advances.

Table 2.6.A 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

Table 2.6.B Encumbered and unencumbered assets	Encumbered assets		Unencumbered assets		31/12/2017
	Pledged as collateral	Other	Eligible as collateral	Not eligible as collateral	Total
Total	**2,745,376**	**44,138**	**2,180,463**	**8,807,163**	**13,777,140**
Cash and cash equivalents and balances at central banks	–	12,877	–	1,819,874	1,832,751
Due from banks	74,089	31,261	–	81,109	186,459
Financial assets designated at fair value through profit or loss	–	–	202,918	191,980	394,898
Available–for–sale investments	17,666	–	1,519,839	200,850	1,738,355
Held–to–maturity investments	267,605	–	253,744	–	521,349
Loans and advances to the public and private sectors	2,386,015	–	203,962	6,513,350	9,103,327

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. For information about the netting criteria, please see “Summary of significant accounting principles”.

Table 2.7.A Netting of financial assets and liabilities 31/12/2018

	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

Table 2.7.B Netting of financial assets and liabilities 31/12/2017

	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)	490,222	167,964	322,258	48,441	273,817
Derivatives (liabilities)	486,380	167,964	318,417	48,441	269,976

2.8 Impairments

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:

- PD: 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 over the assessed period if the facility has not been previously derecognised and is still in the portfolio.
- EAD: 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.
- LGD: 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 usually expressed as a percentage of EAD.
- 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 losses given non-cures (LGNs). 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.

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 probability of default (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 exposure at default (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 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 as at 31 December 2018 are described in the following section.

2.9 Loss allowance for expected credit loss

Under the new IFRS 9 standard, effective from 1 January 2018, we recognise a loss allowance for expected credit losses (ECL) on financial instruments. We have calculated the ECL by using IFRS 9 models as at 31 December 2018. 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 1 January 2018 and 31 December 2018.

Table 2.9 Loss allowance for expected credit loss	31/12/2018		01/01/2018	
	Book value (excluding impairments)	Expected credit loss	Book value (excluding impairments)	Expected credit loss
Total	**13,837,572**	**113,675**	**14,344,947**	**133,411**
Cash and cash equivalents and balances at central banks	1,406,864	0	1,832,751	0
Due from banks	539,180	0	186,459	0
Financial assets at fair value through other comprehensive income	1,803,584	544	1,716,354	663
Loans and advances to the public and private sectors	9,295,388	112,811	9,839,368	131,520
Other financial assets at amortised cost	554,242	34	521,349	28
Financial guarantees and loan commitments	238,313	286	248,667	1,200

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 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 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 2018, 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 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 and balances at central banks, 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, and applying experienced credit judgement. Credit risk grades are defined using qualitative 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 Restructuring & Recovery department, internal rating pool 1
Standard monitoring	Non-credit-impaired financial assets that are not placed under the supervision of the Restructuring & Recovery department, internal rating pools 2 to 4
Special monitoring	Non-credit-impaired financial assets that are placed under the supervision of the 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.

Credit grade	External rating
Investment grade	AAA - BBB–
Standard monitoring	BB+ - B–
Special monitoring	CCC - C
Default	DDD - D

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 following tables. 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	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade	7,559,491	–	–	7,559,491
Standard monitoring	–	1,244,681	–	1,244,681
Special monitoring	–	154,980	–	154,980
Default	–	–	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	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade	224,716	–	–	224,716
Standard monitoring	–	9,166	–	9,166
Special monitoring	–	1,160	–	1,160
Default	–	–	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 below shows the macroeconomic variables used for the sophisticated approach as at 1 January 2018 and 31 December 2018.

Macroeconomic variables	As at 31 December 2018			As at 1 January 2018		
	2019	2020	2021	2018	2019	2020
Gross domestic product						
Base-case scenario	2.80%	2.00%	2.00%	2.33%	3.53%	2.73%
Upside scenario	4.26%	3.46%	3.46%	3.81%	5.01%	4.21%
Downside scenario	0.16%	–0.64%	–0.64%	–0.83%	0.37%	–0.43%
Volume of export						
Base-case scenario	2.94%	3.54%	3.84%	4.83%	5.63%	4.83%
Upside scenario	4.62%	5.22%	5.52%	7.35%	8.15%	7.35%
Downside scenario	–0.08%	0.52%	0.82%	–0.56%	0.24%	–0.56%
Total investments						
Base-case scenario	7.91%	6.11%	6.11%	4.03%	6.83%	4.03%
Upside scenario	17.28%	15.48%	15.48%	8.63%	11.43%	8.63%
Downside scenario	–8.98%	–10.78%	–10.78%	–5.80%	–3.00%	–5.80%
Private consumption						
Base-case scenario	2.92%	1.92%	1.82%	2.28%	2.78%	2.28%
Upside scenario	4.00%	3.00%	2.90%	3.23%	3.73%	3.23%
Downside scenario	0.98%	–0.02%	–0.12%	0.23%	0.73%	0.23%
Residential real estate price						
Base-case scenario	9.63%	6.13%	3.43%	4.70%	7.90%	6.00%
Upside scenario	12.70%	9.20%	6.50%	7.46%	10.66%	8.76%
Downside scenario	4.09%	0.59%	–2.11%	–1.20%	2.00%	0.10%
Government consumption						
Base-case scenario	1.20%	2.60%	2.00%	2.71%	3.31%	2.71%
Upside scenario	1.19%	2.59%	1.99%	2.38%	2.98%	2.38%
Downside scenario	1.22%	2.62%	2.02%	3.40%	4.00%	3.40%

Collateral credit-impaired financial instruments

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. For credit-impaired financial assets, the Restructuring & Recovery account manager 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	Gross exposure	Impairment	Carrying amount	Value of collateral
Loans and advances to public and private sectors	336,236	100,499	235,737	276,418
Financial guarantees and loan commitments	3,271	82	3,189	2,275

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 €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 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.

3.1 Kempen market risk: trading activities in securities

Our trading activities in securities, mainly comprising equities and equity derivatives, are concentrated at Kempen. 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 interval 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 (€69.1 million; 2017: €61.3 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 in 2018, which led to generally lower levels of volatility. On the derivatives side, this resulted in lower VaR usage, with mostly constant trading volumes. That situation changed in the final two months of the year, however, as the markets became very volatile indeed and VaR usage reflected these swings.

Table 3.1 VaR of Kempen trading activities	2018		2017	
	Derivatives-related	Share-related	Derivatives-related	Share-related
VaR at 31 December	445	314	180	49
Highest VaR	576	439	474	233
Lowest VaR	169	55	56	49
Average VaR	293	144	144	140

3.2 Van Lanschot market risk: treasury

To a limited degree, Van Lanschot Treasury 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 €1,000)	2018	2017
At 31 December	99	1,794
Highest position	1,794	5,243
Lowest position	59	57
Average position	250	1,513

Table 3.2.B Foreign exchange positions (€1,000)	31/12/2018	31/12/2017
Total	**–179**	**1,915**
US dollar	79	1,450
Pound sterling	77	85
Swiss Franc	–104	–31
Danish krone	–501	–1
Other	270	412

The capital adequacy requirement for exchange rate risk was €0.05 million at year-end 2018 (2017: €0.2 million). This amounts to 8% of the net open positions in each currency (2017: 8%).

In addition, some market risk exposure results from investments made in Van Lanschot's management book. The current exposure in this portfolio is €20.2 million (2017: €30.1 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	31/12/2018		31/12/2017	
	Risk weighting	Capital adequacy requirement	Risk weighting	Capital adequacy requirement
Total	**325,017**	**26,001**	**225,718**	**18,057**
Market risk: interest-related instruments	229,589	18,367	147,155	11,772
Market risk: share-related instruments	94,804	7,584	76,675	6,134
Market risk: currency-related instruments	625	50	1,888	151

Weighting and requirements

We use the standardised approach for all types of market risk. The market risk of interest rate derivatives is included under Market risk: interest rate-related instruments; the market risk of share-related derivatives is included under Market risk: share-related instruments; and the market risk of currency derivatives is included under Market risk: 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 the operational loss event types as set out in the Basel framework. Managing operational risks is the responsibility of the 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 classification** via risk self-assessments and scenario analysis:
  - **Risk self-assessment** is a tool that allows line managers to systematically identify and assess risks so that steps can be taken to limit any unacceptable risks. Risk self-assessments are carried out, at tactical (department) level, on processes 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 enhance insight into our (prospective) operational risk profile and thus improve existing risk controls. The results of these analyses also serve as a means 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 self-assessments, 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 cyber risk events.
- **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 187 incidents entailing a loss of more than €1,000 were logged in the database in 2018 (2017: 156 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:** Periodical 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
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 the 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 2018, financial transactions totalling €171 million (2017: €227 million) had to be reported in the context of settlement risk.

6. CVA risk
Under the Capital Requirements Regulation (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 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. After the interest rate risk resulting from maturity mismatches, customer behaviour risk is our most 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.

We manage interest rate risk according to our interest rate risk in the banking book (IRRBB) policy. Responsibility for IRRBB management has been delegated by the Executive Board to the Asset & Liability Committee (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.

Essentially, then, 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 2018, all ΔNII scenarios remained within risk appetite limits. By December 2018, the most adverse scenario was one in which market rates fall by 100 basis points over the next twelve months, with Van Lanschot Kempen being unable to reduce savings rates sufficiently below the “natural floor” of zero per cent. Table 8.A shows the interest rate risk metrics.

Table 8.A Interest rate risk metrics	31/12/2018	31/12/2017
Delta net interest income (ΔNII)	–4.3%	–3.4%
Duration of equity (years)	2	3

The long-term interest rate risk is addressed by using the economic value approach, which looks at how movements in interest rates impact the value of the bank’s assets and liabilities. The main metric used in the economic value analysis is duration of equity. The duration of the bank’s equity indicates the net impact of parallel interest rate changes on its economic value. In 2018, duration of equity was controlled by ALCO within a bandwidth of two to three years. The duration of two years at year-end 2018 implies the economic value of equity would fall by €27.1 million if there were a parallel rise of 100 basis points in interest rates. In the event of a parallel fall in interest rates of 100 basis points, the value of equity would rise by €28.3 million. At year-end 2017, this sensitivity was €44.5 million. The full value of this impact cannot be directly linked to the statement of financial position or income statement, as economic value movements in our banking book are not necessarily reported through profit or loss or equity. Any value movements are expected to materialise over time in the income statement, if interest rates develop as indicated by forward rates and no corrective management actions are assumed.

In assessing interest rate risk, we aim to minimise the impact of differences in accounting classifications, as these should not result in different income statement impacts from rate changes. Hence, parallel yield curve shift scenarios have virtually no impact on the result on financial transactions, because all investments designated at fair value through profit or loss are hedged using derivatives (see Note 4, Derivatives), for which market value changes are represented under the result on financial transactions. Hedge accounting is applied 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 the bank is able to maintain or generate sufficient cash resources to meet its 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 policy for measuring, managing and controlling liquidity risk within Van Lanschot Kempen is set out in our liquidity risk policy document, which is updated annually.

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 becoming less substantial for us. This is mainly due to the run-off of the Corporate Banking loan book, which reduces the reliance on funding sources other than client deposits. We consider client deposits a natural and stable funding source.

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. In 2018, the funding ratio was 106.2% (2017: 100.5%).

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 31/12/2018

	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	24,709	–	**147,453**	231,321	378,775
Total assets	**2,429,609**	**319,366**	**909,730**	**2,095,479**	**7,769,971**	**13,524,155**	**455,852**	**13,980,007**
Total assets excluding derivatives	**2,429,609**	**310,774**	**838,235**	**1,900,950**	**7,711,869**	**13,191,436**	**455,852**	**13,647,288**
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 held for sale	–	–	–	–	–	**–**	20,871	20,871
Other liabilities[2]	–	60,332	70,055	–	–	**130,387**	29,725	160,112
Subordinated loans	–	–	–	–	173,473	**173,473**	–	173,473
Equity	–	–	–	–	–	**–**	1,268,195	1,268,195
Total equity and liabilities	**8,649,783**	**161,541**	**638,458**	**2,133,675**	**1,077,759**	**12,661,215**	**1,318,792**	**13,980,007**
Total equity and liabilities excluding derivatives	**8,649,783**	**151,358**	**550,186**	**1,880,789**	**959,784**	**12,191,900**	**1,318,792**	**13,510,691**
On-balance gap	**–6,220,174**	**157,825**	**271,272**	**–38,196**	**6,692,212**	**862,940**	**–862,940**	**–**

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 31/12/2017

	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	1,832,751	–	–	–	–	**1,832,751**	–	1,832,751
Financial assets from trading activities	–	–	–	–	–	**–**	38,234	38,234
Due from banks	40,145	99,089	–	36,263	10,962	**186,459**	–	186,459
Derivatives	–	37,199	41,309	191,361	52,388	**322,258**	–	322,258
Financial assets at fair value through profit or loss	–	9,089	5,055	212,481	23,743	**250,368**	144,530	394,898
Available-for-sale investments	–	61,354	177,248	1,026,251	451,501	**1,716,354**	22,001	1,738,355
Held-to-maturity investments	–	–	–	521,349	–	**521,349**	–	521,349
Loans and advances to the public and private sectors	1,261,194	10,797	35,101	217,139	7,579,096	**9,103,327**	–	9,103,327
Investments in associates using the equity method	–	–	–	–	–	–	70,390	70,390
Other assets[1]	–	105,712	38,056	25,228	–	**168,996**	281,857	450,853
Total assets	**3,134,090**	**323,241**	**296,769**	**2,230,073**	**8,117,690**	**14,101,862**	**557,013**	**14,658,875**
Total assets excluding derivatives	**3,134,090**	**286,042**	**255,460**	**2,038,711**	**8,065,302**	**13,779,604**	**557,013**	**14,336,617**
Equity and liabilities								
Financial liabilities from trading activities	–	1,899	–	–	–	**1,899**	–	1,899
Due to banks	46,163	55,482	–	–	–	**101,645**	–	101,645
Public and private sector liabilities	8,519,793	101,482	51,637	302,125	170,082	**9,145,119**	–	9,145,119
Derivatives	–	34,077	30,484	171,762	82,094	**318,417**	–	318,417
Financial liabilities at fair value through profit or loss	417	2,172	73,989	686,561	208,314	**971,453**	–	971,453
Issued debt securities	–	–	–	925,490	1,486,181	**2,411,671**	–	2,411,671
Other liabilities[2]	–	67,453	94,359	7,849	–	**169,661**	23,085	192,746
Subordinated loans	–	–	–	–	166,802	**166,802**	–	166,802
Equity	–	–	–	–	–		1,349,123	1,349,123
Total equity and liabilities	**8,566,373**	**262,564**	**250,471**	**2,093,787**	**2,113,472**	**13,286,667**	**1,372,208**	**14,658,875**
Total equity and liabilities excluding derivatives	**8,566,373**	**228,487**	**219,986**	**1,922,025**	**2,031,379**	**12,968,250**	**1,372,208**	**14,340,458**
On-balance gap	**–5,432,283**	**60,677**	**46,298**	**136,286**	**6,004,217**	**815,195**	**–815,195**	**–**

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.

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 31/12/2018

	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 bond loans and notes	–	–	–	–	–	–
Of which covered bond	–	6,250	1,375	1,029,125	517,500	1,554,250
Of which notes as part of securitisation transactions	–	–	–	–	–	–
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**

Table 9.2.B Contractual maturities of undiscounted cash flow of liabilities at 31/12/2017

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial liabilities from trading activities	–	1,899	–	–	–	1,899
Due to banks	9,529	26,234	1,810	40,310	24,840	102,723
Public and private sector liabilities	8,648,322	39,027	71,441	358,072	120,901	9,237,762
Derivatives	188,350	8,837	19,748	49,230	52,252	318,417
Financial liabilities at fair value through profit or loss	–	5,437	78,563	695,270	212,282	991,553
Issued debt securities	–	6,250	1,037,133	555,933	1,023,750	2,623,066
Of which bond loans and notes	–	–	595,026	–	–	595,026
Of which covered bond	–	6,250	1,375	530,500	1,023,750	1,561,875
Of which notes as part of securitisation transactions	–	–	439,563	–	–	439,563
Of which floating-rate notes	–	–	1,168	25,433	–	26,601
Subordinated loans	–	956	8,954	39,639	264,088	313,638
Total undiscounted liabilities	**8,846,201**	**88,639**	**2,252,407**	**1,244,511**	**2,204,364**	**13,589,057**

10. Securitisation risk

We treat securitisation as an asset class in our investment portfolio as well using it as a funding tool. We are not party to any synthetic securitisations and have no trading position in securitisations.

Funding

We do not structure securitisations for other entities and have no other role in our own securitisations other than as seller and servicer and, in some cases, back-to-back swap provider. As we use residential mortgage-backed securities (RMBS) only as one of the available funding tools (placed or retained), there is no obligation to use the originated mortgages in securitisation transactions. In cases when RMBS was used as a funding tool, no significant risk transfer has been achieved since only the most senior notes were placed with investors. As these securitisations are accounted for as funding transactions, there is no recognition of gains on the sale/placement of the transactions. No hedges are used to mitigate the risk of retained RMBS, and the exposure of the underlying mortgages of retained and placed RMBS thus remain on our balance sheet. There are no liquidity risks connected to the RMBS transactions. The RMBS transactions are rated by Standard & Poor's and Fitch Ratings. Retained RMBS can be used as collateral and form a contingent liquidity buffer.

Investments

Part of our liquidity investment portfolio is invested in RMBS. We invest only in the most senior 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.

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 use the IRB methodology to calculate the total risk exposure of RMBS investments.

11. Compliance risk

Van Lanschot Kempen and its subsidiaries fulfil a role as service providers to the public, a role that we can only play to the full if we enjoy the trust of every stakeholder. Our integrity and that of our employees forms the basis for that trust. The Compliance department provides a strong safeguard by ensuring that integrity is embedded in our operations, while the statutory and regulatory rules provide the framework. Within that framework, we have translated the main rules and regulations into requirements for processes and procedures. To enable these requirements to be met, Compliance organises regular training and awareness-raising sessions for staff, monitors compliance with the statutory and regulatory rules, and proposes improvements where necessary.

Failure to comply with the statutory and regulatory rules can lead to significant reputational or financial damage. The Compliance department, which reports directly to the Chairman of the Statutory Board, is responsible for ensuring that the bank's boards, senior management and employees comply with regulations and legislation.

12. 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 functioning 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.

13. Fair value

13.1 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 13.1.A, 13.1.B and 13.1.C 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 13.1.A Financial instruments at fair value at 31/12/2018

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets from trading activities	58,119	3,877	472	62,468
Derivatives	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	333	–	–	333
Derivatives	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**

Table 13.1.B Financial instruments at fair value at 01/01/2018[1]

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets from trading activities	35,553	2,561	119	38,234
Derivatives	33,779	285,225	3,254	322,258
Financial assets at fair value through profit or loss	295,120	47,207	74,572	416,899
Financial assets at fair value through other comprehensive income	1,716,354	–	–	1,716,354
Total assets	2,080,807	334,993	77,945	2,493,745
Liabilities				
Financial liabilities from trading activities	1,882	–	17	1,899
Derivatives	33,113	284,929	375	318,417
Financial liabilities at fair value through profit or loss	–	947,541	23,912	971,453
Total liabilities	34,995	1,232,471	24,303	1,291,769

Table 13.1.C Financial instruments at fair value at 31/12/2017

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets from trading activities	35,553	2,561	119	38,234
Derivatives	33,779	285,225	3,254	322,258
Financial assets at fair value through profit or loss	295,120	47,207	52,571	394,898
Available-for-sale investments	1,716,354	–	22,001	1,738,355
Total assets	2,080,807	334,993	77,945	2,493,745
Liabilities				
Financial liabilities from trading activities	1,882	–	17	1,899
Derivatives	33,113	284,929	375	318,417
Financial liabilities at fair value through profit or loss	–	947,541	23,912	971,453
Total liabilities	34,995	1,232,471	24,303	1,291,769

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 set threshold values. Our policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period.

In 2018, 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 €1.0 million from Level 2 to Level 3 and a transfer of €0.1 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 €1.1 million from Level 3 to Level 2. The transfer of Derivatives (liabilities) includes a €4.1 million shift from Level 3 to Level 2.

Breakdown of movements in financial assets and liabilities classified under Level 3

Tables 13.1.D and 13.1.E 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.

1 This table includes the new presentation requirements related to the application of IFRS 9 as from 1 January 2018.

Table 13.1.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	119	–3	–	450	–95	–	472
Derivatives	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	17	–	–	–	–17	–	–
Derivatives	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 - liabilities	**53,642**	**–644**	**–**	**–1,832**	**–53,921**	**–2,030**	**–4,784**

Table 13.1.E Breakdown of movements in financial liabilities classified as Level 3 in 2017

	At 1 January	To statement of income	To equity[2]	Issues	Settlements	Transfers	At 31 December
Assets							
Financial assets from trading activities	33	2	–	95	–11	–	119
Derivatives	4,085	90	–	–	–784	–138	3,254
Financial assets at fair value through profit or loss	5,311	–2,240	–	49,500	–	–	52,571
Available-for-sale investments	39,423	9,165	–5,395	5,262	–26,455	–	22,001
Total assets	**48,852**	**7,018**	**–5,395**	**54,858**	**–27,250**	**–138**	**77,945**
Liabilities							
Financial liabilities from trading activities	5	–	–	17	–5	–	17
Derivatives	1,242	–343	–	143	–27	–641	375
Financial liabilities at fair value through profit or loss	32,825	1,029	–	–	–	–9,942	23,912
Total liabilities	**34,072**	**686**	**–**	**160**	**–32**	**–10,583**	**24,303**
Total assets - liabilities	**14,780**	**6,331**	**–5,395**	**54,698**	**–27,218**	**10,446**	**53,642**

Table 13.1.F Fair value changes recognised in profit or loss of financial instruments classified as Level 3

	2018			2017		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Net interest income	109	–	109	1,971	–	1,971
Income from securities and associates	–3	–476	–479	6,502	–2,240	4,263
Result on financial transactions	–	–274	–274	–	–596	–596
Impairments	–	–	–	3,191	–2,497	694
Total	**106**	**–750**	**–644**	**11,664**	**–5,333**	**6,331**

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.

2 The changes in value recognised in equity are included in the statement of comprehensive income as Revaluation of equity instruments and Revaluation of debt instruments.

Table 13.1.G Notes on fair value determination using unobservable market inputs (Level 3)

	Fair value			Valuation method	Significance of observable market inputs[2]
Assets	31/12/2018	01/01/2018	31/12/2017		
Financial assets from trading activities					– Face value
Shares, unlisted	472	119	119	– Net asset value	– Net asset value
Derivatives					
Structured product derivatives					
– Options[1]	5,508	244	244	– Option model	– Volatility – Correlation
– Equity swaps[1]	3,803	3,010	3,010	– 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]	7,042	10,850	–	– Discounted cash flow model	– Interest rate – Discount rates
Shares, unlisted	7,437	54,435	52,571	– Net asset value	– Most recent published net asset values of the underlying assets – Kempen: Cost or lower market value
	1,905	7,013	–	– Net asset value	– Net asset value – Market value
	2,783	528	–	– 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
	1,976	1,746	–	– Net asset value	– EBITA – Issue or transfer price – Market price on final trading day – Face value less provisions
Available-for-sale investments					
Debt instruments: company cumprefs (shareholdings)	–	–	10,850	– Discounted cash flow model	– Interest rate – Discount rates
Shares, unlisted	–	–	1,864	– Net asset value	– Most recent published net asset values of the underlying assets – Kempen: Cost or lower market value
Shareholdings	–	–	7,013	– Net asset value	– Net asset value – Market value
	–	–	528	– 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
	–	–	1,746	– Net asset value	– EBITA – Issue or transfer price – Market price on final trading day – Face value less provisions
Total assets	**31,753**	**77,945**	**77,945**		
Liabilities					
Financial liabilities from trading activities					
Shares, unlisted	–	17	17	– Net asset value	– Net asset value – Face value
Derivatives					
Structured product derivatives					
– Credit-linked swaps	2	183	183	– Discounted cash flow model	n/a
– Options[1]	7,111	–	–	– Option model	– Volatility – Correlation
– Equity swaps[1]	1,528	48	48	– Discounted cash flow model – Option model	– Volatility – Correlation
– Equity forwards	–	143	143	– Option model	– Correlation
Financial liabilities at fair value through profit or loss					
Structured debt instruments[1]	27,896	23,912	23,912	– Discounted cash flow model – Option model	– Volatility – Correlation
Total liabilities	**36,537**	**24,303**	**24,303**		

1 Please refer to Tables 13.1.H and 13.1.I for the range and sensitivity of these financial instruments. No range or sensitivity information is available for the other financial instruments.

2 The significance of unobservable market inputs only relates to 2018.

Table 13.1.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			
Structured product 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
Financial assets at fair value through profit or loss			
Debt instruments: company cumprefs (shareholdings)	– Interest rates	–7% – 12% (9%)	Change of 1%/change of €0.1m
	– Discount rates	–7% – 12% (9%)	Change of 1%/change of €0.1m
Liabilities			
Derivatives			
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
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

Table 13.1.I Notes on range and sensitivity of unobservable market inputs (Level 3) at 31/12/2017

	Significant unobservable market inputs	Range (weighted average)	Sensitivity
Assets			
Derivatives			
Structured products derivatives			
– Options	– Volatility	8% – 18% (13%)	Total impact €0.2 million
Available–for–sale investments			
Debt instruments: company cumprefs (shareholdings)	– Interest rates	–5% – 13% (9%)	Change of 1%/change of €0.1m
	– Discount rates	–8% – 13% (9%)	Change of 1%/change of €0.1m
Liabilities			
Derivatives			
Structured products derivatives			
– Equity forwards	– Correlation	–9% – 9% (0%)	Total impact €0.0 million

13.2 Financial instruments not recognised at fair value

Table 13.2 shows the carrying amount and fair value of financial instruments not recognised at fair value, 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 not recognised at fair value 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 13.2 are estimated on the basis of the present value or using other estimation or valuation methods.

Table 13.2 Financial instruments not recognised at fair value

	31/12/2018		01/01/2018		31/12/2017		Level	Valuation method	Significant observable and unobservable market inputs
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount			
Assets									
Due from banks	538,910	539,180	186,461	186,459	186,461	186,459	2	Discounted cash flows using applicable money market rates	Interest rate and discount rate
Held-to-maturity investments	–	–	–	–	552,183	521,349	1	Quoted prices in active markets	–
Loans and advances to the public and private sectors	8,794,997	8,561,497	9,291,007	9,092,207	9,291,007	9,103,327	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	576,970	554,209	552,183	521,349	–	–	1	Quoted prices in active markets	–
Liabilities									
Due to banks	334,902	334,902	101,084	101,645	101,084	101,645	2	Discounted cash flows using applicable money market rates for liabilities	Interest rate and discount rate
Public and private sector liabilities	9,165,416	9,090,939	9,196,050	9,145,119	9,196,050	9,145,119	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	1,532,823	1,521,504	2,445,114	2,411,671	2,445,114	2,411,671	1	Quoted prices in active markets	Interest rate and discount rate
Subordinated loans	184,108	173,473	225,634	173,620	225,634	166,802	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 (€1,000)

1. Cash and cash equivalents and balances at central banks	31/12/2018	01/01/2018	31/12/2017
Total	**1,406,864**	**1,832,751**	**1,832,751**
Cash	38	43	43
Balances at central banks	1,283,903	1,724,927	1,724,927
Statutory reserve deposits at central banks	12,783	12,877	12,877
Amounts due from banks	110,139	94,903	94,903
Impairments	–0	–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	2018	2017	Movements
Cash and cash equivalents	1,406,864	1,832,751	–425,887
Due from banks, available on demand	104,659	40,145	64,515
Due to banks, available on demand	–37,951	–46,163	8,212
Due from/to banks, available on demand, net	66,708	–6,018	72,726
Total	**1,473,572**	**1,826,733**	**–353,161**

2. Financial assets from trading activities	31/12/2018	01/01/2018	31/12/2017
Total	**62,468**	**38,234**	**38,234**
Debt instruments			
Structured debt instruments	3,877	2,561	2,561
Total debt instruments	**3,877**	**2,561**	**2,561**
Equity instruments			
Shares, listed	58,119	35,553	35,553
Shares, unlisted	472	119	119
Total equity instruments	58,590	**35,673**	**35,673**

3. Due from banks	31/12/2018	01/01/2018	31/12/2017
Total	**539,180**	**186,459**	**186,459**
Deposits	172,824	135,352	135,352
Receivables arising from unsettled securities transactions	104,659	40,145	40,145
Reverse repo transactions	250,000	–	–
Loans and advances	11,697	10,962	10,962
Impairments	–0	–0	–

Deposits include deposits to a total of €152.3 million (2017: €74.1 million) which serve as collateral for liabilities arising from derivatives transactions.

4. Derivatives

At 31 December 2018	Asset	Liability	Contract amount
Total	**332,719**	**469,316**	**12,396,497**
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**

At 31 December 2017	Asset	Liability	Contract amount
Total	**322,258**	**318,417**	**10,055,326**
Derivatives used for trading purposes			
Interest rate derivatives	397	1,047	30,468
Currency derivatives	212	200	9,080
Equity derivatives	1,143	–	62,468
Client option positions	33,567	32,913	33,391
Total derivatives used for trading purposes	**35,320**	**34,159**	**135,407**
Derivatives used for hedge accounting purposes			
Derivatives: fair value hedge accounting	52,665	58,046	2,946,905
Derivatives: portfolio fair value hedge accounting	10,988	15,243	2,015,000
Derivatives: cash flow hedge accounting	663	14,131	100,000
Total derivatives used for hedge accounting purposes	**64,316**	**87,421**	**5,061,905**
Other derivatives			
Economic hedges	11,300	24,972	524,576
Structured product derivatives	211,321	171,864	4,333,438
Total other derivatives	**222,622**	**196,837**	**4,858,014**

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	31/12/2018		01/01/2018		31/12/2017	
	Fair value	Ineffective	Fair value	Ineffective	Fair value	Ineffective
Total	**–53,287**	**–221**	**–23,104**	**652**	**–23,104**	**652**
Fair value hedge accounting model	–1,031	49	–5,381	876	–5,381	876
Portfolio fair value hedge accounting model	–35,264	–270	–4,255	–224	–4,255	–224
Cash flow hedge accounting model	–18,247	–	–13,468	–	–13,468	–

The total ineffectiveness of fair value hedges at year-end 2018 was €0.2 million (2017: €0.7 million), comprising €29.7 million in negative value changes in hedging instruments (2017: €3.2 million negative) and positive changes in the value of the hedged items of €29.5 million (2017: €3.9 million).

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

Hedged items in cash flow hedge accounting by term at 31/12/2017	Within 1 year	1 to 3 years	3 to 5 years	5 years and longer
Total	**–**	**–**	**–**	**–9,825**
Cash inflow	–	–	–	–
Cash outflow	–	–	–	–9,825

5. Financial assets at fair value through profit or loss	31/12/2018	01/01/2018[1]	31/12/2017
Total	218,583	**416,899**	394,898
Debt instruments			
Government paper and government-guaranteed paper	**2,513**	33,299	33,299
Banks and financial institutions, listed	**10,933**	6,035	6,035
Covered bonds	**94,922**	211,035	211,035
Puttable investment funds	**70,281**	61,905	61,905
Company cumprefs (shareholdings) (FVPL mandatory)	**7,042**	10,850	–
Total debt instruments	**185,691**	**323,123**	**312,273**
Equity instruments (FVPL mandatory)			
Shares, unlisted	32,892	93,775	82,625
Total equity instruments	**32,892**	**93,775**	**82,625**

Movements in financial assets at fair value through profit or loss	2018	2017
At 31 December	394,898	336,238
Impact of adopting IFRS 9	22,001	–
At 1 January	**416,899**	**336,238**
Purchases	306,573	174,486
Sales	–232,531	–50,002
Redemptions	–264,076	–62,100
Value changes	–8,391	–3,724
Other movements	109	–
At 31 December	**218,583**	**394,898**

All financial assets at fair value through profit or loss are designated at fair value through profit or loss on initial recognition with the exemption 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.

1 Due to the adoption of IFRS 9 as of 1 January 2018, equity instruments and company cumprefs (shareholdings) previously included under the line item Available-for-sale investments have been reclassified to Financial assets at fair value through profit or loss

6. Financial assets at fair value through other comprehensive income	31/12/2018		01/01/2018		31/12/2017	
	Fair value	Face value	Fair value	Face value	Fair value	Face value
Total	**1,803,584**	**1,798,601**	**1,716,354**	**1,703,564**	**–**	**–**
Debt instruments						
Government paper and government-guaranteed paper	372,453	369,943	233,271	229,854	–	–
Sovereign, supranationals and agencies (SSA) bonds	44,205	44,000	68,819	69,000	–	–
Banks and financial institutions, listed	36,332	36,000	142,865	141,000	–	–
Covered bonds	843,168	842,281	570,938	568,828	–	–
Asset-backed securities	497,760	496,727	668,105	662,377	–	–
Companies, listed	9,666	9,650	32,357	32,505	–	–
Total debt instruments	**1,803,584**	**1,798,601**	**1,716,354**	**1,703,564**	**–**	**–**

Movements in gross carrying amount of Financial assets at fair value through other comprehensive income	Stage 1
At 1 January	1,703,564
Additions or releases without transfer	–853,654
New financial assets originated or purchased	948,691
At 31 December	**1,798,601**

Movements in Financial assets at fair value through other comprehensive income	2018	2017
At 31 December	–	–
Impact of adopting IFRS 9	1,716,356	–
At 1 January	**1,716,356**	**–**
Purchases	1,001,047	–
Sales	–579,312	–
Redemptions	–329,760	–
Value changes	–2,165	–
Other movements	–2,582	–
At 31 December	**1,803,585**	**–**

Due to the adoption of IFRS 9 as of 1 January 2018, debt instruments excluding company cumprefs (shareholdings) previously included under the line item Available-for-sale investments have been reclassified to Financial assets at fair value through other comprehensive income.

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. Available-for-sale investments	31/12/2018		01/01/2018		31/12/2017	
	Fair value	Face value	Fair value	Face value	Fair value	Face value
Total	–	–	–	–	**1,738,355**	**1,715,453**
Debt instruments						
Government paper and government-guaranteed paper	–	–	–	–	302,090	298,854
Banks and financial institutions, listed	–	–	–	–	142,865	141,000
Covered bonds	–	–	–	–	570,938	568,828
Asset-backed securities	–	–	–	–	668,105	662,377
Companies, listed	–	–	–	–	32,357	32,505
Company cumprefs (shareholdings)	–	–	–	–	10,850	11,889
Total debt instruments	–	–	–	–	**1,727,204**	**1,715,453**
Equity instruments						
Shares, unlisted	–		–		1,864	
Shareholdings	–		–		9,287	
Total equity instruments	–		–		**11,151**	

Movements in available-for-sale investments	2018	2017
At 1 January	–	1,680,036
Purchases	–	863,432
Sales	–	–626,765
Redemptions	–	–181,884
Share premium (discount) of debt instruments	–	–2,852
Value changes	–	1,366
Impairments	–	3,051
Other movements	–	1,972
At 31 December	–	**1,738,355**

Due to the adoption of IFRS 9 as of 1 January 2018, debt instruments excluding company cumprefs (shareholdings) have been reclassified as Financial assets at fair value through other comprehensive income and equity instruments and company cumprefs (shareholdings) reclassified as Financial assets at fair value through profit or loss.

8. Held-to-maturity investments	31/12/2018		01/01/2018		31/12/2017	
	Carrying amount	Face value	Carrying amount	Face value	Carrying amount	Face value
Total	–	–	–	–	**521,349**	**490,000**
Debt instruments						
Government paper and government-guaranteed paper	–	–	–	–	324,723	300,000
Banks and financial institutions, listed	–	–	–	–	196,627	190,000
Total debt instruments	–	–	–	–	**521,349**	**490,000**

Movements in held-to-maturity investments	2018	2017
At 1 January	–	513,438
Purchases	–	14,976
Share premium (discount) of debt instruments	–	–7,065
At 31 December	–	**521,349**

Due to the adoption of IFRS 9 as of 1 January 2018, these items have been reclassified under the line item Other financial assets at amortised cost.

9. Loans and advances to the public and private sectors	31/12/2018	01/01/2018	31/12/2017
Total	**8,561,497**	**9,092,207**	**9,103,327**
Mortgage loans	6,289,139	6,267,532	6,267,532
Loans	1,447,782	1,710,486	1,710,486
Current accounts	578,442	962,916	962,916
Securities-backed loans and settlement claims	267,221	206,396	206,396
Subordinated loans	1,510	4,487	4,487
Value adjustments fair value hedge accounting	90,212	71,911	71,911
Impairments	–112,811	–131,520	–120,400

Impairments	31/12/2018	01/01/2018	31/12/2017[1]
Total	–112,811	**–131,520**	**–120,400**
Mortgage loans	–10,483	–14,082	–11,296
Current accounts	–69,335	–74,639	–
Other loans and advances	–32,994	–42,798	–109,103

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	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	–
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	**7,559,491**	**1,399,661**	**336,236**	**9,295,388**

We acquired no financial or non-financial assets during the year through the seizure of collateral held as security (2017: 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.

1 Prior to the introduction of IFRS 9 the impairments on Current accounts were included under Other loans and advances.

10. Other financial assets at amortised cost	31/12/2018		01/01/2018		31/12/2017	
	Fair value	Face value	Fair value	Face value	Fair value	Face value
Total	554,209	532,000	521,321	490,000	–	–
Debt instruments						
Government paper and government-guaranteed paper	318,043	300,000	324,723	300,000	–	–
Banks and financial institutions, listed	236,200	232,000	196,627	190,000	–	–
Impairments	–34	–	–28	–	–	–

Due to the adoption of IFRS 9 as of 1 January 2018, debt instruments previously included under the line item Held-to-maturity investments have been reclassified to Other financial assets at amortised cost.

Movements in gross carrying amount of Other financial assets at amortised cost	Stage 1
At 1 January	490,000
New financial assets originated or purchased	42,000
At 31 December	532,000

Movements in Other financial assets at amortised cost	2018	2017
At 31 December	–	–
Impact of adopting IFRS 9	521,349	–
At 1 January	521,349	–
Purchases	42,000	–
Value changes	–34	–
Other movements	–9,107	–
At 31 December	554,209	–

11. Investments in associates using the equity method

Movements in investments in associates using the equity method	2018	2017
At 1 January	70,390	75,559
Acquisitions and contributions	9,609	27,147
Sales and repayments	–25,407	–42,255
Income from associates	11,759	13,129
Impairments	783	–335
Dividend received	–3,473	–3,833
Reclassification of assets classified as held for sale	–7,882	–
Other movements	–1,709	978
At 31 December	54,071	70,390

All associates valued using the equity method are unlisted investments; see “Disclosure of interests in other entities”.

12. Property and equipment	31/12/2018	01/01/2018	31/12/2017
Total	48,238	63,468	63,468
Buildings	35,465	41,973	41,973
IT, operating system software and communications equipment	5,453	5,929	5,929
Other assets	7,214	15,335	15,335
Work in progress	106	231	231

The carrying amount of buildings not in use amounted to €3.5 million at year-end 2018 (2017: €3.5 million).

In 2014, we sold a building and entered into a lease contract for this location with a term of ten years and an extension option of five years. We retain the economic risk, and this building is therefore recognised in this section. The carrying amount of the building is €1.3 million and the total amount of the minimum future lease payments is €1.6 million. The present value of minimum future lease payments is €1.3 million, of which €0.2 million falls within one year, €1.0 million between one and five years and €0.1 million after five years.

No restrictive rights apply to property and equipment.

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
Impairments	–	–	–	–	–
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

Movements in property and equipment 2017	Buildings	IT, operating system software and communications equipment	Other assets	Work in progress	Total
At 1 January	47,239	5,837	17,866	1,061	72,003
Capital expenditure	2,999	3,772	2,869	6,128	15,767
Disposals	–6,543	–295	–206	–	–7,044
Capitalisation of investments	–	–	–	–6,957	–6,957
Depreciation	–2,467	–2,789	–4,235	–	–9,491
Impairments	–243	–	–	–	–243
Other	988	–597	–959	–	–568
At 31 December	41,973	5,929	15,335	231	63,468
Historical cost	90,462	14,580	42,397	231	147,671
Accumulated depreciation and impairments	–48,489	–8,652	–27,063	–	–84,203
Net carrying amount at 31 December	41,973	5,929	15,335	231	63,468

13. Goodwill and other intangible assets	31/12/2018	01/01/2018	31/12/2017
Total	**183,083**	**218,389**	**218,389**
Goodwill	130,247	154,981	154,981
Other intangible assets	52,836	63,408	63,408

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**

Movements in goodwill and other intangible assets 2017	Goodwill	Client bases	Third-party distribution channels	Brand names	Application software	Total
At 1 January	155,747	24,649	817	7,664	5,576	194,453
Additions	1,919	28,700	–	–	5,623	36,242
Disposals	–666	–	–	–	–38	–704
Amortisation	–	–4,671	–408	–767	–2,796	–8,641
Impairments	–2,019	–	–	–	–1,563	–3,582
Other	–	–	–	–	622	622
At 31 December	**154,981**	**48,678**	**409**	**6,898**	**7,424**	**218,389**
Historical cost	154,981	106,084	4,899	15,330	78,064	359,358
Accumulated amortisation and impairments	–	–57,406	–4,490	–8,432	–70,640	–140,969
Net carrying amount at 31 December	**154,981**	**48,678**	**409**	**6,898**	**7,424**	**218,389**

The accumulated impairments on goodwill amounted to €53.0 million at 31 December 2018 (2017: €75.4 million) and have been deducted from the historical cost.

Allocation of goodwill to CGUs (based on segments)	31/12/2018	31/12/2017
Total	**130,247**	**154,981**
Private Banking	1,695	1,695
Asset Management	49,292	49,292
Merchant Banking	76,293	76,293
Non-strategic investments	2,967	27,701

In 2018, we performed impairment tests on the goodwill arising from acquisitions in earlier years. The tested goodwill was allocated to CGUs Private Banking, Asset Management, Merchant Banking and Non-strategic investments.

The recoverable amount of the CGUs 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 for each CGU are based on the current year and on the financial estimates used by management to set objectives. Our growth target has been set at the long-term market growth rate of 1.0% for the period after the explicit projections per CGU. 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 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. Cash flows are discounted using a discount rate for each CGU which reflects the risk-free interest rate, supplemented with a surcharge for the market risk exposure of each CGU.

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 %	
	2018	2017	2018	2017
Private Banking	9.5	9.1	7.4	7.1
Asset Management	9.9	11.1	7.8	8.7
Merchant Banking	8.7	7.8	6.9	6.1
Non-strategic investments	11.9	12.3 - 12.5	9.9	9.4 - 9.7

The impairment tests performed in 2018 did not result in goodwill impairments for CGUs Private Banking, Asset Management, Merchant Banking and Non-strategic investments. The model uses a baseline scenario. A sensitivity analysis was also performed, focusing particular attention on a decrease in net profit, a change in the pay-out ratio and a further increase in the cost of equity. This analysis demonstrated that a deterioration in the variables did not lead to an impairment in the four CGUs in 2018.

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 2018 provided no indication of a need for further examination, nor of impairments.

	2019	2020	2021	2022	2023	2024-2033
Expected amortisation of intangible assets	6,994	6,708	6,567	6,126	5,267	21,173

14. Tax assets	31/12/2018	01/01/2018	31/12/2017
Total	**25,941**	**31,669**	**26,719**
Current tax assets	1,231	1,491	1,491
Deferred tax assets	24,709	30,179	25,228

Movements in deferred tax assets 2018	Employee benefits	Property and equipment	Derivatives	Loss available for set-off	Commission	Other	Total
At 31 December	3,122	2,593	3,275	15,639	128	471	25,228
Impact of adopting IFRS 9	–	–	–	1,478	–	3,465	4,943
At 1 January	**3,122**	**2,593**	**3,275**	**17,117**	**128**	**3,937**	**30,172**
Withdrawals through profit or loss	–	–317	–	–6,426	–	–383	–7,126
Additions through profit or loss	439	–	–	1,190	75	–	1,704
Tax rate adjustments	–180	26	–	–	–	–	–155
Total through profit or loss	**258**	**–292**	**–**	**–5,236**	**75**	**–383**	**–5,578**
Directly from/to equity	28	–	208	–	–	–121	115
At 31 December	**3,408**	**2,301**	**3,483**	**11,881**	**203**	**3,433**	**24,709**

Movements in deferred tax assets 2017	Employee benefits	Property and equipment	Derivatives	Loss available for set-off	Commission	Other	Total
At 1 January	4,262	2,448	3,628	28,489	79	1,004	39,910
Withdrawals through profit or loss	–1,029	–	–	–12,850	–	–533	–14,412
Additions through profit or loss	–	145	–	–	48	–	193
Total through profit or loss	**–1,029**	**145**	**–**	**–12,850**	**48**	**–533**	**–14,218**
Directly from/to equity	–111	–	–352	–	–	–	–464
At 31 December	**3,122**	**2,593**	**3,275**	**15,639**	**128**	**471**	**25,228**

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 €17,827. See Note 39, Income tax, for more information.

Tax losses to be offset Financial year	Amount	Final year for offsetting
2012	31,239	2021
2013	–	2022
2014	–	2023
2015	6,992	Indefinitely
2016	4,360	Indefinitely
2017	736	Indefinitely
2018	4,198	Indefinitely

The total amount of tax losses is recognised as a deferred tax asset based on the prevailing tax rate. The tax loss for 2012 has an expiry date of 31 December 2021. The losses of 2015 through 2018 arose from the permanent establishment in Belgium. As Belgium does not apply a time limit for offsetting losses, they can be carried forward indefinitely.

	31/12/2018	31/12/2017
Unrecognised losses	24,167	23,682

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.

15. Assets classified as held for sale	31/12/2018	01/01/2018	31/12/2017
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	–	–

On 12 December 2018, Van Lanschot Kempen announced that an agreement has been reached with funds under the management of Bencis about the sale of the stake in non-strategic interest AIO II BV (acquired in 2009 by Van Lanschot Kempen). AIO II BV is the holding company of pharmacy chain Medsen and wholesale chemist Ceban. The transaction is completed in February 2019. Due to this development, AIO II is included in the statement of financial position under the line item Assets and liabilities classified as held for sale; the result is recognised in the income statement under Discontinued operations.

In the second half of 2018, Van Lanschot Chabot Mandema & Partners was classified as held for sale. On 19 February 2019, Van Lanschot Kempen announced the sale to De Goudse Verzekeringen of its interest in Van Lanschot Chabot | Mandema & Partners. The proposed transaction is expected to be completed in the first half of 2019. 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.

16. Other assets	31/12/2018	01/01/2018	31/12/2017
Total	121,513	142,277	142,277
Interest receivable	16,622	22,980	22,980
Commission receivable	53,629	58,268	58,268
Transitory items	36,280	38,814	38,814
Assets acquired through foreclosures	190	651	651
Inventories	785	4,825	4,825
Other	14,006	16,740	16,740

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.

17. Financial liabilities from trading activities	31/12/2018	01/01/2018	31/12/2017
Total	333	1,899	1,899
Equity instruments			
Shares, listed	333	1,882	1,882
Shares, unlisted	–	17	17
Total equity instruments	333	1,899	1,899

18. Due to banks	31/12/2018	01/01/2018	31/12/2017
Total	334,902	101,645	101,645
Deposits	46,951	55,482	55,482
Repo transactions	250,000	–	–
Payables arising from unsettled securities transactions	35,798	23,134	23,134
Loans and advances drawn	2,153	23,029	23,029

19. Public and private sector liabilities	31/12/2018	01/01/2018	31/12/2017
Total	9,090,939	9,145,119	9,145,119
Savings	3,362,404	3,718,970	3,718,970
Deposits	231,472	228,567	228,567
Current accounts	5,130,131	4,831,497	4,831,497
Other client assets	365,808	365,239	365,239
Value adjustments fair value hedge accounting	1,123	845	845

20. Financial liabilities at fair value through profit or loss	31/12/2018	01/01/2018	31/12/2017
Total	940,361	971,453	971,453
Unstructured debt instruments	142,021	258,498	258,498
Structured debt instruments	798,340	712,955	712,955

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 increased by €1.0 million (2017: down €4.4 million), reflecting an increase of €7.3 million on the back of the improvement in our own credit quality, a reduction of €6.3 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 €14.3 million (2017: €13.3 million).

21. Issued debt securities	31/12/2018	01/01/2018	31/12/2017
Total	1,521,504	2,411,671	2,411,671
Bond loans and notes	–	465,290	465,290
Covered bonds	1,493,179	1,491,850	1,491,850
Notes as part of securitisation transactions	–	436,467	436,467
Floating-rate notes	18,898	22,134	22,134
Value adjustments fair value hedge accounting	9,427	–4,069	–4,069

Issued debt securities comprise debt instruments with rates of interest that are either fixed or variable, in so far as not subordinated. None of these debt securities becomes payable on demand in 2019 (2018: €904 million).

Issued debt securities fell by €890.2 million relative to 2017 following the redemption of a €500.0 million senior unsecured bond in the first half of 2018 and the redemption of €436.5 million on the notes as part of securitisation transactions in the second half of 2018.

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 31/12/2018	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

Face value versus carrying amount of issued debt securities at 31/12/2017	Face value	Value adjustments fair value hedge accounting	Premium/discount	Carrying amount
Total	**2,426,011**	**–4,069**	**–10,271**	**2,411,671**
Bond loans and notes	467,614	1,599	–2,324	466,889
Covered bonds	1,500,000	–5,668	–8,150	1,486,181
Notes as part of securitisation transactions	436,467	–	–	436,467
Floating-rate notes	21,930	–	204	22,134

22. Provisions	31/12/2018	01/01/2018	31/12/2017
Total	**28,965**	**24,284**	**23,084**
Provisions for pensions	15,313	14,545	14,545
Provision for employee discounts	112	177	177
Provision for long-service benefits	2,352	2,322	2,322
Provision for restructuring	6,356	66	66
Provision for interest rate derivatives recovery framework	1,025	2,064	2,064
Provision for financial guarantees and loan commitments	286	1,200	–
Other provisions	3,520	3,910	3,910

Compared with 2017, provisions increased by €5.9 million, mainly due to the provision for restructuring.

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 2018 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 €40,571 – 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.

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.

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 obligations are calculated using the projected unit credit method.

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	198,088	–	–	–
Surplus/deficit	–15,255	–58	–112	–2,352
Obligation at year-end	–15,255	–58	–112	–2,352

Obligations/assets included in the statement of financial position by scheme at 31/12/2017	Pensions	Early retirement	Employee discounts	Long-service benefits
Defined benefit obligations	207,094	83	177	2,322
Fair value of plan assets	192,632	–	–	–
Surplus/deficit	–14,462	–83	–177	–2,322
Obligation at year-end	–14,462	–83	–177	–2,322

Movements in defined benefit obligations for pension scheme	2018	2017
Defined benefit obligations at 1 January	207,094	199,811
Current service costs	5,899	5,871
Interest costs	3,580	3,644
Members' contributions	1,242	774
Financial assumptions	–3,811	3,010
Gross benefits	–2,034	–2,689
Transfers	1,111	–990
Changed assumptions	262	–2,337
Defined benefit obligations at 31 December	**213,343**	**207,094**

At 31 December 2018, the weighted average duration of the defined benefit obligation was 23.5 years (2017: 24.6 years).

Movements in defined benefit obligations for early retirement scheme	2018	2017
Defined benefit obligations at 1 January	83	18
Current service costs	–	74
Gross benefits	–25	–9
Defined benefit obligations at 31 December	**58**	**83**

Movements in defined benefit obligations for employee discount scheme	2018	2017
Defined benefit obligations at 1 January	177	4,100
Current service costs	9	56
Interest costs	2	15
Financial assumptions	–66	–688
Gross benefits	–10	–84
Discontinuation	–	–3,222
Defined benefit obligations at 31 December	**112**	**177**

Movements in defined benefit obligations for long-service benefits scheme	2018	2017
Defined benefit obligations at 1 January	2,322	2,317
Current service costs	143	162
Interest costs	28	23
Financial assumptions	–21	–46
Gross benefits	–120	–134
Defined benefit obligations at 31 December	**2,352**	**2,322**

Movements in fair value of pension plan assets	2018	2017
Fair value at 1 January	192,632	187,526
Expected return on plan assets	3,442	3,506
Financial assumptions	–3,548	120
Employer's contribution	5,776	5,218
Employees' contribution	300	229
Gross benefits	–1,833	–2,492
Transfers	1,317	–1,477
Fair value at 31 December	**198,088**	**192,632**
Actual return on plan assets	**–105**	**3,627**

Current service costs of pensions included in statement of income	2018	2017
Current service costs	5,898	5,871
Net interest income	3,580	3,644
Expected return on plan assets	–3,442	–3,506
Net costs	**6,036**	**6,008**

Current service costs of early retirement included in statement of income	2018	2017
Current service costs	–	74
Gross benefits	–25	–9
Net costs	**–25**	**65**

Current service costs of employee discounts included in statement of income	2018	2017
Current service costs	9	56
Net interest income	2	15
Net costs	**11**	**71**

Current service costs of long-service benefits included in statement of income	2018	2017
Current service costs	143	162
Net interest income	28	23
Financial assumptions	–21	–46
Net costs	**150**	**139**

Plan assets by investment category	31/12/2018		31/12/2017	
	Fair value	Percentage	Fair value	Percentage
Total	198,088	100	192,632	100
Fixed income	125,668	63	118,198	61
Equities	33,097	17	41,642	22
Mixed funds	1,686	1	1,715	1
Real estate	6,657	3	6,419	3
Cash and cash instruments	–830	0	–848	0
Other	31,809	16	25,507	13

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	2018	2017
Actuarial interest rate pension	0.8% – 2.1%	0.65% – 1.8%
Actuarial interest rate employee discounts	1.2%	0.9%
Actuarial interest rate long-service benefits	1.3% – 1.4%	1.1% – 1.2%
Expected return on investments	0.8% – 2.1%	0.65% – 1.8%
Price inflation	1.75% – 2.0%	1.75% – 2.0%
General salary increase	1.00% – 1.75%	1.0% – 1.8%
Retirement age	64–68 years	64 – 67 years

The mortality rate is based on publicly available mortality tables for the relevant countries. For the calculations at 31 December 2018, 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 reduction of ten basis points in the actuarial interest rate will lead to an increase of 2.5% in the pension obligations and a rise of 3.7% in the current service costs in the statement of income.

For the Belgian branch, a reduction of 50 basis points in the actuarial interest rate will lead to an increase of 6.8% in the pension obligations and a rise of 50 basis points in the actuarial interest rate will lead to a decrease of 6.1% 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 9.2% in the pension obligations and a rise of 50 basis points in the actuarial interest rate will lead to a decrease of 8.0% in the pension obligations.

History of movements in pension scheme gains and losses	2018	2017	2016	2015	2014
Defined benefit obligations	213,343	207,094	199,811	167,276	168,771
Fair value of plan assets	198,088	192,632	187,526	157,030	160,993
Surplus/deficit	–15,255	–14,462	–12,285	–10,246	–7,778
Actuarial gains/losses on obligations	–3,811	3,010	13,484	–5,627	–267,278
Actuarial gains/losses on investments	–3,548	120	16,734	–8,377	140,542

Expected contributions for 2019	Pension obligations	Employee discounts	Long-service benefits scheme
Total	**6,243**	**7**	**179**
Expected employer's contributions	4,762	7	179
Expected employees' contributions	1,481	–	–

Provision for restructuring	2018	2017
At 1 January	66	630
Withdrawals	–1,216	–601
Additions	7,506	37
At 31 December	**6,356**	**66**

Provision for interest rate derivatives recovery framework	2018	2017
At 1 January	2,064	8,853
Release	–1,040	–8,517
Additions	–	1,728
At 31 December	**1,025**	**2,064**

Other provisions	2018	2017
At 1 January	3,910	5,844
Withdrawals related to acquisitions/consolidation base	–399	–
Withdrawals	–865	–2,997
Release	–942	–312
Additions	1,780	1,462
Other changes	36	–86
At 31 December	**3,520**	**3,910**

Other provisions include provisions made for various legal claims. An amount of €0.8 million has an expected maturity of one year or longer.

23. Tax liabilities	31/12/2018	01/01/2018	31/12/2017
Total	**5,764**	**13,007**	**12,841**
Current tax liabilities	2,222	4,992	4,992
Deferred tax liabilities	3,542	8,015	7,849

Movements in deferred tax liabilities 2018	Property and equipment	Intangible assets	Investment portfolio	Other	Total
At 31 December	873	3,852	3,061	63	7,849
Impact of adopting IFRS 9	–	–	166	–	166
At 1 January	873	3,852	3,227	63	8,015
Withdrawals through profit or loss	–	–793	–	–	–793
Additions through profit or loss	736	–	–	–	736
Tax rate adjustments	23	–471	–	–	–448
Total through profit or loss	760	–1,264	–	–	–504
Directly from/to equity	–	–	–4,017	48	–3,969
At 31 December	1,633	2,588	–790	111	3,542

Movements in deferred tax liabilities 2017	Property and equipment	Intangible assets	Investment portfolio	Other	Total
At 1 January	312	2,821	2,201	–	5,334
Withdrawals through profit or loss	–678	–	–	–	–678
Additions through profit or loss	1,240	1,031	–	92	2,363
Tax rate adjustments	–	–	–	–	–
Total through profit or loss	562	1,031	–	92	1,685
Directly from/to equity	–	–	860	–30	831
At 31 December	873	3,852	3,061	63	7,849

See Note 39, Income tax, for more information.

24. Liabilities classified as held for sale	31/12/2018	01/01/2018	31/12/2017
Total	20,871	–	–
Provisions	284	–	–
Other liabilities	20,587	–	–

For more information, see Note 15, Assets classified as held for sale.

25. Other liabilities	31/12/2018	01/01/2018	31/12/2017
Total	125,383	156,820	156,820
Interest payable	24,943	31,007	31,007
Other accruals and deferred income	58,034	62,944	62,944
Other	42,407	62,869	62,869

Other liabilities comprise income received to be credited to future periods and amounts payable such as accrued interest, payables, suspense accounts and unsettled items.

26. Subordinated loans	31/12/2018	01/01/2018	31/12/2017
Total	173,473	173,620	166,802
Certificates of indebtedness	156,402	156,818	150,000
Other subordinated loans	16,563	16,676	16,676
Value adjustments fair value hedge accounting	509	126	126

We have modified the terms of the certificates of indebtedness with a nominal value of €150.0 million. IAS 39 describes a modification of the terms as substantially different if the present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. We calculate the difference between the present value at €6.8 million. This difference is less than 10% and there is thus no substantial modification that would result in a derecognition of the financial liability and a recognition of a new financial liability.

As IAS 39 prescribes, we have adjusted the effective interest of these subordinated loans. Under IFRS 9 there is now a minimum requirement for a substantial modification, and any difference is directly recognised in the statement of income. As a result of adopting IFRS 9, we recognised a modification loss of €6.8 million in equity under the line item Other reserves for an amount of €5.1 million. A tax asset of €1.7 million was also recognised. These adjustments to the characteristics of our certificates of indebtedness resulted in an optimisation of the total capital ratio, as these certificates are now fully eligible for inclusion in the total capital ratio.

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 31/12/2018	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 2018 was 6.06% (2017: 6.07%).

Amortised cost versus carrying amount subordinated loans at 31/12/2017	Amortised cost	Value adjustments fair value hedge accounting	Premium/ discount	Carrying amount
Total	166,676	126	–	166,802
6.716% subordinated bond loan 08/33	25,000	–	–	25,000
6.665% subordinated bond loan 08/38	25,000	–	–	25,000
6.614% subordinated bond loan 08/43	50,000	–	–	50,000
3.396% subordinated bond loan 16/26	50,000	–819	–	49,181
Other subordinated loans	16,676	945	–	17,621

27. Total equity	31/12/2018	01/01/2018	31/12/2017
Total	**1,268,195**	**1,334,742**	**1,349,124**
Equity attributable to shareholders			
Issued share capital	41,362	41,147	41,147
Treasury shares	–8,678	–7,869	–7,869
Share premium reserve	385,115	441,459	441,459
Revaluation reserve	–3,065	9,682	14,013
Actuarial results on defined benefit schemes	–17,591	–17,885	–17,885
Currency translation reserve	104	1,602	1,602
Cash flow hedge reserve	–13,509	–9,825	–9,825
Own credit risk reserve	–11,394	–9,966	–
Retained earnings	809,008	780,625	780,711
Other reserves	763,553	754,234	768,616
Undistributed profit (attributable to shareholders)	74,631	89,508	89,508
Total equity attributable to shareholders	**1,255,982**	**1,318,478**	**1,332,860**
Equity attributable to non-controlling interests			
Non-controlling interests	6,529	10,827	10,827
Undistributed profit attributable to non-controlling interests	5,684	5,437	5,437
Total equity attributable to non-controlling interests	**12,213**	**16,264**	**16,264**

Share capital	31/12/2018		31/12/2017	
	Number	Value	Number	Value
Class A ordinary shares (nominal value €1)	**41,361,668**	**41,362**	**41,146,668**	**41,147**
Unissued shares	108,638,332	108,638	108,853,332	108,853
Authorised capital	**150,000,000**	**150,000**	**150,000,000**	**150,000**

Movement in share capital	2018		2017	
	Number	Value	Number	Value
At 1 January	41,146,668	41,147	41,091,668	41,092
Shares issued	215,000	215	55,000	55
Capital increase	61,525,532	61,526	41,146,668	41,147
Capital return	–61,525,532	–61,526	–41,146,668	–41,147
At 31 December	41,361,668	41,362	41,146,668	41,147

Share premium reserve

At an extraordinary general meeting in 's-Hertogenbosch on 5 October 2018, our shareholders approved the return of capital in the amount of €1.50 per share, as announced on 22 August 2018. The capital return paid on 19 December 2018 amounted to €61.5 million and is charged to the share premium reserve available for distribution. These transactions are exempt from Dutch dividend tax.

All shares were paid up in cash. During the financial year Van Lanschot Kempen conditionally granted 55,890 depositary receipts for Class A ordinary shares.

Van Lanschot Kempen holds 344,647 depositary receipts for Class A ordinary shares to meet open positions (2017: 299,695). For more information on share-based payments, see Note 35, Staff costs.

No option rights have been granted since 2008. By the end of 2018, board members held a total of 187,080 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 2018	Revaluation reserve of available-for-sale investments		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
	Equity instruments	Debt instruments							
At 31 December	**4,828**	**9,185**	**–**	**–17,885**	**1,602**	**–9,825**	**–**	**780,711**	**768,616**
Impact of adopting IFRS 9	–4,828	–9,185	9,682	–	–	–	–9,966	–86	–14,382
At 1 January	**–**	**–**	**9,682**	**–17,885**	**1,602**	**–9,825**	**–9,966**	**780,625**	**754,234**
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	–	–	–	294	–	–	–	–	294
To retained earnings	–	–	–	–	–	–	770	–770	–
Other changes	–	–	–	–	–1,499	–	–	–542	–2,040
At 31 December	**–**	**–**	**–3,064**	**–17,591**	**104**	**–13,509**	**–11,394**	**809,008**	**763,553**
Tax effects	–	–	3,985	–91	–	208	733	–	4,835

In 2018, the dividend for 2017 was set at €1.45 per ordinary share.

Movements in reserves 2017	Revaluation reserve of available-for-sale investments		Actuarial results on defined benefit schemes	Currency translation reserve	Cash flow hedge reserve	Retained earnings	Total
	Equity instruments	Debt instruments					
At 1 January	13,517	6,732	–16,625	2,257	–10,883	761,447	756,445
Net changes in fair value	–7,778	7,258	–	–	1,057	–	537
Realised gains/losses through profit or loss	–911	–4,805	–	–	–	–	–5,716
Profit appropriation	–	–	–	–	–	16,380	16,380
Share plans	–	–	–	–	–	988	988
Actuarial results	–	–	–542	–	–	–	–542
To retained earnings	–	–	–718	–	–	718	–
Other changes	–	–	–	–655	–	1,179	524
At 31 December	**4,828**	**9,185**	**–17,885**	**1,602**	**–9,825**	**780,711**	**768,617**
Tax effects	–	–860	38	–	–352	–	–1,175

In 2017, the dividend for 2016 was set at €1.20 per ordinary share.

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.

28. Contingent liabilities	31/12/2018	01/01/2018	31/12/2017
Total	**134,449**	**122,189**	**122,189**
Guarantees, etc.	134,449	122,189	122,189

For several group companies, guarantees of €225.6 million (2017: €150.1 million) have been issued. It is impossible to predict whether, when and how much of these contingent liabilities will be claimed.

29. Irrevocable commitments	31/12/2018	01/01/2018	31/12/2017
Total	**853,276**	**861,342**	**861,342**
Unused credit facilities	815,157	814,030	814,030
Other	38,119	47,312	47,312

The following movements are related to the gross carrying amount of the contingent liabilities and the irrevocable commitments.

Movements in gross carrying amount of guarantees and loan commitments	Stage 1	Stage 2	Stage 3	Total
At 1 January	230,844	14,133	3,690	248,667
Additions or releases without transfer	–349,114	–5,277	–1,729	–356,120
Transfer to Stage 1	7,757	–7,532	–225	–
Transfer to Stage 2	–9,050	9,050	–	–
Transfer to Stage 3	–1,487	–48	1,535	–
New financial assets originated or purchased	345,766	–	–	345,766
At 31 December	**224,716**	**10,326**	**3,271**	**238,313**

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 31/12/2018

	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

Contractual maturity of contingent items at 31/12/2017

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Total	**722**	**119,384**	**5,708**	**23,016**	**834,700**	**983,530**
Guarantees	722	3,234	4,444	13,610	100,179	122,189
Unused credit facilities	–	116,150	1,264	6,428	690,188	814,030
Other irrevocable commitments	–	–	–	2,978	44,334	47,312

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME (€1,000)

30. Net interest income	2018	2017
Total interest income	**304,344**	**340,051**
Interest income on cash equivalents	103	124
Interest income on banks and private sector	238,356	258,108
Interest income on financial assets at fair value through other comprehensive income	5,040	–
Interest income on other financial assets at amortised cost	8,485	–
Interest income on available-for-sale investments	–	7,423
Interest income on held-to-maturity investments	–	10,238
Interest income calculated using the effective interest method	**251,985**	**275,893**
Interest income on financial assets at fair value through profit or loss	2,192	4,654
Interest income on derivatives	45,262	56,905
Other interest income	4,904	2,599
Other interest income	**52,359**	**64,158**

Interest expense	2018	2017
Total interest expense	**129,131**	**144,202**
Interest expense on balances at central banks	5,855	5,455
Interest expense on banks and private sector	27,755	31,519
Interest expense on issued debt securities	23,333	31,039
Interest expense on subordinated loans	9,575	8,306
Interest expense calculated using the effective interest method	**66,518**	**76,319**
Interest expense on derivatives	61,084	67,574
Other interest expense	1,528	308
Other interest expense	**62,612**	**67,882**
Net interest income	**175,213**	**195,849**

In 2018, interest result was €20.6 million lower than in 2017. The decrease was the outcome of lower interest income due to the run-off of the Corporate Banking loan portfolio and the repricing of the Private Banking loan portfolio.

The interest result on loans subject to impairment was €11.1 million (2017: €4.1 million).

31. Income from securities and associates	2018	2017
Total	**31,323**	**37,029**
Income from associates using the equity method	14,171	12,949
Realised result of associates using the equity method	14,557	11,125
Realised and unrealised gains/losses on investments at fair value through profit or loss	2,410	3,567
Realised result of available-for-sale equity instruments	–	7,408
Dividend received on available-for-sale equity instruments	–	3,450
Other gains on sales	184	–1,470

32. Net commission income	2018	2017
Total	**293,247**	**266,986**
Securities commissions	25,131	33,082
Management commissions	213,416	197,557
Cash transactions and funds transfer commissions	7,663	9,100
Corporate Finance and Equity Capital Markets commissions	38,125	19,116
Other commissions	8,913	8,131

Compared with 2017, commission income was up by €26.3 million. The increase was primarily due to higher management commissions (€15.9 million) driven by inflows, AuM from the acquisition of UBS's wealth management activities in the Netherlands, and partly offset by negative market performance. Corporate Finance and Equity Capital Markets commissions came in €19.0 million higher due to increased deal flow at Merchant Banking.

33. Result on financial transactions	2018	2017
Total	**–805**	**14,127**
Gains/losses on securities trading	–662	–408
Gains/losses on currency trading	8,007	7,860
Gains/losses on derivatives under hedge accounting	–4,684	830
Gains/losses on trading derivatives	600	3,120
Realised gains on financial assets at fair value through other comprehensive income	3,764	–
Realised gains on available-for-sale debt instruments	–	6,407
Gains/losses on economic hedges/hedge accounting not applied	–29,037	19,929
Gains/losses on financial assets and liabilities at fair value through profit or loss	21,207	–23,610

Compared with 2017, result on financial transactions was down by €14.9 million, €5.5 million of which was due to higher unrealised losses on derivatives under hedge accounting. The balance of losses on economic hedges and gains on financial assets at fair value through profit or loss came in €4.1 million higher. 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.

34. Other income	2018	2017
Total	**7,304**	**8,548**
Net sales	11,020	12,020
Cost of sales	–3,716	–3,472

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.

35. Staff costs	2018	2017
Total	**263,724**	**246,343**
Salaries and wages	192,332	180,904
Pension costs for defined contribution schemes	18,324	18,062
Pension costs for defined benefit schemes	6,976	5,846
Other social security costs	22,181	19,448
Share-based payments for variable remuneration	4,510	6,493
Other staff costs	19,401	15,590

Staff costs were up €17.4 million. The increase in salaries and wages was partly due to higher costs associated with the acquisition of UBS's wealth management activities in the Netherlands and to general salary increases. The rise in other social security costs was mainly caused by a higher contribution to the Dutch government's sector fund. Changes to staff mortgage arrangements had resulted in a one-off positive effect in 2017. As this effect was not present in 2018, other staff costs were higher.

In 2018, share-based payments added €5.3 million to equity (2017: €4.9 million). Of the total expenses arising from share-based payments, €2.7 million is included in Salaries and wages (2017: €2.5 million); this amount includes the profit-sharing plan. Pension costs for defined contribution schemes include €1.1 million for Statutory Board members (2017: €0.7 million).

The depositary receipts for Class A Van Lanschot Kempen shares will be granted in 2019 on the second trading day after the release of Van Lanschot Kempen's annual figures for 2018.

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 2018 was 1,843 (2017: 1,878), or 1,747 in full-time equivalents (2017: 1,779), as shown below:

Average FTEs	2018	2017
Total	**1,747**	**1,779**
Netherlands	1,553	1,580
Belgium	141	143
Other	53	56

Unconditional options granted to staff	2018		2017	
	Number of options	Weighted-average exercise price (€)	Number of options	Weighted-average exercise price (€)
At 1 January	6,679	73.53	10,721	65.05
Expired options	–6,679	73.53	–4,042	51.04
At 31 December	**–**	**n/a**	**6,679**	**73.53**

Unconditional options can be exercised twice a year in the open period after the release of the interim and full-year figures. No option rights were exercised in 2017 or 2018.

Conditional depositary receipts for shares granted to staff (excluding Statutory Board)	2018	2017
At 1 January	308,770	453,119
Granted	55,890	52,227
Vested	–136,495	–181,520
Forfeited rights	–5,234	–15,057
At 31 December	**222,930**	**308,770**

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 2018 had a fair value of €24.16 (2017: €18.94).

In 2018, 10,587 conditional depositary receipts for shares were granted under the LTP to a number of senior managers other than members of the Statutory Board (2017: 7,960).

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 US (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.

36. Other administrative expenses	2018	2017
Total	**162,043**	**168,481**
Accommodation expenses	20,078	20,353
Marketing and communication	13,746	13,937
Office expenses	5,990	6,889
IT expenses	63,240	65,528
External auditors' fees	3,066	3,160
Consultancy fees	18,705	15,748
Travel and hotel fees	3,665	3,736
Information providers' fees	13,714	12,835
External service provider charges	6,331	6,019
Other	13,507	20,276

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 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

Fees charged by external independent auditors 2017	Auditor PwC	Other auditors	Total auditors
Total	**2,982**	**177**	**3,160**
Financial statements audit fee	1,640	–	1,640
Fee for other audit services	814	–	814
Financial statements audit fee for funds managed by Kempen	506	–	506
Other non-audit assurance fees	23	177	201

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 audits of controlled and related entities;
- Assurance engagement relating to the sustainability information in the annual report;
- Audit of the regulatory returns to be submitted to De Nederlandsche Bank;
- Assurance engagement F. van Lanschot Bankiers (Schweiz);
- ISAE 3402 report on Kempen Capital Management, Private Banking and DGS;
- Non–audit assurance engagements on safeguarding client assets;
- Non–audit assurance engagement on cost price models.

37. Depreciation and amortisation	2018	2017
Total	**14,427**	**14,166**
Buildings	2,399	2,429
IT, operating system software and communications equipment	3,118	2,791
Application software	1,742	2,796
Intangible assets arising from acquisitions	7,573	5,845
Results on disposals of property and equipment	–2,373	–1,862
Other depreciation and amortisation	1,968	2,166

38. Impairments	2018	2017
Total impairments	**–13,416**	**–11,461**
Cash and cash equivalents and balances at central banks	0	–
Due from banks	–0	–
Financial assets at fair value through other comprehensive income	–119	–
Loans and advances to the public and private sectors	–11,709	–11,875
Other financial assets at amortised cost	5	–
Financial guarantees and loan commitments	–913	–
Impairment of financial instruments	**–12,737**	**–11,875**
Available-for-sale investments	–	–3,051
Investments in associates using the equity method	–892	335
Property and equipment	–	243
Goodwill and intangible assets	263	2,796
Assets acquired through foreclosures	–50	92
Other impairments	**–679**	**414**

39. Income tax	2018	2017
Operating profit before tax from continuing operations	79,504	105,010
Profit before tax from discontinued operations	16,275	**15,504**
Total gross result	**95,779**	**120,514**
Prevailing tax rate in the Netherlands	25%	25%
Tax on continuing operations	12,086	22,129
Tax on discontinued operations	3,378	3,440
Total tax	**15,464**	**25,569**
Expected tax	23,945	30,129
Increase/decrease in tax payable due to		
Tax-free income from securities and associates	–9,649	–9,277
Non-deductible impairments	–	229
Non-deductible costs	2,092	2,318
Non-deductible losses	–228	91
Adjustments to taxes for prior financial years	–239	168
Impact of foreign tax rate differences	–146	–43
Release deferred tax assets	–82	1,814
Other changes	–229	141
Total increase/decrease	**–8,481**	**–4,560**
Total tax	**15,464**	**25,569**

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 2017, the effective tax also changed due to the statutory tax rate change in Belgium.

The breakdown of deferred assets and liabilities is as follows:

Key income tax components		2018	2017
Total		**15,464**	**25,569**
Standard tax		10,775	9,541
Income/expense from foreign tax rate differences		–146	–43
Income/expense from changes in deferred tax assets	14	5,578	14,218
Income/expense from deferred tax liabilities	23	–504	1,685
Income/expense from prior-year adjustments		–239	168

Deferred tax assets	2018	2017
Total	**5,578**	**14,218**
Employee benefits	–258	1,029
Commissions	–75	–48
Property and equipment	292	–145
Tax-loss carry-forwards	5,236	12,850
Other	383	533

Deferred tax liabilities	2018	2017
Total	**–504**	**1,685**
Property and equipment	760	562
Intangible assets	–1,264	1,031
Other	–	92

40. Net profit from discontinued operations	2018	2017
Net interest income	–377	–469
Income from securities and associates	276	665
Other income	45,108	44,577
Total income from operating activities	**45,007**	44,773
Staff costs	17,286	16,642
Other administrative costs	9,481	10,045
Depreciation and amortisation	1,965	1,796
Impairments	–	786
Total expenses	**28,732**	29,269
Operating profit before tax	**16,275**	15,504
Income tax	3,378	3,440
Net profit	**12,897**	12,064

For more information, see Note 15, Assets classified as held for sale.

41. Earnings per ordinary share	2018	2017
Net result	80,315	94,945
Share of non-controlling interests	–5,684	–5,437
Net result for calculation of earnings per share	**74,631**	**89,508**
Net result for calculation of earnings per share from continuing operations	61,734	77,444
Net result for calculation of earnings per share from discontinued operations	12,897	12,064
Weighted average number of ordinary shares in issue	41,004,769	40,959,989
Earnings per ordinary share (€)	1.82	2.19
Earnings per ordinary share from continuing operations (€)	1.51	1.89
Earnings per ordinary share from discontinued operations (€)	0.31	0.29
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.

42. Diluted earnings per ordinary share	2018	2017
Net result for calculation of diluted earnings per share	74,631	89,508
Net result for calculation of diluted earnings per share from continuing operations	61,734	77,444
Net result for calculation of diluted earnings per share from discontinued operations	12,897	12,064
Weighted average number of ordinary shares in issue	41,004,769	40,959,989
Potential shares	294,240	409,429
Weighted average number of ordinary shares in issue, fully diluted	**41,299,009**	**41,369,418**
Diluted earnings per ordinary share (€)	1.81	2.16
Diluted earnings per ordinary share from continuing operations (€)	1.49	1.87
Diluted earnings per ordinary share from discontinued operations (€)	0.31	0.29

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. Options are dilutive when triggering the issue of ordinary shares that are at a price below average ordinary share prices over the period.

RELATED PARTIES

The Executive Board comprises our key management personnel and is responsible for implementing our strategy and managing our four core activities. The Board is made up of the Chairman of the Van Lanschot Kempen Statutory Board, the Van Lanschot Kempen CFO/CRO, the Van Lanschot Kempen COO and the members of the management team with responsibility for our core activities Private Banking, Asset Management and Merchant Banking.

Remuneration of Executive Board	2018	2017
Total	6,510	5,540
Fixed salary, amount in cash	2,961	2,999
Fixed salary, amount in shares[1]	1,949	1,225
Fixed payment for pension and disability insurance costs	1,600	985
Deferred variable pay for previous years, cash	–	98
Deferred variable pay for previous years, shares	–	234

For transactions with key management personnel, see "Remuneration of the Statutory and Supervisory Boards".

Affiliates	2018		2017	
	Income	Expenses	Income	Expenses
Stichting Pensioenfonds F. van Lanschot	950	–	941	–

1 Expenses recognised under IFRS-EU accounting for Van Lanschot Kempen shares differ due to the treatment under IFRS 2. For 2018, expenses under IFRS amounted to €1.993.

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 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	–	–	–	–
Wellington Management Group LLP	–	–	–	–
Reggeborgh Invest BV	–	–	–	–

Parties with significant influence in Van Lanschot Kempen in 2017

	Income	Expenses	Amount receivable	Amount payable
Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen	41	–	–	52
APG Asset Management NV	–	–	–	–
LDDM Holding BV	–	–	–	9
Janus Henderson Group plc	–	–	–	–
Wellington Management Group LLP	–	–	–	–
Reggeborgh Invest BV	–	–	–	–
Coöperatieve Rabobank UA[1]	9,108	9,751	–	–

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 2018 or 2017, and neither were impairments recognised for receivables.

1 Stake sold in September 2017.

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%
Wellington Management Group LLP	28 December 2018	5.11%
Reggeborgh Invest BV	9 April 2018	5.00%
FMR LLC	7 July 2016	4.96%
CRUX Asset Management Limited	14 September 2017	3.23%
Investec Asset Management Limited	3 January 2018	3.09%
T. Rowe Price Group, Inc.	9 May 2017	3.06%
Invesco Limited	11 August 2017	2.99%

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 (%)	2018	2017
Van Lanschot NV	100	100
F. van Lanschot Bankiers (Schweiz) AG	100	100
Kempen & Co NV	98	96
Van Lanschot Participaties BV	100	100
Quion 17 BV	100	100
AIO II BV	72	72
Allshare BV	97	97
Holowell Holding BV	90	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:

- Courtine RMBS 2013-I BV
- Lunet RMBS 2013-I BV
- Van Lanschot Kempen Conditional Pass-Through Covered Bond Company BV

Courtine RMBS 2013-I BV

On 1 August 2013, we finalised the Courtine RMBS 2013-I transaction, involving Dutch home mortgages to an amount of €862.6 million. Repayments totalling €60.7 million were received in 2017. The facility for topping up the pool with mortgages was ended in 2016. The credit risk was not transferred and Van Lanschot Kempen purchased the debt instruments itself. Senior Class A2 notes are eligible for use as collateral with DNB. The transaction therefore supports the bank’s liquidity management and our role in the structure is that of pool servicer. The way the structure is set up, Van Lanschot Kempen does not have access to all liquidities of the Courtine RMBS 2013-I entity. At year-end 2018, the liquidity to which Van Lanschot Kempen had no access amounted to €12.8 million (2017: €12.8 million). Van Lanschot Kempen is also not able to sell the securitised loans to third parties. The structure does not impose any other restrictions on Van Lanschot Kempen.

Courtine RMBS 2013-I BV	Fitch Ratings	Standard & Poor's	Original principal	Date of securitisation	Principal at 31/12/2018	First call option date	Contractual maturity date	Spread
Total			**862,600**		**469,573**			
Senior Class A1			175,000	01/08/2013	–	26/09/2019	26/09/2050	1.15%
Senior Class A2	AAA	AAA	370,000	01/08/2013	160,573	26/09/2019	26/09/2050	2.15%
Mezzanine Class B	AAA	AA+	81,500	01/08/2013	81,500	26/09/2019	26/09/2050	0.00%
Mezzanine Class C			112,000	01/08/2013	112,000	26/09/2019	26/09/2050	0.00%
Junior Class D			115,500	01/08/2013	115,500	26/09/2019	26/09/2050	0.00%
Subordinated Class E			8,600	01/08/2013	–	26/09/2019	26/09/2050	0.00%

The Courtine transaction is a traditional securitisation. A characteristic of a traditional securitisation is that the beneficial title to the securitised receivables is transferred to an entity for securitisation purposes, which subsequently issues securities. The securities issued create a payment obligation for the securitisation entities rather than for Van Lanschot Kempen.

Lunet RMBS 2013-I BV
The Lunet RMBS 2013-I securitisation transaction, which became active in 2013, was redeemed on 28 December 2018, the first call date (FORD).

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.

The tables below show the total amounts of the mortgage loans involved in each securitisation transaction.

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	–	–

Securitised loans at 31/12/2017	Fair value	Carrying amount	Neither past due nor impaired loans	Past due loans	Impaired loans	Impairments
Total	**3,138,782**	**3,068,977**	**3,065,356**	**1,257**	**2,363**	**285**
Courtine RMBS 2013-I BV	538,286	526,314	524,682	520	1,112	285
Lunet RMBS 2013-I BV	663,424	648,670	648,420	–	250	–
Covered bond programme	1,937,073	1,893,993	1,892,254	737	1,001	–

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 (RMBS) are classified as financial assets at fair value through other comprehensive income. These RMBS 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 €501.3 million at 31 December 2018 (2017: €668.9 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 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-consolidated structured entities 2017	Interest income	Comprehensive income	Total income	Investments
Total	**2,659**	**3,090**	**5,749**	**668,105**
Asset-backed securities	2,659	3,090	5,749	668,105

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	31/12/2018	31/12/2017
Total	**12,213**	**16,264**
Kempen MIP	5,103	13,631
Consolidated investment funds	38	12
Consolidated shareholdings	7,072	2,621

Van Lanschot Kempen's minority interests are recognised under non-controlling interests as part of equity.

Movements in Non-controlling interests	2018			2017		
	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	10,827	5,437	16,264	9,391	4,065	13,456
Profit appropriation	4,542	–4,542	–	3,393	–3,393	–
Dividend	–	–895	–895	–	–672	–672
Result for the reporting period	–	5,684	5,684	–	5,437	5,437
Other changes	–8,840	–	–8,840	–1,957	–	–1,957
At 31 December	6,529	5,684	12,213	10,827	5,437	16,264

Kempen Management Investment Plan (MIP)

Before the Kempen Management Investment Plan (MIP) was implemented in 2010, all Kempen shares were held by Van Lanschot NV. 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 Van Lanschot, 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 depositary receipts amounted to €15.0 million.

In 2018, Kempen employees who owned depositary receipts in MIP were offered a one-time opportunity to exchange (a part of) their depositary receipts for certificates for Van Lanschot Kempen shares with the same fair value. Several employees decided to accept this offer, exchanging a total of 6,649 depositary receipts. At 31 December 2018, there were 15,000 depositary receipts in issue, i.e. 100% of the total available underlying depositary receipts under MIP.

Coöperatie MIP has granted Van Lanschot a call option to acquire the outstanding shares and profit-sharing certificates in MIP held by Coöperatie MIP. This call option may be exercised at any time during a three-month period starting on 1 January of every fifth year following the implementation of the MIP, the first of which started on 1 January 2016. Van Lanschot has the right to exercise the call option in the event of undesired outcomes with regard to the MIP or other unexpected circumstances. Therefore, the execution of the call option is designated as a contingent settlement alternative. As a contingent settlement alternative at 31 December 2018 is considered unlikely, the MIP is treated as a share-based payment transaction settled in equity instruments. Van Lanschot decided not to exercise the call option in the MIP in 2016, but to continue the MIP with a few adjustments to the return profile and governance structure. The earliest period in which Van Lanschot can exercise its call option will be from January to March 2021.

Kempen MIP	31/12/2018	31/12/2017
Number of depositary receipts issued	4,799	12,741
Legally required contribution by Van Lanschot Kempen (€)	100	100

Financial information for Kempen MIP	31/12/2018	31/12/2017
Total assets	15,965	16,054
Total liabilities	–	–
Equity attributable to shareholders	10,862	2,423
Equity attributable to non-controlling interests	5,103	13,631
Total income from operating activities	965	1,054
Total expenses	–	–
Taxes	–	–
Net income	965	1,054
Of which attributable to shareholders	656	159
Of which attributable to non-controlling interests	309	895

Consolidated investments

We consolidate three investments in which non-controlling minority interests of third parties are included. These non-controlling interests of third parties in consolidated investments include minority stakes in AIO II BV of Breda, the Netherlands (28.40%), in Holowell Holding BV of Tholen, the Netherlands (9.77%), and in Allshare BV of Hoofddorp, the Netherlands (2.95%).

The table below provides aggregated information on consolidated investments.

Financial information consolidated investments	31/12/2018	31/12/2017
Total assets	49,400	42,670
Total liabilities	36,523	50,186
Equity attributable to shareholders	5,805	–10,137
Equity attributable to non-controlling interests	7,072	2,621
Total income from operating activities	52,126	53,149
Total expenses	34,142	38,691
Taxes	3,521	3,810
Net income	14,464	10,647
Of which attributable to shareholders	9,305	6,104
Of which attributable to non-controlling interests	5,158	4,544

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 of 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 (excluding Van Lanschot Chabot Mandema & Partners, which is classified as held for sale).

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 portfolio 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%
Marfo Food Group Holding BV	Marfo creates and prepares fresh frozen meals for airlines, hospitals, care homes, detention centres and remote locations.	Lelystad	37.50%
Movares Group BV	Movares provides engineering and consultancy services in the fields of mobility, infrastructure, spatial planning and transport systems.	Utrecht	36.30%
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[1] BV	Quint is an independent consultancy focusing on the strategic management, sourcing and outsourcing, and implementation of IT-related processes in organisations.	Amstelveen	18.25%
Software Huis Holland BV (Kraan Bouwcomputing)	Kraan Bouwcomputing provides a wide range of software products for the construction and real estate sectors.	Rotterdam	49.00%
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%

1 Not in any way linked to Wellington Management Group LLP.

Aggregated financial information of associates for which Van Lanschot Kempen applies the equity method	31/12/2018		31/12/2017	
	Associates, equity method	Attributable to Van Lanschot Kempen	Associates, equity method	Attributable to Van Lanschot Kempen
Total	**134,451**	**54,071**	**224,500**	**70,390**
Current assets	132,049	45,461	190,623	55,453
Non-current assets	385,906	89,198	276,243	94,586
Current liabilities	–90,040	–25,562	–124,918	–42,408
Non-current liabilities	–293,464	–54,296	–117,449	–37,511
Goodwill		7,653		5,851
Impairments		–6,496		–7,356
Other		–1,887		1,775
Other financial information				
Dividend received		3,473		3,833
Income from operational activities		10,683		21,932
Share of net income		11,759		13,129
Unrecognised share of losses		3,517		3,207
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	31/12/2018	31/12/2017
Income	7	267
Expenses	30	–
Amount receivable	850	1,375
Amount payable	1,142	642
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 2018 or 2017.

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 number of stakes 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	37,938	–	9,832	783	10,615
Shareholdings	Financial assets at fair value through profit or loss	7,042	768	–	109	877
Subordinated loans	Loans and advances to the public and private sectors	1,510	157	–	–	157
Fund investment	Financial assets at fair value through profit or loss	7,429	–	2,114	–	2,114
Total		**53,920**	**925**	**11,946**	**892**	**13,764**

Joint ventures in which Van Lanschot Kempen is a partner

We have no joint ventures.

COMMITMENTS

Lease and rental agreements

We have included the following operating lease payments in the statement of income under Other administrative expenses.

Lease and rental agreements	2018	2017
Total	**17,759**	**16,070**
Minimum lease payments	5,259	5,531
Rent	12,500	10,539

We expect to include the following minimum payments for contractually agreed lease and rental agreements over the next few years.

Future payments for lease and rental agreements	31/12/2018	31/12/2017
Total	**86,317**	**84,149**
Within 1 year	16,198	15,738
1 to 5 years	44,835	39,239
More than 5 years	25,284	29,173

Commitments (€ million)	31/12/2018	31/12/2017
Rent		
Rent for buildings (including service fees and rent for parking spaces)	77.7	75.1
Future lease payments		
Car lease costs	7.8	8.6
Lease costs for copying equipment	0.8	0.4

The remaining terms of the lease and rental agreements range between one month and ten years.

Other 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 €37.8 million, as shown below.

Future payments for IT contracts	
Total	**37,776**
Within 1 year	9,517
1 to 5 years	21,432
More than 5 years	6,826

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 six 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.

Evi
Evi, Van Lanschot Kempen's online investments and savings coach, targets people just entering the wealth management market and Private Banking clients preferring an online service 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.

Corporate Banking
A team of experts within Corporate Banking is engaged in managing and winding down the real estate and SME loan portfolios not linked to Private Banking clients.

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 2018 (€ million)	Private Banking	Evi	Asset Management	Merchant Banking	Corporate Banking	Other activities	Total
Statement of income							
Net interest income	137.7	2.5	–0.0	–0.0	21.6	13.5	175.2
Income from securities and associates	–	–	–0.2	–	–	31.5	31.3
Net commission income	127.0	4.4	100.0	58.0	1.9	1.9	293.2
Profit on financial transactions	1.1	–	–0.0	1.0	–	–2.8	–0.8
Other income	–	–	–	–	–	7.3	7.3
Total income from operating activities	**265.7**	**6.9**	**99.8**	**58.9**	**23.5**	**51.4**	**506.3**
Staff costs	105.7	4.2	45.8	26.3	1.0	80.7	263.7
Other administrative expenses	67.2	9.1	23.8	9.1	0.5	52.3	162.0
Allocated internal expenses	61.5	2.9	12.8	9.9	9.9	–97.1	–
Depreciation and amortisation	5.8	0.0	1.0	0.0	–	7.6	14.4
Impairments	–2.9	0.0	–	–0.0	–10.6	0.1	–13.4
Total expenses	**237.4**	**16.2**	**83.4**	**45.3**	**0.8**	**43.7**	**426.8**
Operating result before tax	**28.4**	**–9.3**	**16.3**	**13.6**	**22.7**	**7.8**	**79.5**
Operating result of discontinued operations before tax	–	–	–	–	–	16.3	16.3

Operating segments in 2017 (€ million)	Private Banking	Evi	Asset Management	Merchant Banking	Corporate Banking	Other activities	Total
Statement of income							
Net interest income	151.4	3.3	–0.0	0.0	33.1	8.0	195.9
Income from securities and associates	–	–	–1.2	–	–	38.3	37.0
Net commission income	124.5	4.5	92.5	41.7	2.6	1.1	267.0
Profit on financial transactions	1.0	–	–0.1	4.5	–	8.7	14.1
Other income	–	–	–	–	–	8.5	8.5
Total income from operating activities	**276.9**	**7.9**	**91.2**	**46.2**	**35.8**	**64.6**	**522.5**
Staff costs	97.6	4.6	39.6	23.4	5.7	75.4	246.3
Other administrative expenses	71.6	7.9	21.9	8.0	2.3	56.9	168.5
Allocated internal expenses	57.9	7.0	10.9	9.2	12.1	–97.0	–
Depreciation and amortisation	4.4	0.0	0.6	0.0	–	9.1	14.2
Impairments	–3.2	0.0	–	–	–6.0	–2.3	–11.5
Total expenses	**228.3**	**19.5**	**73.0**	**40.6**	**14.0**	**42.1**	**417.5**
Operating result before tax	**48.6**	**–11.6**	**18.2**	**5.6**	**21.7**	**22.5**	**105.0**
Operating result of discontinued operations before tax	–	–	–	–	–	15.5	15.5

The tables below give additional information on the geographical spread of income from operations.

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**

Geographical segments in 2017 (€ million)	Netherlands	Belgium	Other	Total
Statement of income				
Total income from operating activities	**464.2**	**32.0**	**26.3**	**522.5**
Of which income from other segments	–6.9	5.8	1.2	–
Statement of financial position				
Due from banks	47.2	–	–	47.2
Investments in associates using the equity method	70.4	–	–	70.4
Total non–current assets[1]	**117.6**	–	–	**117.6**

1 Other than financial instruments, deferred tax assets and post-employment assets.

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	Van Lanschot NV	Wealth management	1,553	450.0	83.2	12.6	–
Belgium	Van Lanschot 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	–	–

Country-by-country reporting on a consolidated basis at 31 December 2017							
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			**1.779**	**522.5**	**105.0**	**22.1**	**–**
Netherlands	Van Lanschot NV	Wealth management	1.580	464.2	102.1	19.3	–
Belgium	Van Lanschot NV branch	Wealth management	143	32.0	–0.6	1.9	–
Switzerland	F. van Lanschot Bankiers (Schweiz) AG	Wealth management	23	11.4	1.4	0.4	–
United Kingdom (England)	Kempen Capital Management NV branch	Asset management	20	7.2	0.3	0.1	–
United Kingdom (Scotland)	Kempen Capital Management (UK) Ltd	Asset management	8	5.2	1.8	0.3	–
United States	Kempen & Co USA Inc.	Securities trading and research distribution	5	2.6	0.1	0.1	–
France	Kempen Capital Management NV branch	Asset management	–	–	–0.1	–	–

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018 (€1,000)

Assets		31/12/2018	31/12/2017
Investments in subsidiaries	a	1,255,982	1,332,860
Total assets		**1,255,982**	**1,332,860**

Equity and liabilities		31/12/2018	31/12/2017
Equity	b	1,255,982	1,332,860
Total equity and liabilities		**1,255,982**	**1,332,860**

COMPANY STATEMENT OF INCOME FOR 2018 (€1,000)

Statement of income		2018	2017
Income from subsidiaries	c	74,631	89,508
Net result		**74,631**	**89,508**

The letters alongside the items refer 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 statutory provisions of Article 402, 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (€1,000)

a Investments in subsidiaries

Van Lanschot NV 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	2018	2017
At 1 January	1,332,860	1,340,470
Share premium payment	–61,526	–40,847
Revaluations	–89,983	–56,271
Group company results	74,631	89,508
At 31 December	**1,255,982**	**1,332,860**

Further information on the revaluations can be found in Note 27 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	31/12/2018		31/12/2017	
Total		**1,255,982**		**1,332,860**
Issued share capital		41,362		41,147
Treasury shares		–8,678		–7,869
Share premium reserve		385,115		441,459
Revaluation reserve	–3,065		14,013	
Actuarial results on defined benefit schemes	–17,591		–17,885	
Cash flow hedge reserve	–13,509		–9,825	
Own credit risk reserve	–11,394		–	
Statutory reserves	29,338		34,843	
Reserves under the Articles of Association	104		1,602	
Available reserves	779,669		745,868	
Other reserves		763,552		768,616
Result for the current financial year		74,631		89,508

For movements in equity, see Note 27 to the consolidated financial statements, Equity.

In the year under review, conditional rights to 55,890 depositary receipts for Class A ordinary shares were awarded, for no consideration. To cover its open positions, Van Lanschot Kempen retains 344,647 depositary receipts for Class A ordinary shares (2017: 299,695).

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 €27.3 million and a reserve for currency translation differences on associates of €0.1 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 188.

PROFIT APPROPRIATION

If the annual general meeting approves the dividend proposal as included in these financial statements, the appropriation of net result will be as follows:

Profit appropriation	2018	2017
Total	**74,631**	**89,508**
Addition to/withdrawal from reserves	15,156	30,280
Dividend on Class A ordinary shares	59,475	59,228

REMUNERATION OF THE STATUTORY AND SUPERVISORY BOARDS

For further details of remuneration received in 2018, see "Remuneration" on page 73.

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	Deferred variable pay for previous years, shares[2]
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 2017

	Fixed salary, amount in cash	Fixed salary, amount in shares[1]	Total fixed salary	Deferred variable pay for previous years, shares[2]
Total	**2,111**	**825**	2,936	**136**
Karl Guha	779	225	1,004	34
Constant Korthout	444	200	644	34
Arjan Huisman	444	200	644	34
Richard Bruens	444	200	644	34

Pension and disability insurance costs for the individual members of the Statutory Board	2018	2017
Total	**1,110**	**681**
Karl Guha	378	225
Constant Korthout	244	152
Arjan Huisman	244	152
Richard Bruens	244	152

The total remuneration related to 2018, consisting of fixed salary, pension and disability insurance, amounted to €1,538,000 for Karl Guha (2017: €1,263,000); €994,000 for Constant Korthout (2017: €830,000); €994,000 for Arjan Huisman (2017: €830,000); and €994,000 for Richard Bruens (2017: €830,000).

1 Expenses recognised under IFRS-EU accounting for Van Lanschot Kempen shares differ due to treatment under IFRS 2. For 2018, expenses under IFRS for Karl Guha amounted to €404, for Constant Korthout to €324, Arjan Huisman to €324, and for Richard Bruens to €324. A proportion of fixed salary is paid in the form of Van Lanschot Kempen shares. Karl Guha received 15,165 shares in two tranches (2017: 11,058 shares) and the other members of the Statutory Board each received 8,493 shares (2017: 9,830 shares). The number of shares granted in tranche 1 is based on the average share price for the first four trading days of 2018 (€26.28; 2017: €20.35); for tranche 2 the average share price is €24.53. IFRS takes the share price at grant date as the basis for recognition. This price for tranche 1 amounted to €26.28 (2017: €20.35) and the price for tranche 2 amounted to €24.53.

2 As of 2015, the remuneration of the Statutory Board was changed and variable pay was ended as part of the new remuneration policy. The table "Remuneration of Statutory Board" in the Remuneration section on page 74 of the directors' report does not show variable remuneration payable in shares awarded. IFRS, as adopted within the European Union, prescribes that the costs of deferred variable share-based compensation should be spread over the period within which the relevant activities were performed. The vesting period for shares conditionally awarded in the 2014 financial year was 2015 to 2017; the shares vest in equal portions.

Number of depositary receipts for shares held by Statutory Board members in 2018	At 1 January	Bought/awarded	Sold/post-employment	At 31 December
Total	**154,677**	**32,403**	**–**	**187,080**
Karl Guha	43,124	9,378	–	52,502
Constant Korthout	45,326	7,675	–	53,001
Arjan Huisman	24,939	7,675	–	32,614
Richard Bruens	41,288	7,675	–	48,963

At 31 December 2018, the members of the Statutory Board held no options for depositary receipts for shares.

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	537	18	1.90%	Mortgage
	600	–	1.90%	Mortgage
	264	8	1.90%	Mortgage

Loans to Statutory Board members at 31 December 2017	At 31 December	Repaid	Interest	Collateral
Total	**2,336**	**245**		
Constant Korthout	450	–	2.30%	Mortgage
	150	–	1.90%	Mortgage
Arjan Huisman	–	220	1.40%	Mortgage
	310	–	Floating	Mortgage
Richard Bruens	554	17	1.90%	Mortgage
	600	–	1.90%	Mortgage
	272	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	2018	2017
Total	**556**	**444**
Willy Duron	127	107
Manfred Schepers (from 18 May 2017)	95	49
Frans Blom (from 5 October 2018)	19	–
Jeanine Helthuis	76	64
Bernadette Langius	79	62
Godfried van Lanschot (until 31 May 2018)	32	60
Maarten Muller (from 31 May 2018)	43	–
Lex van Overmeire (from 30 January 2017)	85	65
Jos Streppel (until 18 May 2017)	–	36

No loans or advances had been granted to members of the Supervisory Board at 31 December 2018 and 31 December 2017.

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 2019

Supervisory Board
- Willy Duron, Chairman
- Manfred Schepers, Deputy 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

There have been no significant events since the reporting date that affect the relevance of information provided in the 2018 financial statements.

Other information

INDEPENDENT AUDITOR'S REPORT

To: the general meeting and supervisory board of Van Lanschot Kempen N.V.

Report on the financial statements 2018

Our opinion

In our opinion:

- Van Lanschot Kempen N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 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;
- Van Lanschot Kempen N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 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 2018 of Van Lanschot Kempen N.V., Den Bosch ('the Company'). The financial statements include the consolidated financial statements of Van Lanschot Kempen N.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position at 31 December 2018;
- the following statements for 2018: 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 at 31 December 2018;
- the company statement of income for 2018; and
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework that has been 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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Van Lanschot Kempen N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta – Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence 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).

Our audit approach

Overview and context

Van Lanschot Kempen N.V. is a Dutch wealth management institution operating in the segments private banking, online investments and savings platform Evi, asset management, merchant banking, corporate banking and other activities. 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 114 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 financial assets (of which impairment of loans and advances to the public and private sectors is part) and the determination of fair value of financial instruments as most significant for the financial year 2018. Given the significant estimation uncertainty and significance of both the impact on the organisation and the Group results of the implementation of the new accounting standard IFRS 9, we consider the following matters key audit matters, as set forth in the key audit matter section of this report: the impairment of loans and advances to the public and private sectors and the valuation of financial instruments at fair value.

The various IT change initiatives (such as the outsourcing of operational activities to third parties, the large scale phasing out of legacy computer systems, the optimisation of the regulatory reporting tool and the realisation of a one control documentation 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.

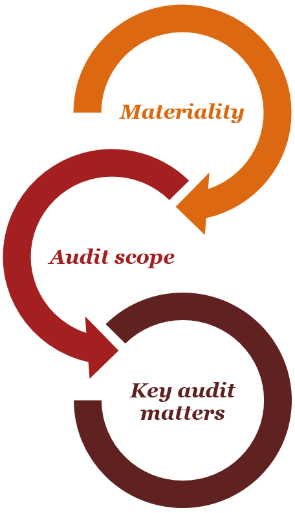
As these change initiatives may affect systems, processes and the effectiveness of controls they could affect the financial statements and our audit. Therefore, we also included this as part of the key audit matter reliability and continuity of IT systems.

Other areas of focus in our audit of the financial statements, but that were not considered to be key audit matters, were the implementation of new accounting standards (e.g. IFRS 9, 15 and 16), goodwill, deferred tax assets, share-based payments, intended sale of participation AIO II (note 15 in the financial statements) and non-financial information.

As in all of our audits, 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 and non-compliances with laws and regulations.

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 in the areas of IT, accounting and valuation of financial instruments, fraud, employee benefits and taxation in our team.

The outline of our audit approach was as follows:



Materiality
- Overall materiality: €4.7 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.
- Fair value measurement of 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	€4.7 million (2017: €6.025 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 both continuing and discontinued 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 included both profit before tax from continuing and discontinued operations in our benchmark. The profit before tax resulting from discontinued operations relates to the component AIO II B.V. which is intended to be divested in 2019.
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 €1.0 million and €4.7 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

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 €235 thousand (2017: €300 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 in such a way 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 components: Van Lanschot N.V., Kempen & Co N.V., Van Lanschot Belgian Branch, F. van Lanschot Bankiers (Schweiz) AG, Van Lanschot Participaties B.V. and AIO II B.V. As these components were individually financially significant to the Group, they were subject to audits of their complete financial information.

Additionally, we selected one component (Quion 17 B.V.) for which audit procedures were performed 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 AIO II B.V. we instructed component auditors that are familiar with the local laws and regulations to perform the audit work. For the other significant 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 and 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 explained to the component audit teams the structure of the Group, the main developments that are relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach. 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 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 for the consolidated financial statements.

The group engagement team visits the most significant component teams and local management. Therefore, the group audit team visited the Belgian and Swiss components given the significance of these components to the Group's financial information as a whole. On a rotational basis we review a selection of working papers of component auditors. For this year, we reviewed a selection of working papers of the Belgian component.

The group engagement team performed the audit work on the Group consolidation, financial statement disclosures and a number of complex items at the head office. These included derivative financial instruments, hedge accounting and the impairments of loans and advances to the public and private sectors (including the implementation of the new IFRS 9 accounting standard).

The Company has outsourced part of its IT activities, its mortgage administration services and its treasury software. In our assessment of these service providers, we made use of the ISAE 3402 Type 2 report from reliable independent auditors. In this context, for the ISAE 3402 for the outsourced mortgage administration services, we have been involved in planning the ISAE 3402 work by the service provider auditors. For all ISAE 3402 work, we discussed progress and interim findings of the audit and, finally, evaluated the ISAE 3402 assurance reports once they were finalised. Based on these procedures performed, we conclude that in the context of our audit of the financial statements of the Company, we could rely on the ISAE 3402 Type 2 assurance reports.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

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.

These key audit matters are in line with our prior year's auditor's report, as they relate to the operations of the bank, except for the inclusion of IFRS 9 in the key audit matter related to impairments of loans and advances to the public and private sectors since the new standard replaced IAS 39.

Key audit matter	Our audit work and observations
Impairments of loans and advances to the public and private sectors See note 9 to the financial statements for the disclosures of loans and advances to the public and private sectors including impairments, the paragraph 'Impairments' of the summary of significant accounting principles and subsection 2.8 and 2.9 of the risk management paragraph containing the disclosures in view of credit risk. The gross loans and advances to the public and private sectors amount to €8,561 million, the total impairment as at 31 December 2018 amounts to €112.8 million. As at 1 January 2018, the Company has adopted accounting standard IFRS 9 and moved from an incurred loss model to an expected credit loss (ECL) model resulting in an impact on the impairment of loans and advances to public and private sectors of €11.1 million, which has been recognised in the opening balance of retained earnings. **Three-stage expected credit loss impairment model** In connection with the implementation of the new accounting standard IFRS 9 'Financial instruments' as from 1 January 2018, the Company implemented a three-stage expected credit loss impairment model consisting of: – stage 1 (gross carrying amount €7,559 million, impairment €3.7 million): recognition of allowances measured at an amount equal to the 12 month expected credit losses of the financial assets (loans and advances to the public and private sectors); – stage 2 (gross carrying amount €1,400 million, impairment €8.6 million): recognition of allowances measured at an amount equal to the lifetime expected credit losses for financial assets for which credit risk has significantly increased since initial recognition, but that are not credit-impaired; and – stage 3 (gross carrying amount €336 million, impairment €100.5 million): financial assets that are credit-impaired. The Company determines loan impairments in stage 1, and 2 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 information. **Model methodology and inputs** 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.	**Control design and operation effectiveness** We evaluated the design and tested the operating effectiveness of key controls in the following areas: – credit management process to assess the loan quality classification to identify impaired loans; – implementation of a new definition of default; – input controls and data lineage in respect of the critical data elements; – the governance over the development, validation, calibration and implementation of the impairment models; – the completeness and accuracy of the transfer of data from underlying source systems to the expected loss calculations; – the review and approval process that management has in place for stage transfers between reporting periods; – 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; and – the valuation of future cash flows and existence and valuation of collateral, based on the appropriate use of key parameters for the stage 3 - specific impairment allowance. 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. **Assessment of model-based impairments** With support of our internal valuation experts we performed the following procedures on the model-based impairments: – evaluation of the reasonableness of the applied model methodology in line with IFRS-EU; – evaluation of the macro-economic scenarios and macro-economic variables applied; – testing the input data and data lineage in respect of the critical data elements; – challenging management on the reasonableness of their provided explanations and evidence supporting the key model parameters; – reperformance of the key tests per model on initial calibration and continued model monitoring performance in view of model validation; – assessment of the dashboard covering the outcomes of the model performance as at 31 December 2018; and – assessment of stage transfers as at 31 December 2018. Based on the above we assessed the methodology and inputs to be in line with market and industry practice. **Assessment of stage 3 – specific impairment allowance (baseline scenario)** Considering the inherent estimation risk of individually impaired loans (stage 3), we performed risk-based sample testing and selected samples from both the whole loan portfolio as well as from the stage 3 – specific impaired loans population and analysed the latest developments at the borrower and considered whether the key judgements applied in the impairment allowance are acceptable for both the balance as at 1 January 2018 and 31 December 2018. We substantively tested for a risk-based sample of the loans and advances the judgemental elements including: – 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;

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);
- 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 illustrated complexity, judgements and the impact it may have on the results, this area is subject to risk of material misstatement. Therefore, we consider this area as a key audit matter in our audit.

- 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.

We found that management's judgement is supported by available evidence.

Finally, we assessed the main areas of judgement and estimates are disclosed in the financial statements in line with the requirements of the IFRS 9 standard as included in EU-IFRS.

Fair value measurement of financial instruments
See notes 2, 4, 5, 6, 7, 17, and 20 to the financial statements for the disclosures of the financial instruments valued at fair value and subsection 13 of the risk management paragraph in the financial statements: 'fair value' that contains the fair valuation policies, its disclosures and the split of financial instruments to level 1, 2 and 3.

The total asset value of financial instruments measured at fair value as at 31 December 2018 amounts to €2,417 million and the total liability value amounts to €1,410 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 1 financial instruments (€2,061 million assets, €40 million liabilities)
For financial instruments traded in active markets and for which observable market prices or other market information is available (level 1), there is limited judgement involved in determining the fair value of these instruments.

Level 2 and 3 financial instruments (€356 million assets, €1,370 million liabilities)
However, when directly observable market prices or other market information are not available the fair value is subject to (significant) judgement. Fair value of financial instruments significantly affects the measurement of profit and loss and disclosures of financial risks in the financial statements.

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, (amongst others CVA/DVA) yield curves, correlations and volatilities are important factors.

Due to the magnitude of financial instruments measured at fair value, the migration to the new treasury system Ambit, the complexity of the valuation techniques used and the judgements applied by management's measurement of such financial instruments (level 2 and level 3 financial instruments), this area is subject to risk of material misstatement. Therefore, we determined this to be a key audit matter for our audit.

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.

For each type of level 2 and 3 financial instruments we tested, with support of our valuation specialists, the outcome of management's valuation process as follows:
- testing the appropriateness of the settings within the applied valuation models used with market practices;
- 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, (amongst others CVA/DVA) 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.

We found that management's outcome of the models and classification used for the fair value of the level 2 and 3 financial instruments fell within a reasonable and acceptable range of outcomes.

We assessed the completeness and accuracy of the disclosures relating to the level 1, level 2 and 3 financial instruments measured at fair value and verified compliance with disclosure requirements from EU IFRS.

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 Goup'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 and implementing cybersecurity measures to continue to meet the high reporting standards and expectations from stakeholders relating to operating effectiveness, efficiency, cybersecurity and data quality. In this way the Group is accommodating the ongoing regulatory changes imposed to the banking industry. These projects result to changes in several of the Group's control activities related to financial reporting. This could increase the risk of material misstatement in financial reporting. For 2018 the IT related implementation for IFRS 9 and the migration to a new treasury system are considered the most significant IT projects that were completed during the year. Deficiencies in ITGCs as such could have a pervasive impact across the Company'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 Company 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 outsourced activities relevant to our audit scope, we reviewed service level agreements and ISAE 3402 Type 2 reports where we have evaluated the scope of these reports, the outcomes and impact on our audit procedures; – management of access to programs 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 IT projects related to the implementation of IFRS 9 and the new treasury systems were part of our audit procedures as described in the first and second key audit matters above. The ITGCs as described above were also tested for these. 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.
- About Van Lanschot Kempen.
- Our strategy.
- Our business themes.
- Progress report.
- Report of the Supervisory Board.
- Corporate governance.
- Our Executive and Supervisory Boards.
- Van Lanschot Kempen shares.
- 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 the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The 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 three 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 audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. 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 2019

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 2018 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 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. 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 2018

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 2018 annual report of 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 2018,

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 2018, as included in the 2018 annual report, pages 4 until 71 and the 2018 corporate social responsibility supplement (hereafter together referred to as: the sustainability reporting). 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 2018.

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 information 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 applicable 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.

Van Lanschot Kempen developed its reporting criteria on the basis of the Sustainability Reporting Standards of GRI, as disclosed in the section 'Reporting principles' of the corporate social responsibility supplement. The information in the scope of this assurance engagement needs to be read and understood in conjunction with these reporting criteria. The absence of a significant body of 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

The executive board of Van Lanschot Kempen is responsible for the preparation of the 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 policies are summarized in the section 'Reporting principles' of the corporate social responsibility 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 information 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.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the sustainability information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

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.

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 information 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 in the information submitted for consolidation at corporate level.
- Reconciling the relevant financial information with the financial statements;
- 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 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by
R.E.H.M. van Adrichem RA
partner

PROFIT APPROPRIATION

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, 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

Stichting Administratiekantoor van gewone aandelen A Van Lanschot Kempen ("the Stichting") reports on its activities in 2018.

Board meetings

In 2018, the Board of the Stichting ("the Board") held six board meetings. Topics covered in these meetings included:
- The Stichting's 2017 financial statements;
- Van Lanschot Kempen's 2017 financial statements;
- The items on the agenda of the general meeting of Van Lanschot Kempen held on 31 May 2018 ("the AGM") and the Stichting's voting intentions;
- The proposal to the AGM to increase the remuneration of the Statutory Board of Van Lanschot Kempen;
- The composition of the Board;
- Van Lanschot Kempen's 2018 half-year results;
- The items on the agenda of the extraordinary general meeting of Van Lanschot Kempen held on 5 October 2018 ("the EGM") and the Stichting's voting intentions;
- Preparation for the meeting of holders of depositary receipts held on 13 November 2018.

In addition to these board meetings, the Board held three conference calls and another informal meeting.

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 who 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 held by them at record date. The Stichting voted, at its own discretion, the Class A ordinary shares for which no proxy votes had been requested. Such shares represented 33.1% and 29.1 % respectively of the total number of votes that may be cast at the AGM and the EGM. After careful consideration of the relevant interests, the Board decided to vote in favour of all items put to the ballot.

Remuneration of the Board of Directors

Introduction

The preparations for the AGM required a great deal of attention this year, mainly in relation to the proposal regarding the remuneration of the Statutory Board of Van Lanschot Kempen ("the Statutory Board"). After extensive and careful consideration (as set out in detail below), the Board decided to vote in favour of the proposal.

Considerations in relation to the remuneration proposal

In the run-up to the AGM, the Board met and discussed the remuneration proposal with representatives of the supervisory board of Van Lanschot Kempen ("the Supervisory Board") on multiple occasions, at which meetings the Board challenged the Supervisory Board on both the background to and all elements of the proposal. The Board also delved into the relevant best practice provisions of the Dutch Corporate Governance Code and relevant Dutch remuneration laws to be able to take a considered position on this sensitive issue.
Prior to the AGM, the Board determined the Stichting's preliminary position in relation to the remuneration proposal, primarily based on the following considerations:

- It is a given that companies' executive remuneration policies are currently a topic of public debate. This is not a negative development, but can be interpreted as a growing awareness that companies have a social responsibility. This is particularly true of banks and even more so of banks that have recently been bailed out with taxpayers' money – to which category Van Lanschot Kempen does not belong. The turn taken by this public debate could affect the company's reputation and would, for this reason alone, rank among the factors that the Stichting would emphatically consider in its deliberations.

- When exercising the voting rights, the Board must primarily act in the interests of depositary receipt holders, and must also factor in the interests of the company, its associated enterprise and all other parties involved. It is not the Board's job to serve the public interest. In this case, however, these interests coincide to a significant degree: both depositary receipt holders and society at large benefit from Van Lanschot Kempen´s continued existence as a healthy company, which generates returns as well as employment, and creates knowledge. This requires an experienced, expert and robust board, and remuneration policies that help to ensure such a board is in place.

- Public debate is not infrequently too much dominated by emotion, and is not always sufficiently informed by the facts. In this particular instance, the debate was significantly influenced by other remuneration proposals in the Dutch financial sector, which unfortunately played out at around the same time as the AGM.

- Two key elements can be discerned in the remuneration proposal for the Statutory Board:

  - Raising the pension allocation for the members of the Statutory Board to 30% of fixed pay. The Board understands this increase to be a matter of "overdue maintenance": after the major overhaul of the remuneration structure of the past few years caused the pension allocation to fall way behind of what is – according to Willis Tower Watson – common practice in the industry. The proposal aims to remedy this at least in part, with the allocation as a percentage of fixed pay still remaining at the lower end of the relevant range.

  - Raising fixed pay for the members of the Statutory Board by 15.5-16.5%, all of which to be awarded in shares. This is in line with the best practice provisions of the new Dutch Corporate Governance Code, which strongly recommend remuneration policies focused on long-term value creation. The Board believes that, opting for the salary increase to be paid in shares only – and shares that must be held over a long period of time – serves the interests of both the depositary receipt holders and the company.

- Two main objections were put forward to the proposed pay increase, both of which were taken into consideration in the Board's deliberations:

  - The first objection is reflected in the voting recommendations issued by two Anglo-Saxon proxy advisory firms, Glass Lewis and ISS. They believe that a pay rise as proposed should only be agreed to if it is part of an incentive scheme. This assessment is apparently based on what was and still is common practice in the Anglo-Saxon world. In the Netherlands, by contrast, the possibility of introducing bonus schemes has been strongly curtailed in the past few years by laws and regulations. Besides, the Board feels that, in 2015, the AGM had very good cause to decide to forgo a bonus scheme altogether. By committing to a pay rise in shares only – and linking this to long-term value creation –a solution has been proposed that serves the interests of both the depositary receipt holders and the company itself, and that fits within the requirements of the law.

  - The second objection is to the composition of the peer group used to compare the Statutory Board's remuneration – the Dutch Banking Code demands a peer group comparison. It is beyond doubt that the peer group selected by the Supervisory Board – at the advice of Willis Towers Watson – contained companies significantly larger than Van Lanschot Kempen. However, it is impossible to make a mathematical correlation between the size of a company and the optimum compensation of its directors. In fact, the median remuneration within the peer group is only one factor that was considered and the proposal assumes compensation well below that median. That said, even if the size of a company would be argued to play an absolute role in calculating executive remuneration, it should also be noted that, in multiple ways, Van Lanschot Kempen staged significant growth in the past few years.

- In addition, the Board decided only to make its final determination in relation to the proposal immediately prior to the vote at the AGM, in order to allow for the debate during the AGM and any arguments put forward at that time to also guide the Stichting's vote. This is why the full Board attended the AGM. However, the AGM saw hardly any discussion of the remuneration proposal. One depositary receipt holder with a major stake in the company spoke in this regard and this depositary receipt holder spoke in favour of the resolution. Only one of the other depositary receipt holders made critical remarks about the size of the proposed increase in the pension allocation. All told, the discussions during the AGM did not give the Board any reason to depart from its preliminary position on the proposal.

Conclusion
The Board delved deeply into the proposal, into the arguments underpinning it, and into the arguments put forward against it. All things considered, the Board felt that the proposed increase in the total compensation may come across as rather large, but that it is not extreme under the circumstances. Importantly, a large proportion of the rise was down to an adjustment of the pension allocation. The pension allocation had fallen way behind of what is common practice in the industry. This backlog has now been partially resolved, it being noted that the allocation, as a percentage of fixed pay, remains on the lower end of the relevant range. In addition, the mechanism of the pay rise focused on long-term value creation. The Statutory Board had and has amply demonstrated its ability to implement the company's strategy and to make solid progress, including a return for depositary receipt holders of 150% over the past five years. The Board believes that it is in the interests of the depositary receipt holders that senior management receive competitive remuneration, allowing Van Lanschot Kempen to retain this high-performing team and, if necessary, attract good new directors.

Amendment of the Articles of Association
The amendments to the Stichting's Articles of Association as resolved upon in 2017 were adopted and effected at the beginning of 2018.

Composition of the Board and meeting of depositary receipt holders
In 2018, a vacancy arose on the Board due to the retirement by rotation of Mr H.G. van Everdingen. Mr Van Everdingen was not available for reappointment. During the reporting year, the Board considered various candidates and selected Mr W.F. Hendriksen as the preferred candidate for appointment. The Board called a meeting of holders of depositary receipts which took place on 13 November 2018. Holders of depositary receipts were given the opportunity, in advance of this meeting, to make a recommendation to fill this Board vacancy. They did not make a recommendation. During the meeting, the Board explained its intention to appoint Mr. Hendriksen. Subsequent to the meeting of holders of depositary receipts, the Board appointed Mr Hendriksen as member of the Board until the meeting of holders of depositary receipts to be held in 2022. The Board is very grateful to Mr Van Everdingen for his measured judgment in its discussions over the past ten years, through which he has contributed to the Stichting as chairman of the Board.

Holders of depositary receipts were also given the opportunity, in advance of the meeting, to make a recommendation for the vacancy in the Board as a result of the expiration of the term of Mr J. Meijer Timmerman Thijssen. Mr Thijssen was available for reappointment. The holders of depositary receipts did not make a recommendation. At the meeting, the Board explained its intention to reappoint Mr Thijssen until the meeting of depositary receipt holders in 2020. Subsequent to the meeting of holders of depositary receipts, the Board appointed Mr Thijssen as a member and as Chairman of the Board until the meeting of holders of depositary receipts held in 2020.

At the request of the Board, the holders of depositary receipts confirmed their trust in the Board at the meeting of holders of depositary receipts.

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 Financial Officer at BrandLoyalty 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 €13,592 in 2018.

Outstanding depositary receipts
On 31 December 2018 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 were 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, 18 Februari 2019

STICHTING PREFERENTE AANDELEN C VAN LANSCHOT KEMPEN

Board report

Stichting preferente aandelen C Van Lanschot Kempen ("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 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.

In 2018 the Board held one meeting.

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).

The Stichting is a legal entity independent of Van Lanschot Kempen, as referred to in Section 5:71 (1) sub-paragraph (c) of the Financial Supervision Act (Wft).

The Board

's-Hertogenbosch, the Netherlands, 15 February 2019

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 & 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.

Assets under screening (AuS)
The part of the assets under management that are screened for sustainability issues.

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 III 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.

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
Under 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.

Carried interest arrangement
A carried interest arrangement relates primarily to private equity fund managers who are given the opportunity to obtain a stake in a company acquired. This arrangement is financed by a subordinated loan or by cumulative preference shares that do not participate in any surplus profits. The manager holds ordinary shares and participates in any surplus profits.

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 (CET1) capital
Also referred to as core capital. Common Equity Tier 1 CET1 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 (CET1) ratio
Common Equity Tier 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
CET1 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.

Depositary receipts for shares (DRS)
Depositary receipts for shares have no voting rights, but do entitle their holders to profits.

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 portfolio of fair value hedges comprises one or more swaps concluded to cover the changes in fair value resulting from changes in interest rates, of debt securities and available-for-sale investments, for example. Hedge relations are typically exact hedges, involving debt securities and available-for-sale investments 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.

Institutional Investors Group on Climate Change (IIGCC)
A European collaborative platform for institutional investors in relation to climate change.

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 approaches.

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.

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.

MSCI
A global equity index by Morgan Stanley Capital International, typically used as a standard benchmark.

MSCI ESG Research
A data provider specialising in non-financial investment information. Van Lanschot Kempen has used the services of MSCI ESG Research for its sustainable investment process since 2015. msci.com/research/esg-research

Net stable funding ratio (NSFR)
The relationship between available stable funding and the required amount of stable funding.

Non-performing loans
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.

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.

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

Van Lanschot
Van Lanschot NV (formerly F. Van Lanschot Bankiers 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

	2018[1]	2017	2016	2015	2014
Results (€1,000)					
Total income from operating activities	506,282	522,539	524,400	561,140	566,187
Operating expenses	440,193	428,990	440,729	422,516	337,138
Impairments	–13,416	–11,461	–2,115	61,937	95,529
Operating profit before tax	79,504	105,010	85,785	54,284[3]	133,520
Net result (group profit)	80,315	94,945	69,800	42,754	108,701
Statement of financial position (€1,000)					
Equity attributable to shareholders	1,255,982	1,332,860	1,340,470	1,299,358	1,292,274
Public and private sector liabilities	9,090,939	9,145,119	9,679,764	9,908,391[2]	10,499,160
Loans and advances to the public and private sectors	8,561,497	9,103,327	9,624,048	10,504,423[2]	11,021,107
Total assets	13,980,007	14,658,875	14,877,411	15,831,775	17,259,438
Key data					
Number of ordinary shares at year-end (excluding treasury shares)	41,017,021	40,846,973	40,873,462	40,961,353	40,826,361
Average number of ordinary shares	41,004,769	40,959,989	40,908,194	40,919,503	40,918,849
Earnings per ordinary share based on average number of ordinary shares (€)	1.82	2.19	1.61	0.83	2.42
Dividend per ordinary share (€)	1.45	1.45	1.20	0.45	0.40
Efficiency ratio (%)	86.9	82.1	84.0	75.3	59.5
Return on average Common Equity Tier 1 (%)[5]	7.4	8.6	6.2	3.2	8.8
Total capital ratio (phase-in) (%)	23.6	22.3	20.9	17.0	15.2
Tier 1 capital ratio (phase-in) (%)	21.4	20.5	19.0	16.3	14.6
Common Equity Tier 1 ratio (phase-in) (%)[6]	21.4	20.5	19.0	16.3	14.6

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 The figures for the years from 2009 to 2013 represent return on Core Tier 1 Equity.

6 The figures for the years from 2009 to 2013 reflect the Core Tier 1 ratio.

	2013	2012	2011	2010	2009
Results (€1,000)					
Total income from operating activities	551,193	541,764[4]	552,386	630,887	568,467
Operating expenses	408,633	449,200[4]	426,456	439,893	428,802
Impairments	105,117	258,021[4]	79,394	102,458	176,043
Operating profit before tax	37,443	–165,457[4]	46,536	88,536	–36,378
Net result (group profit)	33,506	–147,281[4]	43,127	66,710	–15,720
Statement of financial position (€1,000)					
Equity attributable to shareholders	1,283,487	1,262,348[4]	1,507,245	1,461,676	1,238,418
Public and private sector liabilities	10,161,397	11,368,814	13,100,131	13,545,650	13,380,188
Loans and advances to the public and private sectors	12,490,723	13,464,234	14,270,431	15,710,224	17,036,279
Total assets	17,670,365	17,940,865[4]	18,453,522	20,325,117	21,264,839
Key data					
Number of ordinary shares at year-end (excluding treasury shares)	40,926,249	40,879,922	40,809,337	40,819,359	34,888,086
Average number of ordinary shares	40,917,566	40,883,330	40,870,488	38,366,748	34,869,875
Earnings per ordinary share based on average number of ordinary shares (€)	0.71	–3.67[4]	0.84	1.47	–0.75
Dividend per ordinary share (€)	0.20	0.00	0.40	0.70	0.00
Efficiency ratio (%)	74.1	82.9[4]	77.2	69.7	75.4
Return on average Common Equity Tier 1 (%)[5]	2.5	–12.7[4]	3.0	5.6	–2.8
Total capital ratio (phase-in) (%)	13.9	11.9	11.9	13.9	11.6
Tier 1 capital ratio (phase-in) (%)	13.1	11.0	10.9	11.9	9.5
Common Equity Tier 1 ratio (phase-in) (%)[6]	13.1	11.0	10.9	9.6	6.5

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We welcome your views and opinions – please see our contact details above.

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