Van Lanschot Conditional Pass-Through Covered Bond Company B.V.

Annual Report 2018

Amsterdam, the Netherlands

Van Lanschot Conditional Pass-Through Covered Bond Company B.V.
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The Netherlands
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1. Director's report

1.1 Activities and results

General

Van Lanschot Conditional Pass-Through Covered Bond Company B.V. (the “Company”) was incorporated on December 11, 2014. The shares of the Company are held by Stichting Holding Van Lanschot Conditional Pass-Through Covered Bond Company.

The Company is a special purpose vehicle within the framework of a Conditional Pass-Through Covered Bond Programme (the "Programme") initiated by Van Lanschot N.V. (the "Issuer" or the "Seller"). Reference is made to the prospectus dated March 2, 2015, as updated from time to time (the "Prospectus") for a complete description of the terms and conditions of the Programme. Unless indicated otherwise in this Annual Report, definitions of terms used in this report may be found in the Prospectus, though the Prospectus does not form a part of this Annual Report.

For the sake of clarity, the party referred to in this Annual Report as the Issuer or the Seller is referred to as the Issuer in the Prospectus.

On March 2, 2015, the Issuer issued a first series of Covered Bonds totalling EUR 1.000.000 redeemed on April 2 2016. On April 28, 2015 the Issuer issued a second series of Covered Bonds totalling EUR 500.000.000. On March 31, 2016, the Issuer issued a third series of Covered Bonds totalling EUR 500.000.000. On February 15, 2017, the Issuer issued a fourth series of Covered Bonds totalling EUR 500.000.000.

The above series of Covered Bonds issued by the Issuer and totalling EUR 1,500.000.000 are secured by a portfolio of mortgage loans, the legal ownership of which was transferred to the Company. At the year-end, the book value of the portfolio of Mortgage Loans amounted to approximately EUR 1,753.443.582 (previous period: EUR 1,893.992.926). The Covered Bonds have been rated individually by Standard & Poor's and Fitch. On issuance the rating by Standard & Poor's was AAA and by Fitch AAA.

Apart from an agreed upon minimum profit with the Dutch tax authorities, all income and expenses are allocated to the parties concerned in the Programme. We refer to the notes to the tax ruling for further details.

These financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and this Annual Report includes a fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks that the Company faces.

Based on the set-up and structure of the Company (a special purpose vehicle with a fixed amount of profit each year as agreed with the tax authorities) no information or analyses are presented on the solvency, liquidity or any other performance ratios.

Result for the year

The net result for the year under review is EUR 2,000. This amount has been determined by the Company's tax ruling between the Issuer and Dutch tax authorities which has set the Company's income to a level to cover its expenses and a notional profit.

RISK MANAGEMENT
Following the purchase of the legal ownership of the Mortgage Loans under the Programme, the Company is exposed to a variety of risks. As the Company exposure to the Issuer and Covered Bond holders with limited recourse (i.e. a risk transfer to the Noteholders), the risks for the Company itself are limited. However, the Company has taken a variety of measures to minimise the risks linked to the transaction.

In addition to financial risks, the Company also faces operational risks. The servicing of the underlying Mortgage Loans, and the entity administration and investor reporting is performed by regulated, well-known companies. The operating risk is mitigated as the Company has contractual agreements with these companies and these companies either provide annual audit statements on the Mortgage Portfolios and/or an ISAE 3402 type II report with respect to the services provided. Furthermore the transaction includes measures to be taken once certain parties fail to maintain a specific credit rating. Management believes that the operational risks are low and no further measures are deemed necessary.

The Company and the Dutch Tax Authorities have agreed, by way of a tax ruling, that the Company will be assessed on a pre-determined level of annual profit for tax purposes. As a result, the risks described above will not influence the profit of the Company.

The Company believes that no ongoing risk assessment is deemed necessary, as the most significant risks are adequately covered.

Financial risk management
The main financial risks the Company is exposed to are credit and concentration risk, interest rate risk and liquidity risk. These risks relate to the Mortgage Loans as collateral to the Covered Bonds issued by the Issuer.

Credit and concentration risk
As the Company holds residential mortgage loans in the Netherlands, the Company has significant exposure to credit and concentration risks associated with the Dutch housing market.

Credit risk is mainly related to the economic conditions and the risk that individual borrowers might be unable to fulfil their payment obligations. However, these risks are mitigated because each loan is collateralised by the related property, and the loan portfolio is well spread over a large number of individual loans, a variety of mortgage types and geographical areas. If a borrower defaults and the Company forecloses on the property, the Company is entitled to all proceeds of the sale of the related property. If the proceeds from the sale of the property are insufficient to repay the outstanding principal amount of the loan, the Company could record a loss in this respect.

Consequently, not only the creditworthiness of the borrower can be recognised as a risk but also the general economic conditions and the housing market in particular have an impact on the probability of a loss.

As detailed in the Future developments section below, the Dutch economy continued to prosper in 2018 and most macro-economic developments are still showing positive trends. These trends are expected to have a continued positive effect on housing prices, though the rate of growth in prices is showing signs of levelling out. Whilst the market as a whole is still overheated, the regions that have experienced the most spectacular price rises in recent years are now showing signs of slowing down. This all has a continued positive impact on the expected loss ratios on the loan portfolio as the gap between loan levels and the value of collateral generally rises.

Whilst this has the effect of reducing the Company’s exposure to credit and concentration risk, it will not eliminate it. Management is aware of the dangers that an overheated housing market can bring with it. Moreover, the positive expectations for the macro-economic developments in particular are contingent on a number of local and global developments which may or may not materialise, and over which the Company has no control.

However, the Company believes that all significant risks are adequately addressed and that no ongoing risk assessment is deemed necessary. The credit enhancements granted under the terms of the transaction are all part of the risk control measures.

In the unlikely situation that all risk measures as described above fail, the limited recourse clause of the Programme will take effect (see below).

Interest rate risk
The interest rate risk arises when the interest received on the mortgage receivables is insufficient to cover the fixed interest due on the Subordinated Loan. Such risk is partially mitigated by the fact that the interest rate for each mortgage receivable must be at least 1.5%. The servicer is contractually obliged to offer a reset rate that is at least equal to 1.5%.

Moreover, historically, the weighted average interest rate on the mortgage receivables has been sufficient to cover the interest due on the Subordinated Loan.

The interest rate risk is also mitigated through the structure of the waterfall. The Interest Available Amounts and the Principal Available Amounts are both used to meet the Priority of Payments. As the interest due on the Subordinated Loan is senior to the principal due on the Subordinated loan, this further reduces the interest rate risk. Through the subordination in the waterfall structure, funds are distributed only to the extent available and as such the interest rate risk is addressed.

The Company did not enter into an interest rate swap agreement to mitigate interest rate risk. However, if the interest received on the mortgage portfolio is insufficient to cover the interest due on the Subordinated Loan, the Programme does allow the Company to enter into an interest rate swap agreement to mitigate the interest rate risk.

The liabilities of the Company towards the Issuer are limited recourse obligations. If the funds received by the Company are insufficient to pay in full all principal and interest on the Subordinated Loan, the Issuer shall have no further claim against the Company in respect of any such unpaid amounts.

Liquidity risk
Matching maturities of assets and liabilities and related cash flows is fundamental to the management of the Company. This risk is addressed and mitigated by various credit enhancements granted by the Issuer.

Limited Recourse
Any obligations of the Company towards holders of the Covered Bonds and the Seller are limited recourse obligations and the ability of the Company to meet any eventual obligations to pay principal and interest on the Covered Bonds is dependent on the receipt of funds from the Mortgage Loans and the proceeds of the sale of any Mortgage Loans.

If the proceeds are insufficient to repay in full all principal and interest and other amounts due under the Covered Bonds, then, as the Company has no other assets, it may be unable to satisfy claims in respect to any unpaid amounts.

The Company's risk appetite is considered low.

1.2 Future developments

The year 2018 has seen a continuation of the positive developments for the Dutch economy for just about all economic indicators, although in most areas, the level of growth was lower than in recent years, and 2017 in particular. The Gross Domestic Product ("GDP") increased by around 2.5% in 2018, as compared to 3.3% in 2017. The growth was mostly fueled by consumer confidence, still stemming for a large part from the upswing in the domestic house prices. In addition, public sector spending is rising and confidence levels within commercial enterprises are still relatively high. The latter is the result of increased world trade and the continuing low levels of inflation and interest rates. It is expected that the economy will continue to show relatively high growth rates in the coming years with increases of GDP of 1.7% expected for both 2019 and 2020. These are expected to be driven by consumer confidence and increased public spending though this is showing signs of delays due to capacity and raw material problems. Much of these expectations are to a large degree dependent on developments in the rest of the world. The threat of a trade war, developments in the emerging economies (China in particular) and the consequences of Brexit currently form the biggest dangers to these projections.

A relatively high level of confidence continues in the business and commerce sectors and investment levels are also expected to remain relatively high. There appears to be ample funding available, both from the banking and private sectors, as well as from increased liquidity arising from higher profit levels.

Unemployment levels reduced from 4.9% to 3.8% during 2018 and this trend is also expected to slow down with an estimate of 3.6% at the end of both 2019 and 2020. The slowdown is the result of capacity limits being reached and difficulties being experienced in the recruitment of suitable staff is becoming a greater issue. Vacancy levels are high and are being filled increasingly by older, more experienced employees. The shift in labour markets seen in recent years from fixed to flexible contracts also appears to be coming to an end.

Inflation is expected to rise from some 1.7% in 2018 to 2.7% in 2019 but reducing to 1.8% in 2020. The anticipated rise in 2019 stems from increases in energy prices and the imposed increase in the low rate VAT. The VAT increase will only impact the 2019 inflation rate significantly. For each of the coming years, wage inflation is expected to rise from the 2018 level of around 2.1% as a result of annual wage increase settlements and the trend to employ more experienced personnel. Wage inflation, in combination with lower personal taxes is expected to lead to increases in real disposable income.

The Dutch residential housing market continues to show signs of overheating but the latter part of 2018 showed signs of normalization. There are indications that the price ceiling is being reached, particularly in the regions where the most spectacular price rises have been experienced in recent years. Significant increases in asking prices and bids above the asking price are less commonplace. Another effect is that the relationship between supply and demand seems to be returning to a more normal level. As always, there are significant regional differences. Such variations occur foremost between the Randstad, particularly Amsterdam and surrounding areas, and the rest of the country. Some regions are also affected by local economic and social issues and developments.

For the market as a whole, the number of dwellings changing ownership decreased by some 10% during 2018 as compared to the previous year and with it the average time that dwellings spend on the market. For new developments, recent months have seen a trend of delayed completion, mostly due to capacity issues. The scarcity of labour and some raw materials, as well as a high level of development in urban areas, have also resulted in significant price rises for new dwellings. The expectation is that these trends will continue in the coming years, albeit that they will be less pronounced than in recent years as some degree of normalization is reached. However, until these levels are reached, the NVM has expressed deep concerns for the market in each of its recent press releases on the subject.

Risk levels for homeowners and lenders alike have again decreased since last year and this is expected to continue in the coming years, though regional differences continue. New home owners have been subjected to stricter lending conditions and existing home owners have seen debt ratios decrease as a result of rising prices. Additionally, lenders are accelerating repayments in situations where they are locked into mortgage agreements at relatively high interest rates. The latter is one of the restrictions in the growth of mortgage debt levels and so the prospects of growth in the mortgage market will be tempered somewhat in the coming years and will probably not match increases in house prices. There are clear indications that borrowers are increasingly finding alternative sources for the funding of house purchases and this is leading to an easing of acceptance criteria used by mortgage lenders.

In the light of the risk factors facing the Company, as described above, the economic developments over the past year or so and outlook are generally considered positive for the Company. Management believes that the Company's risks are adequately mitigated by the various credit enhancements, as described in the Financial statements and the Prospectus. Moreover, the Company's obligations to Noteholders are of limited recourse (see above). Consequently, no noticeable changes in the current position of the Company are expected for the next 12 months.

The historical information and prospective trends in this report were primarily derived from public reports issued by DNB and the NVM.

Amsterdam, April 30, 2019

Managing Director,
Intertrust Management B.V.

2. FINANCIAL STATEMENTS

2.1 Balance sheet as at December 31, 2018

(Before result appropriation)

		December 31, 2018		December 31, 2017	
ASSETS		€	€	€	€
Current assets					
Cash and cash equivalents	[1]		7,633,036		7,631,047
			7,633,036		7,631,047
SHAREHOLDER'S EQUITY AND LIABILITIES					
Shareholder's equity	[2]				
Share capital		1		1	
Other reserves		6,000		4,000	
Net result financial year		2,000		2,000	
			8,001		6,001
Current liabilities	[3]				
Balance with the Seller		7,605,465		7,591,187	
Taxes		30		47	
Accrued expenses and other liabilities		19,540		33,812	
			7,625,035		7,625,046
			7,633,036		7,631,047

2.2 Statement of income for the year 2018

		2018		2017	
		€	€	€	€
Interest income	[4]		150,714		157,523
General and administrative expenses	[5]	148,214		155,023	
			148,214		155,023
Income before taxation			2,500		2,500
Corporate income tax	[6]	500		500	
			500		500
Net result			2,000		2,000

2.3 Statement of cash flows for the year 2018

The cash flow statement has been prepared according to the indirect method.

		2018		2017	
		€	€	€	€
Net result			2,000		2,000
Adjustments to Statement of income					
Corporate income taxes	[6]	500		500	
			500		500
Movements in working capital					
Balance with the Seller	[3]	14,278		4,363,095	
Accrued expenses and other liabilities	[3]	-14,272		15,662	
Corporate income taxes paid	[3]	-517		-493	
			-511		4,378,264
Cash flow from operating activities			1,989		4,380,764
Movements in cash			1,989		4,380,764
Notes to the cash resources					
Balance at 1 January			7,631,047		3,250,283
Movements in cash			1,989		4,380,764
Balance at 31 December			7,633,036		7,631,047

2.4 General notes to the Financial statements

GENERAL INFORMATION

Van Lanschot Conditional Pass-Through Covered Bond Company B.V. (the "Company") is a private company with limited liability incorporated under the laws of the Netherlands on December 11, 2014. The statutory seat of the Company is in Amsterdam, the Netherlands. The sole managing director of the Company is Intertrust Management B.V.

The Company is a special purpose vehicle within the framework of a Conditional Pass-Through Covered Bond Programme (the "Programme") initiated by Van Lanschot N.V. (the "Issuer" or the "Seller"). Reference is made to the prospectus dated March 2, 2015, as updated from time to time (the "Prospectus") for a complete description of the terms and conditions of the Programme. Unless indicated otherwise in this Annual Report, definitions of terms used in this report may be found in the Prospectus, though the Prospectus does not form a part of this Annual Report.

For the sake of clarity, the party referred to in this Annual Report as the Issuer or the Seller is referred to as the Issuer in the Prospectus.

TRANSACTION STRUCTURE, MANAGEMENT AND RELATED PARTIES

On March 2, 2015, the Issuer issued a first series of Covered Bonds totalling EUR 1.000.000 redeemed on April 2 2016. On April 28, 2015 the Issuer issued a second series of Covered Bonds totalling EUR 500.000.000. On March 31, 2016, the Issuer issued a third series of Covered Bonds totalling EUR 500.000.000. On February 15, 2017, the Issuer issued a fourth series of Covered Bonds totalling EUR 500.000.000.

The above series of Covered Bonds issued by the Issuer and totalling EUR 1,500.000.000 are secured by a portfolio of mortgage loans, the legal ownership of which was transferred to the Company. At the year-end, the book value of the portfolio of Mortgage Loans amounted to approximately EUR 1,753.443.582 (previous period: EUR 1,893.992.926). The Covered Bonds have been rated individually by Standard & Poor's and Fitch. On issuance the rating by Standard & Poor's was AAA and by Fitch AAA.
If a transferror retains substantially all the risks and rewards associated with transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Company's management has concluded that the Issuer has retained substantially all the risks and rewards of the Mortgage Loan portfolio under the most likely future circumstances. As a consequence, the Company does not recognise the Mortgage Loan portfolio on its Balance sheet. The acquisition of the legal ownership of the Mortgage Loans was financed by a subordinated loan from the Seller which is subject to a limited recourse clause. As such, the Company does not recognise the subordinated loan on its Balance sheet either, but rather it has presented these positions as a net Balance with the Seller on its Balance sheet.

Intertrust Management B.V. manages the Company and the Issuer services the Mortgage Pool. Intertrust Administrative Services B.V. handles cash management, statutory accounting and investor reporting. Reference is made to the Prospectus dated May 24, 2017 (the "Prospectus") for further details.

Stichting Holding Van Lanschot Conditional Pass-Through Covered Bond Company (the "Foundation") is incorporated under the laws of the Netherlands on December 9, 2014. The objectives of the Foundation are to acquire and hold shares in the Company and to do everything that is in the interest of the Company and all those involved in the Company, including its creditors. The sole managing director of the Foundation is Intertrust Management B.V.

Intertrust Management B.V. and Intertrust Administrative Services B.V. belong to the same group of companies but are not related to the Issuer. The Intertrust companies and the Issuer, as well as any entities belonging to those groups, are considered related parties to the Company. Transactions with those parties are detailed in the relevant disclosure notes. All transactions with related parties are considered to be at arms' length pricing.

RISK MANAGEMENT
Following the purchase of the Mortgage Loans under the Programme, the Company is exposed to a variety of risks. As the Company's exposure to the Issuer and Covered Bond holders are with limited recourse (i.e. a risk transfer to the parties), the risks for the Company itself are limited. However, the Company has taken a variety of measures to minimise the risks linked to the transaction.

In addition to financial risks, the Company also faces operational risks. The servicing of the underlying Mortgage Loans, and the entity administration and investor reporting are performed by regulated, well-known companies. The operating risk is mitigated as the Company has contractual agreements with these companies and these companies either provide annual audit statements on the Mortgage Portfolios and or an ISAE 3402 type II report with respect to the services provided. Furthermore the transaction includes measures to be taken once certain parties fail to maintain a specific credit rating. Management believes that the operational risks are low and no further measures are deemed necessary.

The Company and the Dutch Tax Authorities have agreed, by way of a tax ruling, that the Company will be assessed on a pre-determined annual profit for tax purposes. As a result, the risks described above will not influence the profit of the Company.

The Company believes that no ongoing risk assessment is deemed necessary, as the most significant risks are adequately covered.

Financial risk management
The main financial risks the Company is exposed to are credit and concentration risk, interest rate risk and liquidity risk. These risks relate to the Mortgage Loans as collateral to the Covered Bonds issued by the Issuer.

Credit and concentration risk
As the Company holds residential mortgage loans in the Netherlands, the Company has significant exposure to credit and concentration risks associated with the Dutch housing market.

Credit risk is mainly related to the economic conditions and the risk that individual borrowers might be unable to fulfil their payment obligations. However, these risks are mitigated because each loan is collateralised by the related property, and the loan portfolio is well spread over a large number of individual loans, a variety of mortgage types and geographical areas. If a borrower defaults and the Company forecloses on the property, the Company is entitled to all proceeds of the sale of the related property. If the proceeds from the sale of the property are insufficient to repay the outstanding principal amount of the loan the Company could record a loss in value of the portfolio.

Consequently, not only the creditworthiness of the borrower can be recognised as a risk but also the general economic conditions and the housing market in particular have an impact on the probability of a loss.

As detailed in the Future developments section in the Director's report, the Dutch economy has continued its recovery in 2018 and most macro economic developments are showing positive trends. These trends are expected to have a positive effect on both house prices and the number of transactions on the residential housing market. Recently amended legislation has resulted in a decline in interest-only mortgages and stricter regulations for the issue of mortgages. This will all have a positive impact on the expected loss ratios.

Whilst this has the effect of reducing the Company’s exposure to credit and concentration risk, it will not eliminate it. Management is aware of regional variations in both developments and future expectations and so not all mortgages issued will be so positively influenced. Moreover, the expectations are contingent on a number of local and global developments which may not materialise and over which it has no control.

However, the Company believes that all significant risks are adequately addressed and that no ongoing risk assessment is deemed necessary. The credit enhancements under the terms of the transaction are all part of the risk control measures.

In the unlikely situation that all risk measures as described above fail, the limited recourse clause of the Programme will take effect (see below).

Interest rate risk
The interest rate risk arises when the interest received on the mortgage receivables is insufficient to cover the fixed interest due on the Subordinated Loan. Such risk is partially mitigated by the fact that the interest rate for each mortgage receivable must be at least 1.5%. The servicer is contractually obliged to offer a reset rate that is at least equal to 1.5%.

Moreover, historically, the weighted average interest rate on the mortgage receivables has been sufficient to cover the interest due on the Subordinated Loan.

The interest rate risk is also mitigated through the structure of the waterfall. The Interest Available Amounts and the Principal Available Amounts are both used to meet the Priority of Payments. As the interest due on the Subordinated Loan is senior to the principal due on the Subordinated loan, this further reduces the interest rate risk. Through the subordination in the waterfall structure, funds are distributed only to the extent available and as such the interest rate risk is addressed.

The Company did not enter into an interest rate swap agreement to mitigate interest rate risk. However, if the interest received on the mortgage portfolio is insufficient to cover the interest due on the Subordinated Loan, the Programme does allow the Company to enter into an interest rate swap agreement to mitigate the interest rate risk.

The liabilities of the Company towards the Issuer are limited recourse obligations. If the funds received by the Company are insufficient to pay in full all principal and interest on the Subordinated Loan, the Issuer shall have no further claim against the Company in respect of any such unpaid amounts.

Liquidity risk
Matching maturities of assets and liabilities and related cash flows is fundamental to the management of the Company. This risk is addressed and mitigated by various credit enhancements granted by the Issuer.

Limited Recourse
Any obligations of the Company towards holders of the Covered Bonds and the Seller are limited recourse obligations and the ability of the Company to meet any eventual obligations to pay principal and interest on the Covered Bonds is dependent on the receipt of funds from the Mortgage Loans and the proceeds of the sale of any Mortgage Loans.

If the proceeds are insufficient to repay in full all principal and interest and other amounts due under the Covered Bonds, then, as the Company has no other assets, it may be unable to satisfy claims in respect to any unpaid amounts.

The Company's risk appetite is considered low.

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these Financial statements are set out below:

Basis of presentation
The financial statements are drawn up in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board (‘Raad voor de Jaarverslaggeving’). The Financial statements are prepared under the historical cost convention and presented in the joint currency of the European Monetary Union, the euro (“EUR” or "€"), the Company's functional currency. All amounts are in EUR, unless stated otherwise.

Unless specifically stated otherwise, assets and liabilities are recognised at the amounts at which they were acquired or incurred. The Balance sheet, Statement of income and Statement of cash flows include references to the notes.

Comparison with previous year

The valuation principles and method of determining the result are the same as those used in the previous year, with the exception of the changes in accounting policies as set out in the relevant notes.

Significant accounting judgments and estimates
In the process of applying the Company's accounting policies, the Company's management has exercised judgment and estimates in determining the amounts recognised in the Financial statements. The most significant uses of judgment and estimates are as follows.

Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources and activities to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial statements are prepared on the going concern basis.

Cash and cash equivalents
Cash and cash equivalents are valued at nominal value and, insofar as not stated otherwise, are at the free disposal of the Company. Cash and cash equivalents relate to immediately due and payable withdrawal claims against credit institutions and cash resources.

Balance with the Seller
The Balance with the Seller is initially recognized at fair value and subsequently carried at amortised cost. Mortgage Loans and all other related balances are deducted from the Balance with the Seller in recognition of the retention of economic ownership by the Seller.

Other liabilities
On initial recognition current liabilities are recognised at fair value. After initial recognition current liabilities are recognised at the amortised cost price, being the amount received taking into account premiums or discounts and minus transaction costs. This is usually the nominal value.

The liability capital comprises share capital and subordinated loan(s). The liability capital as at 31 December 2018 amounts to € 0 (31 December 2017: € 0).

Offsetting
Financial assets and liabilities are offset at the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Balances involving the Seller are presented as a single line item on the Balance sheet, reflecting the Company's function within the Programme when viewed from an economic reality prespective.

Revenue recognition
Income and expenses are recognised in the Statement of Income on an accrual basis. Losses are accounted for in the year in which they are identified.

The Company does not recognise cash flows in which it has no beneficial interest, principally those flowing to the Seller being the principal bearer of the risks and rewards associated with the Mortgage Loans.

FAIR VALUE FINANCIAL INSTRUMENTS

Due to the short-term nature of the cash and cash equivalents, the Balance with the Seller and other liabilities included in these Financial statements, the estimated fair value for these financial instruments approximates the book value, as disclosed in the aforementioned accounting policies.

CORPORATE INCOME TAX

The Company is liable to Dutch corporate income tax under a tax ruling. This stipulates that the Company should report annual income on the basis of a 10,0% mark-up on the Director’s fee, with a minimum of EUR 2,500.

CONTINGENT LIABILITIES AND COMMITMENTS

The Company has granted a first ranking right of pledge on the Mortgage Loans and Beneficiary Rights to Stichting Security Trustee Van Lanschot Conditional Pass-Through Covered Bond Company. In addition the Company has granted a right of pledge over all rights of the Company under or in connection with the Guarantee Support Agreement, the Servicing Agreement, the Administration Agreement, the Asset Monitor Appointment Agreement, the CBC Account Agreement and in respect of the GIC-accounts to the Stichting Security Trustee Van Lanschot Conditional Pass-Through Covered Bond Company.

The exercise of the pledge is subject to certain terms and conditions. Not meeting the Company’s obligations to certain secured parties can lead to exercising the right of pledge by Stichting Security Trustee Van Lanschot Conditional Pass-Through Covered Bond Company.

STATEMENT OF CASH FLOWS

The Statement of cash flows has been prepared using the indirect method. The cash items disclosed in the Statement of cash flows are comprised of cash and cash equivalents. Income taxes are included in cash from operating activities. Dividends paid are recognised as cash used in financing activities. Transactions not resulting in inflow or outflow of cash are not recognised in the Statement of cash flows.

2.5 Notes to the Balance sheet

CURRENT ASSETS

Cash and cash equivalents [1]

	31-12-2018	31-12-2017
	€	€
CBC Account	8,036	6,047
Reserve Account	7,625,000	7,625,000
	7,633,036	7,631,047

CBC Account

The CBC Account relates to a floating rate current account with Societe Generale S.A. in Amsterdam, the Netherlands.

The rate of interest on the CBC Account is determined by Euro Overnight Index Average ("Eonia").

Reserve Account

The Reserve Account relates to an optional reserve deposit with Societe Generale S.A. in Amsterdam, the Netherlands. These funds are not available to finance the Company's day-to-day operations but serve as a security to enable the Company to meet its fees and other obligations. If and to the amount that excess funds are available after these obligations, these are deposited on the Reserve Account up to the Reserve Account Required Amount. If the Reserve Account Required Amount is reached, excess funds are available for payment of the Balance with the Seller.

The rate of interest on the Reserve Account is determined by Eonia.

2.5 Notes to the Balance sheet

SHAREHOLDER'S EQUITY [2]

Share capital

The authorised capital which are issued and paid-in amounts to € 1, consisting of 1 ordinary share of € 1.
The net result for the year amounts to EUR 2,000 (2017: EUR 2,000).

Other reserves

	31-12-2018	31-12-2017
	€	€
Opening balance	4,000	2,000
Results prior year	2,000	2,000
Closing balance	6,000	4,000

CURRENT LIABILITIES [3]

All current liabilities have a maturity of less than one year.

Balance with the Seller
Following the change in the Company's accounting policies in 2016, the Company now recognises all balances under the Programme involving the Seller as Balance with the Seller. As balances are regularly settled with the Seller and on a net basis, this balance is considered to be a current liability, notwithstanding that the individual underlying contracts under the Programme may be of a long-term nature.

The individual balances that make up the overall Balance with the Seller are as follows:

	31-12-2018	31-12-2017
	€	€
Subordinated Loan	1,808,936,289	1,925,217,547
Deemed Loan	-1,753,443,583	-1,893,992,925
Accounts receivable	-47,867,708	-23,599,622
Interest receivable	-4,247,967	-4,742,363
Accrued Deferred Purchase Price	2,969,308	3,388,032
Interest payable	1,106,137	1,157,654
Mortgage pool servicing fee	152,989	162,864
	7,605,465	7,591,187

Taxes

	31-12-2018	31-12-2017
	€	€
Corporate income tax	30	47

Accrued expenses and other liabilities

	31-12-2018	31-12-2017
	€	€
Audit fee	19,420	18,695
Management fee	-	15,117
Other payable	120	-
	19,540	33,812

2.6 Notes to the Statement of income

Interest income [4]

	2018	2017
	€	€
Income from Mortgage Loans	50,660,441	55,060,621
Interest on Subordinated Loan	-27,415,288	-39,967,241
Accrued Deferred Purchase Price	-21,272,176	-13,054,292
Mortgage pool servicing fee	-1,822,263	-1,881,565
	150,714	157,523

All income was due from the Seller.

General and administrative expenses [5]

	2018	2017
	€	€
Administration fee	88,281	87,142
Management fee	33,383	38,211
Independent auditor fee	18,876	18,695
Other advisory fee	7,674	10,975
Total	148,214	155,023

The Administration fee and Management fee were payable to a related party.

The fee to PricewaterhouseCoopers Accountants N.V., in their role as independent auditor of the Company, amounts to EUR 18,876. No other fees were paid or are payable to the independent auditor of the Company.

Corporate income tax [6]

	2018	2017
	€	€
Corporate income tax	500	500

The Company and the Dutch Tax Authorities agreed by way of a ruling that the taxable amount is calculated at the higher of EUR 2,500 and 10,0% of the annual remuneration paid to the Managing Director of the Company. The applicable tax rate for the year under review is 20,0% of the taxable amount.

Employees
During the period under review the Company did not employ any personnel in and outside the Netherlands (previous period: nil).

Remuneration of the of Director
The management board of the Company consists of one corporate director; the remuneration of the Director is included in the management fee as disclosed under General and administrative expenses, above and amounts to EUR 20.062 (2017: EUR 20.028). The Company does not have a supervisory board.

Proposed appropriation of result
The net result for the year under review is EUR 2,000. Management proposes to add the net result to the Other reserves.

Post-balance sheet events
No other events took place that could have a major effect on the financial position of the Company.

Amsterdam, April 30, 2019

Managing Director
Intertrust Management B.V.

3. Other information

3.1 Statutory provisions

In accordance with article 19 of the Company's articles of association and applicable law, the management board is authorised to retain the profits or a part thereof, as appears from the most recently adopted financial statements. The general meeting is subsequently authorised to resolve to distribute or to reserve what then remains of the profits or a part thereof. The general meeting is also authorised to resolve to make interim distributions, which includes distributions from the reserves.

The Company may make distributions to the shareholder only to the extent that the Company’s shareholder’s equity exceeds the sum of the reserves which it is legally required to maintain.

The Company may only follow a resolution of the General Meeting to distribute after the management board has given its approval to do this. The management board withholds approval only if it knows or reasonably should be able to foresee that the Company cannot continue to pay its due debts after the distribution.