



Van Lanschot

# Van Lanschot NV Financial report 2011 annual results



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## KEY DATA

Income statement (x € million)	2011	2011 core <sup>1</sup>	2010	%	H2 2011	H1 2011
Income from operating activities	552.4	<b>539.2</b>	613.3	-12	249.5	289.7
Operating expenses	426.5	<b>412.3</b>	422.3	-2	200.7	211.6
Gross result	125.9	<b>126.9</b>	191.0	-34	48.8	78.1
Addition to loan loss provision	61.1	<b>64.3</b>	86.5	-26	36.9	27.4
Other impairments	18.3	<b>14.0</b>	16.0	-13	11.0	3.0
Operating profit before tax	46.5	<b>48.6</b>	88.5	-45	0.9	47.7
Discontinued operations	2.8	-	-	-	-	-
Net profit	43.1	<b>41.9</b>	65.7	-36	1.1	40.8

BALANCE SHEET AND CAPITAL MANAGEMENT (x € million)	31-12-2011	31-12-2011 core	31-12-2010	%	30-6-2011
Equity attributable to shareholders	1,507	<b>1,506</b>	1,462	3	1,466
Equity attributable to minority interests	59	<b>59</b>	323	-82	320
Public and private sector liabilities	13,100	<b>13,100</b>	13,546	-3	13,225
Loans and advances to the public and private sectors	14,270	<b>14,278</b>	15,710	-9	15,059
Total assets	18,454	<b>18,430</b>	19,590	-6	19,272
Risk-weighted assets	11,000	<b>10,996</b>	11,695	-6	11,467
BIS total capital ratio (%)	11.9	<b>11.9</b>	14.2	-	14.0
Tier I ratio (%)	10.9	<b>10.9</b>	12.1	-	12.7
Core Tier I ratio (%)	10.9	<b>10.9</b>	9.6	-	10.2
Leverage (current definition) <sup>2</sup>	12.2	<b>12.2</b>	13.4	-	13.1

Basel III <sup>3</sup>	31-12-2011	31-12-2011 core	31-12-2010	%	30-6-2011
Liquidity Coverage Ratio (%)	192.4	-	130.0	-	191.0
Net Stable Funding Ratio (%)	104.4	-	104.6	-	106.2
Leverage	19.4	-	21.5	-	19.3

ASSETS UNDER MANAGEMENT <sup>4</sup> (x € billion)	31-12-2011	31-12-2011 core	31-12-2010	%	30-6-2011
Total assets under management	36.7	<b>36.7</b>	34.5	6	36.1
Assets under discretionary management	24.3	<b>24.3</b>	19.7	23	22.2
- of which double-counted	1.1	<b>1.1</b>	0.7	57	0.7
Assets under non-discretionary management	12.4	<b>12.4</b>	14.8	-16	13.9

KEY FIGURES	31-12-2011	31-12-2011 core	31-12-2010		30-6-2011
Weighted average number of outstanding ordinary shares (x 1,000)	40,870	<b>40,870</b>	38,367		40,865
Earnings per share based on average number of ordinary shares (€)	0.84	<b>0.81</b>	1.45		0.87
Efficiency ratio (%)	77.2	<b>76.5</b>	68.9		73.0
Return on average Core Tier I capital (%)	3.0	<b>2.9</b>	5.5		6.2
Funding ratio (%)	91.8	<b>91.8</b>	86.2		87.8
Number of staff (FTEs)	2,170.5	<b>2,008.8</b>	2,042.8		2,009.7

<sup>1</sup> In order to allow an adequate comparison, the figures in this financial report are adjusted for the non-strategic investments. In all cases, the comparative figures solely concern the core activities.

<sup>2</sup> Leverage = total assets / equity attributable to shareholders

<sup>3</sup> The Basel III figures are based on the consolidated figures, including non-strategic investments.

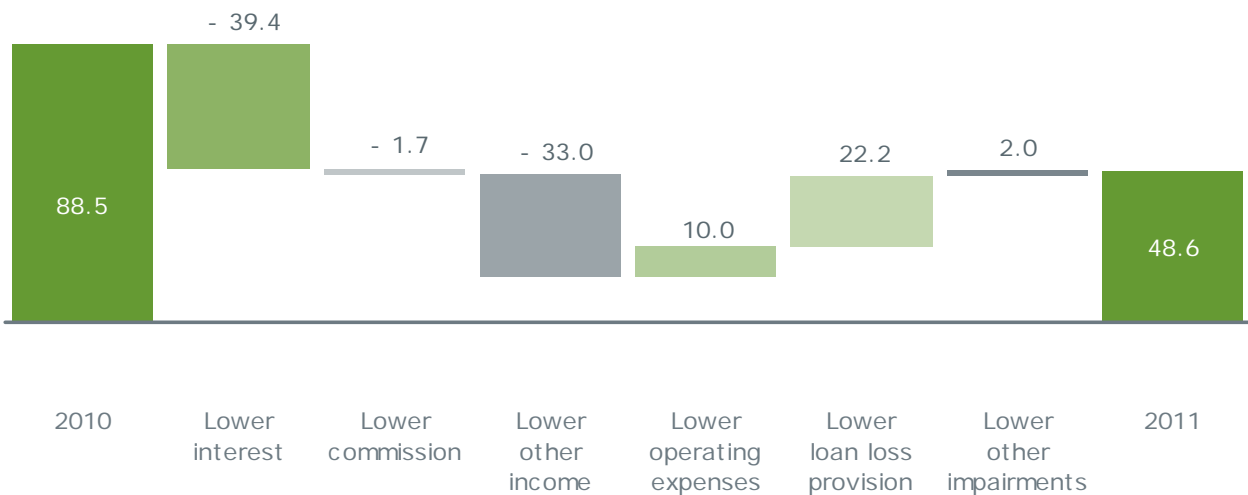
<sup>4</sup> In H2 2011, the definition of assets under management was refined. The comparative figures have been restated accordingly.



## RESULTS

(x € million)	2011	2011 core	2010	%	H2 2011	H1 2011
Interest	295.2	<b>297.5</b>	336.9	-12	147.0	150.5
Income from securities and associates	10.9	<b>11.4</b>	14.0	-19	-2.2	13.6
Commission	230.5	<b>230.5</b>	232.2	-1	107.3	123.2
Profit on financial transactions	-0.2	<b>-0.2</b>	30.2	-	-2.6	2.4
Other income	16.0	-	-	-	-	-
<b>Income from operating activities</b>	<b>552.4</b>	<b>539.2</b>	<b>613.3</b>	<b>-12</b>	<b>249.5</b>	<b>289.7</b>
Staff costs	224.8	<b>216.7</b>	226.4	-4	102.9	113.8
Other administrative expenses	164.7	<b>159.0</b>	159.9	-1	79.5	79.5
Depreciation and amortisation	37.0	<b>36.6</b>	36.0	2	18.3	18.3
<b>Operating expenses</b>	<b>426.5</b>	<b>412.3</b>	<b>422.3</b>	<b>-2</b>	<b>200.7</b>	<b>211.6</b>
<b>GROSS RESULT</b>	<b>125.9</b>	<b>126.9</b>	<b>191.0</b>	<b>-34</b>	<b>48.8</b>	<b>78.1</b>
Addition to loan loss provision	61.1	<b>64.3</b>	86.5	-26	36.9	27.4
Other impairments	18.3	<b>14.0</b>	16.0	-13	11.0	3.0
<b>Operating profit before tax</b>	<b>46.5</b>	<b>48.6</b>	<b>88.5</b>	<b>-45</b>	<b>0.9</b>	<b>47.7</b>
Income tax	6.2	<b>6.7</b>	22.8	-71	-0.2	6.9
Discontinued operations	2.8	-	-	-	-	-
<b>NET PROFIT</b>	<b>43.1</b>	<b>41.9</b>	<b>65.7</b>	<b>-36</b>	<b>1.1</b>	<b>40.8</b>

### Development operating income before taxes (core activities) (€ million)





## INCOME FROM OPERATING ACTIVITIES

(x € million)	2011	2011 core	2010	%	H2 2011	H1 2011
Interest	295.2	<b>297.5</b>	336.9	-12	147.0	150.5
Income from securities and associates	10.9	<b>11.4</b>	14.0	-19	-2.2	13.6
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Profit on financial transactions	-0.2	<b>-0.2</b>	30.2	-	-2.6	2.4
Other income	16.0	-	-	-	-	-
<b>Income from operating activities</b>	<b>552.4</b>	<b>539.2</b>	<b>613.3</b>	<b>-12</b>	<b>249.5</b>	<b>289.7</b>

### Interest

Interest income in 2011 totalled € 297.5 million, a 12% decline on 2010, due to the following factors:

- The portfolio of client loans decreased by another € 1.1 billion in 2011 on account of private clients opting for early repayment of their mortgage debts and a stricter lending policy increasing the focus on the bank's target group clients.
- When considering risks versus returns, the bank consciously opted for solidity, for example by placing the substantial excess liquidity at the ECB, which had an adverse effect on the interest margin.
- Higher funding costs were incurred as a result of raising wholesale funding in 2010 and 2011 with a view to further diversifying the bank's funding mix.

In the year under review, the interest margin declined to 1.57% (2010: 1.68%).

### Income from securities and associates

(x € million)	2011	2011 core	2010	%	H2 2011	H1 2011
Dividend	16.1	<b>16.1</b>	18.0	-11	8.3	7.8
Gains on sales	5.2	<b>5.2</b>	1.4	-	-0.1	5.3
Valuation result	-10.4	<b>-9.9</b>	-5.4	-83	-10.4	0.5
<b>Income from securities and associates</b>	<b>10.9</b>	<b>11.4</b>	<b>14.0</b>	<b>-19</b>	<b>-2.2</b>	<b>13.6</b>

Due to the economic conditions, a negative valuation result of € 9.9 million was posted (2010: € 5.4 million negative). In H2 2011 in particular, the valuation result declined further by € 10.4 million (H1 2011: € 0.5 million negative). The valuation result, which chiefly concerns an interest in Ducatus, is sensitive to financial market fluctuations. Of the valuation result, € 0.2 million negative relates to 49% of the net profit (exclusive of dividend) of Van Lanschot Chabot (2010: € 0.7 million). Gains on sales totalled € 5.2 million in 2011 (2010: € 1.4 million), among other things resulting from the sale of an investment fund from the investment portfolio.

### Commission

(x € million)	2011	2011 core	2010	%	H2 2011	H1 2011
Securities commission	171.9	<b>171.9</b>	173.4	-1	78.0	93.9
- transaction fees	47.1	<b>47.1</b>	61.6	-24	17.2	29.9
- management fee <sup>5</sup>	124.4	<b>124.4</b>	104.4	19	60.8	63.7
- performance fee	0.4	<b>0.4</b>	7.4	-95	0.1	0.3
Other commission	58.6	<b>58.6</b>	58.8	-	29.3	29.3
<b>Commission</b>	<b>230.5</b>	<b>230.5</b>	<b>232.2</b>	<b>-1</b>	<b>107.3</b>	<b>123.2</b>

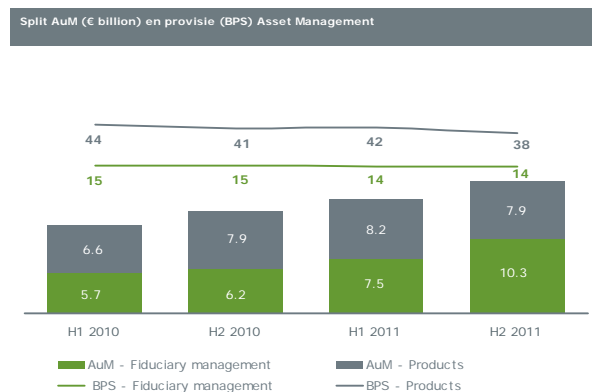
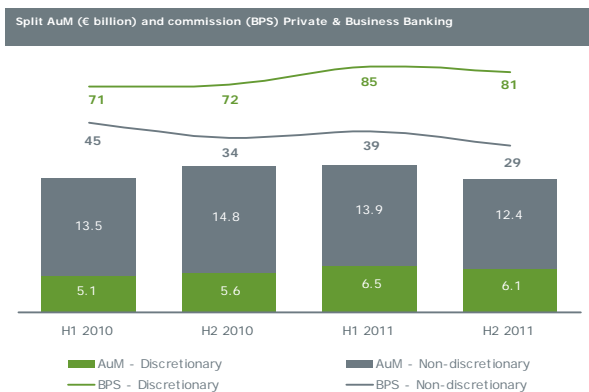
<sup>5</sup> Management fee inclusive of portfolio commission and custody fee



Securities commission declined 1% to € 171.9 million in 2011 (2010: € 173.4 million). Owing to the bearish sentiment on the stock exchange, trading volumes were lower than in 2010, which resulted in lower transaction fees. This decline was offset by an increase in management fees, which was, in turn, the result of an increase in assets under discretionary management. In 2011, the share of management fees compared with total securities commission rose further to 72% (2010: 60%).

The graphs below show the trend in commission income (expressed in basis points) compared with assets under management:

- The shift to assets under discretionary management resulted in an increase in the gross margin
- The margin on non-discretionary assets under management declined due to the strong correlation with the sentiment on the stock exchanges and trading volume
- The margin on fiduciary management was stable despite the inflow in 2011



Other commission amounted to € 58.6 million (2010: € 58.8 million). This included among others corporate finance commission for an amount of € 24.3 million (2010: € 22.0 million).

### Profit on financial transactions

Profit on financial transactions includes realised and unrealised value changes on the trading portfolio, exchange differences, and realised and unrealised gains and losses on derivatives. Interest rate developments, the mood on the stock exchanges and movements in exchange rates have a significant effect on this item. The profit on financial transactions for 2011 was € 0.2 million negative.

(x € million)	2011	2011 core	2010	%	H2 2011	H1 2011
Profit on securities	-5.6	-5.6	10.5	-	-7.7	2.1
Profit on currency trading	13.0	13.0	11.4	14	8.3	4.7
Profit on investment portfolio	14.5	14.5	21.0	-31	13.1	1.4
Profit on interest hedges	-23.1	-23.1	-13.7	-69	-18.5	-4.6
Other income	1.0	1.0	1.0	-	2.2	-1.2
<b>Profit on financial transactions</b>	<b>-0.2</b>	<b>-0.2</b>	<b>30.2</b>	<b>-</b>	<b>-2.6</b>	<b>2.4</b>

The profit on securities concerns the result on the trading portfolio and own positions in several in-house funds of Kempen & Co. Given the negative stock market sentiment, this result was negative in H2 2011.

The profit on the investment portfolio of € 14.5 million (2010: € 21.0 million) was the result of, among other things, the Marked-to-Market (MtM) portfolio. In 2011, this portfolio comprised mainly government bonds and other bonds guaranteed by the Dutch state, covered bonds and securitisations of home mortgage loans. The interest rate risk on this portfolio has been hedged. However, due to widening credit spreads, the result on this investment portfolio was € 5.1 million negative in 2011. Furthermore in 2011, a positive result was recorded on the sale of bonds from the investment portfolio, i.e. € 19.6 million (2010: € 21.0 million).



(x € million)	2011	2011 core	2010	%	H2 2011	H1 2011
Ineffectiveness of current hedges	-4.5	<b>-4.5</b>	6.5	-	-2.8	-1.7
Amortisation of terminated hedges due to extended duration	-16.6	<b>-16.6</b>	-13.9	-19	-8.3	-8.3
Conversion premium on preference shares	-	-	-4.4	-	-	-
Swap on perpetual	1.1	<b>1.1</b>	-4.6	-	-4.4	5.5
Other profit/loss on interest hedges	-3.1	<b>-3.1</b>	2.7	-	-3.0	-0.1
<b>Profit on interest hedges</b>	<b>-23.1</b>	<b>-23.1</b>	<b>-13.7</b>	<b>-69</b>	<b>-18.5</b>	<b>-4.6</b>

Van Lanschot applies hedge accounting to a number of swaps. These swaps serve to cover the interest rate risk of in particular fixed-interest mortgages. Imperfections in these hedges and changing interest rate curves cause ineffectiveness. In 2011, the decline in the long-term interest rate led to ineffectiveness on current hedges and thus to a negative result.

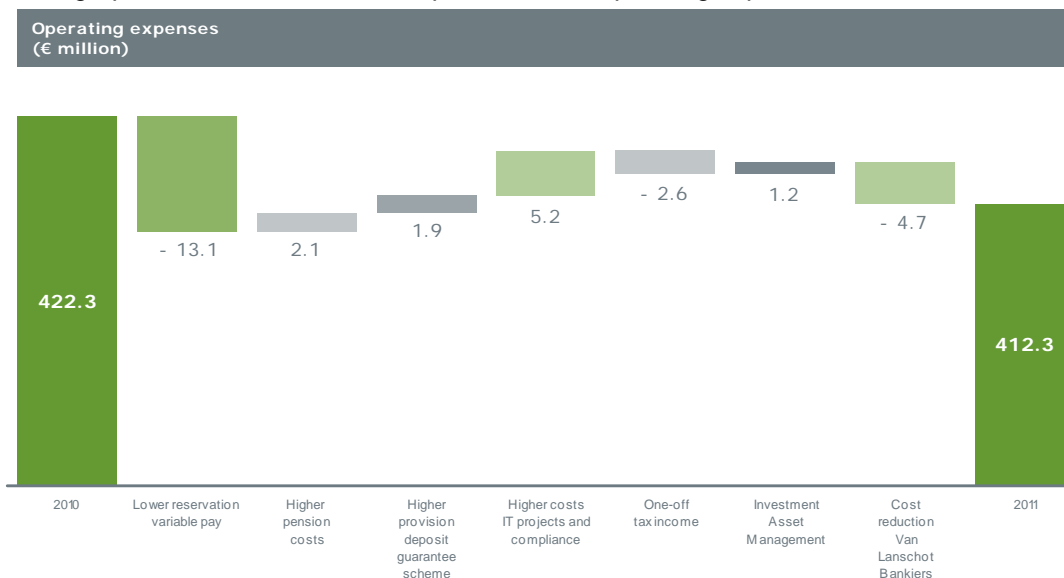
The amortisation of terminated hedges in order to extend the duration will have a negative impact on the net profit up to and including 2018.



**TOTAL EXPENSES**

(x € million)	2011	2011 core	2010	%	H2 2011	H1 2011
Staff costs	224.8	<b>216.7</b>	226.4	-4	102.9	113.8
Other administrative expenses	164.7	<b>159.0</b>	159.9	-1	79.5	79.5
Depreciation and amortisation	37.0	<b>36.6</b>	36.0	2	18.3	18.3
<b>Operating expenses</b>	<b>426.5</b>	<b>412.3</b>	<b>422.3</b>	<b>-2</b>	<b>200.7</b>	<b>211.6</b>

The graph below shows the development in total operating expenses from 2010 to 2011.



**Staff costs**

Staff costs were down 4% on 2010 to €216.7 million (2010: €226.4 million). This decline is mainly attributable to lower variable pay. In addition, the number of FTEs in 2011 decreased by 34.0 to 2,008.8 (2010: 2,042.8); at Asset Management the workforce rose by 17.1 FTEs, while the other segments experienced a 51.1 FTE decline.

Pension costs in 2011 showed a €2.1 million increase, due to the low interest rates and the higher life expectancy. In addition, in the year under review, Van Lanschot's pension scheme was amended and an additional payment was made within the scope of the 2009 recovery plan.

The amended pension scheme, which is administered by Stichting Pensioenfonds F. van Lanschot, became effective on 1 January 2012. The new scheme is based on average earnings up to a certain threshold. Above this threshold, pension is accrued based on a defined contribution scheme. Prior to this amendment, the scheme was a (partial) final pay scheme.

The 2009 recovery plan resulted from the deficient coverage ratio according to the requirements defined in the Financial Assessment Framework of the Dutch Central Bank. In 2011, an extension of the 2009 recovery plan was agreed. The extended recovery plan led to an additional payment of €41.4 million in 2011 and two conditional recovery payments of €8.9 million each at year-end 2012 and 2013. These payments depend on the actual coverage ratios at year-end 2012 and 2013.

On balance, the amended pension scheme and the additional payment within the scope of the 2009 recovery plan had a marginal effect on the net profit for 2011.





### **Other administrative expenses**

The other administrative expenses totalled € 159.0 million, more or less in line with 2010. In 2011, € 1.4 million of additional expenses were incurred for compliance and supervision and IT project costs rose by € 3.8 million. In addition, the expenses on account of the deposit guarantee scheme were higher in 2011 than in 2010. While 2010 saw a release of € 1.1 million (DSB), 2011 saw an additional accrual of € 0.8 million. This addition comprised an expense of € 1.6 million for DSB and income of € 0.8 million representing the liquidation distribution for Icesave. A further reduction in costs was achieved at Van Lanschot Bankiers in 2011 (€ 4.7 million), thanks in part to savings on accommodation and marketing expenses.

### **Depreciation and amortisation**

Depreciation and amortisation totalled € 36.6 million which is in line with 2010. Of this amount, € 12.7 million concerned the amortisation of intangible assets as a result of the acquisition of Kempen & Co and CenE Bankiers.

### **Efficiency ratio**

The efficiency ratio, i.e. the ratio of operating expenses to income from operating activities, showed a negative trend at 76.5% due to lower income from operating activities (2010: 68.9%).

**IMPAIRMENTS**

(x € million)	2011	2011 core	2010	%	H2 2011	H1 2011
<b>Addition to loan loss provision</b>	<b>61.1</b>	<b>64.3</b>	<b>86.5</b>	<b>-26</b>	<b>36.9</b>	<b>27.4</b>
Impairment of investments and shareholdings	11.3	<b>10.8</b>	15.7	-31	7.8	3.0
Capital loss on buildings	3.2	<b>3.2</b>	0.3	-	3.2	-
Other	3.8	-	-	-	-	-
<b>Other impairments</b>	<b>18.3</b>	<b>14.0</b>	<b>16.0</b>	<b>-13</b>	<b>11.0</b>	<b>3.0</b>
<b>IMPAIRMENTS</b>	<b>79.4</b>	<b>78.3</b>	<b>102.5</b>	<b>-24</b>	<b>47.9</b>	<b>30.4</b>

**Addition to loan loss provision**

The addition to the loan loss provision declined by 26% to € 64.3 million in 2011 (2010: € 86.5 million). For more information, reference is made to the section on the balance sheet.

**Other impairments**

In 2011, several shareholdings from the participations portfolio were written down by a total amount of € 9.6 million. On balance, the market value of the participations portfolio was up. In addition, an investment fund was written down (€ 1.2 million). In line with the prescribed accounting method for available-for-sale investments and the participations portfolio, an unrealised negative value change is directly taken to profit or loss, whereas an unrealised positive value change is only taken to profit or loss when realised.

In 2011, a capital loss on buildings was recognised of € 3.2 million. Of this amount, € 2.8 million relates to own office buildings for sale, whose expected sales proceeds will be lower than their carrying value.

**INCOME TAX**

Income tax for 2011 amounted to € 6.7 million (2010: € 22.8 million), representing a tax burden of 13.8% (2010: 25.8%). The low tax burden for 2011 is caused by the fact that the equity holding exemption applies to part of the revenue. The high tax burden in 2010 was caused by non-deductible expenses such as impairments on shareholdings to which the equity holding exemption applies and the conversion premium of the preference shares.



**PROFIT APPROPRIATION**

The consolidated profit (including non-strategic investments) for 2011 is appropriated as follows:

<i>(x € million)</i>	2011	2010
<b>Net profit</b>	<b>43.1</b>	<b>66.7</b>
Of which attributable to:		
- shareholders of Van Lanschot NV	34.5	56.5
- holders of perpetual loans	7.6	9.7
- other minority interests	1.0	0.5

The profit attributable to other minority interests mainly concerns the Management Investment Plan for key staff of Kempen & Co, as introduced in 2010.

**EARNINGS PER ORDINARY SHARE**

Earnings per ordinary share for the year 2011 were €0.84 (2010: €1.47). Adjusted for non-strategic investments, earnings per ordinary share were €0.81 (2010: €1.45).

<i>(x € million)</i>	2011	2011 core	2010 core
Net profit	43.1	41.9	65.7
Net interest on perpetual loan	-7.6	-7.6	-9.7
Share of other minority interests	-1.0	-1.0	-0.5
<b>Net profit for calculation of earnings per ordinary share</b>	<b>34.5</b>	<b>33.3</b>	<b>55.6</b>
<b>Earnings per ordinary share (€)</b>	<b>0.84</b>	<b>0.81</b>	<b>1.45</b>
Weighted average number of ordinary shares outstanding (x 1,000)	40,870	40,870	38,367

Of the profit attributable to the shareholders of Van Lanschot NV, €18.2 million will be reserved and it will be proposed that €16.3 million be distributed in the form of dividend. A dividend for 2011 of €0.40 per share will be proposed to the shareholders of Van Lanschot NV, representing a 47% pay-out ratio. The dividend will be made payable in cash.



## BALANCE SHEET

### BALANCE SHEET AND CAPITAL MANAGEMENT

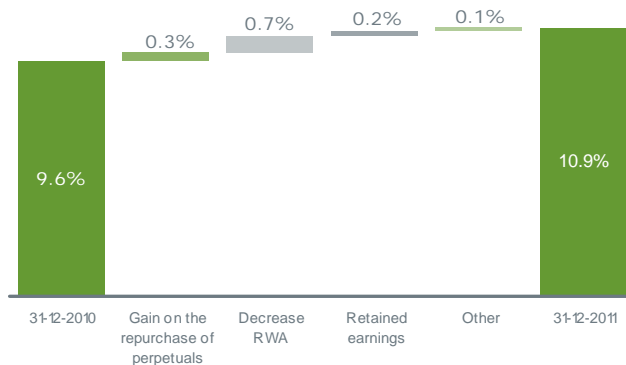
(x € million)	31-12-2011	31-12-2011 core	31-12-2010	%	30-6-2011
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Equity attributable to minority interests	59	<b>59</b>	323	-82	320
Public and private sector liabilities	13,100	<b>13,100</b>	13,546	-3	13,225
Loans and advances to the public and private sectors	14,270	<b>14,278</b>	15,710	-9	15,059
Total assets	18,454	<b>18,430</b>	19,590	-6	19,272
Risk-weighted assets	11,000	<b>10,996</b>	11,695	-6	11,467
BIS total capital ratio (%)	11.9	<b>11.9</b>	14.2	-	14.0
Tier I ratio (%)	10.9	<b>10.9</b>	12.1	-	12.7
Core Tier I ratio (%)	10.9	<b>10.9</b>	9.6	-	10.2
Leverage (current definition)	12.2	<b>12.2</b>	13.4	-	13.1

Total assets at 31 December 2011 were 6% below the level of 31 December 2010 and came to €18.4 billion. This decline was mainly caused by the €1.1 billion decrease in the portfolio of client loans. Risk-weighted assets were down to €11.0 billion at the end of 2011 (year-end 2010: €11.7 billion). This is the result, on the one hand, of the strict focus on the target group clients of the private bank, and, on the other hand, of the trend among private clients to repay their mortgage debts.

Equity totalled €1,565 million at the end of 2011 (year-end 2010: €1,785 million). Equity attributable to minority interests declined from €323 million to €59 million. This decline was caused by the conversion or repurchase of the perpetual loans in October 2011. Of the €315 million in perpetual loans, €89.4 million was converted into new senior bonds and €170.8 million was repurchased for cash. These transactions were carried out by Van Lanschot with a view to the new Basel III rules.

The Core Tier I ratio was 10.9% at the end of 2011, compared with 9.6% at year-end 2010. This increase was the result of the decline in risk-weighted assets, the gain (through equity) recorded on the repurchase of perpetual loans and the retained earnings. The Tier I ratio was down to 10.9% at year-end 2011 (year-end 2010: 12.1%) and the BIS total capital ratio decreased to 11.9% at year-end 2011 (year-end 2010: 14.2%). This decrease was caused by the repurchase and conversion of perpetual loans (€260 million) in October 2011 and the repayment of a subordinated loan (€100 million) in February 2011.

Core Tier I ratio 2011



\* The 2004 bonds are redeemed for a cash payment of 75% of the nominal amount. The 2005 bonds are redeemed for a cash payment of 82.5% of the nominal amount.

The return on the average Core Tier I capital was 2.9% for 2011 (2010: 5.5%).



## LIQUIDITY AND FUNDING

Van Lanschot aims for a diversified funding profile. As a private bank, the balance sheet is primarily for the benefit of clients, which resulted in a high funding ratio of 91.8% at the end of 2011 (year-end 2010: 86.2%). This means that the bank's loans and advances are mostly financed by customer savings and deposits.

In 2011, Van Lanschot was active on the wholesale market. The following funding was raised:

- On 9 February 2011, Van Lanschot finalised a Residential Mortgage Backed Securities (RMBS) transaction under the name Citadel 2011-I. This transaction involved the sale of mortgages for a total amount of € 1.5 billion to a newly founded entity. Van Lanschot purchased all debt securities issued by Citadel 2011-I. These debt securities are eligible assets for lending from the ECB, creating more flexibility in the liquidity position.
- In April 2011, Van Lanschot issued € 500 million of unsecured notes with a three-year term.
- In April 2011, Van Lanschot issued a Trigger Note of approx. € 65 million with a three-year term.
- In May 2011, a Floored Floater of approx. € 90 million with a ten-year term was issued.
- In October 2011, Van Lanschot made an exchange and tender offer to the holders of perpetual loans issued in 2004 and 2005. In this offer, € 170.8 million in bonds was repurchased for a cash payment and € 89.4 million was converted into senior bonds.

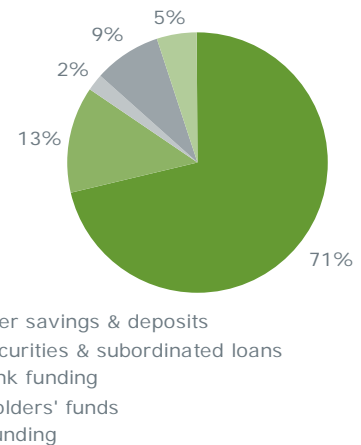
Thanks to the bank's healthy funding and liquidity position and good capital position, rating agency Fitch Ratings (November 2011) reconfirmed the stable outlook Single A minus credit rating of Van Lanschot after their annual review. Rating agency Standard & Poor's again reconfirmed the Single A minus (stable outlook) credit rating in July and December 2011. This latter reconfirmation resulted from the application of new rating criteria of this agency.

## Introduction of F-IRB and Basel III

In the past few years, Van Lanschot put much effort into the professionalisation of credit risk management. For this purpose, Internal Ratings Based (IRB) models were developed for the calculation of the minimum capital required to be held for credit risk. Van Lanschot's loan portfolio can roughly be split up into two portfolios, i.e. a retail portfolio comprising mainly mortgages and a non-retail portfolio with customised financing. Since 1 July 2010, the minimum capital requirement of the retail portfolio has been calculated according to the IRB approach. In 2011, the Dutch Central Bank (DNB) additionally granted its approval for application of the IRB approach for two non-retail models. The most important approval concerns the model for commercial property clients. At the end of 2011, approx. 73% of the loan portfolio was calculated according to the IRB approach. The models approved by the Dutch Central Bank (DNB) were used to determine the capital ratios for 2011.

Van Lanschot expects to finalise the implementation of F-IRB (application of internal rating models to determine the capital for credit risk) in the course of 2012. At the same time, the phased implementation of Basel III will commence as from 1 January 2013. Van Lanschot estimates that the combined initial impact of both developments will on balance lead to a decline in the Core Tier I ratio of approximately 80 to 100 basis points. This means that the bank's capital remains well above the minimum requirement of Basel III of 7.0% and the EBA standard of 9.0%.

Funding mix at 31 December 2011





Two new liquidity ratios will be introduced, which both have a minimum requirement of 100%, i.e. the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR indicates the extent to which a bank maintains liquidity buffers sufficient to cover its short-term obligations during a 30-day period under a severe stress scenario. The NSFR indicates the extent to which the available stable funding sources cover the required amount of stable funding. The table below shows that Van Lanschot has excellent liquidity position and leverage under the new Basel III rules.

	31-12-2011 pro forma	Standard
Liquidity Coverage Ratio (%)	192.4	> 100%
Net Stable Funding Ratio (%)	104.4	> 100%
Leverage	19.4	< 33



**LOAN PORTFOLIO**

(x € million)	31-12-2011	31-12-2010	%	30-6-2011
Mortgage loans to private individuals	7,350	7,650	-4	7,532
Other private loans	2,063	2,124	-3	2,170
Corporate loans	5,083	6,191	-18	5,572
Impairments	-218	-255	15	-215
<b>Total</b>	<b>14,278</b>	<b>15,710</b>	<b>-9</b>	<b>15,059</b>

Van Lanschot aims to be the best private bank of the Netherlands and Belgium. Lending should further this objective, but is not a goal in itself. New loans are assessed critically to determine whether they are in line with the strategy of Van Lanschot. This resulted in a 9% decline in the size of the loan portfolio in 2011.

**Loan portfolio by sector**

The graph alongside presents a breakdown of the total loan portfolio. More than half of the portfolio concerns residential mortgages. Despite the stagnating residential property market, the mortgage portfolio did not deteriorate in terms of creditworthiness. Losses on the mortgage portfolio are very limited. The addition to the loan loss provision was 6 basis points (2010: 4 basis points).

The size of the property portfolio was down by nearly 3% (€75.0 million). The decline in commercial property was less than the decline in the entire loan portfolio, resulting in a slight increase in the relative concentration in this sector.

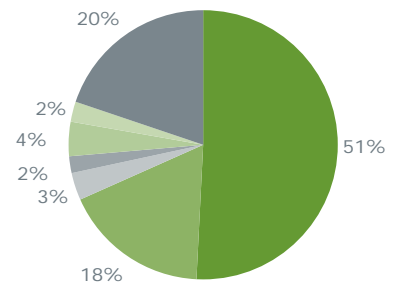
The property portfolio consists for a substantial part of loans with a low loan-to-value (on average 70%). This almost entirely concerns commercial property in the Netherlands. Less than a quarter of this portfolio concerns the financing of office buildings. Over 86% of the clients have a Debt Service Coverage Ratio (DSCR) > 1, i.e. the costs of the loan can fully be paid from the rental proceeds. The other 14% in general has another source of income to finance the property or holds the property as available-for-sale.

**Loan portfolio by country**

Van Lanschot is only exposed to a very limited country risk. The graph shows the exposure of the loan portfolio of Van Lanschot, broken down by country.

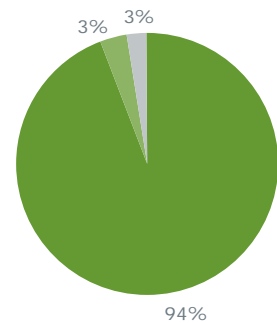
Sovereign risk hardly plays a role at Van Lanschot; the core activities of Van Lanschot take place in its home markets in the Netherlands and Belgium.

Loans and advances by sector at 31 December 2011



- Residential Mortgages
- Commercial Property
- Financial Holdings
- Healthcare
- Services
- Retail
- Other

Loans and advances by country at 31 December 2011



- The Netherlands
- Belgium
- Other



**PROVISIONS**

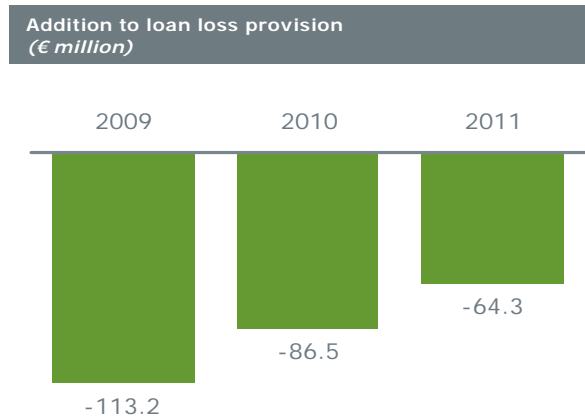
The bank formed provisions for impaired loans in its loan portfolio. Impaired loans totalled € 438.9 million at year-end 2011, of which € 204.9 million has been provided for, i.e. 46.7% (2010: 38.2%). The higher coverage ratio was partly the result of the increase in provisions on existing clients of the Recovery department.

Total loans and advances to the public and private sectors and the provisions formed at year-end can be broken down as follows:

(x € million)	Loan portfolio	Impaired loans	Provision on impaired loans
Mortgage loans to private individuals	7,350	78.1	33.5
Other private loans	2,063	110.5	49.5
Corporate loans	5,083	250.3	121.9
Impairments	-218	-204.9	-
<b>Total</b>	<b>14,278</b>	<b>234.0</b>	<b>204.9</b>

In 2011, the addition to the loan loss provision was € 64.3 million (2010: € 86.5 million), i.e. 56 basis points on an annual basis of the average risk-weighted assets (2010: 66 basis points on an annual basis). After the peak in 2009, the addition to the loan loss provision showed a downward trend. The number of loans transferred to the Recovery department declined further in 2011. The addition to the loan loss provision in 2011 concerned mainly increases to loans already at the Recovery department. These increases on loans already transferred were necessary due to the deteriorating economic conditions in H2 2011.

In 2011, an amount of € 97.4 million was written off.







### INVESTMENT AND TRADING PORTFOLIO OF VAN LANSCHOT

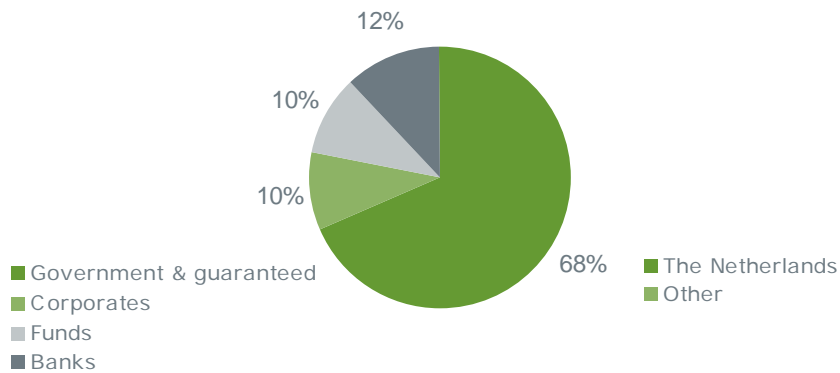
The total investment and trading portfolio<sup>6</sup> of Van Lanschot amounted to € 1,440 million at year-end 2011, compared with € 1,424 million at 31 December 2010. The most important changes in 2011 concerned:

- purchase of Dutch government bonds and securitisations, French government and bank bonds and Belgian government bonds;
- sale of Dutch and German government bonds.

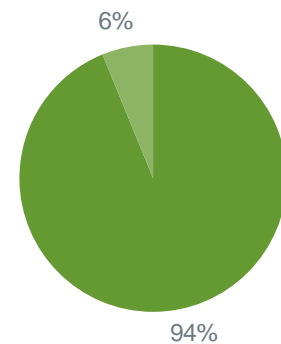
At the end of December 2011, 70% of Van Lanschot's available-for-sale investments comprised funds with a triple-A rating and 18% funds with a double-A rating. Of the portfolio included in financial assets designated at fair value through profit or loss 91% comprised funds with a triple-A rating at the end of 2011.

Van Lanschot does not have any exposure to Greece, Spain, Portugal, Italy and Ireland. The portfolio at 31 December 2011 can be broken down by counterparty and by country as follows:

Investment and trading portfolio by counterparty at 31 December 2011



Investment and trading portfolio by country at 31 December 2011



<sup>6</sup> The investment and trading portfolio comprises the balance of available-for-sale investments, financial receivables from trading activities and financial assets at fair value through profit or loss.

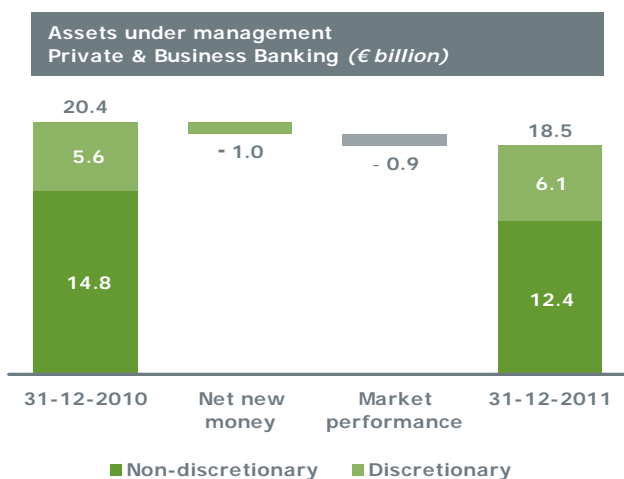


## ASSETS UNDER MANAGEMENT<sup>7</sup>

	31-12-2011	31-12-2010	%	30-6-2011
<i>(x € billion)</i>				
<b>Assets under management</b>	<b>36.7</b>	<b>34.5</b>	<b>6</b>	<b>36.1</b>
Assets under discretionary management	24.3	19.7	23	22.2
- of which double-counted	1.1	0.7	57	0.7
Assets under non-discretionary management	12.4	14.8	-16	13.9
<b>Assets under management</b>	<b>36.7</b>	<b>34.5</b>	<b>6</b>	<b>36.1</b>
Private & Business Banking	18.5	20.4	-9	20.4
Asset Management	18.2	14.1	29	15.7

Total assets under management were up 6% from €34.5 billion at year-end 2010 to €36.7 billion at year-end 2011. Of this €2.2 billion increase, €3.4 billion (10%) resulted from the net inflow of new assets and €1.2 billion from negative market performance.

### PRIVATE & BUSINESS BANKING

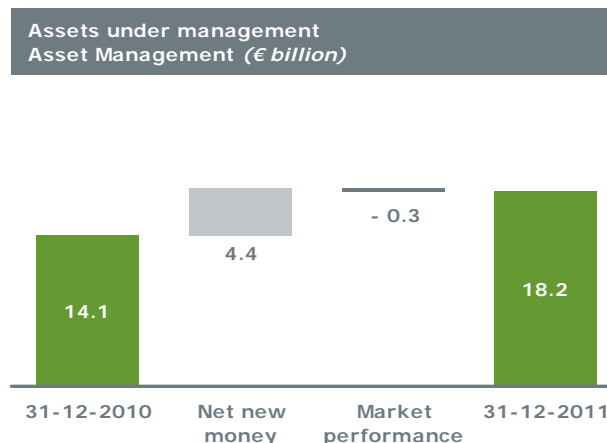


Assets under management of Private & Business Banking decreased in 2011 by €1.9 billion to €18.5 billion. This decrease can be attributed to a €1.0 billion outflow of assets and €0.9 billion of negative market performance. Of the outflow, €0.6 billion concerned two large custody clients.

In 2011, the trend to opt for the benefits of a discretionary mandate continued; the share of discretionary assets was up from 27% to 33%.

### ASSET MANAGEMENT

Assets under management at the segment Asset Management were up 29% from €14.1 billion to €18.2 billion. This increase can nearly entirely be attributed to the inflow of new assets (€4.4 billion). Kempen Capital Management won a number of new institutional mandates, including Stichting Bedrijfstakpensioenfondsen voor het Levensmiddelenbedrijf (€2.0 billion), Yarden (€0.7 billion) and a major private client (€0.5 billion), the latter through Private & Business Banking.



<sup>7</sup> In H2 2011, the definition of assets under management was refined. The comparative figures have been restated accordingly. Consequently, the share of discretionary assets in the total assets under management for Private & Business Banking has also been restated.



## DEVELOPMENTS BY SEGMENT

With effect from 2011, income and expenses from the segment Other Activities were re-allocated to the segments Private & Business Banking, Asset Management and Corporate Finance & Securities. This mainly concerns the allocated costs of corporate departments and intangible asset amortisation. After re-allocation, the segment Other Activities mainly comprises income and expenses resulting from treasury activities and the results of the venture capital unit. In addition, the segment Other Activities comprises the income from the trading and investment portfolio and the valuation results and dividends from minority interests. The comparative figures for 2010 have been restated accordingly. In the consolidated figures, the results of the non-strategic investments are included under Other Activities.

### PRIVATE & BUSINESS BANKING

The operating profit before tax of the Private & Business Banking segment rose by 4% to € 120.8 million (2010: € 116.3 million). Net interest income declined to € 369.1 million (2010: € 390.8 million), in particular due to a decrease in lending, which was partially offset by higher rates and higher savings accounts and deposits. Commission income was up 2% to € 133.6 million (2010: € 131.5 million). This increase can mainly be attributed to higher recurring management fees as a result of the growth in discretionary assets under management. Lower trading volumes led to lower transaction fees.

Operating expenses were down 1% to € 325.9 million in the year under review (2010: € 329.7 million). Staff costs decreased by 5% to € 161.2 million (2010: € 168.8 million). In addition to a 58.8 decrease in the number of FTEs in this segment to 1,547.4 FTEs<sup>8</sup>, a lower accrual was made for variable pay. Pension costs rose due to the low interest rates and the higher life expectancy. The addition to the loan loss provision declined by 24% to € 64.3 million in 2011 (2010: € 85.0 million). Other impairments concern the downward valuation of own office buildings available for sale, since the expected realisable value is lower than the book value.

### Belgium

This year, clients in Belgium had a preference for cash investments as a result of the uncertain financial markets. Deposits and securities accounts thus posted the highest growth rates. Assets under management saw a further increase in assets under discretionary management. Operating profit increased again thanks to a slight rise in interest and commission income, a lower addition to the loan loss provision and stable costs.

### ASSET MANAGEMENT

The Asset Management segment posted a 4% decline in operating profit before tax to € 10.0 million (2010: € 10.4 million). Commission income totalled € 49.7 million, which was in line with 2010 (€ 49.8 million). Securities commission exclusive of performance fees rose by 18% thanks to an increase in assets under management. The performance fees declined to € 0.4 million in 2011 (2010: € 7.4 million) as a result of the volatile financial markets. Staff costs totalled € 25.5 million and were in line with 2010 (€ 25.4 million). The increase in the number of FTEs by 17.1 to 198.0 FTEs<sup>8</sup> was offset by lower accruals for variable pay.

### CORPORATE FINANCE & SECURITIES

Corporate Finance & Securities achieved an operating profit before tax of € 3.4 million (2010: € 10.4 million). Commission income was € 2.4 million lower at € 47.3 million (2010: € 49.7 million). The higher commission relating to capital market transactions was offset by lower securities commission. Profit on financial transactions dropped € 10.9 million to € 3.5 million negative, mainly due to disappointing results on the trading portfolio. Staff costs decreased by € 3.4 million, primarily as a result of lower accruals for variable pay. The number of FTEs in this segment was 2.1 higher, reaching 191.1 FTEs<sup>8</sup>.

### OTHER ACTIVITIES

The operating profit before tax of the segment Other Activities was € 85.6 million negative in 2011 (2010: € 48.6 million negative). The conscious choice to lengthen and diversify the funding profile put pressure on net interest income. In addition, the item 'profit on financial transactions' was negative due to the volatile financial markets and the widening credit spreads. The impairments concerned write-downs of shareholdings in the participations portfolio.

<sup>8</sup> The number of FTEs includes allocated FTEs from overhead.



## **NON-STRATEGIC INVESTMENTS**

### **Robein**

In July 2011, Van Lanschot finalised the sale of Robein Leven to investment institution Ophen. The actual transfer of the shares followed from the sales agreement signed in December 2010. The movements in the fair value of Robein Leven (€2.8 million) have been included under 'discontinued operations' in the 2011 income statement.

### **Other non-strategic investments**

The annual figures for 2011 reflect the impact of a number of non-strategic investments. The results of these investments are fully consolidated. Van Lanschot has stated that it wishes to sell these investments in due course as their activities are not in line with the bank's private banking strategy.



**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2011**

(x € thousand)

	31-12-2011	31-12-2010
<b>ASSETS</b>		
Cash and cash equivalents and balances withdrawable with central banks	1,154,324	414,251
Financial assets held for trading	80,044	104,748
Due from banks	544,947	1,040,073
Financial assets designated at fair value through profit or loss	515,331	52,267
Available-for-sale investments	844,977	1,267,134
Loans and advances to the public and private sectors	14,270,431	15,710,224
Derivatives (receivables)	252,648	204,251
Investments in associates using the equity method	43,986	42,044
Property, plant and equipment	158,240	161,122
Goodwill and other intangible assets	318,672	341,499
Current tax assets	4,319	2,604
Deferred tax assets	39,209	46,456
Assets of operations held for sale	-	747,582
Other assets	226,394	190,862
<b>TOTAL ASSETS</b>	<b>18,453,522</b>	<b>20,325,117</b>
<b>EQUITY AND LIABILITIES</b>		
Financial liabilities held for trading	29,614	70,135
Due to banks	398,052	945,511
Public and private sectors liabilities	13,100,131	13,545,650
Financial liabilities designated at fair value through profit or loss	20,165	19,157
Derivatives (liabilities)	379,541	294,001
Issued debt securities	2,321,837	1,945,982
Provisions	15,884	16,795
Current tax liabilities	9,271	11,009
Deferred tax liabilities	41,532	36,489
Liabilities of operations held for sale	-	756,634
Other liabilities	418,863	477,050
Subordinated loans	152,764	421,809
<b>Total Liabilities</b>	<b>16,887,654</b>	<b>18,540,222</b>
Issued share capital	41,017	41,017
Treasury shares	-5,837	-11,018
Share premium	479,914	479,914
Other reserves	957,652	895,225
Undistributed profit attributable to shareholders of Van Lanschot NV	34,499	56,538
<b>Equity attributable to shareholders of Van Lanschot NV</b>	<b>1,507,245</b>	<b>1,461,676</b>
Minority interests (perpetual loans)	36,063	300,514
Undistributed profit attributable to minority interests (holders of perpetual loans)	7,587	9,719
Other minority interests	13,932	12,533
Undistributed profit attributable to other minority interests	1,041	453
<b>Equity attributable to minority interests</b>	<b>58,623</b>	<b>323,219</b>
<b>Equity</b>	<b>1,565,868</b>	<b>1,784,895</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>18,453,522</b>	<b>20,325,117</b>

**CONSOLIDATED INCOME STATEMENT FOR 2011**

(x € thousand)

	2011	2010
<b>INCOME FROM OPERATING ACTIVITIES</b>		
Interest income	1,099,360	912,509
Interest expense	804,204	576,588
<b>Net interest income</b>	<b>295,156</b>	<b>335,921</b>
Income from associates using the equity method	3,605	6,397
Other income from securities and associates	7,339	6,619
<b>Income from securities and associates</b>	<b>10,944</b>	<b>13,016</b>
Commission income	236,968	238,162
Commission expense	6,484	5,973
<b>Net commission income</b>	<b>230,484</b>	<b>232,189</b>
<b>Profit on financial transactions</b>	<b>-239</b>	<b>30,164</b>
<b>Other income</b>	<b>16,041</b>	<b>19,597</b>
<b>TOTAL INCOME FROM OPERATING ACTIVITIES</b>	<b>552,386</b>	<b>630,887</b>
<b>EXPENSES</b>		
Staff costs	224,753	236,093
Other administrative expenses	164,697	167,147
<b>Staff costs and other administrative expenses</b>	<b>389,450</b>	<b>403,240</b>
<b>Depreciation and amortisation</b>	<b>37,006</b>	<b>36,653</b>
<b>Operating expenses</b>	<b>426,456</b>	<b>439,893</b>
Addition to loan loss provision	61,090	86,508
Other impairments	18,304	15,950
<b>Impairments</b>	<b>79,394</b>	<b>102,458</b>
<b>TOTAL EXPENSES</b>	<b>505,850</b>	<b>542,351</b>
<b>OPERATING PROFIT BEFORE TAX</b>	<b>46,536</b>	<b>88,536</b>
<b>Income tax</b>	<b>6,211</b>	<b>22,943</b>
<b>NET PROFIT from continuing operations</b>	<b>40,325</b>	<b>65,593</b>
<b>Discontinued operations</b>	<b>2,802</b>	<b>1,117</b>
<b>NET PROFIT</b>	<b>43,127</b>	<b>66,710</b>



**SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2011**

(x € thousand)

	2011	2010
<b>OPENING BALANCE</b>	<b>1,784,895</b>	<b>1,551,324</b>
Profit for the year	43,127	66,710
Revaluation of shares, investments and derivatives (other comprehensive income)	-1,756	-152
Share issue	-	170,331
Dividends	-38,392	-10,376
Movements by virtue of share option plan	1,735	919
Perpetual loans	-264,451	-247
Acquisition of/change in minority interests	946	10,764
Others	39,764	-4,378
<b>CLOSING BALANCE</b>	<b>1,565,868</b>	<b>1,784,895</b>

**SUMMARISED CONSOLIDATED CASH FLOW STATEMENT FOR 2011**

(x € thousand)

	2011	2010
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>388,997</b>	<b>476,054</b>
Net cash flow from operating activities	588,552	-343,075
Net cash flow from discontinued operations	-6,250	18,460
Net cash flow from investing activities	394,747	-305,561
Net cash flow from financing activities	-155,344	543,119
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>1,210,702</b>	<b>388,997</b>



## OPERATING SEGMENTS

### Operating segments 2011

(x € million)

	Private & Business Banking	Asset Management	Corporate Finance & Securities	Other activities	Total
<b>Income statement</b>					
Interest income	979.8	-	3.3	116.3	1,099.4
Interest expense	610.7	-	-	193.5	804.2
<b>Net interest income</b>	<b>369.1</b>	<b>-</b>	<b>3.3</b>	<b>-77.2</b>	<b>295.2</b>
Income from securities and associates	1.2	-	-0.6	10.3	10.9
Commission income	138.7	49.3	48.9	0.1	237.0
Commission expense	5.1	-0.4	1.6	0.2	6.5
<b>Net commission income</b>	<b>133.6</b>	<b>49.7</b>	<b>47.3</b>	<b>-0.1</b>	<b>230.5</b>
Profit on financial transactions	10.4	-0.1	-3.5	-7.0	-0.2
Other income	-	-	-	16.0	16.0
<b>TOTAL INCOME FROM OPERATING ACTIVITIES</b>	<b>514.3</b>	<b>49.6</b>	<b>46.5</b>	<b>-58.0</b>	<b>552.4</b>
Of which in come from other segments	18.3	-11.5	5.8	-12.6	-
Staff costs	161.2	25.5	26.0	12.1	224.8
Other administrative expenses	138.9	9.5	10.0	6.3	164.7
Depreciation and amortisation	25.8	4.6	5.9	0.7	37.0
Impairments	67.6	-	1.2	10.6	79.4
<b>TOTAL EXPENSES</b>	<b>393.5</b>	<b>39.6</b>	<b>43.1</b>	<b>29.7</b>	<b>505.9</b>
<b>OPERATING PROFIT BEFORE TAX</b>	<b>120.8</b>	<b>10.0</b>	<b>3.4</b>	<b>-87.7</b>	<b>46.5</b>
<b>Income tax</b>	<b>27.8</b>	<b>3.4</b>	<b>0.9</b>	<b>-25.9</b>	<b>6.2</b>
<b>NET PROFIT FROM CONTINUING OPERATIONS</b>	<b>93.0</b>	<b>6.6</b>	<b>2.5</b>	<b>-61.8</b>	<b>40.3</b>
Discontinued operations	-	-	-	2.8	2.8
<b>NET PROFIT</b>	<b>93.0</b>	<b>6.6</b>	<b>2.5</b>	<b>-59.0</b>	<b>43.1</b>
<b>Balance sheet</b>					
<b>TOTAL ASSETS</b>	<b>14,763.9</b>	<b>90.3</b>	<b>410.8</b>	<b>3,188.5</b>	<b>18,453.5</b>
Of which investments using the equity method	-	-	-	44.0	44.0
<b>TOTAL LIABILITIES</b>	<b>14,151.7</b>	<b>117.5</b>	<b>125.6</b>	<b>2,492.9</b>	<b>16,887.7</b>
Investments	12.2	0.1	0.5	9.2	22.0

### Operating segments 2010

(x € million)

	Private & Business Banking	Asset Management	Corporate Finance & Securities	Other activities*	Total
<b>Income statement</b>					
Interest income	843.1	0.3	2.9	66.2	912.5
Interest expense	452.4	-	-	124.2	576.6
<b>Net interest income</b>	<b>390.7</b>	<b>0.3</b>	<b>2.9</b>	<b>-58.0</b>	<b>335.9</b>
Income from securities and associates	-0.8	-0.3	-0.3	14.4	13.0
Commission income	135.7	49.9	51.3	1.3	238.2
Commission expense	4.2	0.1	1.6	0.1	6.0
<b>Net commission income</b>	<b>131.5</b>	<b>49.8</b>	<b>49.7</b>	<b>1.2</b>	<b>232.2</b>
Profit on financial transactions	9.9	0.2	7.4	12.7	30.2
Other income	-	-	-	19.6	19.6
<b>TOTAL INCOME FROM OPERATING ACTIVITIES</b>	<b>531.3</b>	<b>50.0</b>	<b>59.7</b>	<b>-10.1</b>	<b>630.9</b>
Of which in come from other segments	-2.9	-3.6	8.4	-1.9	-
Staff costs	168.8	25.4	29.4	12.5	236.1
Other administrative expenses	135.2	9.8	12.2	9.9	167.1
Depreciation and amortisation	25.6	4.4	5.8	0.9	36.7
Impairments	85.4	-	1.9	15.2	102.5
<b>TOTAL EXPENSES</b>	<b>415.0</b>	<b>39.6</b>	<b>49.3</b>	<b>38.5</b>	<b>542.4</b>
<b>OPERATING PROFIT BEFORE TAX</b>	<b>116.3</b>	<b>10.4</b>	<b>10.4</b>	<b>-48.6</b>	<b>88.5</b>
<b>Income tax</b>	<b>29.5</b>	<b>3.4</b>	<b>0.6</b>	<b>-10.6</b>	<b>22.9</b>
<b>NET PROFIT FROM CONTINUING OPERATIONS</b>	<b>86.8</b>	<b>7.0</b>	<b>9.8</b>	<b>-38.0</b>	<b>65.6</b>
Discontinued operations	-	-	-	1.1	1.1
<b>NET PROFIT</b>	<b>86.8</b>	<b>7.0</b>	<b>9.8</b>	<b>-36.9</b>	<b>66.7</b>
<b>Balance sheet</b>					
<b>TOTAL ASSETS</b>	<b>17,338.0</b>	<b>84.6</b>	<b>369.3</b>	<b>2,533.2</b>	<b>20,325.1</b>
Of which investments using the equity method	-	-	-	42.0	42.0
<b>TOTAL LIABILITIES</b>	<b>14,643.1</b>	<b>279.8</b>	<b>142.9</b>	<b>3,474.4</b>	<b>18,540.2</b>
Investments	16.2	-0.1	-0.1	22.4	38.4

\* With effect from 2011 income and expenses from the segment Other Activities have been re-allocated to the segments Private & Business Banking, Asset Management and Corporate Finance and Securities. This mainly concerns allocated costs of corporate departments and amortisation charges of intangible assets. The subsidiary Van Lanschot Participaties has been moved from the segment Private & Business Banking to the segment Other Activities. The comparative figures for 2010 have been adjusted accordingly.