



VAN LANSCHOT KEMPEN

RESPONSIBLE BANKING: ALLOCATION OF CLIENT DEPOSITS CERTIFICATION STATEMENT 2016

Van Lanschot Kempen has set out a policy on Corporate Social Responsibility. The evolution and results of this policy have been reported systematically since 2009. This sixth annual certificateⁱ examines whether Van Lanschot Kempen deploys client assets strictly according to its own principles of responsible banking.

*To all those interested in Van Lanschot Kempen,
To all (Evi) depositors and investors,
To borrowers,
To the general public:*

Forum ETHIBEL vzwⁱⁱ was appointed to independently audit Van Lanschot Kempen (VLK) on conformity with its principles and guidelines on Corporate Social Responsibility (CSR) with regard to its allocation of the funds entrusted to it as well as its lending and investment policies.

About Van Lanschot Kempen

Van Lanschot Kempen describes itself as a *specialised and independent wealth manager*. Its services are provided to high net-worth individuals, entrepreneurs, associations and foundations. The balance sheet has a high but declining percentage of loans outstanding (from 78% in 2011 to 64% in 2016) and was strengthened during that period: the (*Common Equity*) *Tier 1 ratio* rose from 16.3% (in 2015) to 19.0%.

Corporate Social Responsibility

Van Lanschot Kempen pursues a comprehensive Corporate Social Responsibility (CSR) policy, based on a *stakeholder dialogue* and *the bank's own core values*. The policy is aimed at four target areas, for which 7 assessment targets (KPIs) are being monitoredⁱ:

Core banking activities. Client loyalty score; growth of *assets under screening* within *Private Banking*, *Evi* and *Asset Management*.

Good employment practices. Enhancing employee engagement.

Environmental management and purchasing. Reducing CO₂ per FTE by an average of 2% per annum.

Social engagement. Improvement of transparency and stakeholder dialogue are priorities, together with supporting social projects and making donations.

For 2016 the objectives for 4 key performance indicators were fully met. The remaining three were largely met.

Van Lanschot Kempen adheres to several external international guidelines, including the *UN Global Compact* (UNGC), *Principles for Responsible Investment* (PRI) and *Guiding Principles on Business and Human Rights* (UN).

Organisation of the CSR policy

The CSR policy has been worked out in detail on all relevant levels at VLK and continues to be embedded at a high level on the Management Board. The policy is formulated and implemented by the Environmental Social Governance (ESG) Council, the Lending risk policy committee, and line management. The Corporate Social Responsibility department provides support and co-ordination as needed. This department also collects the non-financial data for the Annual Report, based on question-



naires aligned with the external guidelines and internal policy principles, and carries out plausibility checks on the data submitted to it. The Ethical Council looks into questions on ethical and societal issues that emerge from the organisation.

Responsible investment

The investment policy, formulated in 2009, is gradually being implemented. It is derived from the aforementioned international guidelines. Forum ETHIBEL has monitored these processes since 2013 (since the 2012 financial year) and issues a special certificate in order to confirm compliance with formulated policy.

Responsible lending

Van Lanschot Kempen defined its policy of responsible lending to businesses in 2010 and started the implementation of this policy in April 2011. Lenders are screened on involvement in human rights and labour rights violations, environmental violations, corruption, weapons, fur, gambling, pornography, animal testing and nuclear energy. A risk filter has been used to screen the existing and new corporate loans on high risks related to these sectors or activities. In case of doubt, an engagement process was initiated in order to gain clarification and make improvements.

Audit framework and process

In our audit, we verified whether the funds entrusted to the bank were deployed in line with the lending and investment codes. We assessed compliance with the guidelines and evaluated the outcomes. This certifying statement concerns the full 2016 financial year. Our audit has been executed in accordance with the stipulations of the agreement.

Audit of corporate lending

The corporate loans portfolio was further reduced in size from €3.0 to €2.4 billion. In absolute terms, the portfolio comprised 2,479 outstanding loans, of which 2,398 were exempt from further investigation. This part of the portfolio represents 25% of the total lending portfolio (the remainder being mortgage loans (65%); real estate private individuals (3%); and other loans to private individuals (9%)).

After six years of case-by-case analyses, a total of 138 dossiers were submitted as 'potentially high risk'. Of these 27 remained at the end of 2016, and Van Lanschot Kempen engaged with the companies concerned. The other 111 cases were either reclassified as low risk, or the credit relationship was terminated.

'Potentially high risk' borrowers are active in 'sensitive sectors' (including garments, wood, other manufacturing) and import from or have production facilities in non-Western countries. Possible risks include illegal logging, poor labour conditions, violations of human rights, and severe environmental pollution. Two of the filters concern (indirect) involvement in the weapon sector.

Audit results of the balance sheet*

The balance sheet total was €14.88 billion at the end of 2016. The table in the attachment shows the distribution in percent of the balance sheet items, both for the inflow (liabilities) and for the outflow (assets). Lending is under control. Potential issues were traced, pursued and remedied where needed.

The exact allocation of the item 'liquidities and deposits at banks' could not be ascertained, but VLK does subject its banking relations to an annual verification in order to prevent funds from being allocated to institutions that do not meet the Corporate Social Responsibility requirements. 4 institutions do not meet these requirements. Of these, one has a balance sheet position of less than €0.1 million and can be left as it is. The nature of two other banks does not warrant intervention. An en-

agement process has been initiated with one bank. Early 2017, VLK decided to end the relationship with this bank.

The 'financial instruments' group (16.8%) is diverse. Of this, the largest part has been screened (16.47%). Screening is virtually impossible for 0.11% (trading book). An engagement process has been initiated for 0.22%. The 'Other' balance sheet item consists of buildings, goodwill and tax claims

	2011	2012	2013	2014	2015	2016
Balance sheet total (billion €)	18,45	17,99	17,67	17,26	15,50	14,88
Balance sheet (liabilities)	100%	100%	100%	100%	100%	100%
<u>Savings and deposits</u>	71%	63%	58%	61%	62%	65%
<u>Debt securities</u>	13%	16%	24%	23%	22%	22%
<u>Equity</u>	9%	8%	7%	8%	8%	9%
<u>Due to banks</u>	2%	8%	7%	5%	5%	1%
<u>Other</u>	5%	4%	4%	3%	3%	3%
Balance sheet (assets)	100%	100%	100%	100%	100%	100%
<u>Loans and advances</u>	<u>77,6%</u>	<u>75,1%</u>	<u>70,7%</u>	<u>64%</u>	<u>66%</u>	<u>65%</u>
- private individual loans	[51,1%]	[48,9%]	[47,0%]	[43,8%]	[49,7%]	[49,3%]
- corporate loans	[26,4%]	[26,2%]	[23,7%]	[19,9%]	[16,2%]	[15,4%]
<u>Cash and cash equivalents and balances at banks</u>	<u>9,2%</u>	<u>11,7%</u>	<u>13,6%</u>	<u>9,3%</u>	<u>7,0%</u>	<u>12,0%</u>
<u>Financial instruments</u>	7,6%	8,9%	11,4%	22,0%	21,9%	16,8%
- screened	[5,9%]	[7,8%]	[11,1%]	[21,7%]	[21,7%]	[16,47%]
- not screened or non-auditable	[0,4%]	[0,3%]	[0,3%]	[0,24%]	[0,04%]	[0,11%]
- not fully in line; engagement	[1,3%]	[0,8%]	[0,1%]	[0,03%]	[0,14%]	[0,22%]
<u>Other (cannot be screened)</u>	5,4%	4,4%	4,5%	5,2%	5,2%	6,0%
Total screened	92,9%	94,5%	95,4%	94,8%	94,7%	93,3%

* Totals may not add up due to rounding

New developments

An important improvement in 2016 is the development (and first application) of a method to measure the climate impact of its balance sheet. The aim is to improve the measurement and monitoring of climate impact of the internal investments portfolio as well. Van Lanschot Kempen also participates to the sounding board of the Platform Carbon Accounting Financials (PCAF)ⁱⁱⁱ.

In addition, VLK offers the possibility to invest in two externally managed impact investment funds (micro credit; green bonds).

Recommendation

The number of financial institutions, that meet VLKs minimum Corporate Social Responsibility requirements, increased annually over the past five years. Forum ETHIBEL suggests a revision of these requirements, based on ESG data instead of counting the followed principles and guidelines.

Conclusion

Based on our assessments we assume that the allocation of the balance sheet has been screened for 93.3% by VLK on the basis of its codes. Strictly speaking, this does not imply that every allocation fully meets all criteria, but it means that social-ethical risks have been properly identified and are being managed accordingly.

Given our knowledge of the screened problem dossiers, it is our opinion that the codes are virtually fully complied with. Neither the winding down of certain activities, nor the growth in the managed assets influ-

ence the 'screenability ceiling' of 95%.

We declare that Van Lanschot Kempen carefully and responsibly details, develops and implements its Corporate Social Responsible lending and investment policies.

Brussels, September 13, 2017

For Forum ETHIBEL asbl,



Kenny FREDERICKX,
Directeur



Herwig PEETERS,
Productontwikkeling & audit

ⁱ For a further situating of the Van Lanschot Kempen profile, for a historical perspective, results and societal positioning: see the Annual Report 2016, the first 'integrated annual report', in which financial and non-financial information is presented together as a coherent whole (<https://media.vanlanschot.nl/media/pdfs/van-lanschot-2016-annual-report.pdf>), the Attachment Corporate Social Responsibility 2016 (<https://www.vanlanschotkempen.com/media/2475/van-lanschot-csr-supplement-2016.pdf>) and the Certification Statements of Forum ETHIBEL for 2011 (baseline measurement), and for 2012 until 2015 (<https://www.vanlanschotkempen.com/responsible/external-assessment>).

ⁱⁱ Forum ETHIBEL is a Belgian association, established in 1992, and is recognised as an expert in rating, independent verification and certification of financial and non-financial products and services that meet well-defined ethical and social criteria as well as environmental and governance standards (www.forumethibel.org).

ⁱⁱⁱ <http://carbonaccountingfinancials.com>