Van Lanschot Kempen Wealth Management NV Annual Report 2020

VAN LANSCHOT KEMPEN

NOTES TO THE READER

Unrounded figures

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

Changes to comparative figures

Some amounts differ from previously published reports; in these cases, explanations are given in the footnotes.

Disclosure of Non-financial Information Act

The Disclosure of Non-financial Information Act is a Dutch regulation that made reporting on a number of non-financial themes compulsory for companies that qualify as large public-interest entities (*grote organisaties van openbaar belang*) with more than 500 employees. These themes comprise environmental, social and labour issues, as well as anti-corruption, bribery and human rights. For each of these themes, companies are obliged to report on the relevant policies, results, risks (including management of these risks) and non-financial key performance indicators. The regulation also requires companies to describe their business models in their annual reports. If a legal entity's non-financial information is included in the director's report of its consolidating parent company, the relevant subsidiary will be exempt from any obligation to disclose non-financial information. With the disclosure of non-financial information in Van Lanschot Kempen NV's annual report, Van Lanschot Kempen Wealth Management NV is under no obligation to disclose non-financial information in this directors' report and has included such information on a voluntary basis.

Global Reporting Initiative

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

External assessment

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

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This 2020 annual financial report of Van Lanschot Kempen Wealth Management NV has been prepared to comply with Dutch law. Van Lanschot Kempen Wealth Management NV is a 100% subsidiary of Van Lanschot Kempen NV. In this report, Van Lanschot Kempen refers to Van Lanschot Kempen Wealth Management NV and its subsidiaries.

ABOUT VAN LANSCHOT KEMPEN

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

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

As a company, we believe that the generation of wealth – and its redistribution through taxation – are critical to the process of creating and maintaining stable, successful societies. Given that social cohesion necessitates such wealth creation, we believe that wealth management cannot be the preserve of a few but is a necessity for all. We create wealth, economic growth, jobs and tax income via our services to entrepreneurs, as well as contributing to the realisation of societal goals via the preservation and creation of wealth for asset owners, including private individuals and pension funds.

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

We serve clients across the social spectrum and in several segments – private, wholesale & institutional and corporate – as a trusted partner and to assist them in preserving and creating wealth sustainably. Investing for the long term is no longer just about looking for the greatest returns by a future date; it's about ensuring the liveability of the planet for the generations to come. We believe that in serving the long-term interests of our clients, we can contribute to a sustainable world and societal stability.

Our values

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

Entrepreneurial spirit

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

Specialisation

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

Craftsmanship

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

Dedication

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

Discretion

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

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

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

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

Reliable reputation and rich history

- Clear choice for wealth management, targeting private, wholesale & institutional and corporate clients;
- Tailored, personal and professional service;
- Independent institution with strong Dutch roots;
- Relatively small-scale organisation and high level of executive involvement;
- Strong focus on sustainable investing;
- Capable and motivated professionals;
- Ability for employees to make real impact.

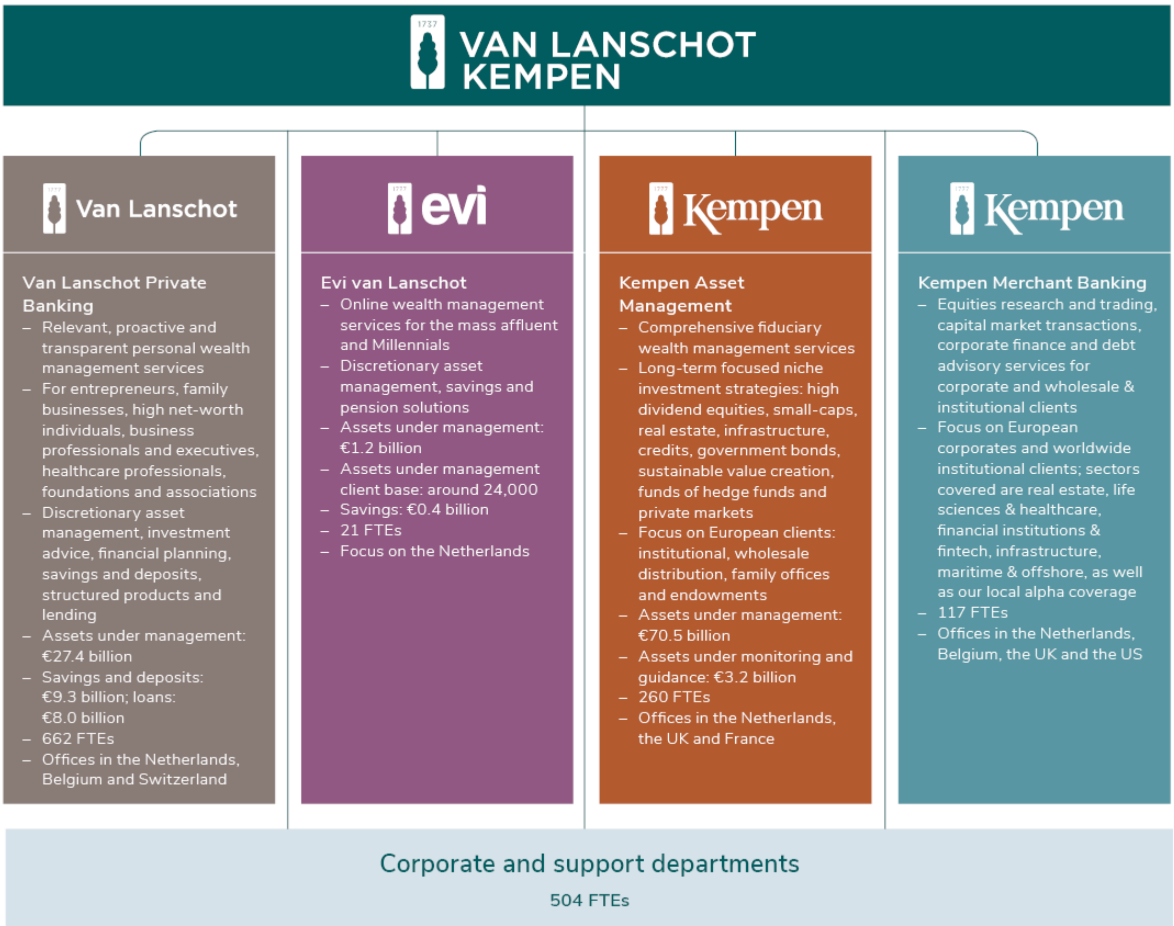
Integrated wealth manager

- Uniform way of servicing our client segments;
- Differentiating and compelling investment management offering that matches client needs;
- Compelling storyline from an investor and client perspective.

Sound financial and risk management

- Strong balance sheet and attractive capital strategy;
- Strong track record in transformation processes and de-risking of the company;
- Proven capability to integrate acquisitions.

Key figures	2020	2019
Net result (€ million)	49.8	98.4
Efficiency ratio, excluding special items (%)	85.7	75.5
CET 1 ratio (%)	24.3	23.8
Return on average CET 1 based on underlying net result (%)[1]	4.4	10.5
Balance sheet total (€ billion)	15.1	14.3
Loan portfolio (€ billion)	8.4	8.6
Client assets (€ billion)	115.0	102.0
Assets under management (€ billion)	99.0	87.7
Employees (FTEs at year-end)	1,564	1,560



[1] The underlying net result is the net profit adjusted for one-off charges related to the costs incurred for the Strategy 2020 investment programme and restructuring.

STRATEGIC FRAMEWORK

In light of our purpose – to preserve and create wealth, in a sustainable way, for our clients and the society we serve – we have defined our wealth management strategy. Taking into account the changing world around us as well as the expectations of our clients and other stakeholders, we've defined five strategic pillars that enable us to deliver on our ambition to be a leading player in our markets and geographies, and to create both financial and non-financial value. In order to monitor our progress, we've developed a number of key performance indicators (KPIs).

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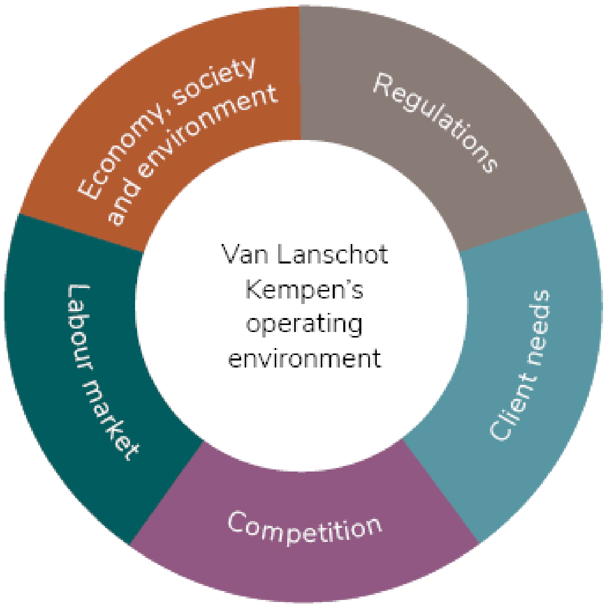
Financial and non-financial KPIs

THE CHANGING WORLD AROUND US

Our business is impacted by the world around us, and our strategy needs to reflect and respond to that. The economy, society and environment in which we operate as a wealth manager, the regulatory landscape, the demands of our clients and prospects, the technological advances of our competitors, and the state of the labour market as a whole – all of these external developments have an impact on our business. So we take these into account when executing our strategy.



Economy, society and the environment

The reporting year 2020 started on a strong note economically: financial markets were still bullish, global economic growth was relatively strong, and unemployment was low. But in March, the spread of the Covid-19 pandemic turned the global economy on its head. Due to widespread lockdowns in the second quarter, we experienced the deepest recession since the Second World War. But as soon as restrictions were lifted, the recovery (at least in some sectors) was just as swift. Economists saw a "K-shaped chart", meaning that certain sectors – such as online retail, healthcare and tech – had a sharp upturn, while other sectors – such as air travel and high-street retail – had an equally sharp downturn. And this was reflected in the stock markets, too.

In order to stimulate economic recovery, central banks maintained low interest rates and created bigger balance sheets, while governments stepped in and invested huge amounts of money. In Europe, companies were able to borrow large sums in order to keep employment at economically and socially acceptable levels. In the US, the strategy was different, with companies quickly laying off staff while the US government doubled unemployment benefits for the people impacted. With so much government and central bank stimulus, it's likely that the real effects of the recession won't be felt until 2021 and beyond.

This means that despite the huge dip in March and April, the investment market did not in fact depreciate between the start and end of 2020. The European Central Bank's temporary ban on dividend payments for banks, however, has had a material impact on their share prices – and by extension on shareholders. At the time of writing, the ban is expected to be lifted after September 2021. Because of the uncertainty caused by the pandemic, uncertainty surrounding economic projections has also increased – and it remains to be seen what the longer-term impact will be.

From a social perspective, the Covid-19 crisis led to huge upheaval in the way people live, work and maintain social contact. From a corporate point of view, it brought companies' social conditions for employees and suppliers into sharp relief. The virus laid bare whether companies really were taking care of the people in their supply chain, paying attention to health and safety, and upholding labour standards. It also highlighted the need for holistic thinking around the role businesses play for their employees, clients and suppliers, as well as across complex supply chains.

From an environmental perspective, the lockdown measures brought in to curb the pandemic led to reductions in carbon emissions. While things may still return to "normal", the situation proved to many people that measures such as reducing travel and limiting factory production could have a meaningful positive impact on the climate. And governments' targets reflect this: there's been a further shift towards ambitious net-zero emissions targets by 2050.

Regulatory landscape

The impact of the Covid-19 pandemic on regulators' priorities was also felt. In 2020, the focus shifted to help banks ensure the continuity of their operations, including support to their clients. This entailed postponing the implementation of certain regulations, such as Basel IV, and reviewing recently implemented regulations to reduce the administrative burden. At the same time, we've seen further harmonisation of supervisory regulations in Europe, as well as more detailed descriptions of how to define and implement certain rules.

During the reporting year, financial institutions continued to prepare for the large number of regulations that are scheduled to come into force going forward – albeit some later than originally planned. Financial institutions are still working on the Basel IV package of reforms, which involves collecting a lot more data but whose impact on lending procedures and capital is relatively limited. The need to prepare for the cessation of LIBOR at the end of 2021 has meant assessing exposure to LIBOR-linked products and making robust plans. The fifth anti-money laundering (AML) directive introduces an ultimate beneficial owner register which is currently being implemented in the Netherlands. The sixth AML directive contains minimum rules on criminal liability for money laundering. Client due diligence and transaction monitoring remain important priorities for the industry as a whole.

From a sustainability perspective, we’ve seen a clear external push from the regulators, especially in Europe. The EU has the ambition to make Europe a climate-neutral economy with net-zero greenhouse gas emissions by 2050, and has come up with plans that touch every sector – including financial services. For example, the action plan on sustainable financial growth contains a set of new regulations. The EU has created a harmonised framework, which will come into force step by step and develop over time. The new framework introduces a classification system for sustainable activities and investments as well as new disclosure requirements for financial institutions to bring more clarity to end-investors and prevent “greenwashing”. There is also a focus on mainstreaming management of sustainability risks and fostering transparency for listed companies and shareholder long-termism. The challenge for Van Lanschot Kempen (and for all financial institutions) is to efficiently implement these rules and to source meaningful environmental, social and governance (ESG) data.

With the EU and the UK finally reaching a deal in the dying days of 2020, a no-deal Brexit was averted. For the financial industry, however, the proposed EU/UK Trade and Cooperation Agreement does not contain much detail so far. In this context, we are no longer expecting permanent equivalence decisions with respect to UK central clearing parties, or third-country exemption regimes being applied to UK-based counterparties, for example. Clarity on these matters will be most welcome. In the first few days of 2021, we saw some memoranda of understanding between supervisory authorities, which will form a basis for future cooperation between the UK and the EU with respect to supervision of financial markets and their participants. Uncertainty still remains as to whether, over time, future regulation in the UK may gradually diverge from EU regulatory standards and may as a result become an unsurpassable hurdle for the application of third-country recognition or equivalence regimes.

Evolving client needs

Our client groups – and those we wish to attract – are broad-ranging. They include private clients, such as wealthy individuals, entrepreneurs, professionals and first-time investors; wholesale & institutional clients, such as pension funds and insurance companies; corporate clients in our focus sectors (real estate, life sciences & healthcare, financial institutions & fintech, infrastructure, maritime & offshore, and local alpha); and other types of clients, such as charities, foundations and associations. Each client group has different, evolving and increasing demands, but we also observe a few common wishes among all our client groups, such as omni-channel service, holistic advice, sustainable investments and advice on how to prepare for the future.

In terms of the way they do business with us, clients are looking for several differentiating factors. They want to be able to reach us wherever and whenever they like, via whichever channel they choose – and they expect personalised, tailor-made service. This means that while some clients might want to do everything online, others may prefer to discuss things over the phone – or a combination of both. They’re looking for personal knowledge of their specific circumstances from their contact coupled with easy, omni-channel service. Of course, we’ve seen the demand for digital tools increasing for several years – but the Covid-19 pandemic has accelerated this demand among all client groups.

Most of our clients are also looking for holistic advice rather than individual products. They expect thorough knowledge of all the solutions on offer across all our business lines, so that we can proactively advise them on the best options. But of course the search for yield and returns is ongoing and requires product innovation as well. Clients are requesting access to asset classes that were previously the domain of only the most sophisticated of investors, such as private equity, land, infrastructure and private debt.

Sustainable investments are becoming the new normal among many of our client groups, both private and institutional. We’re rapidly moving towards a world in which complying with the highest ESG standards is part of our licence to operate rather than a differentiating factor.

And finally, our clients – like everyone in today’s world – are seeking certainty. When the first wave of the pandemic hit, they wanted to discuss the possible scenarios and how to meet their investment goals. As the crisis continued, they wanted to know how to prepare for the future and adapt to the new reality. Adaptability to change is key if we are to remain a trusted adviser to our clients.

Competitive market and technology

Clients’ expectations are partially driven by what they have come to expect from other companies, both within and outside the financial services sector. These include the big tech firms, which provide excellent customer experience; universal banks, which meet high standards in terms of day-to-day banking functionality; and fintechs, which use algorithms in their processes as well as application programming interfaces (APIs) to enable value-added services. These expectations lead to increasing demand for digitalisation of services.

In the technology domain, we’ve seen continued developments in 2020 – a couple of which are of particular relevance to our strategy. On the one hand, the rise in cloud-based services has precipitated a move from traditional “on premises” applications to the cloud, or software as a service (SaaS). On the other, low-code applications and robotic process automation (RPA) systems are increasingly automating manual tasks, without deep coding knowledge being required.

The increasing speed at which both technological developments are advancing and client needs are evolving requires organisations to be quick and nimble, taking an agile approach.

Labour market

In the financial services industry, competition for talent in the labour market is as fierce as ever. All companies in our sector rely on the knowledge, experience and professionalism of their employees – and there's significant crossover with other sectors in terms of the skills required. So attracting, retaining and developing the best people is crucial. At the same time, the labour market has increasingly high expectations when it comes to personal and professional development. Employees and potential candidates are demanding not just technical training but also creative work and ways to improve their well-being. We need to keep up with these demands to stay competitive as an employer.

Meanwhile, the Covid-19 pandemic forced organisations such as ours to operate completely differently: working from home became the new norm. People were forced to engage differently with their managers, employees and colleagues. And everyone needed to adapt to online technologies – fast. While a toll on people's emotional well-being was inevitable, there were some positive side effects: travel time was all but eliminated, which increased time-efficiency; the digital savviness of the workforce paid off; and (perhaps ironically) absence due to illness went down. On the flip side, the lack of personal interaction between colleagues began to have an impact on people's sense of belonging.

The digitalisation and remote working trends accelerated by the pandemic also play into the competition for talent. Physical location and travel are becoming less and less important, making it easier for talented professionals to switch roles and take advantage of opportunities that are not necessarily close to home.

Finally, our stakeholders – including shareholders of Van Lanschot Kempen NV, clients and employees – continue to see diversity as an ongoing priority. This has been reflected in the upcoming regulations, which also place more emphasis on employing a diverse workforce in all sectors, including ours. We of course aim to comply with these regulations.

For more details on what Van Lanschot Kempen is doing to address these external developments, see "Strategy" on page 12 and "Value creation" on page 15.

KEY RISK THEMES FOR VAN LANSCHOT KEMPEN

In addition to the trends and developments that impact our operating environment, as a wealth manager we face specific risks associated with our sector. In 2020, we identified the following key risk themes:

- Covid-19
- Low interest rate environment
- Change capacity
- Cybercrime and IT security
- Financial crime
- Climate change

See the "Risk and capital management" section (page 43) for more details.

STAKEHOLDERS' EXPECTATIONS

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

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

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

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

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

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

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

Other stakeholders
Fair business opportunities and positive contribution to society and environment

Topics that are material to our stakeholders

To determine which topics are valued most by our stakeholders, we conduct a survey among stakeholders every two years. Our most recent survey was conducted in 2019. For 25 topics relevant to our business, stakeholders were asked to assess the extent to which each topic influences the decisions they make regarding Van Lanschot Kempen. These topics are divided into two main categories: financial and non-financial value creation. Non-financial value creation can be further sub-divided into human and intellectual, natural and social value creation.

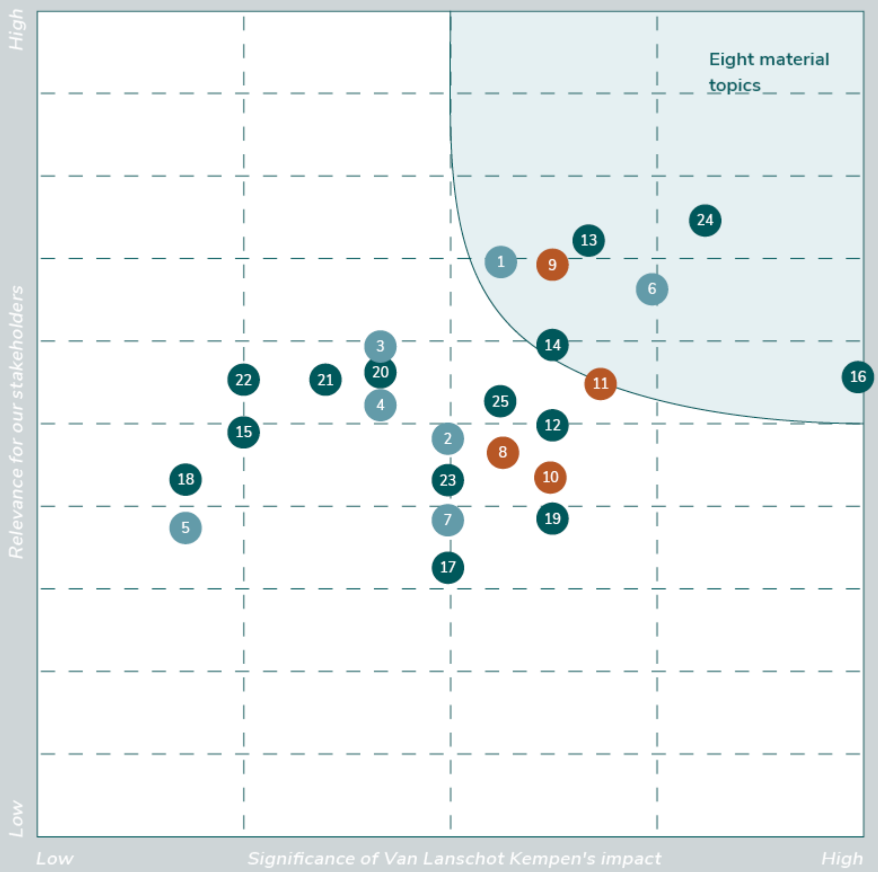
In addition, our Executive Board and a panel of external sustainability experts determined the significance of the impact Van Lanschot Kempen has via each of the 25 topics. Impact refers to positive impact and prevention of negative impact, and may be economic, environmental or social in nature.

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

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

[1] See our sustainability supplement for further details.

Van Lanschot Kempen materiality matrix[2]



Financial value creation

1. Profitability and cost effectiveness
2. Growth and market position
3. Risk management
4. Capital position
5. Dividend and capital return
6. Contribution to clients' wealth via investments
7. Contribution to clients' wealth via lending activities

Non-financial value creation

Human and intellectual value creation

8. Healthy staff
9. High-quality workforce
10. Diverse and inclusive workforce
11. Development and training of staff

Natural and social value creation

12. Stakeholder involvement
13. Superior client experience
14. High-quality, tailored solutions
15. Access to a broad range of solutions
16. Impact via client assets (investments)
17. Impact via lending activities
18. Impact via our own organisation
19. Impact via partnerships and cooperation
20. Regulatory compliance
21. Transparent reporting
22. IT systems and platforms
23. Balanced reward policy
24. Ethics and integrity
25. Discretion

[2] Although the materiality matrix itself remained the same in 2020, the numbers of the material topics have changed compared with our 2019 annual report.

STRATEGY

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

Ambition

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

Changes to our organisational structure

Key to our strategy is the development of a fully integrated wealth management model that enables us to serve the entire spectrum of client groups, ranging from private to wholesale & institutional and corporate clients, and the ability to adapt quickly to changing client needs and market circumstances.

At the beginning of 2021, we therefore changed our organisational structure by moving from a business line-driven organisation towards a function-based model.

In doing so, we combined all our client-focused staff and activities in the Client Management & Origination domain, while the Investment Strategies & Solutions domain now covers all our in-house and externally selected investment solutions and services. We have put Digital, Advanced Analytics & Technology at the centre of our organisation, as these play an important and proactive role in the transformation of our company. All our operational departments have now been centralised in order to harmonise processes and systems in the service of enhancing client experience and efficiency. In line with our new organisational structure, starting in 2021 we will steer and report on our business according to client groups and no longer according to the business lines.

Strategic pillars

Economic, social and environmental shifts, regulatory changes, evolving client needs, technological advances and the labour market all impact our operating environment. We need to respond to these changes in order to deliver on our strategic pillars.

The four strategic pillars, introduced at the beginning of 2019, have been complemented with a fifth pillar to underline our commitment to sustainability. All strategic pillars are interlinked and mutually reinforce each other.

Accelerate growth organically and inorganically

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

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

Advance through digitalisation and advanced analytics

Changes in clients' needs and economic developments require us to react quickly. Technology and digitalisation allow us to improve our productivity and service, by speeding up processes, reducing operational errors and improving the availability, quality and interpretation of data. We expect to significantly invest in our capabilities in this area in the coming years.

Digital interaction is crucial as it offers both clients and employees increased flexibility in terms of means of communication and the time needed to communicate. To grasp the full potential of patterns in internal and external data, tooling is being developed that helps end-users to interpret data and use it for data-driven decision-making in commercial, investment and operational processes.

Act as one to leverage our full potential

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

Attract, develop and retain the workforce

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

Achieve our sustainability ambitions

Being a sustainable wealth manager with a long-term focus means that we proactively strive to prevent negative consequences for all stakeholders in line with the UN Global Compact, while aiming to create positive long-term financial and non-financial value. We can achieve the most significant social and environmental impact via our client investments. Our ambition is therefore to move towards more sustainable investing, together with our clients. In the future, we intend to raise the bar even higher and make sustainable investing the new normal. To achieve this, we will increase employee awareness and expand our expertise in the area of sustainable investing.

How we steer and monitor our business

In order to monitor whether we're on track to deliver on our ambitions and create long-term value, we define financial and non-financial KPIs and targets. These are based on industry trends and developments, stakeholder expectations, client needs and strategic relevance.

The KPIs are focused on value creation, both financial and non-financial. We explain both our KPIs and our results against them in the sections on value creation per type of capital on pages 17-29.

The table below shows our targets and performance on these KPIs in 2020 and 2019:

Value creation themes	Key performance indicators (KPIs)	Targets	Performance in 2020	Performance in 2019	Material topics covered
Financial					
	1. CET 1 ratio	15-17%	24.3%	23.8%	1
	2. Return on equity (CET 1)	10-12%	4.4%	10.5%	
	3. Efficiency ratio	70-72%	85.7%	75.5%	
	4. Three-year relative performance of discretionary				6, 14
	a. Private Banking	a. > benchmark	a. -1.8%	a. -0.4%	
	b. Evi	b. > benchmark	b. -2.2%	b. -0.9%	
Non-financial					
Human and intellectual	5. Employee engagement score	> 80%	n/a	82%	9
	6. Employer Net Promoter Score (eNPS)	> 10	6	n/a	
	7. Gender balance in management positions	> 30% female > 30% male	21% female 79% male	21% female 79% male	
	8. Percentage of total number of training courses followed to develop new skills in order to adapt the workforce (e.g. technical, digital, adaptability)[1]	> 25%	25%	n/a	11
Natural and social	9. Net Promoter Score (NPS)				13
	a. Private Banking	a. 10	a. 26	a. 23	
	b. Evi	b. 10	b. 5	b. 10	
	c. Asset Management	c. 20	c. n/a	c. 31	
	10. Merchant Banking: number of successful transactions with repeat Corporate Finance clients (five-year period)	60-70%	39%	n/a	
	11. Merchant Banking: bundled commission paid by repeat Securities clients	> 80%	95%	n/a	
	12. Asset Management: average Morningstar rating of investment strategies (institutional share class)	> 3.5	3.6	3.9	6, 14
	13. Percentage of employees who positively evaluate our culture regarding ethical behaviour and integrity[2]	> industry average of 84%	89%	77%	24
	14. Private Banking sustainability ambition: AuM invested in sustainable and impact investment wealth management solutions	last year +10%	2020: €3,063m + €1,017m	2019: €2,046m + €728m	16
	15. Asset Management sustainability ambition				
	a. Percentage of internal and external fund managers on the approved list that meet the sustainability criteria	a. > last year	a. 76%	a. n/a	
	b. Engagement cases with companies that our funds invest in per year	b. 80-100	b. 116	b. 84	
	c. Engagements for change for which at least one milestone has been reached in the past year[3]	c. 10-15	c. 61	c. n/a	
	16. Decrease in carbon emissions				n/a
	a. Direct emissions of our own organisation	a. -2.5%/FTE/year	a. -51.1%	a. -5.6%	
	b. Indirect emissions via our balance sheet (mortgage portfolio)	b. CO_2/€ < last year	b. 0.4%	b. -2.0%	

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

[1] This KPI does not cover the full range of training offered within Van Lanschot Kempen. It is calculated based on training for employees working in the Netherlands, booked via our learning platform and via our training broker.

[2] The score for this KPI is based on responses to the following statements in the employee engagement survey:
– In my experience, all employees are held to the same standards of ethical behaviour;
– This organisation operates with integrity in its internal dealings (i.e. with employees);
– I think I could report instances of dishonest or unethical practices to the appropriate level of authority without fear of reprisal.
In 2020, the first statement underlying this score was changed to: We operate with integrity in our external dealings (with clients, suppliers, etc.).

[3] Engagement consists of four stages. If it moves to the next stage, a milestone has been achieved.

VALUE CREATION

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

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

Our approach to fulfil our purpose

In line with our purpose, we aim to create value. We therefore proactively strive to:

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

Our value creation per type of capital

Our value creation model on the following page provides an overview of our impact and the value we create in the long term. As a wealth manager, Van Lanschot Kempen attracts four types of capital:

- **Financial capital:** Our clients entrust us with their investments, savings and deposits, while our capital providers invest in our shares and bonds.
- **Human and intellectual capital**: Our employees and external parties bring in their knowledge and experience.
- **Social capital:** The network we have as an organisation and the trust that other stakeholders place in us – our licence to operate.
- **Manufactured capital**: Our physical inputs, such as offices, energy, IT and transport.

As a company, we aim to deploy these types of capital in combination for overall value creation – meaning that we strive to add value via our business model, thereby increasing the total capital or value. Outputs can be both positive and negative.

- **Financial capital:** We invest client assets in companies and other organisations, assist entrepreneurs when raising funds, provide investment returns to our own clients and investors, pay salaries to our employees and pay taxes to society. However, there's also the potential for negative outcomes – for example, if poor market performance hits the assets we manage for our clients.
- **Human and intellectual capital:** We contribute to human capital via the hiring, training and development of our employees, but on the flip side there may be work-related illness and possible redundancies.
- **Natural capital:** We contribute to natural capital by investing client assets in sustainable and impact funds that contribute to natural or environmental goals such as clean energy, climate change mitigation measures or sustainable agriculture. As a result of our investment of client assets and lending activities, however, there may be negative impacts on the environment under certain circumstances, such as waste production, pollution and carbon emissions.
- **Social capital:** We preserve and create growth and job opportunities for society by passing on financial capital to companies and other organisations. We increase social capital by investing client assets in sustainable and impact funds that contribute to social goals like health, education or basic needs like food and clean water. But as a result of our investment of client assets and our lending activities, in some cases there may be negative social impacts, such as on labour rights, human rights or other social issues in our supply chains.

Our contribution to the SDGs

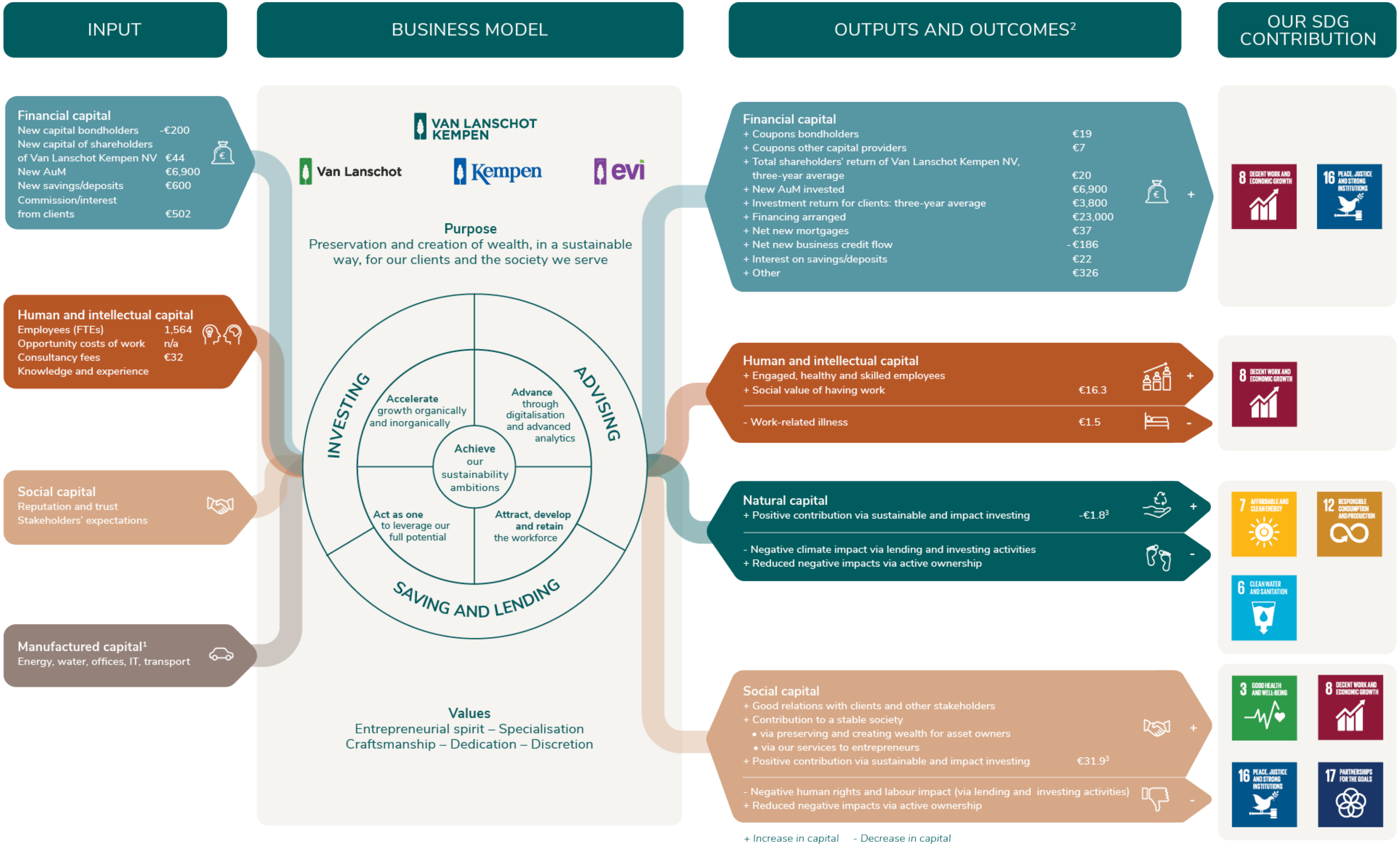
A long-term focus on a sustainable society is what the UN Sustainable Development Goals (SDGs) are all about. As a wealth manager with a focus on the long term, we support all these goals. Of the 17 SDGs, there are seven to which we contribute specifically via our core activities:

- **SDG 3**: Ensure healthy lives and promote well-being for all at all ages.
- **SDG 6**: Ensure availability and sustainable management of water and sanitation for all.
- **SDG 7**: Ensure access to affordable, reliable, sustainable and modern energy for all.
- **SDG 8**: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- **SDG 12**: Ensure sustainable consumption and production patterns.
- **SDG 16**: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels.
- **SDG 17**: Strengthen the means of implementation and revitalise the global partnerships for sustainable development.

Information about our contributions to the SDGs can be found at vanlanschotkempen.com/sustainability.

Over the next four sections, we define what each type of capital comprises, describe our approach to it, provide an indication of how we quantify our contribution, and offer concrete examples of how we create value. We're making progress in terms of quantifying our value creation, but we have only recently started and the process is still in its infancy. Challenges exist around data availability, data comparability, methodology and lack of standards.

VALUE CREATION MODEL



1 Manufactured capital has been deemed non-material and is therefore not included in the sections that follow.
2 For various stakeholder groups.
3 Figures are based on four sustainable investment funds amounting to €876 million, 1% of total AuM.

2020 figures
Amounts are in € millions unless otherwise stated

FINANCIAL CAPITAL

In line with the International Integrated Reporting Framework, we define financial capital as the pool of funds available to an organisation for use in the production of goods or the provision of services. Funds can be obtained through financing, such as debt, equity or grants, or generated through operations or investments.

Our approach

Van Lanschot Kempen is a financial services business and, as such, creating value via financial capital is our reason for being. Our profitability and cost effectiveness are important not only to our clients but also to the shareholders of Van Lanschot Kempen NV (shareholders), employees, governments/regulators and other stakeholders, including society at large. For more details on stakeholders' expectations, see page 10.

Wealth generation for our clients

Our clients trust us to manage their wealth effectively and to make a positive contribution via our investment solutions. They expect risk-rewarding returns that enable the preservation and growth of their financial assets. Our wealth management solutions and investment strategies should also perform well compared with their benchmarks. To achieve this, we have set up professional investment processes that focus on long-term value creation for our investment strategies and the portfolios of our individual and institutional clients. Each of our investment strategies uses a process that is best suited to take advantage of the opportunities in its respective sector. We believe in the values of specialisation and craftsmanship, which is why our portfolio managers have the freedom to create and manage a strategy that is in line with their clients' needs and that delivers sustainable value to their clients. These portfolios bring together the collective expertise from teams that focus on fiduciary management, investment strategies, manager selection and portfolio management. Each team plays a pivotal role in the investment process, governance (including clear responsibilities) and optimum use of systems and tools, in order to achieve the most positive outcomes.

Profitability and cost effectiveness

We manage our profitability and cost effectiveness through continuous improvement of our processes, and through growth and innovation. Drawing on our multi-year forecast, we have set 2023 targets for our Common Equity Tier 1 (CET 1) ratio, our return on CET 1 capital and our efficiency ratio. We set annual targets for all Van Lanschot Kempen departments as part of our annual budget cycle. These budgets are devised bottom-up, with the input of the businesses challenged and, where necessary, made more concrete in sessions with the Executive Board. Target achievement is measured monthly and reported to the Executive Board using management reports – including KPI dashboards – and analyses of financial and non-financial data and trends.

We steer and monitor the value we create in terms of financial capital through a number of KPIs:

KPIs	Targets	Performance 2020	Performance 2019	Material topics
1. CET 1 ratio	15-17%	24.3%	23.8%	1
2. Return on equity (CET 1)	10-12%	4.4%	10.5%	
3. Efficiency ratio	70-72%	85.7%	75.5%	
4. Three-year relative performance of discretionary management mandates a. Private Banking b. Evi	a. > benchmark b. > benchmark	a. -1.8% b. -2.2%	a. -0.4% b. -0.9%	6, 14

Financial and risk management

Financial performance and risk management are key to our organisation, as all direct stakeholders benefit from a solid capital position and sustainable performance. In 2020, our CET 1 ratio increased to 24.3%, well above our target range. Our return on CET 1 declined to 4.4%, significantly below the target range, due to the loss on our structured products activities. Our efficiency ratio amounted to 85.7%, not meeting our target. More information on the developments underlying these ratios is provided on pages 36 and 40.

Return on assets under management

Our wealth management solutions aim to deliver positive performance in the long term, with our investment strategies performing well against their benchmarks.

In 2020, the three-year average performances of Private Banking and Evi discretionary management mandates relative to their benchmarks stood at -1.8% and -2.2% respectively (2019: -0.4% and -0.9%). These figures are calculated by comparing the year-end absolute performance of the largest discretionary solutions over the last three years with their respective benchmarks. Although we did not meet our target to outperform the benchmarks, the absolute three-year average performance of these mandates amounted to 5.2% and 4.8% respectively, thereby positively contributing to our clients' wealth.

For more details on our financial results, see the "Financial performance" section on page 30.

Quantifying our value creation

Overview of financial capital: inputs and outputs

Input (€ million)	From	Amount 2020	Amount 2019	Output (€ million)	For	Amount 2020	Amount 2019
Shareholders and bondholders							
New capital bondholders	H	-200	-9	Coupons bondholders	H	19	20
New capital of shareholders of Van Lanschot Kempen NV	H	44	-33	Coupons other capital providers	H	7	5
				Total shareholders' return of Van Lanschot Kempen NV (three-year average)	H	20	115
Investments							
New AuM	C	6,900	9,900	New AuM invested	S	6,900	9,900
				Investment return for clients (three-year average)	C	3,800	3,600
Advice (Kempen Merchant Banking)							
No financial capital input				Financing arranged	C	23,000	7,000
Savings and lending							
New savings/deposits	C	600	500	Net new mortgages	C	37	129
				Net new business credit flow	C	-186	-92
				Interest on savings/deposits	C	22	26
Other							
Commission/interest from clients	C	502	515	Staff costs	E	249	251
				Taxes	S	4	21
				Remittances to regulators	S	11	12
				Purchase of goods and services	S	61	78
				Donations	S	NP	NP

H: shareholders and bondholders, C: clients, S: society, E: employees, NP: non-public figure

How to read these tables

The table above, and the equivalent tables in the three sections that follow, show the various capital values used and generated by Van Lanschot Kempen in 2019 and 2020. On the left-hand side, the capital deployed by Van Lanschot Kempen in our business model is listed, divided into separate categories. On the right-hand side, the capital generated is listed, also divided into categories. The items listed in the tables are intended as examples, and should not be used to calculate our overall value creation. We have not included total inputs or total outputs in these tables for two reasons: firstly, the methodology is still too immature; secondly, inputs and outputs of a certain type of capital can also be deployed and transformed into another type of capital. For example, new assets under management (financial capital) can also lead to an increase in social capital if invested in the right solutions.

As this table shows, our financial capital inputs consist mainly of the savings, deposits and investments from our clients, as well as the funds provided by investors in our shares and bonds. Our financial capital outputs consist mainly of the funds we invest (on behalf of our clients) in companies and governments, the financial investment returns for our clients, and the financing we arrange for our clients. Shareholders and investors receive dividends and returns as outputs. The outputs for our employees take the form of the salaries they receive. And for society at large, the main outputs relate to the taxes we pay.

HUMAN AND INTELLECTUAL CAPITAL

In line with the International Integrated Reporting Framework, we define human capital as people's competencies, capabilities and experience; their motivation to innovate; their ability to understand, develop and implement our strategy; and their ability to lead, manage and collaborate. We define intellectual capital as organisational, knowledge-based intangibles, including specific expertise and intellectual property.

Our approach

In a knowledge and service-based organisation such as ours, people make all the difference. Their professionalism, skills and engagement determine the quality of our service. Well-trained, knowledgeable people not only provide better service to our clients; they are also more engaged in what they do. And the rapid pace at which digitalisation and technology are developing makes the need for continuous learning even stronger.

Recruiting, retaining and developing talent

Our strategy is to be an attractive and inclusive employer for all talent sources available in the labour market. We continuously strive to recruit a diverse range of talented professionals. Instead of looking for individuals on a case-by-case basis, our aim is to create a continuous flow of new talent. One of the reasons employees choose Van Lanschot Kempen over our competitors is the broader and deeper level of responsibility we are able to offer them. To retain our employees, we provide opportunities to grow, a diverse and inclusive culture, competitive and inclusive labour conditions and our Vitality Programme.

Through our online learning platform – accessible to all Van Lanschot Kempen employees – we provide an integrated educational programme that fits with our strategy. The platform helps employees and their managers to see what is expected of them, and what knowledge and skills they have yet to attain or develop. Development KPIs are included in the people analytics that managers receive on a quarterly basis.

We steer and monitor the value we create in terms of human and intellectual capital through a number of KPIs:

KPIs	Targets	Performance 2020	Performance 2019	Material topics
5. Employee engagement score	> 80%	n/a	82%	9
6. Employer Net Promoter Score (eNPS)	> 10	6	n/a	
7. Gender balance in management positions	> 30% female > 30% male	21% female 79% male	21% female 79% male	
8. Percentage of total number of training courses followed to develop new skills in order to adapt the workforce (e.g. technical, digital, adaptability)[1]	> 25%	25%	n/a	11

Employee engagement

We aim to engage our employees on topics that are relevant and critical to our strategy. In 2020, we identified four such topics – health and well-being, the new way of working (accelerated by the Covid-19 pandemic), ethics and integrity, and performance management development. As a result of our focus on health and well-being, absenteeism went down from 3% in 2019 to 2.3% in 2020.

Although our formal employee engagement survey only occurs every two years (last time in 2019), we conducted pulse surveys on these topics and developed action plans for each. The average participation rate across the pulse surveys was over 65%. Our Employer Net Promoter Score (eNPS) was 6, which is a positive result despite being slightly below our target of 10. The eNPS is a method used to measure employee satisfaction and loyalty to our organisation, based on the percentage of employees who are promoters of the organisation, minus the percentage of employees who are detractors.

In line with our strategic pillar to attract, develop and retain our workforce, we aim to further develop the skills of our staff. In 2020, 25% of all training was aimed at developing new skills, exactly meeting our target.

Diversity and inclusion

Attracting and retaining a diverse workforce continues to be a focus area for Van Lanschot Kempen. We aim for a fully inclusive workforce, in terms of ethnic background, religion, sexual orientation, gender and so on. We measure gender balance, and therefore aim for at least 30% female and 30% male in management positions reporting directly to the Executive Board, as well as in the next level of staff with management responsibilities. The gender balance in management positions did not change in 2020: 21% of employees in management positions are female, below our target range. We are taking steps to redress this, including – as of 1 January 2021 – supporting female colleagues to reach the top level in several departments under our adjusted organisational structure.

Also as of 1 January 2021, at the level reporting directly to the Executive Board, we saw 40% so-called "next gen" employees (under 45 years old) compared with 25% the

[1] This KPI does not cover the full range of training offered within Van Lanschot Kempen. It is calculated based on training for employees working in the Netherlands, booked via our learning platform and via our training broker.

previous year. This gives us a strong signal to continue our inclusive labour market approach in 2021. An important initial step is our renewed employer brand narrative towards prospective candidates.

During 2020, we encouraged leaders from across the business to follow training on unconscious bias, to raise awareness around inclusion and to activate more inclusive behaviour. We revised our vacancy texts to be 100% gender neutral – something for which we received recognition from the external market. We also implemented people analytics to analyse our recruitment funnels, the labour market, our actual inflow and promoters in more depth. Increased awareness and insight into data is a starting point for changing behaviour.

We strive for equal pay for our workforce, which means that pay is merit-based and related to job level; we therefore periodically investigate this for all categories of employees. If necessary, we make adjustments to equalise pay.

In 2020, we analysed the gender pay gap at different levels in the organisation. We observed pay gaps at senior management levels and in specific areas in the wider workforce; these may be due to differences in age, work experience and so on. In 2021, we will perform further analyses to determine whether there are any unexplained differences.

Key staff data	2020	2019
Employees (FTEs at year-end)	1,564	1,560
Absenteeism (%)	2.3	3.0
Investment in training (€ million)	2.0	2.8
Training hours (estimated total number of hours, individually and collectively)	84,000	80,026
Male/female ratio (%)	67/33	65/35
Staff turnover (%)	5	7

Staff per business at year-end	2020		2019	
	Number	FTEs	Number	FTEs
Private Banking	660	603	698	655
Evi	22	21	23	23
Asset Management	270	260	274	264
Merchant Banking	119	117	129	127
Other (support functions)	554	504	521	491
Hof Hoorneman Bankiers	65	59	–	–
Total	1,690	1,564	**1,645**	**1,560**

Quantifying our value creation

Overview of human and intellectual capital: inputs and outputs

Input (€ million)	From	Amount 2020	Amount 2019	Output (€ million)	For	Amount 2020	Amount 2019
Opportunity costs of work	E	n/a	n/a	Social value of having work	E	16.3	17.3
				Work-related illness	E	1.5	1.5

E: employees

As the table above shows, our human capital inputs consist of the opportunity costs of work by our employees, meaning the value of the hours our employees devote to Van Lanschot Kempen. We aim to add value to these human capital inputs through our business model – for example, by creating attractive jobs that result in additional social value for our employees. However, such outputs can also be negative – as in the case of work-related illnesses. Note that the table contains only three examples so far; we expect to add more data in the future, including figures on diversity, the gender pay gap, work experience and training.

Opportunity costs of work

By using the so-called “willingness to pay” method, economists have been able to establish the average monetary value that a Dutch employee assigns to one working hour, compared with one leisure hour. By multiplying the annual number of working hours spent by our employees by the average price of a leisure hour, it should be possible to estimate the total opportunity costs of our human capital input. As we are still exploring this methodology and its implications, there is no figure reported in the table above.

Social value of having work

Numerous studies show that people with a job are more satisfied with their lives than people without one. Several of these studies also focus specifically on quantifying this social value, usually by means of a "well-being valuation". Through this econometric method, developed to measure the value of so-called non-market goods, we can determine the monetary value of increased life satisfaction as a result of a job. Based on the formula developed by Fujiwara (2019)[2], the social value of all jobs at Van Lanschot Kempen in 2020 amounted to €16.3 million – accrued by employees – compared with €17.3 million in 2019.

Work-related illness

On the flip side, the negative impact of work-related illness on employees’ quality of life is also reflected in our contribution to human capital and social value. To calculate this, we use the disability-adjusted life year (DALY) method developed by the World Health Organization. A DALY is an international measure of missed happiness in life due to illness. In short, every healthy year of life counts for 1 DALY, and the DALY is lowered for each year in which an employee is ill by using a weighting factor.

[2] For full details of the formula used to calculate this value, see Fujiwara, D. (2019), *Valuing non-market goods using subjective wellbeing data* (The London School of Economics and Political Science).

We combine this data with illness-related absentee data for the average Dutch employee (from the Dutch National Institute for Public Health and the Environment – RIVM) and the value of one year of life (from CE Delft, an independent research organisation) to calculate the total impact. Based on this calculation, the total negative impact from arm, neck and shoulder complaints, back pain and burnout in 2020 amounted to €1.5 million, the same as in 2019.

Other achievements and developments

Organisational structure

In line with our strategic pillars – that guide the implementation of our strategy – our workforce and organisational structure need to evolve. We have engaged staff from all business lines and across multiple levels in the organisation to think through the strategic challenges, and involved them in the transformation of our workforce. With the shift from a business line-based structure to a function-based structure, some roles will be required to shift, too. Our company strategy will also be translated into the required skills and competencies, with a well-structured learning management system in place to ensure that our people are able to deliver on it. This process started in mid-2020 and will be further worked out in 2021.

Inclusive employment practices

In early 2020, we completed the process of integrating our HR practices – including the provision of a defined benefit pension plan for all our employees. This plan gives us the opportunity to use some of our own Kempen funds and/or an additional Evi pension scheme to offer a solid pension provision to our people. As part of the same HR integration project, we now also have some more inclusive employment practices. For example, we financially support female colleagues who want to work full-time with daycare costs. We also give older employees the opportunity to work fewer hours as they get closer to retirement, without it negatively impacting their pension savings. Lastly, we give our employees the opportunity to take a sabbatical once every five years

Impact of Covid-19 on our employees

Naturally, the pandemic – and the restrictions related to it – had a significant impact on our employees. On the one hand, travel time was all but eliminated and people embraced the digital working environment. On the other, many parents understandably struggled to balance work with childcare, while the lack of personal interaction took a toll on people's well-being. To boost engagement, we organised many digital team events.

Next steps

In 2021, we will continue to work on engaging our employees on key topics, and increasing the diversity and inclusion of our workforce. We will also further refine and increase our reporting on our contribution to human capital value creation.

NATURAL CAPITAL

In line with the International Integrated Reporting Framework, we define natural capital as all renewable and non-renewable environmental resources that support the prosperity of an organisation. Natural capital includes air, water, land, minerals, forests, biodiversity and ecosystem health.

Our approach

We contribute to natural capital by investing client assets in sustainable and impact funds that contribute specifically to natural or environmental goals such as clean energy, climate mitigation measures or sustainable agriculture. As a result of our investment of client assets and lending activities, however, there may be negative impacts on the environment under certain circumstances, such as waste production, pollution and carbon emissions.

Responsible and sustainable investment

Given the size of our assets under management, the biggest environmental impact we make – whether positive or negative – relates to how we invest our clients' assets. We therefore have an extensive responsible investment policy in place for all assets under management. This policy is developed and implemented internally, and is based on a long-term, focused investment philosophy coupled with an active ownership approach. We believe that an actively managed investment portfolio will create the most value in the long term, in both financial and non-financial (environmental, social and governance – ESG) terms. We engage with fund managers and investee companies on a broad range of ESG topics, including environmental issues, and we exercise our voting rights at annual general meetings (AGMs). If fund managers or investees are not willing to comply with our minimum environmental standards, we may choose to divest. In addition to our responsible investment approach, we offer sustainable solutions. These contain more exclusion criteria and a best-in-class approach.

As part of our responsible and sustainable investing, we also have a climate policy that was significantly strengthened in 2020. Kempen Asset Management has set strong targets for our investment funds, in line with the Paris Agreement on carbon emission reduction, to be met by 2025, 2030 and 2050 respectively. As Kempen Asset Management is the asset manager for Private Banking's discretionary management propositions, this also applies to these portfolios. In 2020, Kempen Asset Management also signed the Net Zero Asset Managers initiative: a group of 30 international asset managers who aim to achieve net-zero greenhouse gas emissions in their portfolios by 2050. For a full description of our responsible investment policy (including our voting policy and voting records), see kempen.com/en/asset-management/esg.

We steer and monitor the value we create in terms of natural capital through a number of KPIs:

KPIs	Targets	Performance 2020	Performance 2019	Material topics
14. Private Banking sustainability ambition: AuM invested in sustainable and impact investment wealth management solutions	last year +10%	2020: €3,063m + €1,017m	2019: €2,046m + €728m	16
15. Asset Management sustainability ambition a. Percentage of internal and external fund managers on the approved list that meet the sustainability criteria b. Engagement cases with companies that our funds invest in per year c. Engagements for change for which at least one milestone has been reached in the past year[1]	a. > last year b. 80-100 c. 10-15	a. 76% b. 116 c. 61	a. n/a b. 84 c. n/a	
16. Decrease in carbon emissions a. Direct emissions of our own organisation b. Indirect emissions via our balance sheet (mortgage portfolio)	a. -2.5%/FTE/year b. CO_2/€ < last year	a. -51.1% b. 0.4%	a. -5.6% b. -2.0%	n/a

Sustainability ambition

Private Banking assets under management invested in sustainable (Duurzaam+) and impact investment (Impact Investing) rose 50% to €3,063 million in 2020, from €2,046 million in 2019.

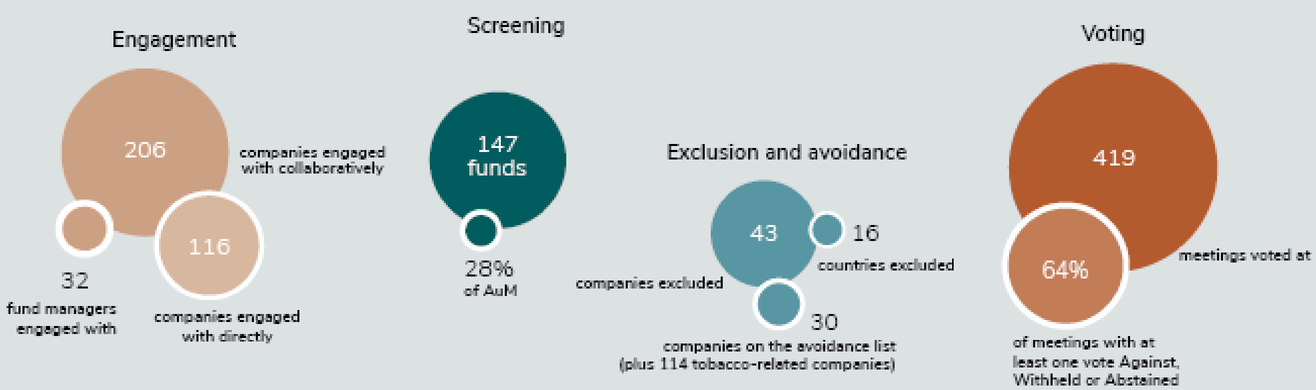
In 2018, we started rating internal and external fund managers on our approved list, with the ultimate aim to rate them all. At the beginning of 2020, we adjusted our KPI (15a) to an increase in the percentage of fund managers[2] that meet our sustainability criteria. In 2020, the percentage of fund managers that met our sustainability criteria was 76%. Given that our criteria are now more stringent, we are satisfied with this result by the end of the reporting year.

In 2020, we undertook 116 direct engagements for change and awareness (up from 84 in 2019), which means we reached our annual target of 80–100 cases. At least one milestone was reached for 61 engagements in 2020, meaning that at least one pre-defined goal of the engagement was realised. The large number of engagement cases for which at least one milestone was reached is due to increasing engagement efforts.

In addition to these direct engagements with companies, we also had 206 collaborative engagements with companies and 32 dialogues with external fund managers. In addition, we voted at 419 meetings, or 96% of all votable meetings (2019: 414 meetings, 92%).

[1] Engagement consists of four stages. If it moves to the next stage, a milestone has been achieved.
[2] The asset classes covered by our ESG scorecard are listed equities, government bonds (developed and developing), corporate bonds (investment grade and high yield) and listed real estate. Funds with no material asset allocation are not in scope.

Responsible investment dashboard 2020



Green mortgages

On the Private Banking side, our green mortgage solution, Van Lanschot Groenhypotheek, helps private clients finance home improvements to make their properties more sustainable at a lower interest rate.

Carbon footprint

As carbon emissions are considered to be the biggest driver of climate change, we report on our carbon footprint annually. Due to the small size of our company relative to the magnitude of the assets we manage, our biggest emissions relate to our client investments. In 2020, the aggregate carbon footprint of our clients' managed assets was 4.9 million tonnes (2019: 4.7 million tonnes). Although the absolute carbon footprint increased, carbon intensity decreased, indicating that our investments have become less carbon intensive. This reflects the fact that our clients' assets are increasingly in ESG investments, which have lower carbon intensities. We see this development in both Private Banking and Asset Management.

Our mortgage portfolio saw a reduction in carbon emissions of 5.8%, reflecting the fact that the Netherlands is moving towards making its homes more sustainable.

However, the total carbon footprint of the assets on our balance sheet increased from 41,645 tonnes in 2019 to 47,879 tonnes in 2020. This was due to an increase in the indirect emissions of our investment portfolio, which was the consequence of changes in the portfolio.

In our own organisation, our absolute carbon emissions in 2020 totalled 1,965 tonnes, or 1.17 tonnes per FTE (2019: 4,220 tonnes, or 2.4 tonnes per FTE). The 51.1% fall in emissions per FTE is mainly the result of less business travel due to the one-off impact of the Covid-19 pandemic. Because of these exceptional circumstances, we more than met our reduction target of 2.5% per FTE per year, but it is likely that emissions will increase again once the situation normalises. In 2020, we continued to offset all the carbon emissions from our own organisation, as we did in 2019.

Carbon footprint of our assets under management in 2020[3]

CO_2e assets under management	Total AuM (€ billion)	Absolute footprint (million tCO_2e)	Relative footprint (tCO_2e/€ m invested)	Carbon intensity (tCO_2e/€ m sales)	Coverage (CO_2e based on % AuM)
Private Banking (incl. Evi)	28.5	1.5	98.1	—	54%
Asset Management	70.5	3.4	100.1	148.2	48%
Total	**99.0**	**4.9**	**99.5**	—	**50%**

Carbon footprint of our assets under management in 2019[4]

CO_2e assets under management	Total AuM (€ billion)	Absolute footprint (million tCO_2e)	Relative footprint (tCO_2e/€ m invested)	Carbon intensity (tCO_2e/€ m sales)	Coverage (CO_2e based on % AuM)
Private Banking (incl. Evi)	25.7	1.3	114.5	—	45%
Asset Management	62.0	3.4	124.9	180.4	44%
Total	**87.7**	**4.7**	**121.8**	—	**44%**

[3] CO_2e figures based on 2018 data (scope 1 and 2); underlying assets under management as at 30/09/2020.
[4] CO_2e figures based on 2017 data (scope 1 and 2); underlying assets under management as at 30/09/2019.

Quantifying our value creation

Overview of natural capital: inputs and outputs

Input (€ million)	From	Amount 2020	Amount 2019	Output (€ million)	For	Amount 2020	Amount 2019
Natural capital input is insignificant				Client investments (AuM)[5]	S	-1.8	n/a
				Mortgages	S	n/a	n/a
				Other loans	S	n/a	n/a
				Carbon footprint own organisation (fully offset)	S	0	0

S: society

As the table shows, our impact on natural capital – both positive and negative – is mainly via the products and solutions we provide and our organisational footprint. For the latter and our clients' investments, we have made some initial value creation calculations. For our natural capital inputs, the situation is different: because the value of these inputs is insignificant and very hard to quantify or monetise, there are no data in the left-hand side of the table.
Van Lanschot Kempen's primary inputs come from financial capital streams, and are transformed into natural capital outputs.

Our client investments and natural value creation

In 2020, we made an initial step in terms of quantifying the natural capital outcomes of our clients' assets. By using data from a new data vendor, we undertook a preliminary first assessment of the natural capital alignment of Kempen's sustainable equity funds.[6] These funds comprise the Kempen European Sustainable Value Creation Fund, Kempen Global Sustainable Value Creation Fund, Kempen Global Sustainable Equity Fund and Kempen Sustainable European Small-cap Fund, with a total value of €876 million. Our assessment focused on the goods and services provided by our investee companies that are associated with eight natural themes, such as clean water and sanitation, affordable and clean energy, and climate. As shown in the table above, the natural capital alignment of all Kempen's sustainable funds in aggregate (€876 million) is estimated at -€1.8 million. If the €876 million were to be invested in benchmark funds instead, the natural capital alignment would be estimated at -€101.1 million.

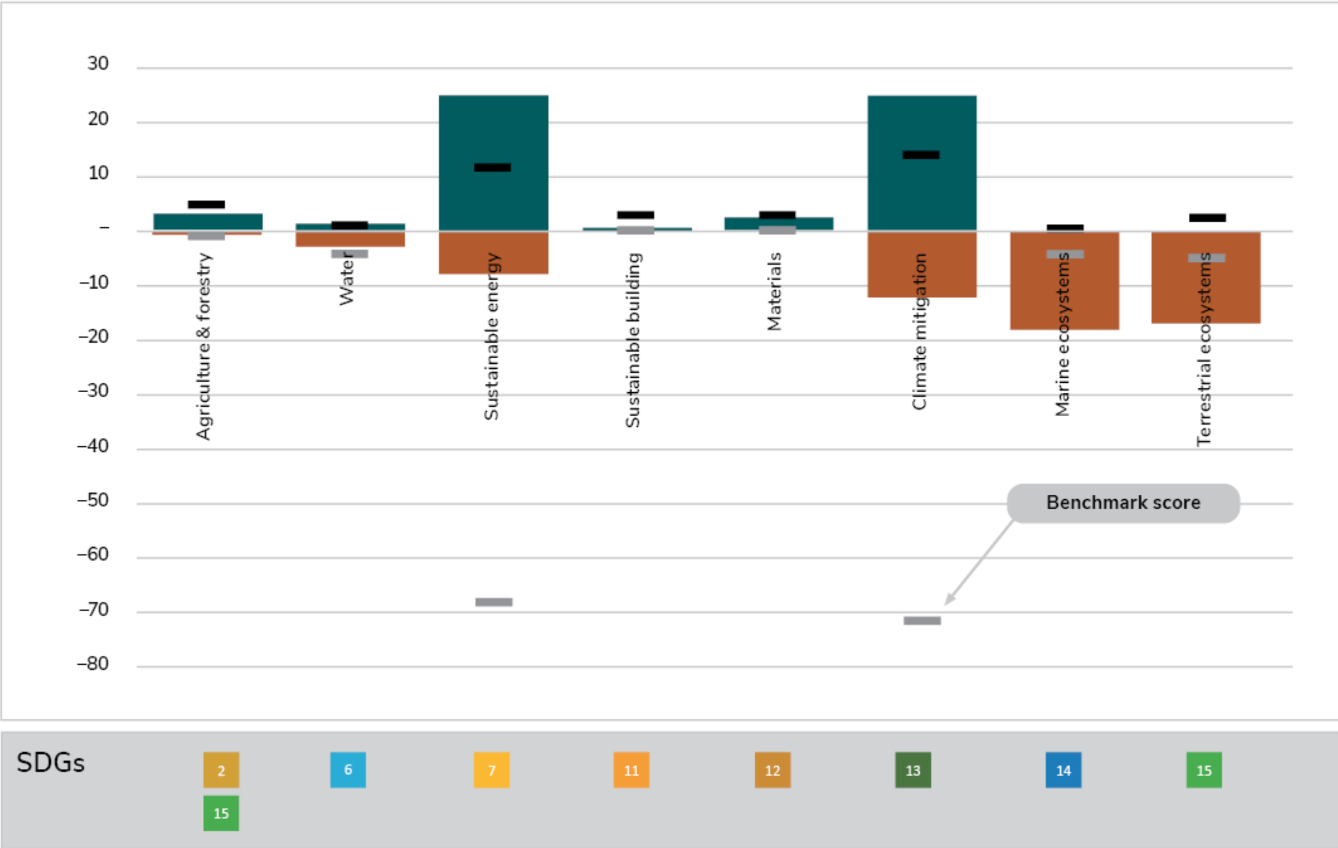
Our calculations were based on company sales data per investee, indicating which portion of sales could be linked (positively or negatively) to a set of natural and social themes. Adding up the sales numbers for the natural themes resulted in the total contribution to natural capital. Although we recognise that this aggregation may result in a product or service of an investee being attributed to more than one (natural or social) theme, we do not expect this to materially influence the final outcome of our analysis. The main reason is that our aggregation is conducted both for positive and negative impacts, and consequently smooths out a potential double-counting calculation impact.

As shown by the graph on the following page, for every million euros invested in the Kempen sustainable equity funds in aggregate over 2020, there was a positive alignment of €24,449 with sustainable energy and €24,478 with climate mitigation. The graph also shows negative alignments with some natural themes, especially sustainable energy, climate mitigation, marine ecosystems and terrestrial ecosystems. Some but not all of the impacts compare favourably with the benchmarks for these sustainable Kempen funds, as shown by the horizontal lines in the graph. For more information about benchmarks, visit kempen.com/en/asset-management.

As also indicated in the graph, the calculated impact can be mapped to the SDGs as well. However, the process of mapping the natural capital alignment with the SDGs is still in its infancy.

[5] Based on four sustainable funds with a total value of €876 million.
[6] Until now, we have not been proactively steering on contributing to these eight natural themes through our investments in listed asset classes, which is why we use the term "alignment" instead of "contribution" at this stage.

Alignment of our assets under management in Kempen sustainable equity funds with natural themes (in €1,000 per million euros invested)



Private Markets Fund

The Private Markets Fund[7] published its first annual sustainability report in 2020. The fund's portfolio companies continue to find ways to positively contribute to the environment. In 2019, 38.7 million trees were planted and 2,349 hectares of natural areas were protected across fund partners, timber and farmland investments. On a pro-rata basis, that equates to a contribution of 150,000 trees planted and 33 hectares protected. Planting trees can enhance biodiversity while forests can store approximately one-third of annual carbon emissions from burning fossil fuels globally.

Next steps

We've made some progress on reporting in terms of natural capital in 2020, but there's still work to be done. We aim to expand our analysis to our credit investment funds as well. In general terms, we aim to steer these figures in the right direction in 2021 and beyond by setting targets and by further enhancing and implementing our responsible investment policies.

[7] The Private Markets Fund's figures are not included in the graph "Alignment of our assets under management in Kempen sustainable equity funds with natural themes".

SOCIAL CAPITAL

In line with the International Integrated Reporting Framework, we define social capital as the relationships within and between groups of stakeholders. In our case, social capital includes the social impact we make via our client assets.

Our approach

We preserve and create wealth, growth and job opportunities for society by passing on financial capital to companies and other organisations. Our relationship with clients is one of our most important assets. We increase social capital by investing client assets in sustainable and impact funds that contribute specifically to social goals, such as health and education, or basic needs, such as food and clean water. But as a result of our investment of client assets and our lending activities, in some cases there may be negative impacts, such as on labour rights, human rights or other social issues in our supply chains.

Responsible and sustainable investment

As with natural capital, the biggest social impact we make relates to how we invest our assets under management. Our responsible investment policy therefore also covers social issues extensively. We engage with fund managers and investee companies on a broad range of ESG topics, including social issues such as human rights and labour rights, and we exercise our voting rights at AGMs. If fund managers or investees are not willing to comply with our minimum social standards, we may choose to divest. In addition to our responsible investment approach, we also offer sustainable solutions. These contain more exclusion criteria and a best-in-class approach.

For a full description of our ESG policy (including our voting policy and voting records), see kempen.com/en/asset-management/esg.

Ethics and integrity

The financial sector is built on trust, and a healthy culture and ethical behaviour are needed to sustain this trust with all our stakeholders.

The Banking Code, with which we comply, sets out principles for sound and controlled business operations, corporate governance, risk management policies, and audit and remuneration policies. Its scope includes the integrity of the organisation (for more information, see page 72). As stated in the Banking Code, the Statutory and Supervisory Boards are responsible for developing and maintaining standards of integrity and ethical behaviour.

Our Code of Conduct, to which every employee must adhere, goes further than complying with relevant legislation. It includes guidelines on how employees should act with integrity and balance the interests of all stakeholders. Our Code also includes the Banker's Oath, which all our employees are required to sign. For more information, see vanlanschotkempen.com/en/governance.

There are various internal mechanisms for employees who are seeking advice, or for reporting concerns about ethical issues, unethical or unlawful behaviour, and organisational integrity – for example, via their managers and the Compliance department. We have a whistleblower policy and a complaints procedure in place; we have also appointed an adviser who employees can speak to confidentially.

We steer and monitor the value we create in terms of social capital through a number of KPIs:

KPIs	Targets	Performance 2020	Performance 2019	Material topics
9. Net Promoter Score (NPS) a. Private Banking b. Evi c. Asset Management	a. 10 b. 10 c. 20	a. 26 b. 5 c. n/a	a. 23 b. 10 c. 31	13
10. Merchant Banking: number of successful transactions with repeat Corporate Finance clients (five-year period)	60-70%	39%	n/a	
11. Merchant Banking: bundled commission paid by repeat Securities clients	> 80%	95%	n/a	
12. Asset Management: average Morningstar rating of investment strategies (institutional share class)	> 3.5	3.6	3.9	6, 14
13. Percentage of employees who positively evaluate our culture regarding ethical behaviour and integrity	> industry average of 84%	89%	77%	24
14. Private Banking sustainability ambition: AuM invested in sustainable and impact investment wealth management solutions	last year +10%	2020: €3,063m + €1,017m	2019: €2,046m + €728m	16
15. Asset Management sustainability ambition: a. Percentage of internal and external fund managers on the approved list that meet the sustainability criteria b. Engagement cases with companies that our funds invest in per year c. Engagements for change for which at least one milestone has been reached in the past year	a. > last year b. 80-100 c. 10-15	a. 76% b. 116 c. 61	a. n/a b. 84 c. n/a	

Client relations

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

In 2020, our Private Banking clients[1] awarded us an NPS of 26, higher than our target of 10. This can be attributed to a significantly higher score in Q4 2020, during which the percentage of clients with whom there was no contact decreased. Satisfaction regarding our investment services also increased, which could relate to the rebound of financial markets in the last quarter.

The NPS for Evi decreased to 5 in 2020, lower than our target of 10. Compared with 2019, Evi clients indicated a lower level of satisfaction regarding their investment results. However, 85% indicated it was "likely" to "very likely" that they would remain a client.

For Asset Management, we measure NPS once every two years, as the relationships with – and solutions provided to – institutional clients do not change as quickly as can be the case with private clients. The last time we measured the NPS for Asset Management was in 2019, when our clients awarded us a score of 31, above our target of 20.

In addition to NPS, two new KPIs were added in 2020 to measure our progress in building long-term client relationships with our Merchant Banking clients. Among our Corporate Finance clients, this is measured via the percentage of successful transactions with repeat clients during a year. A client is defined as a repeat Corporate Finance client if they have made a successful transaction with us in the past five years. The result on this KPI indicates whether existing clients are doing business with us again as well as our ability to acquire new clients. In 2020, 39% of transactions were with repeat clients, below our target range of 60-70%. This was due to the significant rise in the number of new clients for whom transactions were made. This increase was mainly caused by the impact of Covid-19, which resulted in a relatively large number of new life sciences clients within our ECM business.

Client satisfaction among our Securities clients is measured in a similar way: the percentage of repeat Securities clients paying bundled commission for our research in the past 12 months, compared with the previous 12-month period. Given the importance of building long-term client relationships, the target has been set at 80%. At 95%, the 2020 result is significantly above our target.

A crucial element in our relationship with clients is the extent to which their expectations are met by the quality and effectiveness of our solutions. The quality of our investment strategies is measured via the average Morningstar rating of these strategies in the institutional share class. At the end of 2020, the average rating was 3.6, meeting our target.

Ethical behaviour

Our approach to ethical behaviour is described on the previous page. We monitor whether our employees positively evaluate our culture regarding ethical behaviour and integrity via employee surveys. Employees are asked to evaluate whether we operate with integrity in both our internal and external dealings, and if they feel they could report dishonest or unethical practices without fear of reprisal. The outcome is benchmarked against other financial services firms (by an external organisation) and was above the industry average at the end of 2020, in line with our target.

In 2020, there was one ethical incident reported, which has since been handled according to the relevant policies and procedures.

Quantifying our value creation

Overview of social capital: inputs and outputs

Input (€ million)	From	Amount 2020	Amount 2019	Output (€ million)	For	Amount 2020	Amount 2019
Social capital input has not yet been quantified				Client investments (AuM)[2]	S	31.9	n/a
				Mortgages	S	n/a	n/a
				Other loans	S	n/a	n/a

S: society

As the table shows, our main impact on social capital – both positive and negative – is via the products and solutions we provide. Although we acknowledge that we use social capital as inputs – such as our brand reputation and stakeholder recognition – we don't know yet how to quantify or monetise these, which is why there are no data in the left-hand side of the table.

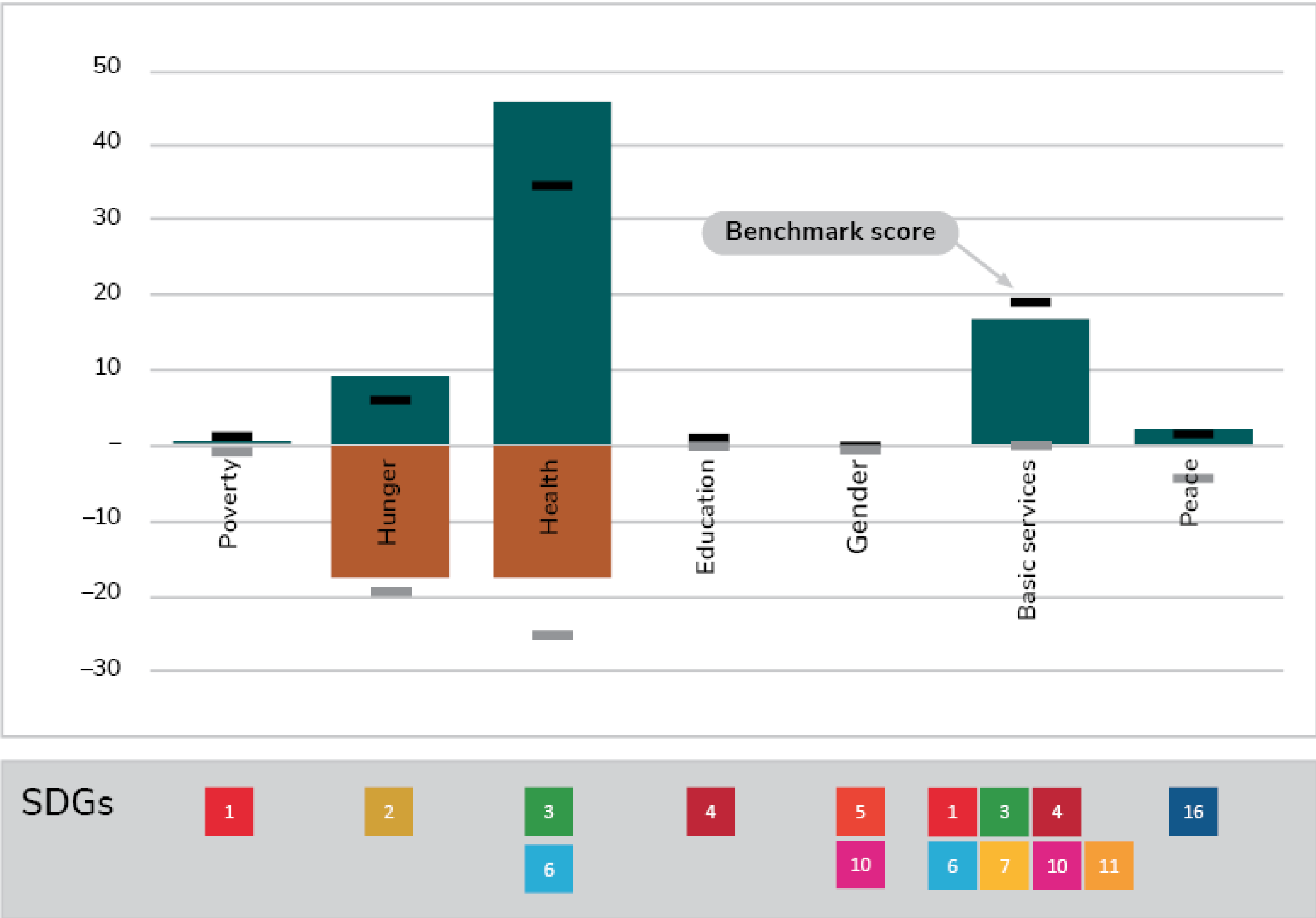
Our client investments and social value creation

As with natural capital, we made an initial step in terms of quantifying the social capital outcomes of our clients' assets. In 2020, we undertook a preliminary first assessment of the social capital alignment of Kempen's sustainable equity funds with seven social themes.[3]

[1] Only clients who belong to Private Banking's target group.
[2] Based on four sustainable funds with a total value of €876 million.
[3] Until now, we have not been proactively steering on contributing to these seven social themes through our investments in listed asset classes, which is why we use the term "alignment" instead of "contribution" at this stage.

These funds comprise the Kempen European Sustainable Value Creation Fund, Kempen Global Sustainable Value Creation Fund, Kempen Global Sustainable Equity Fund and Kempen Sustainable European Small-cap Fund, with a total value of €876 million – the same funds used to quantify our natural capital outcomes. In our assessment, we focused on the goods and services provided by our investee companies that are associated with the social themes, such as health and well-being, reduced inequality, and clean water and sanitation.

Alignment of our assets under management in Kempen sustainable equity funds with social themes (in €1,000 per million euros invested)



Based on our assessment, the Kempen sustainable equity funds in aggregate over 2020 (€876 million) made a net positive contribution of €31.9 million to the social themes. As shown by the graph, for every million euros invested in the Kempen sustainable equity funds in aggregate over 2020, there was a positive alignment of €44,647 with health and €16,644 with basic needs such as no poverty, education, clean water and energy. There were also two negative impacts, on hunger and health respectively, but in both cases performance was better than the benchmark (as shown by the horizontal lines in the graph). If the €876 million were to be invested in the benchmarks of these sustainable equity funds instead, the social capital alignment would be estimated at €12.1 million. For more information about industry benchmarks, visit kempen.com/en/asset-management.

Sustainable Value Creation Fund

The Sustainable Value Creation Fund actively selects investee companies that make a social contribution. The fund has several pharmaceutical companies in its portfolio, which align with the social theme of health and well-being in the context of the Covid-19 pandemic (as shown in the third bar of the graph above). However, we are aware that such pharmaceutical companies also have negative impacts.

The two cases below are examples of how the fund contributes to social capital.

Firstly, Roche was in the spotlight in March 2020 due to its lysis buffer solution recipe in relation to Covid-19 test kits. Along with other investors, we asked Roche to share this medical information with the Dutch government and other suitable parties to ramp up testing capabilities for Covid-19. The specific recipe was subsequently released and made widely available.

Secondly, Novo Nordisk has continued to contribute to the health of patients needing insulin, even during the Covid-19 pandemic. The company has reduced the price of human insulin from US $4 to $3 per vial to ensure access for uninsured people globally. Because of this, millions of people from 76 countries received access to low-priced insulin in 2020. If patients take their medication correctly and adopt a healthy lifestyle, their life expectancy can reach the same level as people without such a diagnosis. Under this assumption, Novo Nordisk's products in the diabetes market save 360 million years of total life expectancy for its patients.

Global Impact Pool

The Global Impact Pool (GIP) aims to reach underserved consumers around the world with essential healthcare and financial services. Its goal is to promote inclusive and sustainable economic growth, employment and decent work for all. Access to high-quality affordable healthcare services is a critical unmet need for consumers in East Africa and Southeast Asia. In addition, financial services are able to help marginalised consumers and local businesses access capital and afford the insurance or banking services they need. In 2020, the GIP reached €108 million (2019: €100 million).

Mortgages

On the Private Banking side, our mortgages also contribute to realising social impacts. Scientific research indicates that home ownership contributes to higher levels of well-being and better safety in neighbourhoods. We have not yet quantified such impacts from our mortgages in monetary terms.

Next steps

We've made progress on reporting in terms of social capital in 2020, but there's still work to be done. We aim to expand our analysis to our other equity funds and credit investment funds as well. In addition, we're continuing to make progress in quantifying the social capital impact of our mortgages and other loans. We aim to steer these figures in the right direction in 2021 and beyond by setting targets and by further enhancing and implementing our sustainable investment policies.

FINANCIAL PERFORMANCE

Key financial data

€ million	2020	2019		H2 2020	H1 2020
Statement of income					
Net result	49.8	98.4	-49%	40.4	9.5
Underlying net result	51.0	108.8	-53%	41.6	9.5
Efficiency ratio (%)	85.7	75.5		79.2	93.2

€ billion	31/12/2020	31/12/2019		30/06/2020	
Client assets	115.0	102.0	13%	103.4	11%
– Assets under management	99.0	87.7	13%	89.2	11%
– Assets under monitoring and guidance	3.2	3.1	2%	3.2	1%
– Assets under administration	2.7	1.6	68%	1.2	
– Savings and deposits	10.1	9.5	6%	9.8	3%

€ million	31/12/2020	31/12/2019		30/06/2020	
Statement of financial position and capital management					
Equity attributable to shareholder	1,254	1,211	4%	1,225	2%
Equity attributable to AT1 capital securities	102	102	0%	102	0%
Equity attributable to non-controlling interests	0	4		0	-43%
Savings and deposits	10,141	9,545	6%	9,826	3%
Loans and advances to clients	8,448	8,598	-2%	8,477	0%
Total assets	15,149	14,319	6%	14,901	2%
Funding ratio (%)	120.0	111.0		115.9	
Risk-weighted assets	4,195	4,205	0%	4,195	0%
Common Equity Tier 1 ratio (%)[1]	24.3	23.8		24.0	
Tier 1 ratio (%)[1]	26.7	26.2		26.4	
Total capital ratio (%)[1]	30.3	29.9		30.0	

	2020	2019		H1 2020	
Key figures					
Weighted average of outstanding shares (x 1,000)	400	400	0%	400	0%
Underlying earnings per share (€)	110.49	258.24	-57%	15.16	
Return on average Common Equity Tier 1 capital (%)[2]	4.4	10.5		1.2	
Number of staff (FTEs at period end)	1,564	1,560	0%	1,519	3%

Market developments

In 2020, we saw exceptional market circumstances related to Covid-19. In March and April, the pandemic sparked a chain of events in the markets that led to increased volatility and illiquidity. The deteriorating economic outlook triggered an unprecedented monetary policy response from central banks and governments around the world. In the second half of 2020, the financial markets showed a swift recovery.

Results

Despite these exceptional circumstances, in 2020 we saw commercial segments developing well, which resulted in a net profit of €49.8 million (underlying net result: €51.0 million). This allows us to propose a dividend of €0.70 per share to the shareholders of Van Lanschot Kempen NV. Payment of dividends will be made in two parts, as we are following the recommendation of the European Central Bank (ECB) and De Nederlandsche Bank (DNB) to limit the payment of dividends until 30 September 2021.

The 49% decline in net result compared with 2019 is due to several factors. Firstly, following the impact of the pandemic on financial markets, we suffered a significant loss on our structured products activities. Secondly, interest income declined as a result of the ongoing low interest rate environment. Thirdly, we did not account for exceptional items in 2020, whereas 2019 saw the sale of our stakes in AIO II and VLC & Partners, which were partly offset by an impairment of goodwill.

Following the exceptional market circumstances relating to Covid-19 in the first half of 2020, which led to a net profit of €9.5 million, we saw all commercial segments develop well in the second half of the year, with a net profit of €40.4 million as a result.

[1] Full-year 2020 and 2019 including retained earnings; half-year 2020 excluding retained earnings.
[2] Return on average Common Equity Tier 1 capital is calculated based on underlying net result.

Client assets grew to €115.0 billion (2019: €102.0 billion), while our assets under management (AuM) increased by 13% to €99.0 billion. This growth was driven by a net inflow of €6.9 billion and positive market performance of €3.4 billion.

With the completion of our acquisition of Hof Hoorneman Bankiers, we have been able to welcome their clients with €2.0 billion in assets. We expect to complete the integration of clients, employees and funds by the end of 2021. At the end of 2020, we included this acquisition in our balance sheet and client assets, because we gained decisive control from the date we obtained declarations of no objection by the regulators.

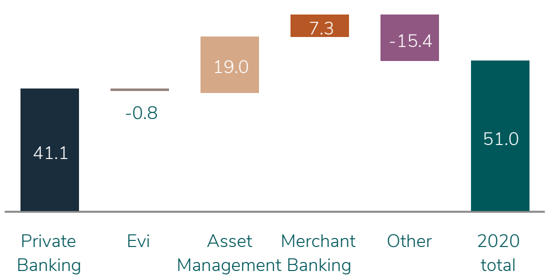
Financial results (€ million)	2020	2019		H2 2020	H1 2020
Commission	296.4	290.4	2%	147.5	148.9
– of which securities commissions	*247.4*	*241.8*	*2%*	*124.3*	*123.1*
– of which other commissions	*49.1*	*48.6*	*1%*	*23.2*	*25.8*
Interest	152.1	175.3	-13%	75.1	77.0
Income from securities and associates	17.7	50.5	-65%	17.1	0.6
Result on financial transactions	-32.3	-7.4		-7.0	-25.3
Income from operating activities	**434.0**	**508.7**	-15%	**232.7**	**201.3**
Staff costs	239.3	238.5	0%	121.7	117.6
Other administrative expenses	115.3	127.9	-10%	52.4	62.8
– of which regulatory levies and charges	*11.1*	*11.6*	*-4%*	*3.2*	*7.9*
Depreciation and amortisation	17.2	17.7	-3%	10.2	7.1
Operating expenses	**371.8**	**384.1**	-3%	**184.3**	**187.5**
Gross result	**62.2**	**124.7**	-50%	**48.5**	**13.7**
Addition to loan loss provisions	1.9	-12.1		0.6	1.3
Other impairments	—	34.9	-100%	-0.2	0.2
Impairments	**1.9**	**22.9**	-92%	**0.4**	**1.5**
Operating profit before tax of non–strategic investments	1.7	37.8	-96%	0.9	0.7
Operating profit before special items and tax	**62.0**	**139.6**	-56%	**49.0**	**13.0**
Strategic investment programme	—	11.1	-100%	—	—
Amortisation of intangible assets arising from acquisitions	6.2	6.2	0%	3.1	3.1
Restructuring charges	1.6	2.8	-43%	1.6	—
Operating profit before tax	**54.2**	**119.5**	-55%	**44.3**	**9.9**
Income tax	4.4	21.1	-79%	4.0	0.4
Net result	**49.8**	**98.4**	-49%	**40.4**	**9.5**
Underlying net result	**51.0**	**108.8**	-53%	**41.6**	**9.5**

Underlying net result (€ million)	2020	2019		H2 2020	H1 2020
Net result	**49.8**	98.4	-49%	40.4	9.5
Strategic investment programme	—	11.1	-100%	—	—
Restructuring charges	1.6	2.8	-43%	1.6	—
Tax effects	-0.4	-3.5	-89%	-0.4	—
Underlying net result	**51.0**	108.8	-53%	41.6	9.5

Private Banking, Asset Management and Merchant Banking made a positive contribution to the underlying net result. Evi is moving towards break-even point. The net result of the Other activities segment is negative, and includes the loss on our structured products activities (-€35.1 million). As of 2020, our structured products activities moved from Merchant Banking to our Treasury department in the Other activities segment, due to the shift in our organisational structure from a business line-driven organisation to a function-based structure. Comparative 2019 figures have been adjusted accordingly.

The underlying net result for 2020 is the net result adjusted for costs associated with restructuring charges and tax effects (€1.2 million net effect).

Underlying net result by segment
(€ million)



Operating segments in 2020 (€ million)	Private Banking	Evi	Asset Management	Merchant Banking	Other activities	Total
Statement of income						
Net interest income	137.6	2.9	0.1	0.0	11.5	152.1
Income from securities and associates	—	—	0.1	—	17.6	17.7
Net commission income	134.1	5.3	105.3	48.9	2.7	296.4
Result on financial transactions	1.2	—	-0.1	2.8	-36.2	-32.3
Total income from operating activities	**272.9**	**8.2**	**105.5**	**51.7**	**-4.3**	434.0
Staff costs	87.2	2.3	51.7	24.6	73.6	239.3
Other administrative expenses	58.6	5.4	13.8	7.1	30.3	115.3
Allocated internal expenses	64.0	1.6	12.9	9.7	-88.2	—
Depreciation and amortisation	1.4	0.0	0.1	0.3	15.4	17.2
Total expenses	**211.1**	**9.3**	**78.6**	**41.7**	**31.0**	371.8
Operating result before tax	**61.8**	**-1.1**	**26.9**	**10.0**	**-35.4**	62.2
Impairments	2.2	—	—	—	-0.3	1.9
Operating result before tax of non-strategic investments	—	—	—	—	1.7	1.7
Operating result before one-off charges and tax	**59.6**	**-1.1**	**26.9**	**10.0**	**-33.3**	62.0
Strategic investment programme	—	—	—	—	—	—
Amortisation of intangible assets arising from acquisitions	4.7	—	0.8	—	0.8	6.2
Restructuring charges	1.6	—	—	—	—	1.6
Operating result before tax	**53.3**	**-1.1**	**26.1**	**10.0**	**-34.1**	54.2
Income tax	13.4	-0.3	7.2	2.7	-18.7	4.4
Net result	**39.9**	**-0.8**	**19.0**	**7.3**	**-15.4**	49.8
Underlying net result 2020	**41.1**	**-0.8**	**19.0**	**7.3**	**-15.4**	51.0

Operating segments in 2019 (€ million)	Private Banking	Evi	Asset Management	Merchant Banking	Other activities	Total
Statement of income						
Net interest income	154.0	3.2	0.1	0.0	18.1	175.3
Income from securities and associates	—	—	-0.7	—	51.2	50.5
Net commission income	130.1	5.1	101.7	49.5	4.0	290.4
Result on financial transactions	1.2	—	—	3.5	-12.1	-7.4
Total income from operating activities	**285.3**	**8.2**	**101.1**	**52.9**	**61.2**	**508.7**
Staff costs	92.7	3.5	49.9	23.7	68.7	238.5
Other administrative expenses	55.4	5.4	16.3	8.3	42.6	127.9
Allocated internal expenses	69.5	2.2	13.3	9.1	-94.2	—
Depreciation and amortisation	1.6	0.0	0.1	0.0	16.0	17.7
Total expenses	**219.1**	**11.1**	**79.6**	**41.1**	**33.1**	**384.1**
Operating result before tax	**66.2**	**-2.9**	**21.5**	**11.8**	**28.0**	**124.7**
Impairments	-11.2	—	—	—	34.0	22.9
Operating result before tax of non-strategic investments	—	—	—	—	37.8	37.8
Operating result before one-off charges and tax	**77.4**	**-2.9**	**21.5**	**11.8**	**31.8**	**139.6**
Strategic investment programme	11.1	—	—	—	—	11.1
Amortisation of intangible assets arising from acquisitions	4.7	—	0.8	—	0.8	6.2
Restructuring charges	2.3	—	-0.1	—	0.6	2.8
Operating result before tax	**59.3**	**-2.9**	**20.8**	**11.8**	**30.5**	**119.5**
Income tax	15.3	-0.8	5.6	3.3	-2.3	21.1
Net result	**44.0**	**-2.1**	**15.2**	**8.5**	**32.8**	**98.4**
Underlying net result 2019	**54.0**	**-2.1**	**15.1**	**8.5**	**33.2**	**108.8**

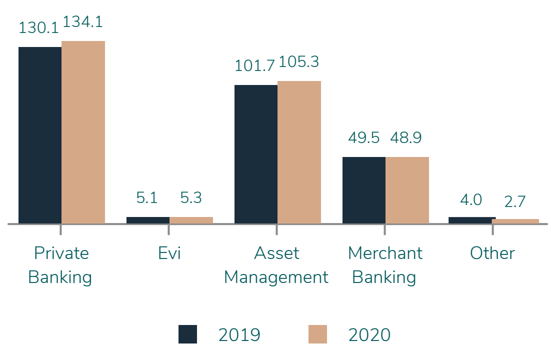
Commission

Commission (€ million)	2020	2019		H2 2020	H1 2020
Securities commissions	247.4	241.8	2%	124.3	123.1
– Management fees	*225.4*	*219.7*	*3%*	*115.1*	*110.3*
– Transaction fees	*21.9*	*22.1*	*-1%*	*9.2*	*12.7*
Other commissions	49.1	48.6	1%	23.2	25.8
Commission	296.4	290.4	2%	147.5	148.9

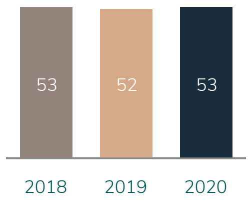
Commission income accounted for 68% of our total operating income (2019: 57%). Securities commissions increased by 2% due to higher income from management fees, reflecting the growth in assets under management at Private Banking, Evi and Asset Management as a result of a higher average AuM volume in 2020 and the realised net inflows across all business units. The higher market volatility in 2020 led to higher transaction fees at Private Banking and lower realisation at Merchant Banking. Other commissions increased, mainly due to the result of Corporate Finance and Equity Capital Markets (ECM) deals at Merchant Banking.

Annualised recurring management fees (run rate) were at a similar level to year-end 2019. In the first quarter of 2020, we saw the run rate decline by 13% because of the challenging market conditions, but the run rate recovered fully over the rest of the year.

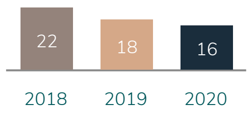
Commission income by segment
(€ million)



AuM margin – Private Banking (bps)



AuM margin – Asset Management (bps)



Private Banking's total commission income rose by €4.0 million compared with 2019 due to the growth in assets under management. Transaction fees at Private Banking are €3.0 million higher compared with 2019, as market volatility led to a high number of trades. Private Banking's margins on assets under management are fairly stable.

Evi's commission income went up by €0.3 million to €5.3 million due to growth in assets under management, mainly as a result of the partnership between Evi and a.s.r. bank.

Asset Management's 2020 commissions increased by €3.6 million compared with 2019. This growth was driven by an increase in commissions from both investment strategies (mainly credit strategies and real assets strategies) and new fiduciary mandates. Average margins fell from 18 basis points in 2019 to 16 basis points in 2020, due to a change in the composition of assets under management, as inflow was mainly achieved in fiduciary management: €6.0 billion out of total inflow of €5.4 billion.

Merchant Banking performed well in 2020, with commission income of €48.9 million at a level comparable with 2019. The result of Corporate Finance and ECM deals was €36.2 million, above 2019's result of €34.9 million. Transaction fees fell, due to a lower transaction volume partly due to market circumstances surrounding Covid-19. Under normal market circumstances, clients are willing to pay for access to liquidity. In the first half of 2020, due to the higher market volatility, the liquidity in the market was much higher than under usual market circumstances. Clients were able to use this higher liquidity to trade via low-touch trading and did not need to use our trading services, or trades were made at a lower price level.

Interest

Interest (€ million)	2020	2019		H2 2020	H1 2020
Gross interest margin	169.9	186.9	-9%	84.1	85.8
Interest income and charges on hedge derivatives	-5.4	-2.1		-3.5	-1.9
Interest equalisation	-19.7	-16.9	16%	-10.3	-9.4
Clean interest margin	**144.8**	**167.9**	**-14%**	**70.3**	**74.6**
Miscellaneous interest income and charges	4.0	4.9	-19%	2.9	1.1
Loan commission	3.3	2.4	35%	2.0	1.3
Interest	**152.1**	**175.3**	**-13%**	**75.1**	**77.0**

The current interest rate climate continues to put pressure on our interest income. Our 2020 interest income of €152.1 million was 13% down on the €175.3 million realised in 2019. The continued run-off of Corporate Banking loans has also led to lower interest income. The Corporate Banking loan portfolio contracted by €123 million to €195 million.

The gross interest margin includes the one-off effect of a positive revaluation of interest claims to the tune of €1.0 million, to be received from DSB Bank. In 2019, the one-off effect of this interest claim was €3.9 million.[3]

The impact of charging negative interest rates is a plus of €4.6 million. In the first quarter, we charged negative interest rates on volumes over €2.5 million. In the second and third quarters, we charged negative interest rates on volumes over €1.0 million; and in the fourth quarter, we lowered this threshold to over €0.5 million.

In comparison with year-end 2019, the interest margin[4] fell by 16 basis points to an average of 103 basis points. The "clean interest margin" declined by 15 basis points compared with its level at the end of 2019, to 98 basis points at the end of 2020.

The balance of interest income and charges on hedge derivatives deteriorated from -€2.1 million in 2019 to -€5.4 million in 2020.

Miscellaneous interest income and charges went down from €4.9 million to €4.0 million. This is the result of income from early redemption fees driven by many early prepayments, partly offset by a provision for the decision by the Dutch financial services complaints tribunal (Kifid). This decision – which related to a revised calculation of fees for early repayments and interest conversion – led to a provision of €5.1 million in compensation for mortgage clients.

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

Income from securities and associates

Income from securities and associates (€ million)	2020	2019		H2 2020	H1 2020
Dividend	8.3	7.7	8%	7.7	0.6
Capital gains	0.6	24.0	-98%	0.4	0.2
Valuation gains and losses	8.8	18.9	-53%	9.1	-0.2
Income from securities and associates	**17.7**	**50.5**	**-65%**	**17.1**	**0.6**

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

Dividend income rose to €8.3 million, from €7.7 million in 2019. In general, we have stakes in sectors that were not heavily impacted by Covid-19.

Capital gains were down by €23.4 million in 2020, reflecting their high level in 2019 as a result of the sale of our 49% stake in VLC & Partners (€17.1 million) and the sale of part of our stake in Marfo Food Group (€6.5 million).

Valuation gains and losses fell by €10.0 million to €8.8 million in 2020. This reflects a mix of positive results in our participation portfolio, mainly due to a liquidity event in one of our portfolios and the lower result of our co-investments compared with last year.

The total result of our co-investments is -€0.9 million, consisting of -€1.2 million on our own funds and €0.3 million on hedges. The hedges are reported under Result on financial transactions. After a negative first half of 2020, we saw recovery in the results of our co-investments in the second half of the year.

Result on financial transactions

Result on financial transactions (€ million)	2020	2019		H2 2020	H1 2020
Result on securities trading	2.1	3.5	-39%	2.7	-0.5
Result on currency trading	8.2	8.9	-8%	3.5	4.6
Result on investment portfolio	0.4	0.6	-41%	0.6	-0.2
Result on hedges	-38.7	-13.2		-12.8	-25.9
Other income	-4.3	-7.3	-41%	-1.0	-3.3
Result on financial transactions	**-32.3**	-7.4		-7.0	-25.3

Result on financial transactions decreased by €24.9 million due to the loss on our structured products activities of €35.1 million. This loss was mainly due to the exceptional volatility and illiquidity of certain segments of the financial markets in 2020. Our structured products activities recorded losses of €27.3 million in the first half of the year, deepening to €35.1 million by year-end 2020. The loss in the second half of 2020 was incurred due to the further hedging of risks in the existing portfolio, which entailed higher costs. In response to the loss in the first quarter of the year, we are working with a tightened risk appetite. We hedge new positions one-to-one, and are gradually reducing existing positions. We expect these existing positions to be largely reduced over the next three years. During this time, we expect to incur costs to hedge these existing positions.

The €2.1 million recorded in Result on securities trading reflects a positive performance of the trading book. Trading activities are the result of client facilitation only, mainly providing liquidity to clients.

Result on currency trading was relatively stable compared with 2019.

Result on hedges fell in comparison with 2019, by €25.5 million, due to the loss in our structured products activities.

Operating expenses

Operating expenses (€ million)	2020	2019		H2 2020	H1 2020
Staff costs	239.3	238.5	0%	121.7	117.6
Other administrative expenses	115.3	127.9	-10%	52.4	62.8
– of which regulatory levies and charges	*11.1*	*11.6*	-4%	3.2	7.9
Depreciation and amortisation	17.2	17.7	-3%	10.2	7.1
Operating expenses	**371.8**	**384.1**	**-3%**	**184.3**	**187.5**

As previously indicated, we expected operating expenses to rise slightly for 2020. However, they actually fell 3% to €371.8 million (2019: €384.1 million), reflecting a proactively implemented package of cost-saving measures – partly structural and partly one-off – at the end of the first quarter. With the acquisition of Hof Hoorneman Bankiers, operating costs will be at a higher level in 2021 than they were in 2020.

Staff costs
At €239.3 million, staff costs were at the same level as in 2019. Our previously announced expectation that they would increase was due to a new pension agreement as well as the harmonisation and modernisation of employment conditions. A combination of cost-saving measures and fewer full-time equivalent (FTE) staff (excluding employees from Hof Hoorneman Bankiers) means that the expected cost increase is being largely offset.

At year-end 2019, we employed 1,560 FTEs. As of 2020, an FTE equals 40 working hours for all employees, instead of 36 hours for some employees, as previously. This adjustment had an impact of around 40 FTEs, which led to an adjusted number of FTEs of around 1,520 as of 1 January 2020. Excluding employees of our non-strategic investments, at year-end 2020 we employed 1,564 FTEs. The increase is mainly explained by our acquisition of Hof Hoorneman Bankiers, resulting in an additional 58.7 FTEs.

Other administrative expenses
Other administrative expenses amounted to €115.3 million in 2020, 10% below the figure for 2019 (€127.9 million). The decrease is related to lower marketing costs, as well as travel expenses due to Covid-19 and IT project costs. IT project expenses amounted to €15.3 million (2019: €19.7 million). Regulatory costs decreased by €0.5 million to €11.1 million in 2020. This item consists of supervisory costs, the deposit guarantee scheme, the single resolution fund and Belgian banking tax.

Depreciation and amortisation
Depreciation and amortisation fell to €17.2 million, mainly as a result of book profit realised on the sale of one of our former office buildings (€2.3 million).

Efficiency ratio
The efficiency ratio – i.e. the ratio of operating expenses (excluding costs incurred for our strategic investment programme, amortisation of intangible assets arising from acquisitions and restructuring charges) to income from operating activities – deteriorated to 85.7% in 2020 from 75.5% in 2019. This fall was mainly driven by the loss on our structured products activities.

Impairments

Impairments (€ million)	2020	2019		H2 2020	H1 2020
Private Banking	2.2	-11.2		1.0	1.2
– Of which Corporate Banking loans	1.8	-4.3		0.8	0.9
Other	-0.3	-0.9	-61%	-0.4	0.0
Addition to loan loss provisions	**1.9**	-12.1		0.6	1.3
Impairment on goodwill and intangible assets	—	34.9		—	—
Impairment on investments and participating interests	—	—		-0.2	0.2
Other impairments	—	34.9		-0.2	0.2
Impairments	1.9	22.9	-92%	0.4	1.5

Addition to loan loss provisions
In 2020, we saw limited impact on our loan portfolio and impairments from Covid-19. We benefited from winding down our Corporate Banking loan book, which lowered the credit risk of our loan portfolio. As a result, only €1.9 million was added to our loan loss provisions in 2020. Private Banking loans accounted for €0.5 million.

IFRS 9 models were deemed too optimistic for certain clients and industries, given the current circumstances due to Covid-19. The net €1.9 million addition to loan loss provisions therefore includes a management overlay of €4.9 million. This is the result of extensive client monitoring and sector analysis, leading to adjustments in the stage classification of some clients.

In 2020, the addition to loan loss provisions relative to average risk-weighted assets worked out at four basis points, (2019: release of 27 basis points).

Non-strategic investments
We currently have majority stakes in two non-strategic financial investments, Holonite (Holowell BV) and Allshare. Our aim is to divest our shareholdings in these non-strategic investments over time. The operating profit (before tax) from our portfolio of equity holdings amounted to €1.7 million in 2020, down from €37.8 million in 2019 (which was an exceptionally good year because of the sale of AIO II). Excluding the book profit and operating result of AIO II, non-strategic investments in 2019 contributed to €1.7 million, the same level as 2020.

Special items
We recognised €1.6 million in special items in 2020 for restructuring charges relating to Hof Hoorneman Bankiers, based on management expectations. With the acquisition of Hof Hoorneman Bankiers, 58.7 FTEs have been added to our workforce. Employees will be offered the choice either to join Van Lanschot Kempen Wealth Management NV or to make use of a severance arrangement.

Compared with €20.1 million in 2019, the decrease is due to finalising the strategic investment programme in 2019 and lower restructuring charges.

Special items (€ million)	2020	2019		H2 2020	H1 2020
Strategic investment programme	—	11.1	-100%	—	—
Amortisation of intangible assets arising from acquisitions	6.2	6.2	—	3.1	3.1
Restructuring charges	1.6	2.8	-43%	1.6	—
Special items	**7.8**	**20.1**	**-61%**	**4.7**	**3.1**

Income tax

Income tax for 2020 amounted to €4.4 million (2019: €21.1 million), which translates to an effective tax rate of 8.1% compared with 17.7% in 2019. Our effective tax rate is lower than the general Dutch tax rate of 25% due to income from our private equity portfolio being covered by equity exemption rules. Our income tax also decreased due to the deduction of coupon payments on our AT1 instrument in line with new tax regulations, which also led to an adjustment of our taxes for previous financial years.

Earnings per share

Earnings per share (€ million)	2020	2019		H2 2020	H1 2020
Net result	**49.8**	98.4	-49%	40.4	9.5
Share of non–controlling interests	-0.1	-0.4	-80%	-0.1	0.0
Share of holders of AT1 capital securities	-6.8	-5.1	33%	-3.4	-3.4
Net result for calculation of earnings per share	**43.0**	92.9	-54%	36.9	6.1
Earnings per share (€)	**107.52**	232.32	-54%	92.36	15.16
Underlying net result for calculation of earnings per share	**44.2**	103.3	-57%	38.1	6.1
Underlying earnings per share (€)	**110.49**	258.24	-57%	95.32	15.16
Weighted number of outstanding shares (x 1,000)	400	400			400

Share of holders of AT1 capital securities relates to the coupon of the €100 million Additional Tier 1 bond we issued in March 2019. The coupon on this bond is 6.75%. These securities count as Tier 1 qualifying capital when determining capital adequacy. Profit attributable to non-controlling interests of €0.1 million in 2020 decreased compared with 2019 due to discontinuing the management investment plan for selected staff at Kempen (Kempen MIP) as of 2020, as a result of the merger of Van Lanschot NV and Kempen & Co NV into Van Lanschot Kempen Wealth Management NV.

We will propose to pay a 2020 cash dividend to the shareholders of Van Lanschot Kempen NV of €0.70 per share, with a pay-out ratio of 65% based on the underlying net result attributable to shareholders (2019: €1.45, pay-out ratio of 57%). The pay-out ratio based on the net result attributable to shareholder amounts to 67% (2019: 64%). Payment of 2020 dividend to the shareholders of Van Lanschot Kempen NV will be made in two parts. The 2019 dividend pay-out was postponed at the request of DNB and ECB. It remains reserved on the balance sheet and is not included in our CET 1 capital. We aim to pay out the dividend when allowed by the authorities, which will not be before 30 September 2021.

Client assets

Client assets (€ billion)	31/12/2020	31/12/2019		30/6/2020	
Client assets	**115.0**	102.0	13 %	103.4	11 %
Assets under management	99.0	87.7	13 %	89.2	11 %
Savings and deposits	10.1	9.5	6 %	9.8	3 %
Assets under monitoring and guidance	3.2	3.1	2 %	3.2	1 %
Assets under administration	2.7	1.6	68 %	1.2	
Client assets	**115.0**	102.0	13 %	103.4	11 %
Private Banking	38.6	34.2	13 %	33.1	17 %
Evi	1.6	1.5	2 %	1.6	-3 %
Asset Management	73.7	65.1	13 %	67.8	9 %
Other	1.3	1.2	8 %	0.9	40 %

Total client assets had risen by 13% to €115.0 billion at year-end 2020, driven by growth in assets under management of €11.3 billion as a result of net inflow and positive market performance, at both Private Banking and Asset Management.

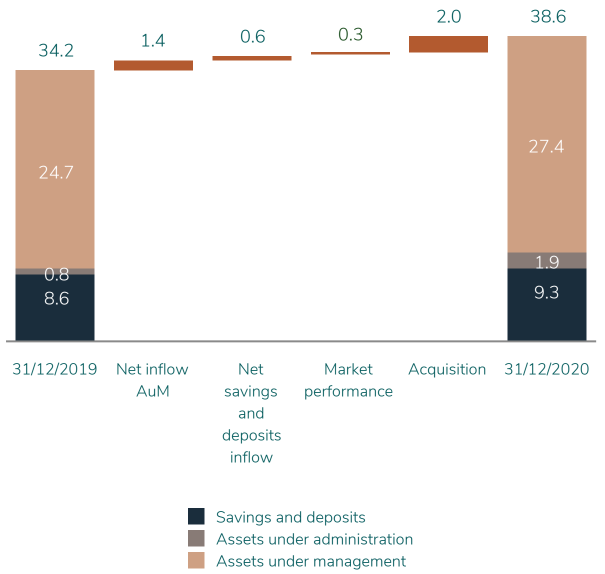
Client assets (€ billion)	Private Banking	Evi	Asset Management	Other activities	Total
Client assets at 31/12/2019	34.2	1.5	65.1	1.2	102.0
Assets under management in/outflow	1.4	0.1	5.4	—	6.9
Savings and deposits in/outflow	0.6	-0.1	—	0.0	0.5
Market performance of assets under management	0.3	0.0	3.1	—	3.4
Change in assets under monitoring and guidance	—	—	0.1	—	0.1
Change in assets under administration	0.0	—	—	0.1	0.1
Client assets acquisition	2.0	—	—	—	2.0
Client assets at 31/12/2020	38.6	1.6	73.7	1.3	115.0

Van Lanschot Private Banking

Client assets at Private Banking grew by 13%, mainly as a result of the exceptionally high inflow in assets under management of €1.4 billion, realised in the Netherlands, Belgium and Switzerland. The acquisition of Hof Hoorneman Bankiers led to an increase in client assets of €2.0 billion. Positive market performance reflects recovery of the markets from the dip as a result of Covid-19.

At the end of 2020, assets under discretionary management made up 55% of total assets under management, which is the same as 2019. Total discretionary assets under management stood at €14.9 billion (year-end 2019: €13.6 billion) and total non-discretionary assets under management amounted to €12.5 billion (year-end 2019: €11.2 billion).

Client assets at Private Banking
(€ billion)

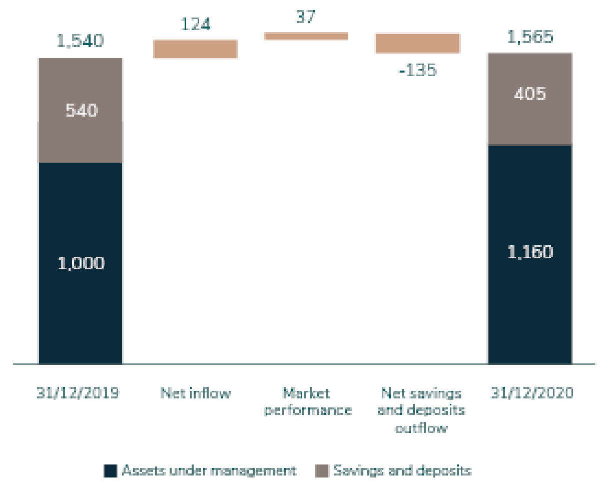


Evi van Lanschot

Assets under management grew by €0.2 to €1.2 billion in 2020, mainly driven by former a.s.r. bank clients as a result of the partnership between Evi and a.s.r. bank. This led to inflow of €157 million in assets under management, €51 million in savings and approximately 7,000 new clients. Our focus is on mass-affluent clients, and we are leveraging our experience at Private Banking to further strengthen the proposition and increase efficiency.

We are actively discouraging savings at Evi, and saw a downward trend in 2020. Starting in 2021 in Belgium, Evi products are being fully integrated into Van Lanschot Belgium's proposition.

Client assets at Evi
(€ million)



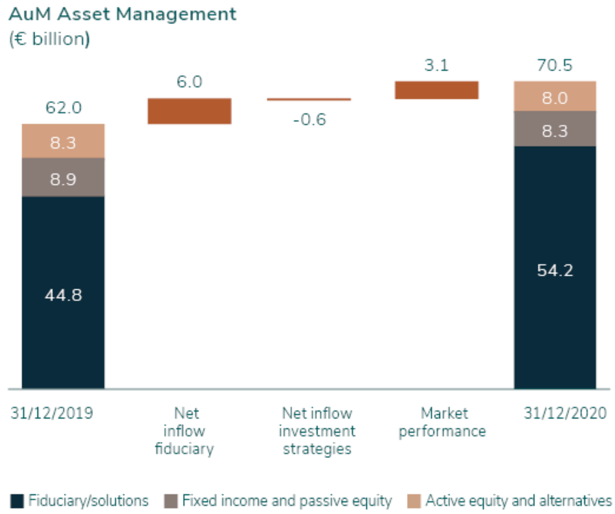
Kempen Asset Management

Assets under management at Asset Management rose to €70.5 billion, with positive market performance of €3.1 billion. Fiduciary mandates showed a strong inflow of €6.0 billion, thanks to new mandates including some in the UK.

Investment strategies saw net outflows of €0.6 billion. A proportion of this was down to our credit strategies product – as some of the team left (which was handled well in-house) – and clients made certain strategic investment choices. The High Dividend Equity Fund is likewise facing an outflow, with clients diverting their assets to growth stocks and sustainable strategies. In parallel, the year also saw robust inflow into the Sustainable Value Creation Funds and Global Small-cap Fund. For more information on the performance of our investment strategies, see page 42.

Total client assets at Asset Management stood at €73.7 billion at year-end 2020 (year-end 2019: €65.1 billion).

In addition to third-party funds, Asset Management also manages our Private Banking discretionary management mandates and Evi Beleggen products, with total assets under management of €12.5 billion at the end of 2020 (this amount is not included in Asset Management's total assets under management of €70.5 billion).



Statement of financial position

Statement of financial position and capital management (€ million)	31/12/2020	31/12/2019		30/6/2020	
Equity attributable to shareholder	1,254	1,211	4%	1,225	2%
Equity attributable to AT1 capital securities	102	102	0%	102	0%
Equity attributable to non-controlling interests	0	4		0	
Savings and deposits	10,141	9,545	6%	9,826	3%
Loans and advances to clients	8,448	8,598	-2%	8,477	0%
Total assets	15,149	14,319	6%	14,901	2%
Funding ratio (%)	120.0	111.0	8%	115.9	4%

Loan portfolio

Loan portfolio (€ million)	31/12/2020	31/12/2019		30/6/2020	
Mortgages	6,032	5,885	2%	5,992	1%
Other loans	1,809	1,906	-5%	1,785	1%
Private Banking loans	**7,841**	**7,791**	**1%**	**7,777**	**1%**
Corporate Banking loans	195	318	-39%	246	-21%
Mortgages distributed by third parties	476	553	-14%	520	-8%
Total	**8,512**	**8,662**	**-2%**	**8,543**	**0%**
Impairments	-64	-64	0%	-66	-3%
Total	**8,448**	**8,598**	**-2%**	**8,477**	**0%**

Our loan portfolio contracted to €8.4 billion. The run-off of Corporate Banking loans resulted in a decrease of €0.1 billion in this portfolio, and the volume of mortgages distributed by third parties decreased as a result of repayments and a competitive pricing environment.

Van Lanschot Private Banking loans
The Private Banking loan portfolio is broken down into mortgages and other loans. Private Banking mortgages increased to €6.0 billion (2019: €5.9 billion) and make up 71% of our loan portfolio (2019: 68%), primarily to high net-worth individuals.

The weighted average loan-to-value (LTV) ratio (based on foreclosure value) remained stable at 75%.

Other Private Banking loans comprise loans to high net-worth individuals as well as business loans that fit into the Private Banking relationship model. These other loans fell to €1.8 billion (year-end 2019: €1.9 billion), due to a decrease in current accounts (of one large client in particular).

In the light of the Covid-19 pandemic, we decided to grant moratoria and coronavirus-specific loans to clients. Only a limited number of clients decided to make use of these, with €5.3 million of new coronavirus-related exposure at year-end 2020, granted to 93 clients. The majority of these loans and moratoria were granted as new current account loans, with some as short-term loans or by raising existing limits.

Van Lanschot Corporate Banking loans
At the end of 2020, Corporate Banking loans totalled €195 million (year-end 2019: €318 million) and accounted for 2% of our total loan portfolio.

Mortgages distributed by third parties
The portfolio of mortgages distributed by third parties consists of regular Dutch mortgages. It is intended to supplement our investment portfolio and enable us to generate attractive returns on available liquidity. It accounts for 6% of our total loan portfolio, with a volume of €0.5 billion.

Provisions
We take provisions for the impaired loans in our loan book. Impaired loans totalled €186 million at the end of 2020, and decreased by 20% compared with 2019 (2019: €234 million). The Stage 3 provisions for these loans amounted to €52 million, working out at a coverage ratio of 28%. The total impaired ratio improved from 2.7% to 2.2% at the end of 2020, as impairments decreased faster than the total loan portfolio, and the total coverage ratio rose from 23% to 28%. The impaired ratio of Private Banking loans decreased from 1.7% to 1.6%, mainly due to a decline in impaired mortgage loans. This decrease is a combination of both write-offs and releases.

The coverage ratio for mortgages fell from 10% to 6%. The impaired ratio for Corporate Banking loans decreased to 29.4% (year-end 2019: 31.6%). The coverage ratio of Corporate Banking loans increased to 26% (year-end 2019: 13%).

Provision as at 31/12/2020 (€ million)	Loan portfolio	Impaired loans	Provision	Impaired ratio 31/12/2020	Coverage ratio 31/12/2020	Impaired ratio 31/12/2019	Coverage ratio 31/12/2019
Mortgages	6,032	51	3	0.8%	6%	1.0%	10%
Other loans	1,809	77	34	4.2%	44%	3.8%	49%
Private Banking loans	**7,841**	**128**	**37**	**1.6%**	**29%**	**1.7%**	**31%**
Corporate Banking loans	195	57	15	29.4%	26%	31.6%	13%
Mortgages distributed by third parties	476	1	0	0.2%	2%	0.1%	2%
Total	**8,512**	**186**	**52**	**2.2%**	**28%**	**2.7%**	**23%**
Provision	-64						
Total	**8,448**		**52**				
ECL Stage 1 and 2 (IFRS 9)			12				
Total ECL (IFRS 9)			**64**				

Capital management
Following the recommendations of the ECB and DNB, payment of dividends will be postponed. Dividends for 2019 and 2020 have been reserved on our balance sheet and are not taken into account in our capital ratios.

In the future, we will continue to optimise our capital base, while leaving room for potential acquisitions. When possible, we will also consider paying out excess capital to shareholders of Van Lanschot Kempen NV, subject to regulatory approval.

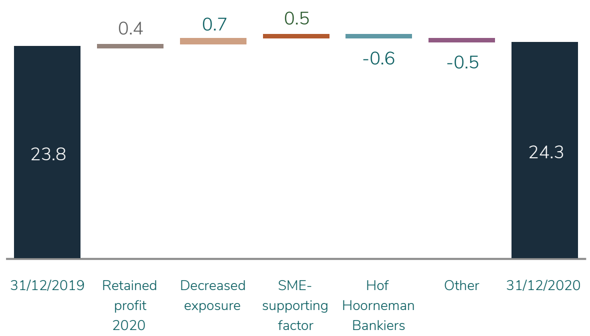
Capital and liquidity management (€ million)	31/12/2020	31/12/2019		30/06/2020	
Risk-weighted assets	4,195	4,205	0%	4,195	0%
Common Equity Tier 1 ratio (%)[5]	24.3	23.8		24.0	
Tier 1 ratio (%) [5]	26.7	26.2		26.4	
Total capital ratio (%) [5]	30.3	29.9		30.0	
Leverage ratio (%)	7.4	7.3		7.1	

Our CET 1 ratio improved again in 2020, to 24.3%. Available CET 1 capital increased by €21 million due to a decrease in the shortfall deduction (with an impact of 59 basis points) and an addition in retained earnings (with an impact of 35 basis points).

As a result of the acquisition of Hof Hoorneman Bankiers, goodwill and intangible assets have been deducted from CET 1 capital (impacting the CET 1 ratio by 39 basis points). Risk-weighted assets remained stable at €4.2 billion in 2020 (year-end 2019: €4.2 billion).

[5] Full year 2020 and 2019 including retained earnings; half-year 2020 excluding retained earnings.

Common Equity Tier 1 ratio (%)

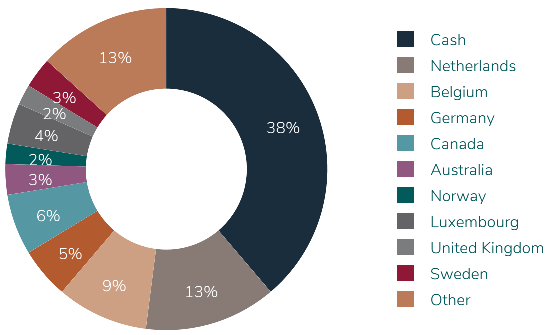


We hold regulatory capital to be able to mitigate Pillar 1 and Pillar 2 risks. Part of this capital consists of Common Equity Tier 1, which comprises share capital, share premium, retained earnings including current year retained profit, and other reserves less net long positions in own shares and after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

Investment portfolio and cash

The total investment portfolio and cash[6] amounted to €5.5 billion at the end of 2020 (year-end 2019: €3.9 billion). Cash held with central banks stood at €2.1 billion. Financial assets at fair value through other comprehensive income increased by €0.2 million to €2.6 million. The investment portfolio is primarily held for asset and liability management purposes, and mainly comprises low-risk and highly liquid instruments.

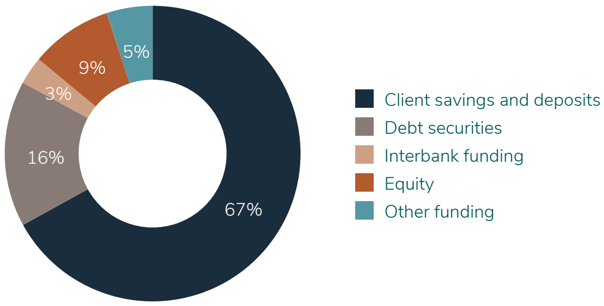
Investment portfolio and cash by country at 31/12/2020
(100% = €5.5 billion)



Funding

We aim to retain access to both retail and wholesale markets through diversified funding. At the end of 2020, our funding ratio had increased by 9.0 percentage points to 120.0% (year-end 2019: 111.0%). In 2020, we participated in one of the tenders of the targeted longer-term refinancing operations (TLTRO) III programme for an amount of €400 million, as a precautionary measure against potential future negative developments in the European economy. This mitigates a potential situation in which banks in general, including Van Lanschot Kempen Wealth Management NV, face increased liquidity requirements to support clients.

Funding mix at 31/12/2020
(100% = €15.1 billion)



Ratios

The net stable funding ratio and the liquidity coverage ratio under the EU's Capital Requirements Regulation were as follows:

Ratios	31/12/2020	Requirement	31/12/2019
Liquidity coverage ratio (%)	177.4	> 100	156.9
Net stable funding ratio (%)	161.8	> 100	154.4

Financial targets

Given the current circumstances related to Covid-19 and the persistent low interest rate environment, we are changing the timeframe for our financial targets from 2023 to 2025. The targets remain unchanged: a CET 1 ratio of 15-17%, a return on CET 1 capital of 10-12%, an efficiency ratio of 70-72% and a dividend policy of 50-70% of underlying net result.

Events after the reporting period

On 11 January 2021, Van Lanschot Kempen NV announced that Karl Guha decided to step down from his position as Chairman of Van Lanschot Kempen NV's Statutory and Executive Boards and from his position as Chairman of Van Lanschot Kempen Wealth Management NV by the end of 2021.

On 14 January 2021, the transfer of 100% of the shares of Hof Hoorneman Bankiers to Van Lanschot Kempen Wealth Management NV was effected.

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

Selection of Kempen investment strategies 2020

	AuM overview (€ million)	Performance overview[7] vs. benchmark (3-year horizon, %): Kempen strategy	Performance overview[7] vs. benchmark (3-year horizon, %): Benchmark
Dutch Small-caps	323	8.5	9.1
European Participations[8]	866	6.2	–[10]
Sustainable European Small-caps	337	2.8	5
Global Small-caps	1,078	7.1	7.4
European Dividend	200	-0.4	2.9
Global Dividend	1,628	1.7	9.9
European Sustainable Value Creation	578	7.5	2.9
Global Sustainable Equity	149	13.7	9.9
Euro Credit	3,801	3.7	2.5
Euro Credit Plus	301	3.9	2.5
Euro Sustainable Credit	1,055	3.5	2.5
Credit High Yield	232	4.6	2.9
European Real Estate	800	4.6	1.6
Global Real Estate	529	1.7	0.9
Global Diversified Hedge Fund Solutions[8]	353	0.1	-1.6
Global Non-Directional Hedge Fund Solutions[8]	479	1.8	-1.6
Global Alternative Credit[8,9]	249	3.4	4.9

Kempen strategy
Benchmark

7 Three-year annualised performance is based on a representative account until end of December 2020 and before fees (gross).
8 Fund performance is after fees (net).
9 Fund base currency is US $; performance is expressed in US $.
10 This investment strategy has no benchmark.

RISK AND CAPITAL MANAGEMENT

Key risk themes for Van Lanschot Kempen	
Covid-19 The global Covid-19 pandemic impacted us in many different ways. Most notably, the (partial) lockdown in the Netherlands, Belgium and Switzerland resulted in most people in our organisation working from home.	**Actions** Early on, we activated our crisis management governance structure with a Crisis Management Team and a Crisis Support Team. Preparations for lockdown were made in an early phase, by testing IT capacity and security for a situation in which nearly all staff would need to work from home. Infrastructure for more complicated functions (i.e. dealing room staff) was prepared before the actual lockdown took place. Regular staff communication on various topics (i.e. increased cyber risk while working from home) as well as other actions meant that our business experienced no operational issues.
Financial markets in March and April reacted in a very volatile way, followed by a surprisingly strong rebound.	Exceptional volatility in the financial markets caused higher than expected losses for structured products activities, while market illiquidity made it impossible to execute our normal macro-hedging strategy. Hedging of a significant portion of the risks, new limits and stress tests, and a gradual winding down of remaining market risks in the portfolio have all led to a lower risk profile for the structured products activities.
Lastly, the real economy fell into a sharp recession, albeit the impact differed significantly between sectors, while governments cushioned the impact by intervening with major economic support packages.	A complete risk assessment of credit risks in the portfolio has been carried out, with special attention paid to highly impacted sectors and borrowers who asked for a temporary adjustment of their interest and redemption schedules. The impact on the portfolio at the end of 2020 was limited.
Low interest rate environment The low interest rate environment has been amplified by the Covid-19 pandemic, while monetary authorities have reacted to economic uncertainty by further easing their already loose monetary policies. This has been mainly through asset purchase programmes, further expanding their balance sheets, and more forward guidance on policy rates to signal that interest rates will remain low for a long period. At certain times during 2020, the entire euro swap curve was below 0%. This development continues to have a negative influence on our net interest income.	**Actions** We expanded the range of client deposits that are subject to negative interest rates. In April, we lowered the negative interest rate threshold to balances over €1 million, followed by a further decrease to balances over €500,000 in October. Starting in January 2021, we introduced the so-called wealth management arrangement through which we offer our clients with AuM at our bank the possibility to keep a certain amount of their assets invested with us in cash, without being charged a negative interest rate. We terminated the client deposit proposition of Evi in Belgium. These deposits will flow out in 2021.
Change capacity In this rapidly changing world, organisations only survive if they have sufficient change capacity. However, changes in processes, targets and people in most cases lead to temporarily increased risks.	**Actions** Various improvements were made to mitigate the risks attached to major change processes: – New methodologies were developed for project risk management; – A risk framework for continuous change in Agile/DevOps was implemented; – Value chain assessments were executed on all major value chains to improve the stability and control of these processes, making them more resilient to change.
Cybercrime and IT security Our IT systems are the backbone of our organisation. Managing the security and availability of these systems is therefore crucially important to us.	**Actions** In 2020, we continued improving the security and availability of our IT systems using a structured approach, managed by the Security 5.0 programme. Many changes, large and small, have been implemented to increase our resilience against unwanted downtime and/or security threats.
Financial crime Compliance risk related to financial crime prevention remained a focal point for Van Lanschot Kempen in 2020 from both internal and external perspectives. Externally, 2020 has brought changes to our regulatory landscape once again, including the fifth and sixth anti-money laundering (AML) directives.	**Actions** We have devoted, and continue to devote, substantial resources to strengthening our compliance framework, including anti-financial crime, and our Compliance department. The Executive Board established a group-wide project to enhance our anti-financial crime framework as well as our policies, procedures and controls. We are currently well positioned to implement the enhancements identified by the project. We have also strengthened the composition of the Compliance department in 2020 by hiring additional senior compliance experts, including a new head of anti-financial crime.

Climate change	Actions
We have identified two types of risk relating to climate change: 1. Physical risks: These refer to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as environmental degradation, such as air, water and land pollution. 2. Transition risks: These result from the process of adjustment towards a carbon-neutral economy. These adjustments are driven by changes in climate-related policies, new low-carbon technologies and/or shifting market sentiments. Climate change is an external risk and can be a driver of conventional risk types, in particular credit risk, operational risk, market risk, liquidity risk, reputational and/or liability risk. The failure to appropriately address these risks may also directly impact our financial performance.	Given our business activities, the key metric used to measure and manage our (potential) climate-related risks is carbon emissions. Since 2016, we have been calculating and reporting on our balance sheet-related carbon emissions, mainly for mortgage loans, other loans and proprietary investments. For mortgages, we have set a carbon reduction target. From 2017 onwards, we have been calculating carbon emissions relating to our assets under management. And in 2020, we also set reduction targets for these emissions, including our asset management activities at Kempen Asset Management, in line with the Paris Agreement. See the section "Climate change risk" for further details.

Risk management

Risk profile and risk appetite

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

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

Targets and risk limits are more dynamic and may occasionally be reviewed, at least annually. That said, we do not change the key principles that underlie our risk appetite and that create the framework within which we operate:

– We only take risks that we understand and can explain;
– We only take risks that – directly or indirectly – serve our strategic objectives;
– The sum of all risks taken should not exceed our risk-bearing capacity;
– When taking risks, we take the requirements and expectations of all stakeholders into account;
– We do not take any risks that could materially harm our reputation;
– Our risk appetite should be considered in all business decisions at every level of the organisation;
– We avoid risks that could lead to legal or regulatory breaches.

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

The risk appetite and risk in 2020 for each individual risk type at year-end 2020 are shown in this simplified version of the risk dashboard below.

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

□ Risk appetite △ Risk in 2020

If we compare the risks in 2020 with our risk appetite, we remained well within our risk appetite for all risk categories, with the exception of market risk. We have a low appetite for market risk, but the extremely volatile conditions in 2020 and the illiquidity of hedging products related to our structured products activities resulted in temporary positions and losses well above our risk appetite. Several measures have been taken to bring the market risk profile in line with our risk appetite.

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

Strategic risk

Strategic risk is defined as the risk to Van Lanschot Kempen's performance, resulting from failure to respond adequately to changes in external factors or from poor strategic decisions. External factors include the actions of competitors, clients, potential market entrants and public authorities, as well as public opinion. Keeping up with technological developments and fintech is also a key topic on our strategic agenda. Furthermore, a prolonged period of low interest rates puts pressure on our net interest income.

Other important elements are the capacity to meet all specific regulatory and client demands, the consequences of operating in specific niche markets, and the risks associated with a relatively small-scale organisation. We use a range of performance indicators – such as growth in assets under management, net result, efficiency ratio and FTE trends – together with a qualitative assessment to monitor and control strategic risk. Due to the challenging environment both economically and in terms of technological developments, our strategic risk remains at a medium level. The technological improvements we have made for our clients and to our internal processes over recent years show that we are continuously aware of, and acting to solve, this challenge. Finally, through our acquisitions in recent years, we are actively addressing the risk of consolidation in the sector, and are improving our economies of scale.

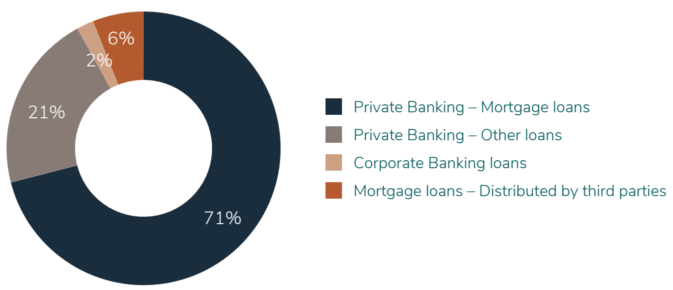
Financial risks

Credit risk

Credit risk is still one of our most significant financial risk types, but the further run-down of our Corporate Banking loan book has resulted in a much lower risk profile. Covid-19 may increase the risks in the portfolio, but we started the crisis with a very solid portfolio that has been performing very well despite the increasing risk in our external environment. Our loan portfolio amounts to €8.5 billion and has manageable risks; 76% of the loan portfolio consists of mortgage loans. We aim to keep the size of the Private Banking residential mortgage portfolio at least constant (or with modest growth) by generating enough new business to offset repayments and prepayments. New mortgages are primarily provided to Private Banking clients who also hold assets under management with Van Lanschot Kempen.

Credit quality in general further improved in 2020, despite Covid-19 potentially affecting the significant financial buffers most of our clients have, because the majority of the loan book consists of mortgages. In 2020, loan losses continued to reach historically low levels. In order to monitor and measure credit risks for most of our loan portfolios, we use sophisticated risk models (internal ratings-based (IRB) approach). As observed in 2019, we are seeing positive rating migration in nearly all portfolios as an additional indicator of improved credit quality. Our loan portfolio and credit risks are concentrated in the Netherlands (95%); lending in Belgium and Switzerland is limited, and mainly involves Lombard loans with low risk profiles.

Loan portfolio, excluding provision
(100% = €8.5 billion)



Although our exposure to the Dutch housing market is fairly significant, the concentration risk on single line items in the overall loan portfolio is relatively limited. The ten largest loans to individual counterparties, other than financial institutions, totalled €180 million at year-end 2020, compared with €280 million at year-end 2019. 97.5% of all borrowers held loans of less than €10 million at year-end 2020 (year-end 2019: 96%). Our policy is to keep credit-risk limits on a single debtor at an acceptable level in order to contain concentration risk and to mitigate its potential impact on Van Lanschot Kempen's results (see page 107 in the financial statements for more information).

Responsible policies

We have a responsible lending policy that takes environmental and social impact into consideration. The policy ensures periodic sustainability screening (due diligence), via a risk filter, of all existing and new corporate loans, and includes factors such as human rights, social and labour issues, environment, anti-corruption and bribery. The screening did not identify any new material sustainability issues in the portfolio during 2020. The number of potentially high-risk borrowers totalled nine by year-end 2020 (2019: 17). We continue to talk to these borrowers about specific sustainability risks and how they could be mitigated. For more information on this policy and its results, see our sustainability supplement and vanlanschotkempen.com/en/sustainability/core-banking-activities.

A decade ago, a separate policy was created to assess the sustainability of financial institutions with which Van Lanschot Kempen has a banking relationship (vanlanschotkempen.com/en/sustainability/core-banking-activities). This policy aims to prevent the risk that client assets find their way – through interbank loans or investments, for example – to institutions with weak or non-existent sustainability policies. Van Lanschot Kempen challenges financial institutions that have not developed sufficiently visible policies. In 2020, there was no need to challenge any financial institutions in our portfolio, as they all complied with our policy.

After seven annual audits by Forum Ethibel (see forumethibel.org), we decided to end their yearly balance sheet-related sustainability audit in 2020 on the basis that it no longer delivered new insights or scope for further improvement. Their AuM-related audit continued, resulting in us receiving the Forum Ethibel sustainability certificate once again.

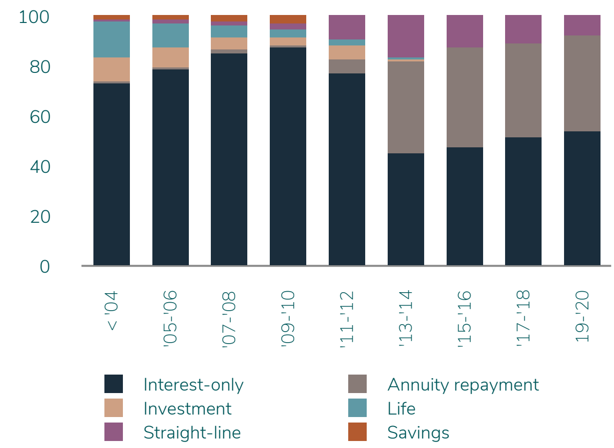
Mortgage loans

At year-end, 76% of our loan portfolio consisted of mortgages. Our portfolio differs from that of other Dutch mortgage lenders in that the average loan (approximately €507,000) is higher. This makes the portfolio a little more sensitive to a fall in underlying house prices, although the majority of our exposure is in urban areas – generally a more liquid segment of the housing market. In 2020, house prices in the Netherlands again increased significantly across the country; the portfolio's weighted average loan-to-value (LTV) ratio, based on foreclosure value, therefore decreased to 74% at year-end, compared with 76% at year-end 2019. New issuances are in general issued for LTVs between 75% and 90%.

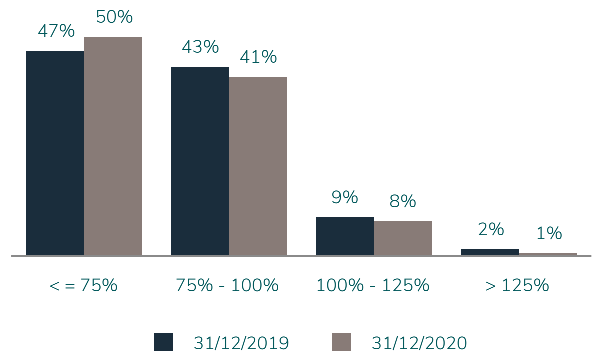
In 2015, we started to provide mortgages through a network of intermediaries, branded as Hypotrust and with Quion as our service provider for our white-label mortgages. Since then, we have built up a white-label portfolio with good risk characteristics and with very few loan losses. Our white-label mortgages are subject to strict acceptance criteria, and the size of this portfolio amounted to €476 million by year-end 2020 (year-end 2019: €553 million). This portfolio has decreased and now makes up 6% of the total loan portfolio.

Clients with potentially declining incomes (e.g. due to retirement), and who are exposed to the risk of interest-only mortgages that will mature in the next 10–15 years, are actively assisted by us to limit the risk of not being able to pay off their loans at maturity date. In general, their LTVs are below 100%, making the credit risk of the loans acceptable. However, if a decline in clients' income prevents the loan being rolled over at maturity, we enter into early discussions with them. In this way, we increase awareness among clients and try to avoid potentially difficult situations. In the first half of 2020, we started the "interest-only mortgage project", the aim of which is to enable clients to make conscious choices about their interest-only mortgages. To this end, we provide insights into the status of their mortgage and its future affordability and flexibility. All clients with interest-only mortgages (including investment-based mortgages) are plotted on a matrix based on guidelines from the Dutch Authority for the Financial Markets (AFM). The matrix is based on the loan-to-value ratio in combination with the remaining financial term, term to retirement, or end of tax deductibility. The clients with the highest risk are the first to be approached personally.

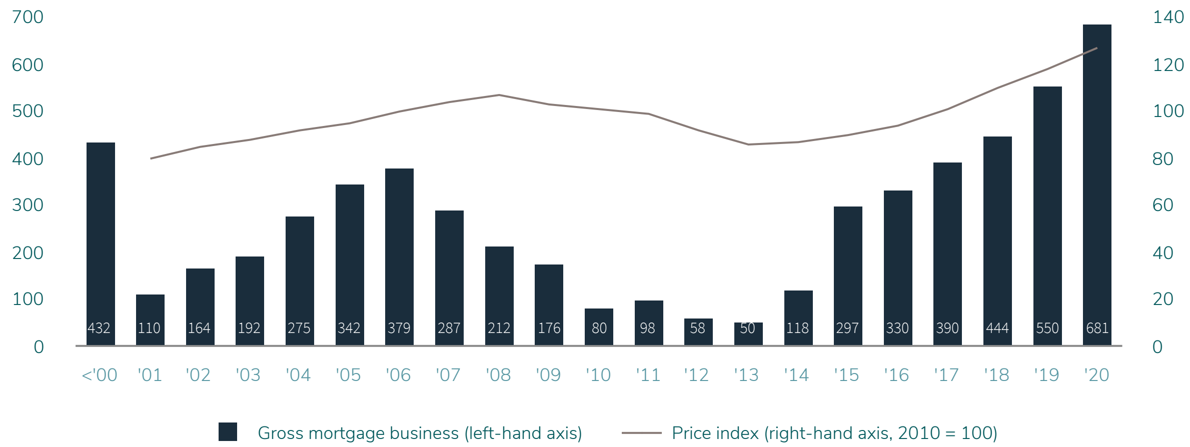
Mortgage loans: new production by type (%)



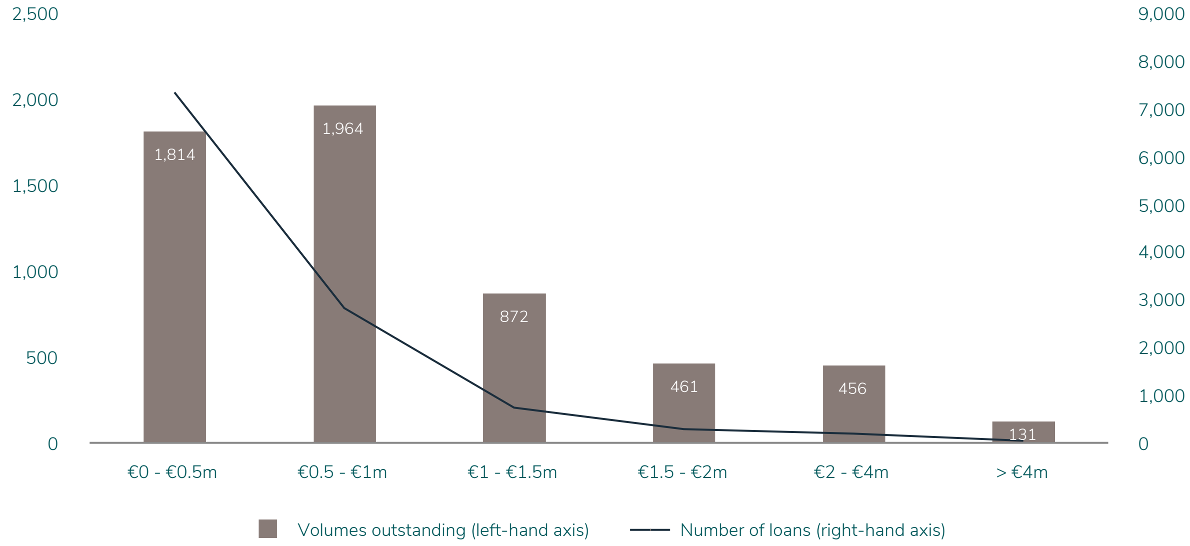
Mortgage loan-to-value (%)



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



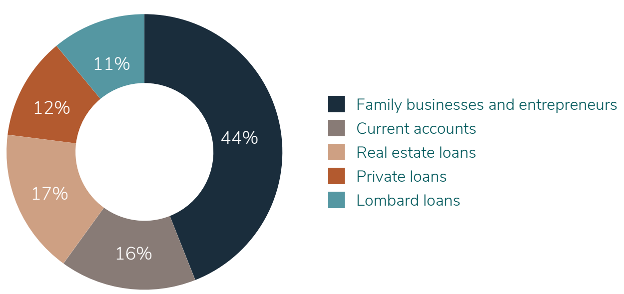
Mortgage loans: outstanding volumes (€ million) and number of loans by size



Other Private Banking loans

This part of the loan portfolio comprises loans to high net-worth individuals, in the form of overdraft facilities or funding for a second home, for example. In the same category are commercial activities that fit into Private Banking's relationship model, such as funding investments for family businesses, business professionals and executives, healthcare professionals and entrepreneurs. These kinds of loans are supplementary to our wealth management strategy and typically involve bringing in assets under management. Our aim is to keep the size of this portfolio stable. The average loan size is approximately €153,000.

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



Corporate Banking loans

Since 2019, the remaining part of our Corporate Banking loan portfolio has been integrated within Private Banking, because the size, complexity and risks of the portfolio no longer justified a separate department. The winding down of this portfolio continued in 2020, despite Covid-19. The total portfolio amounted to €195 million at year-end 2020 (year-end 2019: €318 million). The remaining SME loan portfolio (€86 million) is well diversified, with no dominant sector and with very limited exposure to pandemic-affected sectors such as hospitality and leisure. The average loan size amounted to €1.06 million at year-end 2020 (year-end 2019: €1.07 million).

Our legacy portfolio of Corporate Banking real estate loans further declined to €109 million in 2020. It is still well diversified, and consists of a balanced portfolio of the various property classes – offices, residential, retail and commercial real estate. The average loan size of our real estate loans amounted to €1.6 million at year-end 2020 (year-end 2019: €1.8 million). Average LTV ratios improved to 59% (year-end 2019: 62%).

Real estate loans

Our real estate loans, both those provided to Private Banking clients and the legacy portfolio of Corporate Banking, amount to €331 million (2019: €446 million). These loans are provided primarily on the basis of a total quality assessment of the borrowers. We also take into account the quality and sustainability of the property, and the diversification and stability of the rental flows. The debt service coverage ratio (DSCR) is calculated so that we can determine the extent to which a client will be able to make interest and principal payments from the rental income generated by their commercial real estate. At year-end 2020, 86.3% of our real estate loans generated sufficient rental income to cover interest and principal payments, i.e. had a DSCR of over 1 (year-end 2019: 82.9%). Clients with a DSCR of less than 1 often have other income-generating assets they can use to service their loan obligations. Lastly, the LTV of real estate loans also improved as a result of increasing real estate prices, despite the economic situation caused by the exceptional circumstances related to Covid-19.

Impaired loans

Impaired loans are loans for which a provision has been taken. The impact of Covid-19 on our portfolio was closely monitored throughout the year. At year-end, the impact on our portfolios was relatively limited. This is mostly due to the composition of the portfolio (mainly mortgages and limited corporate exposure), coupled with our core clients having significant financial buffers – meaning the majority will only be significantly impacted if the crisis is prolonged.

A limited number of clients (93 clients to the value of €5.3 million) asked for Covid-19 support in the form of postponement of interest and redemptions. The majority of these clients already started to repay their loans in 2020.

Impaired loans accounted for 2.2% of the loan portfolio at the end of 2020 (year-end 2019: 2.7%). In 2020, a provision equal to 28% of impaired loans was taken (2019: 23%), resulting in specific provisions totalling €52 million. In 2020, we added €1.9 million to provisions (2019: a release of €12.1 million).

During 2020, we saw some migration from IFRS 9 credit quality Stages 1 and 2 to Stage 3, but in general the impact was relatively limited. This impact was cushioned by government interventions to support companies affected by Covid-19, which are distorting the "true" risks in the portfolio. With extensive client monitoring and sector analyses resulting in management adjustments of the stage classification of some clients (amounting to €4.9 million in total) we compensated for this effect. See page 110 in the financial statements for more details.

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

Market risk

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

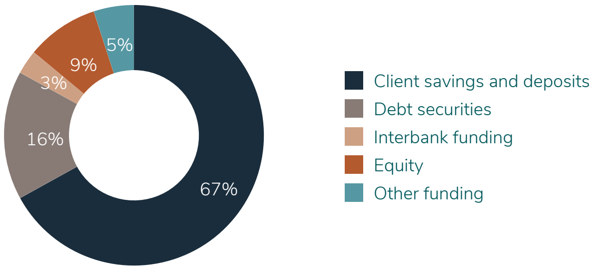
As a result of exceptional market volatility and illiquidity at the end of Q1 caused by the pandemic, losses on hedge activities related to structured products were significant. The embedded derivatives in the structured products sold to our clients are hedged by Van Lanschot Kempen. The derivatives sold are not hedged back-to-back, but are macro-hedged per risk driver. The total macro exposure per risk driver is calculated and hedged using relatively simple (mostly listed) options. All risk drivers have individual limits and are monitored daily by Risk Management. Macro-hedging assumes that if the underlying risk drivers (equity, interest rate and currency markets) change, the hedges can be adjusted in a timely manner to keep the portfolio balanced. The exceptional volatility in March led to unforeseen illiquidity in the financial markets. It was therefore not always possible for us to adjust the hedges fast enough. This led to a significant increase in hedging costs. In addition to exceptional volatility, the changes in dividend yield and lending spread were also very steep, further contributing to the losses. Adjustments have been made to limit the market risk exposure going forward. The portfolio will be gradually de-risked over the next three years, while new notes will be hedged back-to-back, thereby eliminating these risks.

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

Liquidity and funding risk

Our wealth management business model naturally comes with a large client deposits base. These entrusted funds grew from €9.5 billion to €10.1 billion in 2020, despite the fact that we charged negative interest rates. Covid-19 has had a net positive impact on client deposits, in line with our peers in the Netherlands. Our December 2020 loan-to-deposit ratio amounts to 83%, which reflects the fact that our client deposit base exceeds our client loan book volume.

Funding mix
(100% = €15.1 billion)



Because of this, our reliance on other funding sources is limited, and our liquidity risk profile is mostly driven by the potential occurrence of unanticipated deposit outflows. Although our deposit base has not resulted from a competitive pricing policy and has proven to be sticky over time, there is always a risk of unexpected outflows, particularly for balances not covered by the deposit guarantee scheme (DGS). We take a cautious approach to liquidity risk, and aim to hold solid liquidity buffers that would allow us to absorb severe unexpected liquidity stress situations. Outcomes of liquidity stress tests, which cover acute and persistent liquidity stress, are discussed by the Asset and Liability Committee (ALCO) on a monthly basis. Due to our strong liquidity buffer, stress test outcomes and other liquidity indicators such as the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained well within limits throughout the year. At year-end 2020, the LCR and NSFR stood at 177.4% and 161.8% respectively (2019: 156.9% and 154.4%).

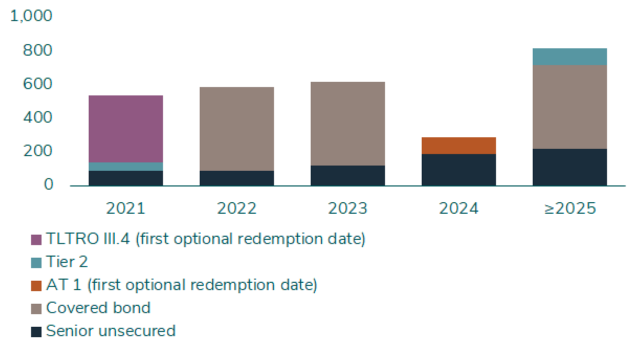
Our liquidity risk management practices are outlined in our internal liquidity adequacy assessment process (ILAAP), which is assessed by our supervisory authority De Nederlandsche Bank (DNB) every year. DNB considers our liquidity and funding risk management to be adequate for a company of the size and complexity of Van Lanschot Kempen.

The main funding and liquidity planning objective remains to reduce the impact of excess liquidity on net interest income, while maintaining a solid liquidity cushion and sufficient funding diversification. Although our loan portfolio could be entirely funded by client deposits, we aim to keep sufficient diversification in our funding mix in terms of funding type and maturity by supplementing the savings and deposits base with secured debt instruments that are issued under the Conditional Pass-Through Covered Bond (CPTCB) programme. Due to our structurally high liquidity buffer, we did not issue any new benchmark wholesale debt instruments in 2020.

As we saw a potential increase in liquidity risk due to the market turmoil at the outset of the pandemic, we participated in one of the tenders of the targeted longer-term refinancing operations (TLTRO) III programme, for an amount of €400 million. The favourable conditions of the TLTRO offered us the opportunity to strengthen our liquidity cushion as a precaution for potential future negative developments, without affecting our net interest income.

Total outstanding volume under the CPTCB programme remained at €1.5 billion throughout 2020. We do not have any benchmark-size unsecured debt issuances placed with investors. Redemptions in 2021 are very limited, with no benchmark-size instruments maturing.

Funding and capital instruments redemption profile
(€ million)

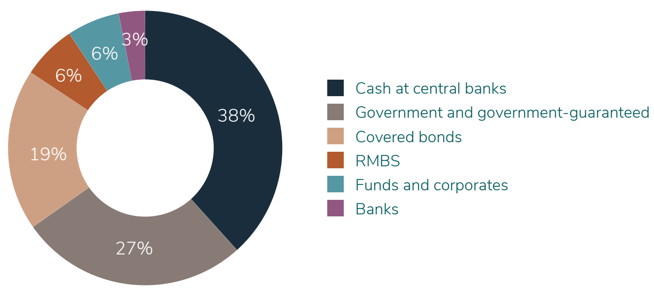


Investment portfolio

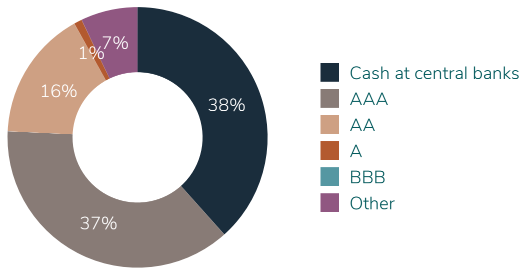
Our investment portfolio totalled €5.5 billion at year-end 2020, up from €4.4 billion at year-end 2019. It is maintained primarily for liquidity purposes, and consists mainly of liquid, low-risk instruments. The composition of the portfolio was relatively stable in 2020. There are strict limits on instrument types, counterparties, countries, ratings and credit spread risk. Despite lower yields and spreads, we maintained a liquid, low-risk investment portfolio in line with our investment policy. Even at the peak of Covid-19 market turmoil, the impact on the portfolio's value was mild.

In addition to day-to-day portfolio management, we review our investment portfolio annually to ensure it meets our environmental, social and governance criteria. We have not encountered any material sustainability issues in our investment portfolio to date.

Investment portfolio and liquidity by counterparty
(100% = €5.5 billion)



Investment portfolio and liquidity by credit rating
(100% = €5.5 billion)



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

Interest rate risk

In 2020, interest rates remained very low and even declined marginally further. As a result of our increasing excess liquidity position and continued decline in net interest rate income, we expanded the range of client deposits on which we charge negative interest rates. In April, we lowered the negative interest rate threshold to balances over €1 million, followed by a further decrease to balances over €500,000 in October. Starting in January 2021, we introduced a wealth management arrangement whereby the application of negative interest rates is dependent on the volume of the client's assets under management.

Client preference for long interest rate maturities for mortgages continued as a result of the flat and historically low yield curve, both for newly agreed mortgages and for interest rate resets. At year-end 2020, approximately 9% of the mortgage portfolio consisted of loans with remaining fixed-rate terms longer than ten years. In total, only 2.6% of the mortgage portfolio had floating rate terms at year-end 2020.

On the liability side of the balance sheet, clients held their balances in variable-rate accounts (current accounts, savings and securities accounts). Given that these products have similar features and offer equal interest rates in the current environment, we observe that clients are becoming more indifferent as to which product they keep their balances in. Appetite for term deposits remained negligible, due to the low interest rates on these products. As of December 2020, our term deposit base amounted to only €133 million.

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

For net interest income at risk, we have set a limit of 15% net interest income loss in the first 12 months, relative to our baseline scenario. All stress scenarios remained within this limit throughout the reporting year.

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

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

Non-financial risks

Non-financial risks comprise operational, information, compliance and climate change risks.

We have defined a non-financial risk appetite. On a quarterly basis, the current non-financial risk exposure related to the non-financial risk appetite is discussed with senior management in the Compliance and Operational Risk Committee. In 2020, we further strengthened our non-financial risk management by developing risk frameworks for change processes. We also used value-chain assessments to improve knowledge and documentation on processes and reassess the key controls per value chain. In addition, we harmonised the approach to non-financial risks that is taken by the Risk and Compliance departments, resulting in an improved and harmonised risk framework. The second line of defence continues to interact closely with the businesses, aiming to encourage an increasingly risk-based approach in managing non-financial risks. Influencing human behaviour and our risk culture is a structural way of further mitigating operational risk.

Operational risk

Operational risks are potential losses that result from inadequate or failed internal processes or systems, inadequate or incorrect human actions, external events and fraud. To identify and manage non-financial risks, we have created a group-wide operational risk framework. Part of this framework is a set of key business controls on the part of our value chains where residual risks are deemed to be elevated. Controls are regularly tested, allowing us to assess the effectiveness of key controls in our processes and systems. Other instruments we use for measuring and monitoring non-financial risks include incident registration, root cause analyses, risk self-assessments on both department level and value-chain level, and key risk indicators.

Information risk

Preventing cybercrime remains one of our key focus areas. We are aware of the risks concerning information security and cybercrime, and we have further invested in technological and process-related measures to mitigate them. In addition to awareness programmes and staff training, we continue to develop intelligent solutions and to work closely with industry partners. We use intelligent systems to analyse the transactions in our systems and search for fraudulent activities. As part of a multi-year programme, we are gradually stepping up security measures to keep pace with the increasing cyberthreats. Dedicated teams monitor security events, including threats posted on the dark web. We have teams that simulate cyberattacks and conduct physical penetration testing for training purposes. To monitor the risks involved in cybercrime, we have developed an integrated risk dashboard. The metrics in the dashboard are overseen by the interdepartmental Information Security Board. Issues related to cybercrime are reported directly to the board.

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

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

Compliance risk

Van Lanschot Kempen maintains an independent and effective Compliance department to identify, assess, monitor and report on compliance risk. This means the risk of failure by Van Lanschot Kempen to comply with applicable laws, rules, regulations, internal policies and procedures and industry standards relevant for Van Lanschot Kempen and/or to undertake (or fail to undertake) those activities prohibited or mandated under applicable regulations. In addition, we have put in place policies, procedures, systems and controls necessary to manage compliance risk.

The Compliance department is headed up by the Chief Compliance Officer, who reports directly to the Chairman of the Statutory Board. The Compliance department fulfils its responsibilities by providing advice and assistance to Van Lanschot Kempen committees and management teams, including the Compliance and Operational Risk Committee, and by continuously monitoring adherence to regulations within the company's day-to-day operations.

Van Lanschot Kempen has devoted, and continues to devote, substantial resources to strengthening the compliance framework and Compliance department. The Executive Board has established a group-wide project to enhance the firm’s anti-financial crime framework and its policies, procedures and controls. Van Lanschot Kempen is currently well positioned to implement the enhancements identified by this overarching project.

The Compliance department has continued to enhance the compliance framework through dedicated efforts to strengthen the firm’s policies and procedures across business lines, as well as through the compliance risk management programme. We have also continued the development and rollout of the dedicated compliance training programme for employees. The Compliance department was strengthened in 2020 by hiring additional senior compliance experts, including a new head of anti-financial crime, and by establishing a compliance management team. Further optimising the compliance framework is part of Van Lanschot Kempen's strategic roadmap.

Lastly, in 2019 and 2020, specific parts of Kempen & Co (part of Van Lanschot Kempen Wealth Management as of 1 January 2020) were the subject of an investigation by the AFM regarding compliance with the Money Laundering and Terrorist Financing (Prevention) Act (Wwft). This investigation has been concluded by the AFM. No formal enforcement measures have been imposed.

For more information about compliance risk, please refer to the discussion of risk management in the financial statements, Section 12, “Compliance risk”.

Climate change risk

Van Lanschot Kempen’s risk management and control system is specifically designed to manage internal and external risks. Climate change falls into the category of external risks. The balance sheet-related risks are reported to the Risk Committee every quarter. The Risk Committee comprises all Executive Board members and the Director of Risk Management. If climate change is deemed to be a material risk for Van Lanschot Kempen, it will be discussed in this committee. Mitigation of climate change risk will be further investigated in 2021 – for example, by setting up an ESG governance framework and determining concrete objectives.

For our assets under management, the ESG Council is the highest governance body regarding environmental, social and governance (ESG) risks and opportunities. This Council is chaired by a member of the management team of Kempen Asset Management, and comprises various senior investment specialists from Asset Management, such as the Chief Investment Officer and the Director of Impact & Responsible Investment. In 2020, the ESG Council updated and strengthened the company's climate change policy.

The execution of the climate change policy, related to both our balance sheet and our assets under management, is the responsibility of the Sustainability Centre, together with the portfolio managers within Van Lanschot Kempen.

Balance sheet

Since 2016, we have been calculating and reporting on our balance sheet-related carbon emissions, mainly for mortgage loans, other loans and proprietary investments. We periodically assess the risk of climate change on our lending activities, in terms of both physical risks and transition risks. At Van Lanschot Private Banking, the most important lending portfolio is our mortgage portfolio. While some climate change risks to this portfolio exist (e.g. financing homes below sea level), we assess that the chances of these risks materialising are considerably lower than other credit risk factors. As a result, no separate restrictions are used when granting new mortgages. We are working to improve the energy efficiency of the homes and other types of property we finance. For example, we offer the Van Lanschot Groenhypotheek (green mortgage), which provides financing at reduced interest rates to clients who are looking to make their homes more sustainable. We see limited climate change risk in our corporate lending business, mainly because of the regional and sectoral characteristics of this portfolio, as well as the winding down of our Corporate Banking activities.

So far, we have assessed the potential impact of a global temperature increase of 2°C or less on our balance sheet and performance to be small: we have no material climate-sensitive assets on our balance sheet. We expect that rising sea levels will be countered by extra investments by the Dutch government in sea/river defence structures. Even if our operations were physically impacted due to flooding, we would be able to manage the situation as our data centres in Eindhoven and ‘s-Hertogenbosch (fallback) are well above sea level.

Assets under management

In our AuM activities, climate change risks are taken into account when investments are made or investment managers are selected. As part of our responsible and sustainable investing, we also have a climate change policy that was significantly strengthened in 2020. Kempen Asset Management has now set strong targets in line with the Paris Agreement on carbon emission reduction for our investment funds, to be met by 2025, 2030 and 2050 respectively – enabling us to cope with the transition risks related to climate change. This also indicates resilience to physical climate change risks, as the companies in these investment funds will take climate change into account. As physical risks will likely materialise more in certain regions and sectors (with physical assets) than others, we have started to gather physical climate data down to asset level for our Kempen real estate portfolios from a specialised climate data provider. We will continue to include climate data in our investment process in 2021.

Since 2017, we have been calculating and reporting on carbon emissions relating to our assets under management. In 2018, we also started to perform scenario analyses on our assets under management, using the 2DII tool (see 2degrees-investing.org). In 2019, we further improved our climate scenarios for one of our internal portfolios to assess its climate resilience compared with the benchmark. We then obtained climate change risk indicators (proxies) from our climate data provider for several internal funds and some large clients. In 2020, we further integrated climate change mitigation into our current asset allocation scenarios via GDP assumptions (i.e. scenarios ranging from 1.5°C to 4°C of global heating).

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

Regulatory impact

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

In 2020, we continued with our Basel IV implementation, despite the postponement of the deadline. The impact of this revision to the regulatory framework on the business is still expected to be relatively limited. Our analysis includes changes to the approaches for credit risk and operational risk. Together with the Fundamental Review of the Trading Book (FRTB), these reforms will take effect as of 2023 with transitional arrangements. Implementing the new regulation will require substantial effort, as many definitions and reporting requirements have changed.

In October 2019, DNB announced its intention to introduce a minimum risk-weight floor for the residential mortgage loan portfolios of Dutch banks subject to the IRB approach in the autumn of 2020. This measure was postponed because of Covid-19, but was reintroduced by DNB in Q4 2020; the implementation deadline is still unknown. The measure means that Dutch banks will need to hold more capital against their mortgage portfolios. It aims to support the banks' ability to absorb the impact of a potential housing price correction. The impact on our risk-weighted assets (RWA) is estimated to be around 15% based on the current size of our portfolios and the current regulatory capital models, implying an impact on the CET 1 ratio of around 3 percentage points. DNB has indicated that the new measure will not be in addition to the Basel IV framework, which means that the impact will cease after the introduction of Basel IV.

Capital management

At the end of 2020, our Common Equity Tier 1 (CET 1) ratio stood at 24.3%. The 2019 dividend pay-out was postponed at the request of DNB and ECB. It remains reserved on the balance sheet and is not included in our CET 1 capital. We aim to pay out the dividend when allowed by the authorities, which will not be before September 2021. Since our CET 1 ratio remains well above our target range of 15-17%, we will continue to consider paying out excess equity capital to shareholders of Van Lanschot Kempen NV in the form of dividends and capital returns in the future, subject to regulatory approval. In addition, we aim to engage in acquisitions, and intend to leave room for these in our capital position as well.

Our total risk exposure amount (TREA) declined in 2020 by €10 million. At year-end 2020, our Tier 1 and total capital ratios stood at 26.7% (2019: 26.2%) and 30.3% (2019: 29.9%) respectively.

Following the annual supervisory review evaluation process (SREP), DNB informed us about the capital requirements that we need to meet from January 2021 onwards. The minimum capital requirements comprise a CET 1 ratio of 7.8%, a Tier 1 ratio of 10.5%, and a total capital ratio of 13.9%. These requirements reflect the changes in the Capital Requirements Directive (CRD) V, allowing banks to use Additional Tier 1 and Tier 2 capital to satisfy parts of the Pillar 2 requirements (our total Pillar 2 requirement is 5.9%). This measure has already been brought forward by the ECB and DNB in response to Covid-19.

In addition to the 7.8% CET 1 SREP requirement, we are subject to overall capital requirements (OCR), which consist of combined buffer requirements and Pillar 2 guidance (P2G). Both elements must be met by CET 1 capital alone.

SREP and overall capital requirements for 2021 (%)	CET 1	Tier 1	Total capital
Pillar 1	4.5	6.0	8.0
Pillar 2	3.3	4.5	5.9
Total SREP capital requirement	7.8	10.5	13.9
Capital conservation buffer	2.5	2.5	2.5
Countercyclical capital buffer	0.0	0.0	0.0
Overall capital requirement	10.3	13.0	16.4
Pillar 2 guidance (not disclosed)			
Capital ratios as per year-end 2020	24.3	26.7	30.3

The capital conservation buffer is currently the main element of the combined buffer requirements. It stands at 2.5% and reached its fully phased-in level in January 2019. The countercyclical buffer for the Netherlands is currently set at 0%. In its overview of financial stability, DNB indicated that it will gradually raise the countercyclical buffer to a "neutral" level of 2%, but only when the situation around the Covid-19 crisis and its impact on banks has been normalised. The systemic risk buffer does not apply to us. We are expected to comply with P2G by holding CET 1 capital, but P2G does not have a binding status and does not automatically restrict dividend distributions in the event of a breach.

With a CET 1 ratio of 24.3% and a total capital ratio of 30.3% at year-end 2020, we met all capital requirements, including P2G. The leverage ratio decreased to 7.4% at year-end 2020 (year-end 2019: 7.3%), well above the minimum Basel requirement of 3%.

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

Minimum required eligible liabilities (MREL)

As part of the single resolution mechanism (SRM) regulation, the National Resolution Authority has imposed an indicative MREL target on us, which is not likely to become binding before 2024. The MREL target has a loss absorption and a recapitalisation component (both 50%). Given the decline in our SREP capital requirements, we are awaiting a new MREL target before we can assess any potential gaps. Furthermore, the possible eligibility of the structured notes that we have issued to institutional investors is still unclear. We will adjust our funding planning in the run-up to 2024 in order to fill the limited MREL gap that could arise after we receive the final targets.

REPORT OF THE SUPERVISORY BOARD

This report gives an overview of the activities of the Supervisory Board and its committees in 2020. A description of the composition and operation of the Supervisory Board is set out in the notes on corporate governance (see page 70).

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

Supervision

Achievement of corporate targets

The Supervisory Board can reflect on an extraordinary year, which was dominated by Covid-19. The pandemic had, and continues to have, an impact on the clients and employees of Van Lanschot Kempen and on the organisation itself.

Despite the pandemic, Van Lanschot Kempen's employees maintained a high level of service towards their clients, which meant that clients retained their trust in the organisation. Employees demonstrated their adaptive power through the sheer pace at which they adjusted to the new working situation, with most people working from home.

Reflecting the focused wealth management strategy, the underlying business proved to be strong, with high net inflow in assets under management – within both Private Banking and Asset Management – and a high number of Corporate Finance transactions completed.

The implementation of cost-saving measures as a response to the Covid-19 pandemic in the first quarter of 2020 resulted in lower cost levels compared to 2019. The 2020 net result was impacted by significant losses on structured products activities, due to exceptional volatility and illiquidity in certain segments of the financial markets.

Sustainability continues to be an important topic for Van Lanschot Kempen. Adding a fifth strategic pillar, "achieve our sustainability ambitions", and establishing a Sustainability Centre are examples of embedding sustainability throughout the organisation. Regulators are also considering sustainability as an important topic, resulting in the EU sustainability regulations that will come into effect in 2021.

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

Van Lanschot Kempen's capital position was further strengthened in 2020 and remains very strong. The company followed the recommendations of the European Central Bank (ECB) and De Nederlandsche Bank (DNB) not to pay out any dividend or return excess capital in 2020. The proposal to pay out a dividend for 2019 was adopted by the annual general meeting in May 2020 and the dividend has been reserved on the balance sheet for the shareholder.

Van Lanschot Kempen took an important step in its growth strategy by taking over Hof Hoorneman Bankiers. Subject to regulatory approval, Van Lanschot Kempen will continue to optimise its capital position and allow scope for potential acquisitions.

Structure and functioning of internal risk management

Van Lanschot Kempen's principal risks, as well as the structure and functioning of its risk management and control systems, are discussed by the Risk Committee. In 2020, the committee's chairman regularly reported its conclusions and recommendations to the Supervisory Board. Van Lanschot Kempen's risk appetite statement is subject to the Supervisory Board's annual approval. The statement for 2021 was approved at the Board's December meeting. The 2021-23 capital and funding plan was also discussed and approved at the December meeting.

Financial reporting

Financial reporting is discussed regularly at the Audit and Compliance Committee's meetings, which are also attended by the external auditors. In 2020, the committee paid special attention to the 2020 interim financial statements. After each meeting, the chairman of the committee reports on committee discussions to the full Supervisory Board. All members of the Supervisory Board attended the Audit and Compliance Committee's meeting in 2020 at which the 2019 annual figures were discussed. The Supervisory Board approved the financial statements for 2019 on 19 February 2020.

The Supervisory Board decided to propose to the annual general meeting held on 28 May 2020 that it reappoint PricewaterhouseCoopers Accountants NV (PwC) as external auditors for the 2021 financial year. The annual general meeting has reappointed PwC as external auditors for the 2021 financial year. In January 2021, the Supervisory Board decided to propose the reappointment of PwC for the 2022 financial year to the annual general meeting to be held on 27 May 2021.

Legal and regulatory compliance

The Supervisory Board is regularly provided with information on developments regarding the compliance framework; further development of the compliance programme; and group-wide projects to strengthen policies and control arrangements, especially concerning anti-money laundering and anti-terrorist financing, sanctions and customer due diligence processes, and the supervision of the regulatory authorities regarding compliance with regulations. The Supervisory Board was informed periodically about the ongoing implementation of new legislation and regulations such as the Shareholder Rights Directive II (SRD II) and the Mandatory Disclosure Rules (MDR) – requiring intermediaries and (in their absence) the relevant taxpayer(s) to disclose any arrangements that may potentially lead to tax evasion or aggressive tax avoidance.

Relationship with stakeholders

The Supervisory Board regularly discussed Van Lanschot Kempen NV's relationship with its shareholders. The most important topics discussed with shareholders were the general development of Van Lanschot Kempen, the progress made on executing the company's wealth management strategy, the strategy and targets for 2023, organic and inorganic growth opportunities, Van Lanschot Kempen NV's strong capital base and capital strategy, and the sustainability profile and ESG approach of the company.

A delegation of the Remuneration Committee of the Supervisory Board held engagement meetings with a broad group of Van Lanschot Kempen NV's shareholders and other stakeholders to discuss the consequences of SRD II on the company's remuneration policy for the Statutory and Supervisory Boards. The remuneration policies for the Statutory and Supervisory Boards were approved by the annual general meeting of Van Lanschot Kempen NV by 93.7% and 100% of the votes cast respectively. For further information, see page 61.

Karin Bergstein was appointed to the Supervisory Board by the annual general meeting on 28 May 2020 following her nomination. The Supervisory Board adopted the recommendation of the Works Council, which had used its enhanced right of recommendation for the vacancy on the Supervisory Board. Karin Bergstein attended the Works Council's meeting in September to meet with its members.

In January 2020, the Works Councils of Van Lanschot Kempen Wealth Management NV and Kempen & Co NV merged to form a new, integrated Van Lanschot Kempen NV Works Council. Jeanine Helthuis met with the new members of the Works Council. Frans Blom, Jeanine Helthuis and Karin Bergstein attended the Works Council's meeting with the Executive Board in December, at which the general course of business at Van Lanschot Kempen was discussed. In addition, Bernadette Langius discussed the internal pay ratio in 2020 with the Works Council. The Supervisory Board values its constructive relationship with the Works Council.

Relevant aspects of sustainability

In June, the Supervisory Board discussed the consequences of the new European sustainability regulations for Van Lanschot Kempen. Topics discussed included key developments in the regulations, taxonomy, disclosure requirements, "know-your-customer" (including clients' ESG preferences in services), governance (including product governance), risk management and capital requirements. These new sustainability regulations are likely to change the investment landscape. The increased transparency with regard to the sustainability of investment products could raise asset owners' awareness of the importance of sustainability in their investments.

By the end of 2020, sustainability was even further integrated into the organisation. The four existing strategic pillars were extended with a fifth pillar ("achieve our sustainability ambitions") and a group-wide Sustainability Centre was set up to further realise this ambition. In December, the Audit and Compliance Committee was informed about developments and progress made in implementing EU sustainability regulations. In addition, the Risk Committee was informed about progress made on applying the company's responsible lending policy.

Based on the way sustainability is integrated into the organisation – e.g. in policies, products and reporting – the Supervisory Board concluded that Van Lanschot Kempen has taken significant steps in the area of sustainability over the years. Given the continuous developments in this field, as well as evolution towards a more purpose-driven and value-based leadership within companies, sustainability remains a topic that requires ongoing attention from Van Lanschot Kempen going forward.

Internal organisation

Composition of the Statutory and Executive Boards

The composition of the Statutory Board has not changed since 2014. From 2015 onwards, the Statutory Board has, in principle, been taking its decisions at the Executive Board's meetings. However, the composition of the Executive Board did change in 2020. Leni Boeren, responsible for Asset Management, stepped down as a member of the Executive Board on 12 March 2020. We are grateful to Leni for her contribution to Van Lanschot Kempen. Leni Boeren was succeeded by Erik van Houwelingen, who was appointed as a member of the Executive Board on 16 November 2020. As of that date, he was also appointed chairman of the Management Board of Kempen Capital Management. On 14 September 2020, Leonne van der Sar stepped down as a member of the Executive Board to pursue other interests. We greatly appreciate her work for Kempen Merchant Banking and thank her for her dedication to Van Lanschot Kempen in recent years. The Executive Board currently consists of Karl Guha (chairman), Constant Korthout, Arjan Huisman, Richard Bruens and Erik van Houwelingen.

At the beginning of 2021, we changed our organisational structure by moving from a business line-driven organisation towards a function-based model. For further information, see the section "Strategy" on page 12. The new organisational structure also led to an adjustment in the areas of responsibility for most members of the Executive Board. Richard Bruens became responsible for the newly formed Client Management & Origination domain, in which we have combined all our client-focused staff and activities across our client groups. Erik van Houwelingen now leads the newly set-up Investment Strategies & Solutions domain that covers all our in-house and externally selected investment solutions and services. Arjan Huisman is responsible for Digital, Advanced Analytics & Technology as well as for Operations, which have now been centralised to streamline processes and increase efficiency. Karl Guha's portfolio was extended with Business Innovation & Development and the Sustainability Centre, while no changes were made to the portfolio of Constant Korthout.

In January 2021, Karl Guha informed the Executive and Supervisory Boards that he has decided to step down as chairman of the Statutory and Executive Boards of Van Lanschot Kempen NV and as chairman of the Statutory Board of Van Lanschot Kempen Wealth Management NV no later than the end of the year to make way for the new generation. We respect Karl's decision and are very grateful for his large contribution to Van Lanschot Kempen and to the transformation of the firm from a universal bank to a wealth management house. Karl's timely announcement gives us room to find a suitable successor.

Composition of the Supervisory Board

Willy Duron stepped down as chairman and member of the Supervisory Board after the annual general meeting on 28 May 2020. He had been a member of the Supervisory Board for 13 years, the last four of which as its chairman. We are sincerely grateful for his many years of service to Van Lanschot Kempen and his valuable contribution to the Board. Following the resignation of Willy Duron, Frans Blom, a member of the Supervisory Board since 5 October 2018, succeeded him as chairman of the Supervisory Board. Karin Bergstein was appointed as a new member of the Supervisory Board at the annual general meeting on 28 May 2020.

Supervisory Board meetings

The Supervisory Board held 14 meetings in 2020. The Executive Board attends the formal meetings of the Supervisory Board and prepares detailed supporting information. Regular items on the agenda of these meetings included the company's strategy, developments within the various business lines, corporate governance, risk management, IT and operations, financial results, the annual budget and HR topics. The Supervisory Board was informed regularly about the impact of Covid-19 on Van Lanschot Kempen and its employees, as well as the measures that were implemented to guarantee the continuity of (operational) processes. In addition, the Supervisory Board discussed the further simplification of the legal structure of Van Lanschot Kempen through a legal merger between Van Lanschot Kempen Wealth Management NV and Van Lanschot Kempen NV, the postponement of the 2019 dividend payment and the acquisition of Hof Hoorneman Bankiers. Two meetings of the Supervisory Board were fully dedicated to Van Lanschot Kempen's strategy and the new organisational structure. All members of the Supervisory and Executive Boards attended these meetings.

The Supervisory Board also held 14 additional meetings with Supervisory Board members only. These meetings give the Supervisory Board the opportunity to reflect on agenda items and discuss possible items that require attention in advance of the regular meetings, as well as to discuss matters such as the composition of the Statutory and Supervisory Boards and the evaluation of how both boards are functioning. The chairman of the Executive Board was invited to attend some of these meetings, depending on the topics being discussed.

At the meeting in February, the Supervisory Board discussed the performance of the members of the Executive Board in 2019.

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

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

In addition, the Supervisory Board held a meeting off-site, to discuss the outcome of the evaluation of the functioning of the Supervisory Board itself, as well as its committees, in more detail. The Supervisory Board decided to make some changes to the composition of its committees. For further information, see page 59.

Supervisory Board committees

Composition of Supervisory Board committees

The Supervisory Board has appointed four committees from among its members. Each committee advises the Supervisory Board and prepares decision-making by the Board in its designated area of interest. These committees meet separately throughout the year. The main considerations and conclusions of the committees are shared with the Supervisory Board. The Supervisory Board remains fully responsible for all decisions.

Composition and attendance rate	Supervisory Board	Audit and Compliance Committee	Risk Committee	Selection and Appointment Committee	Remuneration Committee
Willy Duron[1]	93.3% (Chair)	100%	100%	100% (Chair)	100%
Frans Blom	100% (Chair)[2]	100%[3]	100%[4]	100% (Chair)[2]	100%[4]
Manfred Schepers	92.8%	100%	100% (Chair)		
Karin Bergstein	100%[5]	100%[3]			100%[3]
Jeanine Helthuis	100%	100%		100%	100%
Bernadette Langius	92.8%		100%		100% (Chair)
Maarten Muller	100%		100%[3]	100%	100%[4]
Lex van Overmeire	100%	100% (Chair)	100%		

[1] Until 28 May 2020.
[2] Chair as of 28 May 2020.
[3] As of 24 June 2020.
[4] Until 24 June 2020.
[5] As of 28 May 2020.

Audit and Compliance Committee

As of 28 May 2020, Willy Duron resigned as a member of the Audit and Compliance Committee. Frans Blom and Karin Bergstein were both appointed as new members of the committee in June 2020. The Audit and Compliance Committee held three meetings in 2020. A delegation from the Statutory Board attended these meetings. The external auditors and the directors of the Internal Audit, Compliance, and Finance, Reporting & Control departments were also present at the meetings. The Audit and Compliance Committee also met with the internal and external auditors without the members of the Statutory Board being present to discuss the course of affairs during the financial year.

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

Key items for discussion	Audit and Compliance Committee review and conclusion
Impairments of loans and advances to the public and private sectors Impairments for individually identifiable loans are based on IFRS 9. Van Lanschot Kempen recognises a loss allowance for expected credit losses (ECL) on all loans. The ECL is calculated by using purpose-built IFRS 9 models. For credit-impaired loans, the Credit Risk, Restructuring & Recovery team provides input in determining the lifetime of ECL. Determining the appropriateness of the individual items involves elements of judgement and requires management to make assumptions. The uncertainties related to Covid-19 and its incorporation in the IFRS 9 models was a special discussion item in 2020.	On the basis of periodic management reports and the outcome of the audit procedures performed by our auditors, we challenged the completeness and accuracy of the impairments made. We discussed the changes in loss allowances during the year as well as the loss allowances recognised in the profit and loss statement. We paid specific attention to the impact of Covid-19 on the credit portfolio and the impairments made. We discussed the methodology of incorporating the effects of Covid-19 in the IFRS 9 model. We focused on the impact of the steep decline in GDP growth in 2020, and the subsequent expected growth in 2021 and 2022, on the macroeconomic variables used in the model. We were informed about the top-level adjustments that are being applied to the model outputs. Based on our discussion and considering the acceptable range in the context of estimate uncertainty, we agree with the methodology applied by management in determining the provisions for impairments of loans and advances to the public and private sectors, and with the corresponding results. The disclosures relating to this item are set out in Note 7 to the financial statements.
Fair value measurement of financial instruments For financial instruments traded in an active market (Level 1), the valuation is based on quoted prices and market data. There is limited judgement involved in the fair value valuation of these instruments. For financial instruments not traded in an active market (Levels 2 and 3), management applies subjective judgement in the fair value valuation of these instruments. The fair value of Level 2 and 3 instruments is determined using net present value models, option models or the net asset value of the underlying investment. In addition, for certain Level 3 instruments, Van Lanschot Kempen uses market and transaction multiples in the valuation. The nature of the instrument determines the model and data used.	We were informed about the methods used for, and the outcome of, management's valuations of Level 2 and 3 financial instruments, including the governance around model and assumption changes. We were informed about the impact of Covid-19 on the valuation of Level 2 and 3 financial instruments. We specifically discussed the valuation of the structured products activities. Based on our discussions and considering the acceptable range in the context of estimation uncertainty, we agree with the estimates applied in the fair valuation of the Level 2 and 3 financial instruments.
Valuation of goodwill Van Lanschot Kempen annually conducts a goodwill impairment test regarding the valuation of goodwill on its balance sheet. This process is complex and subjective by nature as it is based on assumptions of future market and economic conditions. The assumptions used include future cash flow projections and, for each cash-generating unit (CGU), a cost of equity used as a discount rate.	Following the developments surrounding Covid-19 in the first half of 2020, management decided to conduct an additional goodwill impairment test for the Merchant Banking CGU in June 2020. We were informed about the outcome of the analysis, and the conclusion that the analysis did not give rise to an impairment. In December 2020, we discussed the regular goodwill impairment test conducted by management. We were informed about the analyses made as well as their outcome. We made special inquiries into the incorporation of Covid-19 and organisational changes in the projections used. We concur with the conclusions from the goodwill impairment test that were drawn by management.
Acquisition of Hof Hoorneman Bankiers In August 2020, Van Lanschot Kempen announced the acquisition of all shares in Hof Hoorneman Bankiers. In December 2020, we received a declaration of no objection for the takeover and proposed integration by the regulators. As closing of the transaction occurred in January 2021, we needed to decide on the timing of consolidation, the provision for reorganisation and accounting of the purchase price.	We were informed about management's decision to consolidate Hof Hoorneman Bankiers' figures into Van Lanschot Kempen's balance sheet as per 31 December 2020. We concur with this decision, because control over Hof Hoorneman Bankiers shifted to Van Lanschot Kempen at the moment of receiving the final approval from the regulators. We also took note of the purchase price allocation and the resulting goodwill, as well as of the assumptions underlying the provision for reorganisation.

The committee discussed the external auditors' audit plan, reports and the board report prior to their consideration by the full Supervisory Board. During these discussions, the committee discussed the audit scope, materiality, key audit matters and (interim) findings as reported by the auditors. In addition, the committee monitored the actions taken in response to these findings. The Audit and Compliance Committee works closely with the Risk Committee on monitoring the quarterly non-financial risk reports and on key audit matters such as reliability and continuity of the IT environment and the fair value measurement of specific financial instruments. The committee reviews the external auditors' independence, communication and fees every year. On 27 January 2021, the functioning of PwC in 2020 was evaluated. The outcome of the evaluation resulted in the proposal to reappoint PwC for the 2022 financial year; the committee reached the decision to do this independently.

The Audit and Compliance Committee followed developments in the Compliance department and the work of the Internal Audit department throughout the year. Progress on key initiatives in both departments was discussed. The annual plan and quarterly reports from the Internal Audit and Compliance departments were discussed as part of the committee's evaluation of the quality and effectiveness of Van Lanschot Kempen's governance, policy framework, risk management and internal control systems. The committee discussed the positive assessment of the Internal Audit department by DNB, the annual evaluation of the Audit Charter, and the further development of the compliance risk management framework and initiatives to further mature compliance risk management at Van Lanschot Kempen. Close attention was paid to the anti-financial crime framework targeted at compliance with obligations under anti-money laundering, anti-terrorist financing and other relevant legislation. The committee also received detailed information on projects dedicated to further developing the anti-financial crime framework.

Internal Audit reports presented the results of reviews of the risk & control framework, the implementation and operation of IT systems, the performance of IT systems, the management of the loan portfolio, and the impact of the strategy on the organisation. The Audit and Compliance Committee discussed audit findings and coverage of the audit universe. The key areas discussed included the response to Covid-19, cybercrime, digitalisation, changes in the technological landscape, the consequences of using external parties and moving IT to cloud-based solutions, the project to migrate Van Lanschot Belgium's IT infrastructure to the Dutch IT infrastructure, the transformation to an agile way of working at Kempen Asset Management, the product approval and review process (PARP), EU sustainability regulations and the possible impact of Brexit. Other specific discussion topics included the status of the replacement of IBOR as interbank rate, "Good practices on customer tax integrity risk management" by DNB, new developments on horizontal monitoring by the tax authorities and goodwill impairment testing.

Quarterly reporting from the Compliance department covered themes such as regulatory developments, compliance risk management and monitoring, and initiatives to further strengthen the internal control systems. Information was provided on the harmonisation of policies, procedures and control arrangements across Van Lanschot Kempen to ensure the prevention of money laundering and terrorist financing. Reports by the Privacy Officer on adherence to the General Data Protection Regulation (GDPR) were also discussed by the Audit and Compliance Committee. Reporting on the implementation of, and adherence to, all applicable rules and regulations was provided. In addition, reports from Compliance and Internal Audit provided information about contact and communication with regulators, and the supervisory actions and reports conducted by DNB and AFM.

Based on the reports by both internal and external auditors, the Audit and Compliance Committee concludes that the internal control environment is adequate for external financial reporting purposes.

Risk Committee

Willy Duron resigned as a member of the Risk Committee on 28 May 2020. On 24 June, Frans Blom stepped down as a member of the Risk Committee and Maarten Muller was appointed as a new member of the committee. The Risk Committee met three times in 2020. Its meetings were also attended by the CFO/CRO, CEO, Director of Risk Management and Director of Credit Risk, Restructuring & Recovery. The committee paid detailed attention to the credit, operational, market and interest rate risks to which the organisation is exposed.

The quarterly risk appetite reports were discussed by the Risk Committee. In all meetings, specific attention was given to reviewing whether Van Lanschot Kempen's risk profile was within the limits set in Van Lanschot Kempen's risk appetite. The committee discussed credit risk, execution risk of specific change projects, data management risk, cybercrime and IT risk, business continuity risk and the impact of Covid-19 on the risk profile of the organisation during its meetings. Interest rate and market risk developments were discussed based on factors including duration analyses, the development of value at risk, and stress tests. Attention was paid to cybersecurity and the risk mitigation measures and procedures that are in place, as well as developments regarding structured products activities. Extra attention was paid to IT and internal control risks during periods that the majority of employees were working from home due to Covid-19 restrictions. Preventive measures were put in place, and no major incidents occurred. The results of these measures were discussed by the Risk Committee.

As a result of significant losses on structured products activities, discussions took place about short-term extra hedging strategies and (in the medium term) changes in the target operating model. The outcomes of both discussions have been shared in the Risk Committee. The committee was also informed about risk mitigation measures and developments in several strategic projects, such as the outsourcing of payment services to Fidor and the redevelopment of the internal ratings-based (IRB) model.

At the committee's December 2020 meeting, the capital and funding plan for 2021-23 and Van Lanschot Kempen's risk appetite statement for 2021 were discussed. Both documents were submitted to the Supervisory Board with a positive recommendation. See vanlanschotkempen.com/en/governance ("Banking Code") for the principles on which Van Lanschot Kempen's risk appetite is based.

In 2020, the Risk Committee paid special attention to the topics detailed in the table below.

Key items for discussion	Risk Committee review and conclusion
Credit risk Developments concerning risks in the overall loan portfolio, including the non-performing part of the loan portfolio, were thoroughly reviewed and discussed. Extra attention was paid to the possibility of deterioration in the quality of the loan portfolio due to the Covid-19 crisis.	The Risk Committee received quarterly risk reports, including reporting on credit risk, and noted an ongoing improvement in both the performing and the non-performing parts of the loan portfolio. The potential negative impact on the quality of the loan portfolio due to the Covid-19 crisis was monitored carefully. Only a limited number of clients applied for special loans, which underlines the quality of the portfolio. We conclude that despite Covid-19, credit risk is still decreasing and that developments in the loan portfolio are proceeding according to plan. Moreover, we were informed about the progress of the project to upgrade the IRB models in line with the new IRB regulations.
Market risk The very volatile markets in March and April 2020 resulted in significant losses on structured products. Due to abrupt changes in market circumstances as a result of the Covid-19 pandemic, the macro-hedging strategy was no longer effective.	Members of the Risk Committee were updated on the situation regarding structured products activities in an ad-hoc meeting at the time. At the regular committee meetings that followed, special attention was paid to new developments – including evaluation of the causes of the losses, newly introduced limits and a new target operating model for structured products. As a result of these losses, discussions took place regarding extra hedging strategies in the short term and changes in the target operating model in the medium term. The outcomes of these discussions were shared in the Risk Committee.
Cybercrime Cybercrime is and will remain one of the main threats facing the financial services industry. The Covid-19 crisis resulted in even more cybercrime activities, and thus even higher risks. With our scale and budget, we need to follow a risk-based approach and develop intelligent solutions.	Management informed us about the most recent developments in the company's cybersecurity strategy. The level of security is being continuously increased to keep pace with the increasing threat level. In addition to technological defence measures, the emphasis is on security awareness and responsiveness. We conclude that sufficient resources and attention are being dedicated to this important topic.
Non-financial risk The Covid-19 outbreak in 2020 changed our way of working dramatically. This entailed additional operational risks.	Through strong crisis management and IT efforts, the organisation shifted successfully to working from home. Operational stability was sound and, after a short delay, several change projects could be realised. Although an increase in cyberthreats was observed, no major incidents were reported. We conclude that non-financial risks are being adequately monitored, and ongoing initiatives are being taken to reduce these risks further.
Robustness of IT environment Van Lanschot Kempen is dependent on its IT environment for the reliability and continuity of its operations and financial reporting. In 2020, we successfully migrated the IT systems of our operations in Belgium to the infrastructure of the Van Lanschot Kempen organisation as a whole, and thus mitigated IT risks in our second domestic market significantly.	We were informed about the progress made on the major IT projects within Van Lanschot Kempen and their implementation so far. Despite the challenging circumstances in the first half of 2020, several high-impact and high-risk projects were successfully completed, which reduced risks. The migration of the Belgian IT infrastructure to the Dutch Private Banking IT infrastructure was one of the most important achievements to mitigate these risks.

Selection and Appointment Committee

Willy Duron resigned as a member of the Selection and Appointment Committee on 28 May 2020, and Frans Blom succeeded him as chairman of the committee. The Selection and Appointment Committee met 12 times in 2020 to discuss the recruitment and selection process and succession planning for new members of the Supervisory Board, as well as the composition of the Statutory Board. The composition of the Supervisory, Statutory and Executive Boards was also discussed during the closed sessions of the Supervisory Board.

Remuneration Committee

Willy Duron stepped down as a member of the Remuneration Committee in May, while Frans Blom and Maarten Muller stepped down as members of the committee in June, in line with the Supervisory Board's decision to make some changes to its committees. Karin Bergstein was appointed as a new member of the Remuneration Committee in June. The Remuneration Committee held four meetings in 2020. Representatives of the HR department also attended the meetings. The chairman of the Executive Board was invited to attend some of the Remuneration Committee meetings, depending on the topics being discussed. At its February meeting, the committee discussed the Executive Board's KPIs for 2020. The 2019 remuneration report and the new remuneration policy of the Statutory and Supervisory Board were discussed, as was the 2019 variable remuneration paid to staff of Van Lanschot Kempen.

The amount available for variable remuneration of Van Lanschot Kempen staff for 2020 was among the topics discussed at the December meeting.

Consequences of SRD II on the company's remuneration policy

SRD II requires additional context to be included in the remuneration policies for the Statutory and Supervisory Boards. A delegation of the Remuneration Committee held engagement meetings with a broad group of Van Lanschot Kempen's stakeholders. During these meetings, we obtained a clear understanding of their views on the implementation of SRD II and on Van Lanschot Kempen's remuneration policies for the Statutory and Supervisory Boards. The remuneration policies were amended with an explanation of our approach to remuneration. The remuneration policies for the Statutory and Supervisory Boards were put to vote at the annual general meeting on 28 May 2020 and were approved by the annual general meeting. Further details on the remuneration policy of the Statutory Board can be found in the remuneration report on page 65.

In addition, the Remuneration Committee paid specific attention to the preparation of the remuneration report, which was drawn up in accordance with the new requirements based on the law under which SRD II must be implemented.

Assuring supervision quality

Evaluation of the Supervisory Board

The Supervisory Board performs an annual evaluation of the functioning of the Supervisory Board, its committees and individual members. The evaluation is carried out under the guidance of an external adviser once every three years – including in 2020. In the intervening years, the evaluation process is carried out using a questionnaire completed by each Board member. The evaluation process was carried out in December 2020 and January 2021, and included interviews with all members of the Supervisory and Executive Boards, as well as a questionnaire. The evaluation includes the participation and contribution of each member of the Supervisory Board, the knowledge and experience of the Supervisory Board collectively, the interaction and dynamics within the Supervisory Board, the communication and provision of information, the decision-making process and quality of the information provided for Supervisory Board meetings, the independence of mind of the individual members, and the relationship with the Executive Board. The outcomes and recommendations from the evaluation were discussed by the Supervisory Board during a separate meeting in February 2021; recommendations will be implemented as a result.

The Supervisory Board concluded that the Board and its committees are functioning well, and that its composition is in line with the required profile in terms of suitability, expertise and diversity, and also complies with Principle 2.1 of the Dutch Corporate Governance Code.

Evaluation of the Statutory and Executive Boards

In February 2021, the Supervisory Board evaluated the functioning of the Statutory and Executive Boards as a whole and that of the individual members of both boards based on the key performance indicators (KPIs) for 2020. The Supervisory Board sets the KPIs for the Executive Board every year. The KPIs set for the Executive Board consist of Van Lanschot Kempen's external financial and non-financial KPIs, with additional KPIs on financial and risk management. The financial KPIs include the return on CET 1, costs, operating profit before tax, risk appetite and efficiency ratio. The non-financial KPIs include reductions in carbon emissions, employee engagement, diversity and inclusion, and employer Net Promoter Score. For further information on performance against these KPIs, see page 14.

The assessment of the KPIs is included as the basis for the collective assessment of the Executive Board and the individual assessment of the members of the Executive Board for 2020. In addition, a delegation of the Supervisory Board reviewed the 2020 performance and lessons learned with the individual members of the Executive Board in January 2021. The outcomes from these meetings were discussed by the members of the Supervisory Board, who concluded that the members of the Executive Board both collectively and individually performed well in 2020. The conclusions and recommendations relevant to the Statutory and Executive Boards were shared with the members of these boards. The 2021 KPIs for the Executive Board are in line with Van Lanschot Kempen's financial and non-financial KPIs for 2021 (see pages 17-29).

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

On-boarding programme

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

Education

The members of the Supervisory and Executive Boards took part in the continuing education programme. In 2020, three continuing education sessions were organised. Topics covered included:

- Shareholder activism;
- The Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft);
- Sustainability regulations and their impact on Van Lanschot Kempen.

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

Independence

All members of the Supervisory Board perform their duties independently and critically. The independence requirements described in best practice provisions 2.1.7 to 2.1.9 of the Dutch Corporate Governance Code have been fulfilled. Currently, there are no dependent members on the Supervisory Board.

In the event of a potential conflict of interest relating to a particular topic, the Supervisory Board member concerned is not allowed to participate in discussions or decision-making on that topic. Best practice provisions 2.7.3 to 2.7.4 of the Dutch Corporate Governance Code were observed as far as applicable. In 2020, there were no conflicts of interest of material significance for members of the Supervisory or Statutory Boards.

Financial statements

The Supervisory Board has reviewed and approved the annual report for 2020 and the 2020 financial statements. The 2020 financial statements have been audited by the external auditors, PwC. The independent auditors' report can be found on page 202. We invite the annual general meeting to adopt the 2020 financial statements as submitted and to discharge the Statutory Board in respect of its conduct of Van Lanschot Kempen Wealth Management NV's affairs and the members of the Supervisory Board in respect of their supervision.

Acknowledgements

The Supervisory Board would like to thank all stakeholders for their continued trust in Van Lanschot Kempen and the Executive Board.

We would like to express our heartfelt thanks to the Executive Board and staff, who have worked hard and adjusted successfully to home-based working during the Covid-19 pandemic. We are very grateful for their dedication and flexibility under such difficult circumstances in 2020.

's-Hertogenbosch, the Netherlands, 10 March 2021

Supervisory Board

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

REMUNERATION REPORT

Remuneration Committee

Key objectives

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

Responsibilities

The responsibilities of the Remuneration Committee include:

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

The committee held four meetings in 2020.

Composition

Chair
Bernadette Langius

Members
Jeanine Helthuis
Karin Bergstein[2]

Letter from the Chair of the Remuneration Committee

As Chair of the Remuneration Committee, I'm pleased to present Van Lanschot Kempen's remuneration report. This report is guided by requirements originating from the updated EU Shareholder Rights Directive. Although there is still not full clarity around the specific legal requirements for the report, we have written this report in line with the spirit of the draft EU guidelines for disclosure.

This report includes both a summary of our Statutory Board and Supervisory Board remuneration policies and our annual report on remuneration, which sets out how our policy was applied during 2020, and how it will be applied in 2021. On 28 May 2020, the annual general meeting of Van Lanschot Kempen NV (AGM) approved the remuneration policies for the Statutory Board with a majority of 93.7% of the votes cast and for the Supervisory Board with 100% of the votes cast.

The 2019 remuneration report was approved by the AGM (advisory vote) with a majority of 93.7% of the votes cast. There was no specific follow-up given the outcome of this vote. We did not receive any substantive comments on the 2019 remuneration report. The 2020 remuneration report will be subject to an advisory vote at our AGM on 27 May 2021.

Alignment with our strategic framework

Van Lanschot Kempen has transformed from a universal bank into a specialist, independent wealth manager. In fact, it has become a professional services company with a banking licence. This leads to specific challenges from a remuneration perspective, especially within the Dutch regulatory context.

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

[1] More than 50% of fixed remuneration.
[2] Further to the redistribution of Supervisory Board committees, Frans Blom and Maarten Muller left the Remuneration Committee on 24 June 2020. Willy Duron stepped down from the Supervisory Board and Remuneration Committee on 28 May 2020. Karin Bergstein joined the Remuneration Committee on 24 June 2020 because she is a member of the Supervisory Board, on the basis of the enhanced right of recommendation of the Works Council.

Remuneration principles remained unchanged in 2020

We believe in rewarding long-term sustainable performance to help achieve our long-term strategy. This is reflected in our Statutory Board remuneration policy. Since 2015, this consists of fixed remuneration only (no variable remuneration) and includes a large proportion in depositary receipts for shares of Van Lanschot Kempen NV (hereinafter: shares), with a five-year lock-up period, in combination with share ownership guidelines.[3] This creates a strong focus on long-term value creation.

In compliance with the law under which SRD II has been implemented in the Netherlands, certain textual additions have been made to the Statutory and Supervisory Board remuneration policy to explain our remuneration approach. These were approved at the 2020 AGM. The remuneration structure for the Statutory and Supervisory Boards remained unchanged in 2020.

Total remuneration in 2020

We review total remuneration for the Statutory Board periodically, taking into account internal and external perspectives. When adopting the Statutory Board remuneration package, we consider pay ratios within the company and remuneration policies in place across the wider workforce in our organisation. Moreover, the Remuneration Committee takes note of individual Statutory Board members' views regarding the amount and structure of their own remuneration.

In response to the Covid-19 pandemic, the members of the Statutory Board believed it was appropriate to collectively and individually set an example regarding the reduction of costs within the firm. They therefore decided to take a 10% pay cut on the cash component of their 2020 compensation on a voluntary basis, from 1 May until the end of 2020. This decision was highly appreciated by the Supervisory Board.

In line with the Statutory Board remuneration policy approved by the shareholders of Van Lanschot Kempen NV, the Supervisory Board indexed the fixed remuneration of the members of the Statutory Board. The indexation started on 1 July 2020, in line with the wider workforce. The indexation amounted to 1.6% and was maximised by the derived Consumer Price Index (CPI) applicable over 2019.

For more information about the Statutory Board's remuneration package and pay ratios, see “Remuneration of the Statutory Board in 2020” on page 65.

Performance management

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

Stakeholder engagement

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

The dialogue with our stakeholders was very constructive. Gaining their views on executive pay in general, and Van Lanschot Kempen's remuneration policy in particular, was very valuable.

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

Looking ahead to 2021

The remuneration policy for the Statutory and Supervisory Boards will remain unchanged in 2021.

‘s-Hertogenbosch, the Netherlands, 10 March 2021

Remuneration Committee

Bernadette Langius, *Chair*

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[3] Statutory Board members must hold Van Lanschot Kempen NV shares with a value equal to or above the cash portion of two years' gross salary (for as long as they remain in office). They can gradually meet this requirement over the years. If the share price is not performing, the Statutory Board members must increase their holdings. The share ownership requirement leads to an effective lock-up period, which is longer than five years from the start of the share ownership. This effective lock-up is more than seven years for the CEO, for example.

Our approach to remuneration: rewarding long-term sustainable performance

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

As a company, we believe that the generation of wealth – and its redistribution through taxation – are critical to the process of creating and maintaining stable, successful societies. Given that social cohesion necessitates such wealth creation, we believe that wealth management cannot be the preserve of a few but is a necessity for all. We create wealth, economic growth, jobs and tax income via our services to entrepreneurs, as well as contributing to the realisation of societal goals via the preservation and creation of wealth for asset owners, including private individuals and pension funds.

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

We serve clients across the social spectrum and in several segments – private, wholesale & institutional and corporate – as a trusted partner and to assist them in preserving and creating wealth sustainably. Investing for the long term is no longer just about looking for the greatest returns by a future date; it's about ensuring the liveability of the planet for the generations to come. We believe that serving the long-term interests of our clients helps create a platform for sustainable investing and societal stability.

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

WE BELIEVE IN:

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

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

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

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

Van Lanschot Kempen has developed a set of KPIs focusing on long-term value creation. These financial and non-financial KPIs reflect both the interests of stakeholders and our ambitions as a wealth manager. They are in line with the company's values and will be reassessed from time to time. The KPIs that are relevant from a strategy and stakeholder perspective are disclosed in the sections about value creation per type of capital on pages 17-29. These KPIs are also applicable to the members of the Statutory Board. Van Lanschot Kempen aims for the KPIs and performance management applicable to the Statutory Board to be fully aligned with the rest of the organisation.

Our remuneration policy at a glance

The remuneration policy for members of the Statutory Board was approved and adopted by the AGM on 28 May 2020, and applied from that date. The remuneration policy for the Executive Board is similar to the Statutory Board remuneration policy.

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

	Purpose	Operation
Fixed salary – cash	To reflect the scale and complexity of our company, enabling us to attract and retain the highest calibre talent needed to continue the company's transformation and growth	Fixed salary in cash, paid during the year in 12 instalments, taking into account the following factors: – Level of skill, experience and scope of responsibilities; – Business performance, scarcity of talent, economic climate and market conditions; – Developments elsewhere within Van Lanschot Kempen, including pay ratios; – Developments in our external comparator groups (which are used for reference purposes only).
Fixed salary – shares	To reflect the scale and complexity of our company, enabling us to attract and retain the highest-calibre talent needed; to align rewards with long-term sustainable performance; and to align the interests of the Statutory Board with those of shareholders of Van Lanschot Kempen NV	Fixed salary in shares, paid in one instalment: – A lock-up period of five years applies to these shares.
Indexation	To compensate for inflationary pressure on real wages	The remuneration of the Statutory Board can be increased annually at the discretion of the Supervisory Board. The indexation is maximised by: i) the general increase granted to the wider workforce; and ii) the derived CPI applicable over the previous year. It will only be applied if: i) the overall performance of the Statutory Board member is (at least) on target; and ii) it can be justified by the financial performance of the company. The indexation is granted fully in cash.
Share ownership guidelines	To align the interests of the Statutory Board with those of shareholders of Van Lanschot Kempen NV	Statutory Board members must hold Van Lanschot Kempen NV shares with a value equal to or above the cash portion of two years' gross salary (for as long as they remain in office). They can gradually meet this requirement over the years. If the share price is not performing, the Statutory Board members must keep increasing their holdings.
Pension and disability insurance	To secure income after retirement or in case of disability	– The members of the Statutory Board are responsible for their own pension provision, towards which they receive a fixed cash payment of 30% of their fixed remuneration. This percentage is in line with our reference market. – They also receive a payment of 2.59% of their fixed remuneration for taking out disability insurance. – There are no early retirement schemes for Statutory Board members. – We monitor external developments regarding alignment between executive pensions and broader employee pension arrangements, and the possible impact that these may have in the Netherlands.

Remuneration of the Statutory Board in 2020

In response to the Covid-19 pandemic, the members of the Statutory Board decided to take a 10% pay cut on the cash component of their 2020 compensation on a voluntary basis, from 1 May until the end of 2020.

The Supervisory Board indexed the fixed remuneration of the members of the Statutory Board. The indexation amounted to 1.6% and was maximised by the derived CPI applicable over 2019. The indexation was applied as of 1 July 2020 (in line with the wider workforce) and was granted fully in cash, in accordance with the Statutory Board remuneration policy. The remuneration paid to the Statutory Board in 2020 and 2019 is presented in the table on the following page.

Total remuneration of the individual members of the Statutory Board in 2020[4] (€1,000)	Karl Guha		Constant Korthout		Arjan Huisman		Richard Bruens	
	2020	2019	2020	2019	2020	2019	2020	2019
Fixed salary in cash	730	773	415	438	415	438	415	438
Fixed salary in shares[5]	388	388	312	312	312	312	312	312
Total fixed salary	1,118	1,160	727	750	727	750	727	750
Pension and disability insurance	381	378	246	244	246	244	246	244
Total remuneration[6]	1,499	1,538	973	994	973	994	973	994

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

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

Internal pay ratios, fairness and wider workforce considerations
When adopting the Statutory Board remuneration package, we consider pay ratios within the company – attaching importance to the need for a sound pay ratio. The development of the pay ratio is discussed annually with the Works Council of Van Lanschot Kempen NV. Starting in 2020, we decided to use a more specific pay ratio calculation method, so that the data being compared is matched as closely as possible. Under this new method, the average labour cost only consists of salaries, social security premiums, variable remuneration and pension costs. Comparative figures have been adjusted accordingly.

A comparison of the remuneration package of the CEO and the average labour cost[7] of an employee within Van Lanschot Kempen results in a pay ratio of 11:1 (2019 ratio: 12:1). Trade unions apply the rule of thumb that the pay ratio should be a maximum of 20:1.

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

For more detailed information on Statutory Board remuneration versus remuneration for the wider workforce (as well as company performance), see "Supplementary disclosure related to Statutory Board remuneration" on page 67.

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

Van Lanschot Kempen has transformed from a universal bank into a specialist, independent wealth manager. In fact, it has become a professional services company with a banking licence.

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

Our external reference market consists of the following types of companies:
– **Specialist wealth management companies:** We are a (highly) specialist company, and need to be able to attract specialists to further grow the business. As there are no other standalone specialist wealth management companies of comparable size in the Netherlands, we look at companies active in Western Europe. We take into account standalone companies, broadly comparable in terms of number of employees and type of professional setting.
– **Dutch banks:** Although not all of the banks are directly comparable in terms of activities and size, these companies are subject to the same regulatory framework and are part of the same public debate.

[4] To be able to make a comparison between 2020 and 2019, the same definition of total remuneration (total fixed salary plus pension and disability insurance) has been used. Business expenses have not been included.
[5] Expenses (in €1,000) recognised under IFRS-EU accounting for Van Lanschot Kempen NV shares differ due to treatment under IFRS 2. For 2020, expenses under IFRS for Karl Guha amounted to €432 (2019: €429), for Constant Korthout to €348 (2019: €346), for Arjan Huisman to €348 (2019: €346), and for Richard Bruens to €348 (2019: €346). A proportion of fixed salary is paid in the form of Van Lanschot Kempen NV shares. Karl Guha received 19,456 shares (2019: 18,953) while the other members of the Statutory Board each received 15,677 shares (2019: 15,273). The number of shares granted is based on the average share price for the first four trading days in a year. For 2020, the average share price amounted to €19.92 (2019: €20.45). IFRS takes the share price at grant date as the basis for recognition. This price also amounted to €19.92 in 2020 (2019: €20.45).
[6] Expenses recognised under IFRS-EU accounting for total remuneration differ due to treatment under IFRS 2. For 2020, expenses under IFRS for Karl Guha amounted to €1,543 (2019: €1,580), for Constant Korthout to €1,009 (2019: €1,028), for Arjan Huisman to €1,009 (2019: €1,028), and for Richard Bruens to €1,009 (2019: €1,028).
[7] The average labour cost is calculated by dividing total staff costs (excluding costs for redundancy, mobility, training and other staff costs) by the average number of FTEs working for Van Lanschot Kempen.

– **Other Dutch companies:** Although other banks and specialist wealth management companies are important from a talent market perspective, our talent pool does not only consist of financial services companies. For example, in pursuing our wealth management strategy, professional qualifications are key – including the ability to adapt to technological changes. Because of this, our peer group also consists of other, non-financial Dutch companies. These companies are larger than ours, reflecting our experience that talent suitable for our Statutory Board is likely to be attracted (and lost) to larger companies.

The peer group is in line with requirements as laid down in the Dutch Banking Code. This code prescribes that the peer group should be composed of comparable positions both inside and outside the financial industry, including the relevant international context. If we change our remuneration policy in the future, we will also review our Statutory Board peer group. The composition of the peer group currently is set out in the table below.

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

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

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

Statutory Board performance

As indicated in our approach to remuneration, the performance of the Statutory Board is assessed based on non-financial and financial KPIs. For 2020, the following KPIs (selected from a strategic and stakeholder perspective) were included in the KPIs of the Statutory Board. For a comprehensive overview of the Statutory Board KPIs, see the sections about value creation per type of capital on pages 17-29.

	KPIs	Targets 2023	Result 2020[8]	Supervisory Board assessment 2020
Financial	CET 1 ratio	15-17%	24.3%	Excellent
	Return on equity (CET 1)	10-12%	4.4%	Below target
	Efficiency ratio	70-72%	85.7%	Below target
Non-financial	Net Promoter Score (NPS) a. Private Banking b. Evi c. Asset Management	a. 10 b. 10 c. 20	a. 26 b. 5 c. 31[9]	a. Excellent b. Below target c. On target
	Employer Net Promotor Score (eNPS)	> 10	6	On target

In addition to these, the members of the Statutory Board had KPIs regarding the level of operating expenses, run-rate revenue per business line, active involvement in relevant M&A opportunities, and risk appetite.

[8] Van Lanschot Kempen set its targets for 2023. The 2020 targets differ from the 2023 targets because of the annual development towards these future goals.
[9] The Asset Management NPS is measured once every two years and the score is valid for two years. The result and assessment are therefore linked to the 2019 NPS.

Supplementary disclosure related to Statutory Board remuneration

Annual change in Statutory Board remuneration versus wider workforce and company performance[10]	2020	2019	2018	2017	2016	2015
CEO remuneration (€1,000)[11]	1,499	1,538	1,538	1,229	1,194	1,194
Other Statutory Board members' remuneration[11] (€1,000)	973	994	994	795	772	772
Average employee remuneration (€1,000)[12]	140	131	139	130	122	118
Underlying net profit (€ million)	51.0	108.8	103.0	112.3	81.3	60.1

Number of shares held by Statutory Board members in 2020	At 1 January 2020	Bought/awarded	Sold/post-employment	At 31 December 2020
Karl Guha	63,722	12,055	—	75,777
Constant Korthout	62,042	9,714	—	71,756
Arjan Huisman	41,655	9,714	—	51,369
Richard Bruens	58,004	9,714	—	67,718
Total	**225,423**	**41,197**	**—**	**266,620**

At 31 December 2020, the members of the Statutory Board held no options for shares.

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

No advances or guarantees have been granted to members of the Statutory Board.[13] No impairments or write-offs have occurred on loans granted to Statutory Board members.

Loans to Statutory Board members at 31 December 2020 (€1,000)	At 31 December 2020	Repaid	Interest	Collateral
Karl Guha	—	—	—	—
Constant Korthout	—	—	—	—
Arjan Huisman	—	—	—	—
Richard Bruens	600	—	1.90%	Mortgage
	501	18	1.72%	Mortgage
	247	9	1.72%	Mortgage
Total	**1,348**	**27**		

Remuneration of the Supervisory Board in 2020

The remuneration policy for members of the Supervisory Board was adopted by the AGM on 28 May 2020 and applied from that date. The remuneration of the Supervisory Board is summarised in the tables below.

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

Remuneration of the Supervisory Board in 2020 (€1,000)	2020	2019
Willy Duron (until 28 May 2020)	53	127
Manfred Schepers	95	95
Frans Blom	96	77
Jeanine Helthuis	83	76
Bernadette Langius	80	80
Maarten Muller	75	73
Lex van Overmeire	85	85
Karin Bergstein (from 28 May 2020)	40	—

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

[10] The members of the Supervisory Board only received fixed remuneration during the years covered by the table above, ranging from €55,500 (lowest full-time amount in 2015) to €127,000 (highest full-time amount in 2019). For more information see "Remuneration of the Supervisory Board in 2020" on this page.
[11] Total remuneration awarded.
[12] As of 2020, an FTE equals 40 working hours for all employees, instead of 36 hours for some employees, as previously. This adjustment had an impact of around 40 FTEs as of 1 January 2020.
[13] Arjan Huisman has an ongoing credit facility up to €400,000. At 31 December 2020, there were no withdrawals.

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

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

Remuneration of other employees

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

Fixed remuneration

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

Equal pay

Van Lanschot Kempen operates a merit-based remuneration policy, seeking not to discriminate on the basis of gender, age, nationality, social status or cultural background. We periodically investigate this and, if necessary, we make adjustments to equalise pay.

In 2020, we analysed the gender pay gap at different levels in the organisation. We observed pay gaps at senior management levels and specific areas in the overall wider workforce. These gaps may be due to differences in age, work experience and so on. Further analyses will be made in 2021 to determine whether there are any unexplained differences.

Variable remuneration

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

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

Variable remuneration funding

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

Variable remuneration allocation

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

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

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

Variable remuneration pay-out

Variable remuneration up to €50,000 gross is paid out in cash directly. Above this amount, 50% of any variable remuneration is paid out directly, whereas the other 50% is deferred for a period of three years. For new awards starting in 2021, this period will be four years. Pay-out of the deferral is conditional on Van Lanschot Kempen meeting the prevailing buffer requirements (as mentioned before).

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

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

Remuneration in 2020
Variable remuneration totalling €12.2 million was paid to employees (including identified staff) over 2020 (2019: €14.7 million). Two people received total annual remuneration of over €1 million in 2020.

Long-term share plan
Our 2011 long-term share plan (LTP) allows us to award variable remuneration in the form of Van Lanschot Kempen NV shares to certain key employees (including identified staff). In this case, 60% of each award is unconditional, whereas 40% of each award is deferred for a period of three years. For new awards starting in 2021, this period will be four years. Pay-out of the deferral is conditional on Van Lanschot Kempen meeting the prevailing buffer requirements (as mentioned before).

Pensions
As of 2020, all our employees participate in the new Van Lanschot Kempen defined contribution pension plan. Statutory Board members do not participate in this plan as they receive an individual pension contribution. We monitor external developments regarding alignment between executive pensions and broader employee pension arrangements, and the possible impact that these may have in the Netherlands.

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

As a general rule, any pay-out to identified staff is made 50% in cash and 50% in Van Lanschot Kempen NV shares. As an exception[14] to this, the variable remuneration of identified staff working at Kempen Capital Management is paid 50% in cash and 50% in a flexible mix of Van Lanschot Kempen NV shares and investments in funds managed.

A lock-up period of one year applies to the shares that have become unconditional. In all cases, 60% of the award is paid out unconditionally (both the cash part and the non-cash part), whereas 40% is conditionally deferred for a period of three years. For new awards starting in 2021, this period will be four years. Pay-out of the deferral is conditional on a re-assessment of the five conditions mentioned for any award of regular variable remuneration. If this re-assessment leads to an adjustment of the deferred remuneration, the hold and/or claw-back system applies.

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

The Statutory Board is responsible for implementing the remuneration policy. The Supervisory Board approves the variable remuneration policy, including its general principles, and oversees its implementation. Approval by the Supervisory Board is also required for the variable remuneration pools, any significant[15] individual variable remuneration, and for individual variable remuneration proposed for employees designated as identified staff. The Supervisory Board's Remuneration Committee prepares the Supervisory Board's decision-making on remuneration and advises it in this area. More information about the remuneration policy for identified staff can be found in our 2020 Pillar 3 disclosure on remuneration, available via our website.

[14] Based on the Alternative Investment Fund Managers Directive (AIFMD) and Undertakings for the Collective Investment in Transferable Securities (UCITS) guidelines on sound remuneration policies.
[15] More than 50% of fixed remuneration.

CORPORATE GOVERNANCE

Van Lanschot Kempen Wealth Management NV (VLKWM) is a full subsidiary of Van Lanschot Kempen NV The Supervisory and Statutory Boards of VLKWM also serve as the Supervisory and Statutory Boards of Van Lanschot Kempen NV. In view of this, the section below reflects most of the key elements of corporate governance at Van Lanschot Kempen NV. The Articles of Association and various other regulations and documents relating to corporate governance can be found at vanlanschotkempen.com/en/governance and vanlanschotkempen.com/management-supervision.

Corporate governance structure

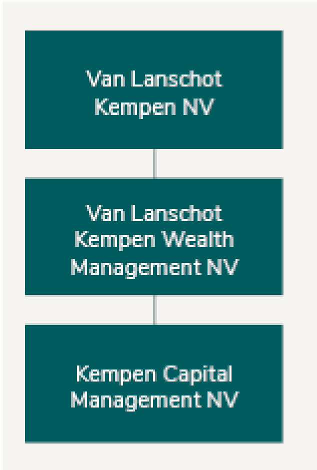
Van Lanschot Kempen NV is the holding company of VLKWM. VLKWM holds all the shares in Kempen Capital Management NV.

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

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

In order to further simplify the group structure, we are exploring the possibilities of a legal merger between Van Lanschot Kempen NV and VLKWM. Such a legal merger will be subject to approval from the regulators and the general meetings of these companies.

Group structure



Statutory Board

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

The Statutory Board of Van Lanschot Kempen NV is also the Statutory Board of VLKWM. The Supervisory Board notifies the general meeting of any proposed appointment of a member of the Statutory Board. Appointment of a member of the Statutory Board is subject to the approval of De Nederlandsche Bank (DNB). A member is appointed by the Supervisory Board. The maximum term for appointment or reappointment is four years. The Supervisory Board may dismiss a member of the Statutory Board at any time, but only after consulting the general meeting.

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

Executive Board

Van Lanschot Kempen NV has had an Executive Board since 2015. The Executive Board oversees the implementation of our company strategy and manages core activities. This ensures better alignment between core activities and a more effective decision-making process. During 2020, the composition of the Executive Board changed (see "Composition and performance of the Statutory and Executive Boards" for more details). The Executive Board currently comprises the members of the Statutory Board and the person responsible for Investment Strategies & Solutions.

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

Supervisory Board

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

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

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

Diversity policy

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

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

With regard to gender diversity, we strive for a reasonable spread across gender and aim for the composition of the Supervisory and Executive Boards to be such that at least 30% of their respective members are men and at least 30% women. We strive for a reasonable spread across ages and nationalities in the composition of the Supervisory and Executive Boards, but we do not believe that age or nationality are suitable criteria for setting specific diversity targets so we do not set specific objectives for these.

With regard to background, experience and expertise, we aim – in keeping with the Supervisory Board's profile – to ensure that the combined background, experience and expertise of Supervisory Board members enable the Board as a collective to best carry out its range of responsibilities and duties towards Van Lanschot Kempen NV, taking into account the nature of our business and activities. The same applies to the Executive Board. Our diversity policy describes the relevant areas of background, experience and expertise of the Supervisory Board and the Executive Board respectively.

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

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

Composition and performance of the Statutory and Executive Boards

The Statutory Board must consist of at least three members, with the actual number set by the Supervisory Board. The composition of the Statutory Board did not change in 2020, and consisted of Karl Guha (Chairman), Constant Korthout, Arjan Huisman and Richard Bruens. The composition of the Executive Board did change in 2020, and comprises Karl Guha (Chairman), Constant Korthout, Arjan Huisman, Richard Bruens and Erik van Houwelingen. Erik van Houwelingen, responsible for Investment Strategies & Solutions, was appointed as a member of the Executive Board as of 16 November 2020, replacing Leni Boeren who stepped down as a member of the Executive Board on 12 March 2020. Leonne van der Sar, responsible for Merchant Banking activities, stepped down as a member of the Executive Board on 14 September 2020. Richard Bruens has taken over responsibility for the Merchant Banking activities.

The Statutory and Executive Boards evaluate their functioning as a whole and that of individual Board members at least once a year. The Supervisory Board discusses, at least once a year, the performance of the Statutory Board and the Executive Board as a whole and members' performance individually. The Supervisory Board has concluded that the composition of the Statutory and Executive Boards meets the objectives of our diversity policy in most respects. The composition of the Executive Board is complementary and there is a sufficient degree of diversity with regard to age, expertise, experience and background. However, the target for at least 30% of the members of the Executive Board to be women is not currently met. With two women stepping down as members of the Executive Board in 2020 and a man appointed as a new member, the Executive Board currently has no female members. Gender diversity will continue to be an important element in the profile for future vacancies on the Executive Board.

In addition, if a vacancy in senior management needs to be filled, specific attention is paid to female talent in order to make the pool of internal candidates more diverse in terms of gender. Although gender diversity is important in the recruitment and selection of candidates, the principle of selecting the most suitable candidate for the vacancy prevails. We are not yet able to indicate a time frame within which the target for gender diversity in the Executive Board will be met. The company continues to put measures in place to enhance diversity and inclusion.

Composition and performance of the Supervisory Board and its committees

The Supervisory Board has a minimum of three members and a maximum of nine. Currently, the Supervisory Board comprises Frans Blom (chairman), Manfred Schepers (vice-chairman), Karin Bergstein, Jeanine Helthuis, Bernadette Langius, Maarten Muller and Lex van Overmeire. At the annual general meeting held on 28 May 2020, Willy Duron stepped down as a member of the Supervisory Board, while Karin Bergstein was appointed as a new member.

The Supervisory Board has appointed four committees from among its members to prepare the Board's decision-making: the Audit and Compliance Committee, the Risk Committee, the Remuneration Committee, and the Selection and Appointment Committee. These committees advise the Supervisory Board on matters relating to their respective areas of interest. More information about the committees and their composition can be found on page 55 of the Report of the Supervisory Board.

The Supervisory Board has drawn up a profile[1] for its size and composition, taking into account the nature and activities of the business associated with Van Lanschot Kempen NV and its subsidiaries, and the required expertise and background of the members of the Supervisory Board. The Supervisory Board appraises its own performance, that of its committees and that of individual Supervisory Board members, at least once a year without members of the Statutory Board being present. The Supervisory Board appraises its own performance with independent support once every three years. More information about the conclusions of the Supervisory Board's self-assessment of their performance in 2020 can be found on page 59 of the Report of the Supervisory Board.

Diversity in general and gender diversity in particular are important factors in the recruitment and selection process for candidates for the Supervisory Board. The Supervisory Board meets the objectives of our diversity policy, with its diverse composition in terms of age, experience, expertise, background and gender. This composition enables the Supervisory Board as a collective to carry out its responsibilities and duties effectively. The following areas of expertise are represented in the Supervisory Board: executive experience, strategy formulation and execution, banking and finance, clients and markets, audit, financial reporting, risk management, IT, digitalisation, transformation, sustainability (social and environmental), legal and compliance, and remuneration. The Supervisory Board currently has seven members, three of whom are female. This means that 42.9% of the positions on the Supervisory Board are held by women and the target for at least 30% of its members to be female has been exceeded.

Dutch Banking Code

The Dutch Banking Code[2] contains principles on sound and ethical business operations, governance, risk policy, audit and remuneration policy. The Banking Code applies to activities performed in, and aimed at, the Netherlands by banks with registered offices in the Netherlands and which hold a banking licence issued by DNB. It therefore applies to VLKWM, the subsidiary of Van Lanschot Kempen NV that holds a banking licence in the Netherlands. Where banks that are subject to the Banking Code form part of a group, parts of the Banking Code may be applied at the level of the entity which acts as the head of the group, rather than at the level of individual subsidiaries. Certain parts of the Banking Code are therefore applied at the level of Van Lanschot Kempen NV.

In 2020, VLKWM complied with the Banking Code. An explanation (in Dutch) of how VLKWM has applied the Banking Code during the reporting year is given on our website: vanlanschotkempen.com/en/governance.

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

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

Van Lanschot Kempen applies the "three lines of defence" model for the management of risk. The first line of defence is the business, responsible for day-to-day risk management. The second line of defence is provided by departments such as Risk Management and Compliance, which oversee the first line. The Internal Audit department acts as the third line of defence, providing an independent evaluation of the adequacy of the internal management and control systems. The three lines of defence model provides the Statutory Board with a reasonable degree of certainty as to how the internal management and control system is functioning, including the efficacy of both the first and second lines.

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

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

For more detailed information on risk management within Van Lanschot Kempen, see page 43. The financial statements also include a more detailed explanation of risk management at Van Lanschot Kempen (see "Risk management", beginning on page 99).

[1] The profile can be viewed at vanlanschotkempen.com/management-supervision.
[2] The Banking Code can be downloaded from nvb.nl.

Financial reporting risk

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

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

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

In-control statements are provided by the management of the relevant departments. These are based on the results of testing procedures for the risk & control framework, the risks reported on a quarterly basis, the follow-up of these risks, and the incidents reported. Risk Management and Compliance evaluated the 2020 in-control statements.

Setting out its main findings, the Internal Audit department's quarterly reports were discussed with the Executive Board and the Audit and Compliance Committee. The conclusions of the Audit and Compliance Committee were subsequently shared with the Supervisory Board.

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

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

External auditors

PricewaterhouseCoopers Accountants NV (PwC) were reappointed as external auditors for the 2021 financial year at the annual general meeting on 28 May 2020. PwC's audit plan for 2020 and risk analysis were discussed in August 2020 at meetings of the Statutory Board and the Audit and Compliance Committee.

PwC issued a board report for 2020 in February 2021. The subjects set out in this board report are in line with the notes included in this annual report with respect to risk management, insofar as these relate to financial reporting risks. The external auditors may be questioned at the annual general meeting in relation to their audit, and will be attending the meeting for this reason.

The Statutory Board and the Audit and Compliance Committee evaluated the functioning of PwC in January 2021.

Investor relations policy

Our investor relations policy is designed to provide current and potential shareholders of Van Lanschot Kempen NV, bondholders, rating agencies and research analysts with accurate and timely information on developments within our business. We engage in active dialogue with all our financial stakeholders, by publishing press releases and our annual report, and by organising meetings and one-to-one discussions with existing and potential investors.

We observe a "silent" period of three weeks prior to the publication of the annual and half-year results of Van Lanschot Kempen NV. No meetings are held with shareholders of Van Lanschot Kempen NV or analysts during this period. We also publish our policies on investor relations at vanlanschotkempen.com/investorrelationspolicy.

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

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

STATEMENT BY THE STATUTORY BOARD

As required by Article 5:25c (2c) of the Financial Supervision Act, each of the undersigned hereby confirms that to the best of their knowledge:

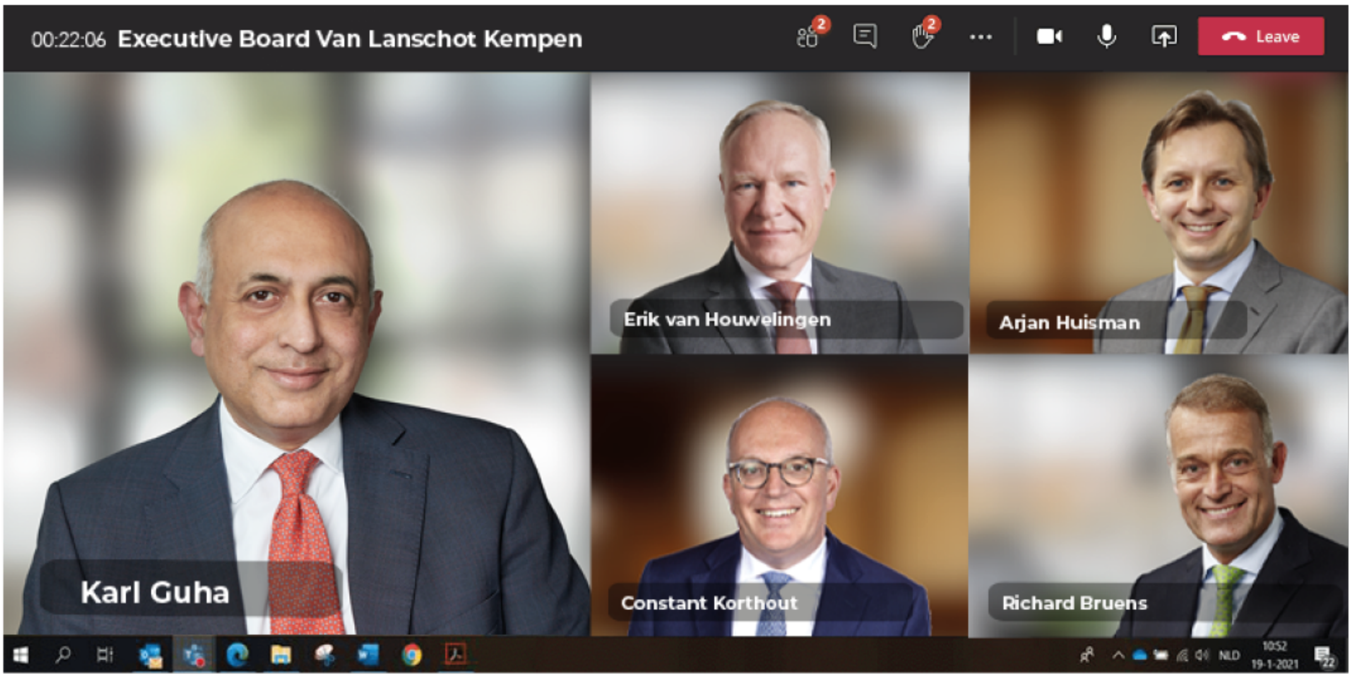
- The 2020 financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Van Lanschot Kempen Wealth Management NV and its consolidated entities;
- The 2020 Report of the Statutory Board of Van Lanschot Kempen Wealth Management NV gives a true and fair view of the position of the company and its consolidated entities on balance sheet date, and of the course of their affairs during the 2020 financial year, and describes the material risks that Van Lanschot Kempen Wealth Management NV faces.

's-Hertogenbosch, the Netherlands, 10 March 2021

Statutory Board

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

PERSONAL DETAILS OF MEMBERS OF THE EXECUTIVE BOARD



Karl Guha

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

Born
1964, male

Nationality
Dutch

Appointed
2 January 2013

Areas of responsibility
Business Innovation & Development, Communication, Company Secretariat/Legal, Compliance, Internal Audit, HRM, Strategy & Corporate Development, Sustainability Centre

Total number of board and/or supervisory positions
Two

Background
2009–12: UniCredit Banking Group: CRO and member of the executive management committee, and member of supervisory boards of Bank Austria, HVB in Germany and Zao Bank in Russia
1989–2009: ABN AMRO: Various managerial positions in Structured Finance, Treasury, Capital Management, Investor Relations, Risk Management and Asset & Liability Management

Constant Korthout

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

Born
1962, male

Nationality
Dutch

Appointed
27 October 2010

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

Total number of board and/or supervisory positions
Five

Significant supervisory board memberships and/or (board) positions
Dijklander Hospital: Member of supervisory board
ANWB: Member of supervisory board

Background
2002–10: Robeco: CFO, including Risk Management, Treasury and Corporate Development
1992–2002: Robeco: Group Controller, CFO and member of executive board of Weiss, Peck & Greer in New York, and Corporate Development Director
1990–92: KPMG Management Consultants: Financial Management Consultant
1985–90: ABN AMRO: Management Trainee, Senior Account Manager Corporate Clients

Arjan Huisman

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

Born
1971, male

Nationality
Dutch

Appointed
6 May 2010

Areas of responsibility
Digital, Advanced Analytics & Technology: Advanced Analytics, Data Management, Digital & Innovation, IT Platforms & Security
Operations: Client Administration & Monitoring, Operational Services, Procurement & Facilities

Total number of board and/or supervisory positions
Four

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

Background
2008–10: BCG Amsterdam office: Partner and Managing Director
2004–08: BCG Prague office: Partner and Managing Director
1995–2004: BCG Amsterdam and Boston offices: Various consulting positions, with a strong focus on financial services

Richard Bruens

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

Born
1967, male

Nationality
Dutch

Appointed
15 May 2014

Areas of responsibility
Client Management & Origination: Competence Centre, Merchant Banking Clients, Private Clients Regions, Private Clients Specialties, Semi-Institutional Clients, Wholesale & Institutional Clients
Van Lanschot Belgium, Van Lanschot Switzerland

Total number of board and/or supervisory positions
Four

Background
2010–13: ABN AMRO: Global Head Products & Solutions and Global Head Private Wealth Management
2007–08: Renaissance Capital: Member of group managing board
1991–2007: ABN AMRO: Various managerial positions in the Global Markets division, Managing Director of Investor Relations

Erik van Houwelingen

Member of the Executive Board of Van Lanschot Kempen NV

Born
1965, male

Nationality
Dutch

Appointed
16 November 2020

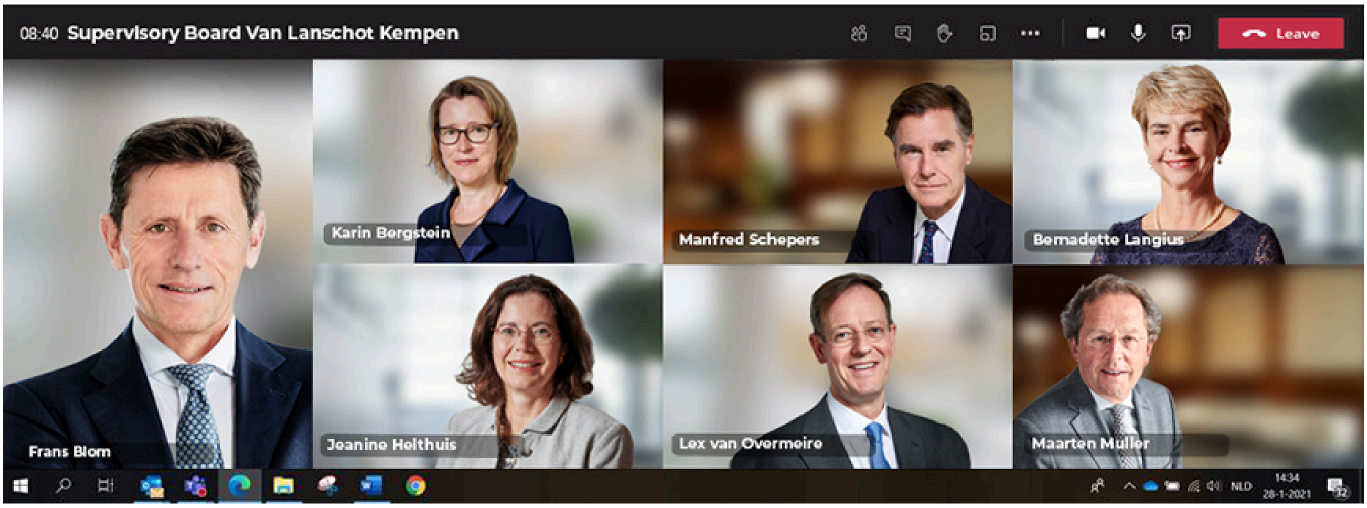
Areas of responsibility
Investments Strategies & Solutions: Core Strategies, Asset Allocation & Research, Manager Research & Multi-management Solutions, Private Client Solutions, Fiduciary Management & Institutional Solutions, Portfolio Implementation, Product & Solutions Development

Total number of board and/or supervisory positions
One

Significant supervisory board memberships and/or (board) positions
Kempen Capital Management: Chairman of statutory board

Background
2018-20: Dimensional Fund Advisor: Head of Client Group Europe
2012-18: ABP: Member of the board of trustees, Chairman of the investment committee and member of the risk & balance sheet committee
2015-18: Achmea Investment Management: Chairman of supervisory board
2008-10: AEGON Asset Management: CEO
1993-2010: AEGON: Various positions

PERSONAL DETAILS OF MEMBERS OF THE SUPERVISORY BOARD



Frans Blom

Chairman of the Supervisory Board

Supervisory Board committees: Audit and Compliance, Selection and Appointment (Chairman)

Born
1962, male

Nationality
Dutch

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

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

Principal other positions held
Boston Consulting Group The Netherlands: Adviser
American European Community Association (AECA-NL): Chairman

Previous positions held
Boston Consulting Group The Netherlands: Chairman

Manfred Schepers

Vice-Chairman of the Supervisory Board

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

Born
1960, male

Nationality
Dutch

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

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

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

Principal other positions held
UWC Atlantic College: Member of board of governors
Cardano Development: CEO ILX

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

Karin Bergstein

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

Born
1967, female

Nationality
Dutch

Appointed
28 May 2020; first term of office expires in 2024

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

Significant other supervisory board memberships and/or (board) positions
University of Utrecht: Member of supervisory board
Aidence: CFO

Previous positions held
a.s.r.: Member of board of directors/COO
Human Total Care: Member of supervisory board
ING Bank Nederland: Member of managing board

Bernadette Langius

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

Born
1960, female

Nationality
Dutch

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

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

Significant other supervisory board memberships and/or (board) positions
IBM Nederland: Member of supervisory board
BDO Nederland: Member of supervisory board
Global Collect Services: Member of supervisory board

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

Jeanine Helthuis

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

Born
1962, female

Nationality
Dutch

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

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

Principal position
Van Doorne: Managing Director

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

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

Maarten Muller

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

Born
1954, male

Nationality
Dutch

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

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

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

Previous positions held
Allen & Overy LLP: Partner

Lex van Overmeire

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

Born
1956, male

Nationality
Dutch

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

Total number of supervisory board memberships and/or board positions

Three

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

Previous positions held
EY Accountants LLP: Audit Partner

RECONCILIATION OF IFRS AND MANAGEMENT REPORTING

Reconciliation of IFRS and management reporting (€ million)	IFRS	Non-strategic investments	Restructuring charges	Amortisation of intangible assets arising from acquisitions	Managerial
Commission	296.3	0.0	—	—	296.4
Interest	151.8	0.4	—	—	152.1
Income from securities and associates	17.7	—	—	—	17.7
Result on financial transactions	-32.3	—	—	—	-32.3
Other income	9.2	-9.2	—	—	—
Income from operating activities	442.7	-8.8	—	—	434.0
Staff costs	249.3	-8.5	-1.6	—	239.3
Other administrative expenses	112.6	2.6	—	—	115.3
Depreciation and amortisation	24.7	-1.2	—	-6.2	17.2
Operating expenses	386.7	-7.1	-1.6	-6.2	371.8
Gross result	56.0	-1.7	1.6	6.2	62.2
Impairments	1.9	—	—	—	1.9
Operating profit before tax of non-strategic investments	—	1.7	—	—	1.7
Operating result before special items and tax	54.2	—	1.6	6.2	62.0
Restructuring charges	—	—	1.6	—	1.6
Amortisation of intangible assets arising from acquisitions	—	—	—	6.2	6.2
Operating profit before tax	54.2	—	—	—	54.2
Income tax	4.4	—	—	—	4.4
Net result	49.8	—	—	—	49.8

2020
financial statements

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

		2020	2019
Assets			
Cash and cash equivalents and balances at central banks	1	2,227,803	1,417,164
Financial assets from trading activities	2	61,678	49,263
Due from banks	3	210,584	297,556
Derivatives	4	376,702	367,279
Financial assets at fair value through profit or loss	5	290,987	321,509
Financial assets at fair value through other comprehensive income	6	2,576,063	2,384,261
Loans and advances to the public and private sectors	7	8,448,326	8,597,894
Other financial assets at amortised cost	8	448,518	425,606
Investments in associates using the equity method	9	72,202	52,452
Property and equipment	10	90,317	102,521
Goodwill and other intangible assets	11	155,007	141,311
Tax assets	12	23,155	18,566
Other assets	13	167,684	143,469
Total assets		15,149,026	14,318,853
Equity and liabilities			
Financial liabilities from trading activities	14	26	2,150
Due to banks	15	501,129	141,715
Public and private sector liabilities	16	10,141,109	9,545,095
Derivatives	4	488,802	449,826
Financial liabilities at fair value through profit or loss	17	740,869	907,602
Issued debt securities	18	1,469,897	1,545,109
Provisions	19	64,586	49,597
Tax liabilities	20	1,060	792
Other liabilities	21	212,973	187,306
Subordinated loans	22	172,479	173,090
Total liabilities		13,792,930	13,002,283
Issued share capital		40,000	40,000
Share premium reserve		154,753	154,753
Other reserves		1,016,720	923,172
Undistributed profit attributable to shareholder		43,009	92,929
Equity attributable to shareholder		1,254,481	1,210,853
AT1 capital securities		100,000	100,000
Undistributed profit attributable to holders of AT1 capital securities		1,688	1,688
Equity attributable to AT1 capital securities[1]		101,688	101,688
Other non-controlling interests		-158	3,606
Undistributed profit attributable to other non-controlling interests		85	423
Equity attributable to other non-controlling interests		-73	4,029
Total equity	23	1,356,096	1,316,570
Total equity and liabilities		15,149,026	14,318,853
Contingent liabilities		106,570	105,706
Irrevocable commitments		1,055,366	939,156
Contingent liabilities and irrevocable commitments	24	1,161,936	1,044,862

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

[1] This relates to capital securities issued by Van Lanschot Kempen Wealth Management NV.

CONSOLIDATED STATEMENT OF INCOME
(€1,000)

		2020	2019
Income from operating activities			
Interest income calculated using the effective interest method		212,537	236,165
Other interest income		28,055	32,116
Interest expense calculated using the effective interest method		46,013	49,912
Other interest expense		42,787	43,473
Net interest income	25	**151,792**	**174,897**
Income from associates using the equity method		12,779	33,426
Other income from securities and associates		4,962	53,109
Income from securities and associates	26	**17,741**	**86,535**
Commission income		303,338	305,622
Commission expense		7,003	15,232
Net commission income	27	**296,335**	**290,390**
Result on financial transactions	28	**-32,289**	**-7,407**
Net sales		13,333	13,066
Cost of sales		4,172	4,258
Other income	29	**9,161**	**8,808**
Total income from operating activities		**442,740**	**553,222**
Expenses			
Staff costs	30	249,335	250,577
Other administrative expenses	31	112,608	135,062
Staff costs and other administrative expenses		**361,943**	**385,639**
Depreciation and amortisation	32	**24,712**	**25,201**
Operating expenses		**386,655**	**410,840**
Impairments of financial instruments		1,871	-12,059
Other impairments		—	34,913
Impairments	33	**1,871**	**22,854**
Total expenses		**388,526**	**433,693**
Operating profit before tax		**54,214**	**119,529**
Income tax	34	4,370	21,114
Net result		**49,844**	**98,414**
Of which attributable to shareholder		43,009	92,929
Of which attributable to holders of AT1 capital securities		6,750	5,063
Of which attributable to other non-controlling interests		85	423
Earnings per share (€)	35	107.52	232.32
Proposed dividend per share (€)		72.38	149.94

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(€1,000)

		2020	2019
Net result (as per statement of income)		**49,844**	**98,414**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Other comprehensive income through revaluation reserve			
Revaluation of financial assets at fair value through other comprehensive income		1,851	6,302
Realised return on financial assets at fair value through other comprehensive income		—	-657
Impairments of financial assets at fair value through other comprehensive income		—	402
Income tax effect		-540	-1,151
Total other comprehensive income through revaluation reserve	23	**1,311**	**4,895**
Other comprehensive income from value changes of derivatives (cash flow hedges)			
Increase in value of derivatives directly added to equity		15	-2,148
Income tax effect		638	437
Total other comprehensive income from value changes of derivatives (cash flow hedges)	23	**653**	**-1,711**
Other comprehensive income from currency translation differences			
Other comprehensive income from currency translation differences		-109	768
Income tax effect		—	—
Total other comprehensive income from currency translation differences	23	**-109**	**768**
Total other comprehensive income to be reclassified in subsequent periods to profit or loss		**1,855**	**3,952**
Other comprehensive income not to be reclassified in subsequent periods to profit or loss			
Change in fair value attributable to change in credit risk of financial liabilities at fair value through profit or loss			
Change in fair value attributable to change in credit risk of financial liabilities at fair value through profit or loss		7,600	5,755
Income tax effect		-1,613	-1,180
Total change in fair value attributable to change in credit risk of financial liabilities at fair value through profit or loss		**5,987**	**4,575**
Remeasurement of defined benefit plans			
Remeasurement of defined benefit plans		-10,993	-10,263
Income tax effect		3,164	2,490
Total remeasurement of defined benefit plans	23	**-7,829**	**-7,772**
Total other comprehensive income not to be reclassified in subsequent periods to profit or loss		**-1,842**	**-3,197**
Total other comprehensive income		**13**	**755**
Total comprehensive income		**49,857**	**99,169**
Of which attributable to shareholder		43,022	93,684
Of which attributable to holders of AT1 capital securities		6,750	5,063
Of which attributable to other non-controlling interests		85	423

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN 2020
Before profit appropriation (€1,000)

	Share capital	Share premium reserve[1]	Other reserves[1]	Undistri-buted profit	Total equity attributable to shareholder	Equity attributable to AT1 capital securities	Equity attributable to other non-controlling interests	Total equity
At 1 January	40,000	154,753	923,172	92,929	1,210,853	101,688	4,029	1,316,570
Net result (as per statement of income)	—	—	—	43,009	43,009	6,750	85	49,844
Total other comprehensive income	—	—	13	—	13	—	—	13
Total comprehensive income	—	—	13	43,009	43,022	6,750	85	49,857
Share plans	—	—	-889	—	-889	—	—	-889
To other reserves	—	—	92,929	-92,929	—	—	—	—
Dividends/Capital return	—	—	637	—	637	-6,750	-326	-6,439
Other changes	—	—	858	—	858	—	—	858
Change in non-controlling interests	—	—	—	—	—	—	-3,862	-3,862
At 31 December	40,000	154,753	1,016,720	43,009	1,254,481	101,688	-73	1,356,096

Van Lanschot Kempen has postponed payment of its 2019 dividend, based on the recommendation of the ECB and DNB. The Statutory and Supervisory Boards believe that the 2019 dividend can be paid to our shareholder as soon as circumstances related to Covid-19 allow and on condition that we remain in compliance with our stated capital ratio targets, but only after 30 September 2021. The 2019 dividend to be paid amounts to €60.0 million and is included in Other reserves.

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

	Share capital	Share premium reserve[1]	Other reserves[1]	Undistri-buted profit	Total equity attributable to shareholder	Equity attributable to AT1 capital securities	Equity attributable to other non-controlling interests	Total equity
At 1 January	40,000	216,149	912,883	74,631	1,243,663	—	12,213	1,255,876
Net result (as per statement of income)	—	—	—	92,929	92,929	5,063	423	98,414
Total other comprehensive income	—	—	755	—	755	—	—	755
Total comprehensive income	—	—	755	92,929	93,684	5,063	423	99,169
Share plans	—	—	-2,400	—	-2,400	—	—	-2,400
To other reserves	—	—	14,657	-14,657	—	—	—	—
Dividends/Capital return	—	-61,396	—	-59,974	-121,371	-3,375	-309	-125,054
Increase/(decrease) of capital	—	—	—	—	—	100,000	—	100,000
Other changes	—	—	-2,723	—	-2,723	—	—	-2,723
Change in non-controlling interests	—	—	—	—	—	—	-8,298	-8,298
At 31 December	40,000	154,753	923,172	92,929	1,210,853	101,688	4,029	1,316,570

[1] For additional information on the nature and composition of the share premium reserve and other reserves, see Note 23.

CONSOLIDATED STATEMENT OF CASH FLOWS
(€1,000)

		2020	2019
Cash flow from operating activities			
Operating profit before tax		54,214	119,529
Adjustments for			
- Depreciation and amortisation	32	27,376	27,845
- Costs of share plans		2,401	1,996
- Results on associates using the equity method	9	-12,398	-13,469
- Valuation results on financial assets at fair value through profit or loss		-2,059	-15,305
- Valuation results on financial liabilities at fair value through profit or loss		-16,660	57,967
- Valuation results on derivatives		-11,918	-7,693
- Impairments	33	1,871	22,853
- Changes in provisions		11,261	6,332
Cash flow from operating activities		**54,088**	**200,055**
Net change in operating assets and liabilities			
- Financial assets/liabilities from trading activities		-14,540	15,022
- Due from/to banks		423,399	14,445
- Loans and advances to public and private sectors / Public and private sector liabilities		773,510	502,352
- Derivatives		-69,586	-107,517
- Withdrawals from restructuring provision and other provisions		-7,264	-11,060
- Other assets and liabilities		15,561	-18,362
- Deferred tax assets and liabilities		113	113
- Tax assets and liabilities		-5,875	1,269
- Income taxes paid		-1,885	-14,858
- Dividends received		8,317	7,677
Total net change in operating assets and liabilities		**1,121,750**	**389,081**
Net cash flow from operating activities		**1,175,838**	**589,136**
Net cash flow from discontinued operations		—	**27,269**
Cash flow from investing activities			
Investments and acquisitions			
- Debt instruments		-641,640	-1,287,393
- Equity instruments		-52,122	-6,562
- Associates using the equity method	9	-15,057	-4,447
- Property and equipment		-12,045	-10,727
- Goodwill and other intangible assets		-20,386	-167
Divestments, redemptions and sales			
- Debt instruments		498,792	769,714
- Equity investments		13,678	-5,996
- Associates using the equity method		2,217	15,311
- Property and equipment		3,563	2,399
- Goodwill and other intangible assets		—	—
Dividends received	9	5,572	4,516
Net cash flow from investing activities of continuing operations		**-217,427**	**-523,351**
Net cash flow from investing activities of discontinued operations		—	**-154**

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

Consolidated statement of cash flows (continued)
(€1,000)

	2020	2019
Cash flow from financing activities		
Issue of share capital	-3,290	-4,396
Issue of AT1 capital securities	—	100,000
Change in non-controlling interests	-3,862	-736
Redemption of subordinated loans	-113	-113
Redemption of issued debt securities	-1,281	-1,232
Receipts on financial liabilities at fair value through profit or loss	116,571	60,427
Redemption of financial liabilities at fair value through profit or loss	-259,044	-145,530
Payment of lease liabilities	-13,304	-13,458
Dividends paid	-6,439	-125,054
Net cash flow from financing activities of continuing operations	**-170,762**	**-130,092**
Net cash flow from financing activities of discontinued operations	—	—
Net change in cash and cash equivalents and balances at central banks	**787,649**	**-37,191**
Cash and cash equivalents and balances at central banks at 1 January[1]	1,436,381	1,473,572
Cash and cash equivalents and balances at central banks at 31 December[1]	2,224,030	1,436,381
Additional disclosure		
Cash flows from interest received	241,606	265,370
Cash flows from interest paid	93,860	97,456

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

Reconciliation of liabilities arising from financing activities in 2020	Subordinated loans	Issued debt securities	Financial liabilities at fair value through profit or loss	Total
At 1 January	**173,090**	**1,545,109**	**907,602**	**2,625,801**
Cash flows	-113	-1,281	-142,473	-143,867
Non-cash changes				
- Fair value changes	-499	-73,931	-24,260	-98,690
At 31 December	**172,479**	**1,469,897**	**740,869**	**2,383,244**

Reconciliation of liabilities arising from financing activities in 2019	Subordinated loans	Issued debt securities	Financial liabilities at fair value through profit or loss	Total
At 1 January	**173,473**	**1,521,504**	**940,361**	**2,635,338**
Cash flows	-113	-1,232	-85,102	-86,448
Non-cash changes				
- Fair value changes	-269	24,837	52,343	76,911
At 31 December	**173,090**	**1,545,109**	**907,602**	**2,625,801**

[1] Cash and cash equivalents and balances at central banks also includes amounts due from/to banks available on demand.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

General

Van Lanschot Kempen Wealth Management NV is an independent wealth manager specialising in the preservation and creation of wealth, in a sustainable way, for both its clients and the society of which it is part. Van Lanschot Kempen Wealth Management NV (“VLKWM”) is a 100% subsidiary of Van Lanschot Kempen NV. The company has its registered office at Hooge Steenweg 29, 5211 JN ´s-Hertogenbosch, the Netherlands. VLKWM is a public limited company incorporated under Dutch law and registered under number 16038212 at the Chamber of Commerce.

The consolidated financial statements of VLKWM at 31 December 2020 were prepared by the Statutory Board on 10 March 2021, were approved by the Supervisory Board, and will be submitted to the general meeting for adoption.

Basis of preparation

The consolidated financial statements of VLKWM and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and with Part 9, Book 2 of the Dutch Civil Code. Unless stated otherwise, assets and liabilities are measured at historical cost.

Continuity

The Statutory Board has examined the ability of Van Lanschot Kempen to continue its operations and concluded that we are able to do so for the foreseeable future. Moreover, the Statutory Board is not aware of any material uncertainties that cast significant doubt on our ability to continue as a going concern. The consolidated financial statements have been prepared on this basis.

Consideration of the impact of Covid-19

In 2020, the world was gripped by the outbreak of Covid-19. Covid-19 has, had and will certainly continue to have an impact on economic developments in the Netherlands and the other countries in which we are active. Covid-19 had a direct impact on our business in the first half of 2020 in the shape of value decreases in our investments in our own investment funds and a negative result on our portfolio of structured products. In addition, the market performance of our clients' portfolios affects the amount we receive in management and advisory fees. We have not experienced major disquiet among our clients, and instead saw a net inflow in the months following the start of the crisis as investors spotted a good entry point.

Although our total result in 2020 was positive and our results in the quarters after the start of the crisis were not significantly different from last year's average quarterly result, we expect Covid-19 to impact our markets going forward. If the pandemic leads to lower markets, this could impact commission income for 2021.

Van Lanschot Kempen reports goodwill on its consolidated statement of financial position in the amount of €103.1 million. In mid-2020, we performed a goodwill impairment trigger analysis to determine whether the coronavirus crisis is an impairment trigger for one or more of our cash-generating units (CGUs). We concluded that a goodwill impairment test was necessary for the Merchant Banking CGU. The impairment test did not result in a goodwill impairment for Merchant Banking at half-year 2020. The annual goodwill impairment test, conducted in the fourth quarter of 2020, did not result in a goodwill impairment for any of the CGUs. For more information, see Note 11, Goodwill and other intangible assets.

The current economic crisis as a result of the Covid-19 pandemic may have an impact on our capital and liquidity positions. However, these positions have remained strong. Our CET 1 ratio is well above our internal requirement of 15-17% and also well above required regulatory capital levels. The CET 1 ratio has improved, coming in at 24.3% at year-end 2020, compared with 23.8% at year-end 2019. Our liquidity position has also improved over the last months. We saw a net increase in client deposit balances in 2020 and we participated in the ECB's targeted longer-term refinancing operations III programme (TLTRO III). This resulted in a net increase in our liquidity coverage ratio (LCR) from 157% at year-end 2019 to 177% at year-end 2020.

If our clients run into financial difficulties, this can lead to higher credit losses. In 2020, Covid-19's impact on our credit portfolio was relatively limited, also after application of a risk management overlay, which is reflected in the comparatively small increase in expected credit loss (ECL). The risk management overlay takes account of uncertainties at a few clients and in a few specific industries which are not (yet) reflected in the model parameters. For more information, see "Risk management", under 2.8, Loss allowance for expected credit loss (including sensitivity analyses performed by us).

Another possible effect of the volatility in the securities markets is that the private equity funds in which we participate may become less valuable. Currently the value of these funds is not lower compared with year-end 2019.

To summarise, Van Lanschot Kempen is well able to cope with the Covid-19 crisis and the accompanying recession, thanks to its solid position. We can therefore affirm that the continuity of the company is in no way under pressure. Should the Covid-19 outbreak continue to cause disruption to economic activity globally through 2021 and beyond, there could be further adverse impacts on our income due to lower lending and transaction volumes and lower revenues related to steep equity market declines.

Functional and reporting currency

The consolidated financial statements are denominated in euros, the functional and reporting currency of Van Lanschot Kempen. Unless stated otherwise, all amounts are given in thousands of euros. The totals may not always match the sum of the individual values due to rounding.

Changes in accounting policies

The accounting policies adopted in the preparation of our annual consolidated financial statements for the year ended 31 December 2020 remain unchanged, except for the adoption of new standards and interpretations effective from 1 January 2020.

Changes in published IFRS standards and interpretations

The IFRS standards listed below became effective from 1 January 2020 and have been applied to our financial statements for 2020. Unless stated otherwise, application of these standards had no impact on Van Lanschot Kempen's equity or result. Application of the amended standards generally entails amendment or expansion of notes.

IFRS 3 – Definition of a Business

The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. We have applied the amendments to the business combination of Hof Hoorneman Bankiers NV and concluded that the definition of a business is met. In the event of future transactions that are either business combinations or asset acquisitions, an impact assessment will be made.

IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

The amendments provide temporary reliefs that enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. The amendments do not materially impact group results.

IAS 1 and IAS 8 – Definition of Material

The amendments are issued to align the definition of "material" across the standards and clarify that materiality will depend on the nature or magnitude of information, or both. No impact due to the amendments is expected at this stage.

Covid-19-Related Rent Concessions - Amendment to IFRS 16

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19-related rent concession from a lessor is a lease modification. A lessee that takes up this option accounts for any change in lease payments resulting from the Covid-19-related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

Published IFRS standards and interpretations not yet effective

In addition to the IFRS standards and interpretations referred to above, a number of IFRS standards and interpretations are new or have been amended, and apply to financial statements for periods beginning on or after 1 January 2021. We have not applied the following standards in the 2020 financial statements. Unless stated otherwise, standards will be applied as soon as they become effective and have been endorsed by the EU.

Annual Improvements to 2016-18 Cycle

Changes to standards concern:

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendments prohibit entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in which the entity first applies the amendment. The amendments are not expected to have a material impact on group results.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

Significant accounting judgements and estimates

We have identified those accounting policies which involve the most complex or subjective decisions or assessments. In the process of applying these accounting policies, we use estimates, assumptions and judgements which can have a significant impact on the amounts recognised in the financial statements. These estimates and assumptions are based on the most recent information available, and the actual amounts may differ in the future. The principal estimates and assumptions relate to impairments on financial instruments measured at amortised cost and fair value through other comprehensive income, investments in associates using the equity method, property and equipment, goodwill, intangible assets, and assets acquired through foreclosures.

Such estimates and assumptions also relate to the determination of the fair value of financial instruments, deferred tax positions, employee benefits and provisions, and other provisions.

Accounting judgements

We have applied critical judgement to determine significant influence in companies in which we hold minority interests smaller than 20%. In our opinion, the influence on the financial and operating policy decisions that we have in some minority interests is more in line with the expected influence in an associate. Examples of this influence are veto rights in decisions on issuance of new shares and decisions on amendments of the articles of association. Therefore, we classify these minority interests as incorporated in the articles of association and apply equity accounting instead of IFRS 9 fair value accounting. For further information, see the disclosure on Investments in associates using the equity method.

Determination of fair value

The determination of the fair value of financial instruments, in so far as available and provided there is an active market, is based on stock market prices at the reporting date.
For financial assets, the bid price is used; for financial liabilities, the selling price.

The fair value of financial instruments not traded in an active market is determined on the basis of cash flow and of option and other valuation models. These models are based on the market circumstances prevailing at the reporting date.

Estimates mainly relate to future cash flows and discount rates. For more details, see “Risk management”, under 14, Fair value.

Impairments of financial assets

We recognise a loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost or fair value through profit or loss, as well as for financial guarantees and loan commitments. When there has been no significant deterioration in credit risk since initial recognition, ECL is recognised based on a 12-month expected credit loss (Stage 1). When a significant increase in credit risk has occurred, ECL is recognised based on a lifetime expected credit loss (Stage 2). For impaired loans (Stage 3), a lifetime ECL is recognised. The impairments of financial assets are determined as a critical estimate. For more information on deterioration in credit risk, see “Risk management”, under 2.8, Loss allowance for expected credit loss.

Impairments of goodwill

To measure the recoverable amounts, we calculate the value in use for each cash-generating unit (CGU). This calculation reflects an estimate of future cash flows, multiple scenario analyses and discount rates. Future cash flow estimates are based on our strategic plans and different types of investigation into possible trends. Events and factors that could have a significant impact on these estimates include market expectations, effects of mergers and acquisitions, competitive conditions, client behaviour and changes in the client base, cost structure, trends in interest rates and risks, and other circumstances specific to the industry and sector. For more information on the discount rates used, see Note 11, Goodwill and other intangible assets.

Other accounting estimates

Impairments of non-financial assets

The recoverable amount of a non-financial asset is the higher of the fair value of the asset less costs to sell and its value in use. This fair value less costs to sell is the price that would be received on sale of an asset or paid on transfer of a liability in an orderly transaction between market participants at the valuation date. To determine whether assets are impaired, the individual assets are allocated to the lowest level at which cash flows can be identified (cash-generating units). Non-financial assets that have been subject to impairment, other than goodwill paid, are reviewed annually to determine whether the impairment can be reversed. Non-financial assets, other than goodwill paid, are tested for impairment annually by assessing whether there are any indications that these assets are impaired.

Deferred tax assets

Deferred tax assets are recognised only if it is probable that taxable profits will be realised in the near future against which these temporary differences can be offset. Estimates are used when determining future taxable profits, since these are subject to uncertainty.

Acquisitions

In the case of acquisitions, it is necessary to determine the fair value of the acquired assets (including any intangible assets and goodwill acquired), as well as of liabilities and obligations not recognised in the statement of financial position. Estimates are used for this, particularly for those items which are not traded on an active market.
Management consideration is also needed to determine the moment of the change of control and thus the moment of consolidation of an acquired entity.

Actuarial assumptions of provisions

The pension liabilities are determined using actuarial calculations. These calculations make assumptions regarding elements such as the discount rate, future trends in salaries and returns on investments. These assumptions are subject to uncertainty. See Note 19, Provisions.

Other provisions

Other provisions are determined on the basis of the most recent estimates of the expected costs. The timing of the cash outflow related to these provisions is by nature uncertain, given the unpredictability of the outcome and time required to conclude these claims. In determining these provisions we take into consideration the opinion of legal experts. Other provisions include provisions made for various legal claims and consist mainly of the provision for interest payments in response to a ruling by the Dutch Financial Services Complaints Authority (Kifid). Judgements are used in determining this provision, as the costs depend on complex calculations, the assumptions made in making these calculations and the interpretation of relevant regulations.

BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements of Van Lanschot Kempen Wealth Management NV comprise the financial statements of Van Lanschot Kempen Wealth Management and its subsidiaries. These have been prepared at 31 December 2020 using consistent accounting policies, and their financial year is concurrent with the calendar year.

Subsidiaries (including the consolidated structured entities) are associates in which Van Lanschot Kempen exercises decisive control. Van Lanschot Kempen has decisive control over an entity when it has power over that entity and is exposed to or has rights to variable income from its involvement in the entity and is able to use its power over the entity to influence the entity's income. The assessment of control is based on the actual relationship between Van Lanschot Kempen and the entity. Factors taken into account include existing and potential voting rights. A right is a material right if its holder is able to exercise that right in practice.

Van Lanschot Kempen has power over an entity if its existing and potential voting rights amount to more than 50%. If these rights amount to less than 50%, Van Lanschot Kempen determines whether it has power over the entity pursuant to contractual agreements. In making this assessment, a distinction is made between substantive and protective rights. Substantive rights are rights which enable the decision-making power of an enterprise to be influenced directly and which give Van Lanschot Kempen decisive control over an entity. Examples include the right to appoint and dismiss members of the board of management, and to set the level of their remuneration. Protective rights are rights which protect the interests of an entity in another entity, but which do not directly confer decision-making powers. Protective rights do not give Van Lanschot Kempen decisive control over an entity. When acquiring non-controlling interests, Van Lanschot Kempen in principle includes only protective rights in the contractual agreement. These are rights of approval which enable Van Lanschot Kempen to protect its minority position without acquiring decision-making power. Examples of protective rights are rights of approval in respect of the issue of shares and the effecting of significant acquisitions.

Intra-group transactions are eliminated in the consolidation process. Subsidiaries are consolidated from the date of incorporation or acquisition, being the date on which Van Lanschot Kempen acquires control, and are consolidated until the date that such control ceases.

We consolidate interests in investment funds if we have power over the investment fund and are exposed to or have rights to variable income stemming from our involvement and are able to use our power over the investment fund to influence the variable income. The assessment of control is based on the actual relationship between Van Lanschot Kempen and the investment fund. Van Lanschot Kempen takes into account its interest for its own account and its own role, or that of one of its group companies, as fund manager.

In the case of subsidiaries not fully controlled by Van Lanschot Kempen, the non-controlling interest in equity is presented separately in the consolidated statement of financial position as a component of total equity. The profit or loss for the reporting period that can be attributed to the non-controlling interest is disclosed separately.

Acquisitions

Acquisitions are recognised using the acquisition method. Accordingly, the cost of an acquisition is allocated to the fair value of the acquired assets (inclusive of any intangible assets not previously disclosed in the statement of financial position), liabilities and obligations not disclosed in the statement of financial position.

Goodwill, being the difference between the cost of the acquisition (including assumed debts) and our interest in the fair value of acquired assets, liabilities and obligations not disclosed in the statement of financial position at the acquisition date, is capitalised as an intangible asset. If this difference is negative (negative goodwill), it is taken directly to the statement of income.

A non-controlling interest in the company acquired is recognised at the fair value prevailing on the acquisition date or at the proportionate share in the identifiable assets and liabilities of the company acquired.

Results of companies acquired are disclosed in the statement of income from the date at which control is obtained.

Adjustments to the fair value of acquired assets and liabilities at the acquisition date which are identified within 12 months of the acquisition may lead to adjustment of goodwill. Adjustments identified after expiry of one year are disclosed in the statement of income.

On disposal of group companies, the difference between the sale proceeds and the acquisition cost (including goodwill) is included in the statement of income together with any unrealised gain or loss.

Goodwill is not amortised. For more information on its valuation, see Note 11, Goodwill and other intangible assets.

Hof Hoorneman Bankiers

On 15 January 2021, we successfully completed the acquisition of Hof Hoorneman Bankiers NV ("Hof Hoorneman Bankiers"). The takeover was announced on 18 August 2020. On 22 December 2020, we announced that our regulators had issued declarations of no objection for the takeover and proposed integration of Hof Hoorneman Bankiers into Van Lanschot Kempen. Factors that were taken into account and argue for control over Hof Hoorneman Bankiers as per 31 December 2020 include:

- Contractual agreements made in the "Shared Purchase Agreement";
- Substantive rights to exercise control over important decisions related to the normal course of business and operations;
- Declarations of no objection for the takeover and proposed integration of Hof Hoorneman Bankiers were received from our regulators; and
- The equity capital at closing being at the expense and risk of Van Lanschot Kempen.

Summary of significant accounting policies

Foreign currencies

Functional currency
Items in the statement of financial position pertaining to each group company are stated in the currency of the economic environment in which the entity operates (i.e. the functional currency).

Group companies
The assets, liabilities, income and expenses of group companies that use a functional currency other than the reporting currency are translated as follows:
- Assets and liabilities are translated using the closing exchange rate at the reporting date;
- Income and expenses are translated using the rate prevailing on the transaction date, which is approximately equal to the average exchange rate;
- Remaining exchange-related gains or losses are recognised as a separate component of equity.

Upon consolidation, exchange-related gains or losses arising from monetary items forming part of a net investment in foreign divisions are recognised in equity. Exchange-related gains or losses on borrowings and other items designated as hedging instruments for such investments are also recognised in equity.

Transactions and line items
On initial recognition, transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Translation differences arising on the settlement of such transactions or on the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except where they are recognised in equity as qualifying cash flow hedges or qualifying net investment hedges in foreign divisions.

In general, translation differences in the statement of income are included in the result on financial transactions. Translation differences on non-monetary items measured at fair value through profit or loss are reported as part of the fair value gain or loss. Non-monetary items are translated into the reporting currency at the same time as the determination of their fair value. By retranslation on reporting date, translation differences on non-monetary items measured at fair value through equity are included in the revaluation reserve in equity.

Non-monetary items not measured at fair value are translated at the exchange rate prevailing on the original transaction date.

Recognition of financial assets in the statement of financial position
Purchases of financial assets designated at fair value through profit or loss whose value is subject to change, or financial assets at fair value through other comprehensive income, or other financial assets at amortised costs, which are settled according to standard market conventions, are recognised on the transaction date, i.e. the date on which we undertake to purchase or sell the asset concerned. Loans and advances are recognised on the settlement date, i.e. the date on which we receive or transfer the asset.

Derecognition of financial assets and liabilities in the statement of financial position
Financial assets are derecognised when:
- Our rights to the cash flows from the asset expire;
- We have retained the right to receive the cash flows from an asset, but have an obligation to pay these in full to a third party under a special agreement;
- We have transferred our rights to the cash flows from the asset and have transferred substantially all the risks and rewards;
- We have not transferred substantially all the risks and rewards but have transferred control over the asset.

If we have transferred our rights to the cash flows from an asset, but have not transferred substantially all the risks and rewards of the asset and have not transferred control, the asset is recognised as long as we have continuing involvement in the asset.

A financial liability is derecognised as soon as the obligation under the liability is discharged, cancelled or expired.

Repo transactions and reverse repo transactions
Securities sold subject to repurchase agreements (repos) continue to be recognised in the statement of financial position. The related liability is included under the relevant line item (principally Due to banks).

Securities purchased subject to resale agreements (reverse repos) are recognised under the line item Due from banks or under Loans and advances to the public and private sectors. The difference between the sale price and the purchase price is recognised in the statement of income as interest during the term of the agreement.

Special purpose entities
We have placed parts of our loan portfolio in special purpose entities (SPEs). If we have effective control over an SPE, it is consolidated. We have control over an entity when we have power over that entity and are exposed to or have rights to variable income from our involvement in the entity and are able to use our power over the entity to influence the entity's income.

The accounting principles followed by Van Lanschot Kempen are applied when consolidating SPEs.

Transfers of financial assets
All or a part of a financial asset is transferred if:
- The contractual rights to receive the cash flows from that financial asset are transferred; or
- The contractual rights to receive the cash flows from that financial asset are retained, but a contractual obligation is assumed to pay the cash flows to one or more recipients under an arrangement.

We have no other assets meeting the criteria for transfers of financial assets.

Derivatives
A derivative is initially recognised at fair value on the effective date of the contract. After initial recognition, the derivative is subsequently remeasured at fair value and movements in value are taken to the statement of income under Result on financial transactions. Fair values are based on stock exchange prices, cash flow models, and option and other valuation models.

Hedge accounting
We use derivatives, such as interest rate swaps, to hedge our exposure to risks. The carrying amount of assets and liabilities which are hedged through fair value hedging and which would otherwise be recognised at cost is adjusted for movements in the fair value that can be attributed to the hedged risks. Any gains or losses arising from changes in the fair value of derivatives not relating to the hedged risks are taken directly to the statement of income. We have chosen to apply hedge accounting based on IAS 39, using the temporary reliefs provided by the applicable amendments.

At the inception of a hedge transaction, we formally designate and document the hedge relationship and the financial risk management objective when entering into the hedge transaction. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to risks.

Such hedges are considered to be effective if we may expect, both upon inception and during the term of the hedge, that changes in the fair value or cash flows of the hedged item will be almost fully offset by changes in the fair value or cash flows of the hedging instrument, in so far as they relate to the hedged risk, and the actual outcome is within a range of 80-125%. The effectiveness is assessed and documented on a monthly basis in order to determine that the hedge has been highly effective throughout the financial reporting periods for which it was intended. We apply the EU carve-out on portfolio fair value hedges.

Hedges that qualify for hedge accounting are recognised as follows:

Fair value hedges
Fair value hedges are hedges of the exposure to changes in the fair value of an asset or liability arising as a result of interest rate changes. Movements in the value of the hedging instrument are taken to the statement of income.

Any change in the fair value of the hedged item is also recognised in the statement of income, in so far as the hedging instrument has been effective in the preceding period.

A hedge relationship ends if the hedging instrument is sold, expires or is exercised, or if the hedging transaction no longer meets the criteria for hedge accounting, with the remaining value adjustment of the hedged item amortised through profit or loss until the end of its term.

We apply micro fair value hedge accounting and macro fair value hedge accounting.

Micro fair value hedges
A fair value hedge is classified as a micro fair value hedge when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. Debt securities at fair value through other comprehensive income and issued debt securities are hedged for interest rate risk in a micro fair value hedge.

Macro fair value hedges
We apply macro fair value hedges for fixed rate mortgages. A portfolio of mortgages is identified comprising homogeneous loans based on their contractual interest rates, maturity and other risk characteristics. Mortgages within the identified portfolio are allocated into repricing term buckets based on expected repricing dates rather than contractual repricing dates. The hedging instruments are designated appropriately to those repricing term buckets.

Cash flow hedges
Cash flow hedges are hedges of the exposure to fluctuations in the cash flow of an asset, liability or future transaction arising as a result of interest rate changes and/or inflation. The portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognised directly in equity until the hedged item affects the statement of income, while the ineffective portion is recognised in profit or loss.

If the hedging instrument expires or is sold, or if it can no longer be designated as a hedge, accumulated gains and losses remain in equity until the expected future transaction is taken to the statement of income. If the expected future transaction is no longer likely to take place, the accumulated result is transferred directly from equity to profit or loss.

Embedded derivatives
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

If the hybrid contract contains a host that is not an asset, the embedded derivatives are separated from the host contract and treated as separate derivatives when:
- The economic characteristics are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

Day 1 profit
Discrepancies between the transaction price and the fair value may arise if valuation techniques are applied at the time of the transaction. Such a discrepancy is referred to as a Day 1 profit. Any resulting profit or loss is recognised directly in the statement of income if the valuation method is based on observable inputs in an active market. In the event of unobservable inputs, the gain or loss is amortised over the term of the transaction.

Netting of financial assets and liabilities
Financial assets and liabilities are netted and presented in the consolidated financial statements at the net amount when we have a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This mainly concerns netting of derivatives. See 2.7, Risk management.

Statement of financial position by IFRS accounting policy
For the layout of the statement of financial position by IFRS accounting policy, see “Consolidated statement of financial position by category” in the supplementary notes.

Statement of financial position

Cash and cash equivalents and balances at central banks
Cash and cash equivalents and balances at central banks comprise, at nominal value, cash in hand and deposits with a term of less than three months, investments readily convertible into a known amount of cash with an insignificant risk of value changes, balances at central banks and balances withdrawable on demand at other banks in respect of which the risk of value changes is insignificant. The amount due from De Nederlandsche Bank (DNB) arising from the minimum reserve requirement is also included in this item.

Financial assets from trading activities
Financial assets from trading activities are transactions for our own account whereby the aim is to actively sell these instruments in the short term. Financial assets from trading activities consist of the trading portfolio of both equity instruments and debt instruments. The financial assets from trading activities are recognised at fair value with effect from the trade date and value adjustments are taken to the statement of income under the line item Result on financial transactions.

Due from banks
Amounts due from banks are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Derivatives
Derivatives are carried at fair value. The positive and negative values of derivatives are shown separately on the face of the statement of financial position on the assets side and the liabilities side, respectively. The values of derivatives with a positive and negative value, concluded with the same counterparty, are only netted if the cash flows are settled on a net basis and this is permitted under law. Movements in the value of derivatives are taken directly to the line item Result on financial transactions. If the hedge is completely effective, the net impact on the statement of income is nil. The difference, in so far as this remains within the ranges set, reflects ineffectiveness and is taken to the statement of income.

Derivatives include:
- *The fair value of derivatives held for trading*
  Derivatives held for trading are transactions for own account whereby the aim is to actively sell them in the short term;
- *Economic hedges*
  Economic hedges are derivatives used to manage risks without applying hedge accounting;
- *Structured product derivatives*
  Structured product derivatives are options we have acquired in order to hedge structured products sold to clients, without application of hedge accounting;
- *Client option positions*
  Offsetting market transactions are conducted for all option positions held by our clients on a one-on-one basis;
- *Derivatives with application of hedge accounting*
  These are derivatives used as hedging instruments in the application of hedge accounting.

Financial assets at fair value through profit or loss
Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income (FVOCI) are measured at fair value through profit or loss (FVPL). Additionally, any instrument for which the contractual cash flow characteristics are not solely payments of principal and interest (SPPI) must be measured at FVPL. No restrictions are set for sales within the fair value through profit or loss portfolio. These debt instruments are governed by the Asset & Liability Committee (ALCO) and sales need to be approved by ALCO. Interest earned on these assets is recognised as interest income. All other realised and unrealised gains and losses on remeasuring debt instruments at fair value are recognised under Result on financial transactions. All realised and unrealised gains and losses on remeasuring equity instruments at fair value are recognised under Income from securities and associates.

Financial assets at fair value through other comprehensive income
A debt instrument that is held within the hold to collect and sell business model and meets the SPPI test is measured at fair value, with fair value adjustments recognised in Other comprehensive income unless the asset is designated at fair value through profit or loss. The financial assets in the hold to collect and sell portfolio are governed by ALCO and sales need to be approved by ALCO. Sales as a result of managing everyday liquidity needs, maintaining a particular interest yield profile on the secondary market, or to match the duration and sales required by regulators, are consistent with the objective of the hold to collect and sell portfolio.

Under FVOCI, a financial asset is measured at its fair value and movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument’s amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in Result on financial transactions. Interest income from these financial assets is included in Interest income using the effective interest method.

Loans and advances to the public and private sectors
Loans and advances to the public and private sectors are initially recognised at fair value plus transaction costs directly attributable to the acquisition of the financial asset, and are subsequently amortised using the effective interest rate method less any allowance for impairment. The impairment is recognised in the statement of income.

Other financial assets at amortised cost
A debt instrument that is held within the hold to collect business model and meets the SPPI test is measured at amortised cost unless the asset is designated at fair value through profit or loss. Our ALCO sets restrictions for buying and selling in the hold to collect portfolio. Sales are permitted when these are due to an increase in credit risk, take place close to the maturity date, are insignificant in value (at both individual and aggregated levels) or are infrequent. Under this measurement category, the financial asset is initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, and subsequently recognised at amortised cost less the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any impairment allowance. The impairment is recognised in the statement of income. Interest income from these financial assets is included in Interest income using the effective interest rate method.

Investments in associates using the equity method
These investments have been designated by management as transactions held indefinitely, and as a result of the acquired control can be classified as investments in associates using the equity method. These are investments in entities where we have significant influence but not control. If there is a change in the equity of the associate, we recognise our share in this change and include it in the statement of changes in equity. This also applies to results of associates recognised in our statement of income.

In the first year of investment, investments classified as investments in associates using the equity method are recognised at cost, and where applicable are adjusted for any changes in the value of the associate's individual receivables and payables occurring after the acquisition, measured using the policies applied by Van Lanschot Kempen.

The recoverable amount of the investments in associates using the equity method is determined each quarter. The valuation methods applied are the capitalisation method (peer group analysis), the discounted cash flow method and the disclosed net asset value method. An impairment is recognised if the recoverable amount is lower than the carrying amount.

The capitalisation method determines the value of a business by multiplying the operating profit (EBIT) and the operating profit before depreciation and amortisation (EBITDA) by a multiplier factor derived from similar listed companies (the peer group), if applicable also taking account of a discount for poor liquidity and minority shareholding. EBIT and EBITDA are adjusted for one-off items where applicable.

The discounted cash flow method calculates the enterprise value by discounting the forecast operational cash flows at a discount rate for the planning period and a final value based on the extrapolation of the operating profit. The discount rate is determined on the basis of the discount rate of listed companies with a high degree of similarity and on the specific characteristics of the company. If applicable, the discounted cash flow method takes account of a discount for poor liquidity and minority shareholdings.

The company's net debt is then deducted from the value resulting from the capitalisation method and/or discounted cash flow method and multiplied by the share in the capital structure in order to derive the shareholder value from the enterprise value.

The disclosed net asset value method determines the value of a company based on the statement of financial position.

If our share in the associate's losses is equal to or exceeds our interest in the associate, no further losses are recognised unless we have assumed obligations or made payments for these associates.

Property and equipment
Property and equipment comprise property, information technology, furniture and fixtures, and communication and safety equipment. Property and equipment are initially carried at cost and subsequently measured at historical cost less accumulated depreciation and accumulated impairments. The carrying value includes the costs for replacement of part of the existing property as soon as these costs are incurred, but excludes day-to-day servicing costs. Depreciation is calculated on a straight-line basis over the useful life of the asset.

Lease contracts which we entered into as a lessee are classified as right-of-use assets. Right-of-use assets are presented as part of Property and equipment in the statement of financial position and are measured at cost, comprising the following:
- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs;
- Restoration costs.

Depreciation is applied using the same method as for wholly-owned tangible assets.

The recoverable amount of individual property items is determined every year, irrespective of whether there is any indication of impairment, and more often if market conditions so dictate. The recoverable amount is the higher of the fair value less costs or the value in use. The fair value less costs is set by an independent surveyor. If the fair value less costs is below the carrying amount, the value in use is determined. This value is calculated using the value-in-use method. If the value in use is also below the carrying amount, an impairment is recognised for the difference between the carrying amount and the higher of the fair value less costs and the value in use.

Estimated useful life of property and equipment (years)	
Land	Indefinite
Buildings	40
Alterations	10-15
Operating system software and IT	3-5
Communication equipment	5
Safety equipment	15
Infrastructure	10
Furniture and fixtures	5-10
Right of use assets	1-10

Operating system software development costs are capitalised if they are identifiable, if there is a likelihood that future economic benefits will flow to Van Lanschot Kempen and if costs can be measured reliably.

Property not in own use comprises office buildings no longer in own use. Our policy is focused on selling these assets in due course. Property not in own use is carried at historical cost less accumulated depreciation and accumulated impairments. This property is considered to be impaired if its carrying amount exceeds the recoverable amount. The recoverable amount less the relevant variable costs to sell is based on the appraisal value as determined by an independent surveyor.

Goodwill and other intangible assets

Goodwill represents the difference between the fair value of the acquired assets (including intangible assets) and liabilities, and the purchase price paid (excluding acquisition costs). Goodwill paid is included in the financial statements at cost less any accumulated impairment losses. Goodwill paid is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying value may be impaired. An impairment is calculated based on the difference between the carrying value and the recoverable amount of the cash-generating unit (CGU) to which the goodwill relates. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use.

Owing to the absence of a market for separate CGUs, we are unable to calculate a reliable fair value less costs to sell for each CGU. The recoverable amount is therefore deemed to be equal to the value in use. The value in use is determined by discounting the future cash flows generated by a CGU to their net present value. If the recoverable amount of a CGU is lower than its carrying amount, goodwill is impaired. The impairment is first applied in full to the goodwill and then pro rata to the individual assets.

Other intangible assets with a finite useful life, such as application software, client bases, contractual rights and the value of acquired funds and loans and advances, are capitalised at cost and amortised on a straight-line basis over their respective useful lives.

Estimated useful life of intangible assets (years)	
Client bases	5-20
Third-party distribution channels	12-20
Brand names	20
Application software	3-5

Tax assets and liabilities

Tax assets and liabilities are stated at face value. Current and deferred tax assets and liabilities are offset when they relate to the same tax authority, the same type of tax and the law permits offsetting of these assets and liabilities.

Deferred taxes are recognised on the face of the statement of financial position if the valuation of an asset or liability temporarily differs from the valuation for tax purposes. Deferred taxes are calculated using the tax rates prevailing on the reporting date. Deferred tax assets and liabilities are offset if they relate to the same tax authority, concern the same type of tax, if it is permitted under law to offset these deferrals and if the deferrals are expected to be settled simultaneously. Deferred tax assets are recognised only if it is probable that taxable profits will be realised in the near future against which these temporary differences can be offset.

Deferred tax assets and liabilities are assessed at every reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets and liabilities to be used. This reduction will be reversed if it is probable that sufficient taxable profits will be available.

Changes in the value of investments classified as available for sale and movements in the value of derivatives forming part of a cash flow hedge are recognised in equity net of deferred tax. Deferred tax assets and liabilities cease to be recognised when these movements in value are realised. Current tax is taken to the statement of income on realisation of the movement in value.

Assets and liabilities classified as held for sale

The line item Assets and liabilities classified as held for sale includes a group of assets whose carrying amounts will principally be recovered through a sale transaction. These assets and liabilities are measured at the lower of either the carrying amount or fair value less costs to sell and depreciation. The group of assets and liabilities concerned is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups. We plan to sell assets at a price which is reasonable considering their current fair value, as a result of which a sale is highly probable and expected to be completed within one year.

Other assets

Assets acquired through foreclosures are carried at the lower of cost or the recoverable amount. This recoverable amount is the estimated selling price in the ordinary course of business less the relevant variable costs to sell. The recoverable amount less the relevant variable costs to sell is based on the appraisal value as determined by an independent surveyor. Other assets are initially recognised at fair value excluding transaction costs. After initial recognition, they are recognised at amortised cost using the effective interest method.

Financial liabilities from trading activities

Financial liabilities from trading activities are transactions for own account whereby the aim is to repurchase these instruments in the short term. These instruments are stated at fair value, with movements in value recognised in the statement of income under Result on financial transactions. This line item comprises short positions on the trading portfolio in both equity instruments and debt instruments. Recognition is from the date on which the contract is concluded.

Due to banks
Amounts due to banks are initially recognised at fair value excluding transaction costs. After their initial recognition, they are recognised at amortised cost using the effective interest method.

Public and private sector liabilities
Public and private sector liabilities are initially recognised at fair value excluding transaction costs. After their initial recognition, they are recognised at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss comprise financial instruments which management believes should be recognised at fair value through profit or loss based on one of the following reasons:
- Designation eliminates or significantly reduces inconsistencies in measurement and recognition which would otherwise arise as a result of liabilities being valued or income and expenses being recognised under different accounting policies; or
- The contract in which the financial instrument is included contains one or more embedded derivatives and the entire contract is recognised at fair value through profit or loss. This is only permitted if the embedded derivative has significant influence on the contractually agreed cash flows.

The valuation takes account of our own credit risk. This is based on the internal funding curve, which is determined by spreads on issued debt securities and estimates by investment banks of interest rates on new issued debt securities. Own credit risk is recognised in equity under the line item Own credit risk reserve. The remaining amount of change in the fair value is recognised in Result on financial transactions.

Issued debt securities
Issued debt securities are initially recognised at fair value excluding transaction costs. After initial recognition, issued debt securities are carried at amortised cost using the effective interest method. Repurchase of our own debt securities is offset in the consolidated financial statements against the liability; the difference between the cost and the carrying amount based on the remaining term is taken to the statement of income.

Provisions
A provision is a liability of uncertain timing or amount. A provision is included in the statement of financial position if we have an obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made. Provisions are discounted if the time value of money for the liability has a material effect.

Provisions for pensions
We operate defined benefit plans and defined contribution plans. Under defined contribution plans, contributions to pension providers are taken to the statement of income as staff costs. We have no further payment obligations with respect to defined contribution plans once the contributions have been paid.

A defined benefit plan is a pension plan which defines the amount of pension benefit that an employee will receive on retirement. Factors such as age, years of service and salary are taken into account when determining the amounts to be paid. The provision for defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets.

Differences between the expected and actual return on plan assets, actuarial gains and losses and changes in the effect of the asset ceiling are recognised directly in equity; net interest is recognised under Interest in the statement of income.

Provisions for long-service benefits
Employees receive a bonus to mark a long-service anniversary of 25 and 40 years. In addition, receptions or dinners with colleagues are organised for employees who have been in service for 25 and 40 years.

Restructuring provision
A provision for restructuring is recognised only if the recognition criteria are met. We have a constructive obligation if we have a detailed formal restructuring plan identifying at least the business or part of the business concerned, the principal locations affected, the number of employees affected, a detailed estimate of the expenditure to be undertaken and a suitable timeframe. Employees are also notified of the main features of the plan.

Other liabilities
Other liabilities are initially recognised at fair value excluding transaction costs. After their initial recognition, they are recognised at amortised cost using the effective interest method.

Lease liabilities are presented in the statement of financial position as part of Other liabilities. Interest payments and amortisation in the year are charged to the income statement on a straight-line basis over the term of the lease, and disclosed separately within the statement of profit or loss.

Lease liabilities consist of interest and lease payments and are initially measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

Subordinated loans
Subordinated loans are initially recognised at fair value excluding transaction costs. After initial recognition, they are carried at amortised cost. Purchases of our own subordinated loans are offset against the liability in the consolidated financial statements; the difference between cost and the carrying amount based on the remaining term is taken to the statement of income.

Obligations not recognised in the statement of financial position
This includes obligations that represent a potential credit risk. For the other obligations not recognised in the statement of financial position, see "Commitments" in the supplementary notes.

Contingent assets and liabilities and irrevocable commitments
Contingent liabilities are carried at the contract value and relate in particular to guarantees and irrevocable letters of credit. This item consists of unused overdraft facilities, sale and repurchase commitments, irrevocable payment commitments for the Single Resolution Fund (SRF) and all other obligations resulting from irrevocable commitments that could give rise to loans.

Statement of income

General
Revenue is recognised when it is likely that the economic benefits will flow to Van Lanschot Kempen and the revenue can be measured reliably. Costs are allocated as far as possible to the period in which the services were rendered or to the relevant proceeds.

Net interest income
This item consists of income earned on lending and costs of borrowing, derivatives, related commission, and other income/expense similar to interest. The amortisation of remaining value adjustments on mortgage portfolios of fair value hedges which expired in the past is disclosed under Interest income.

Interest income and interest expense are recognised in the statement of income on an accrual basis, using the effective interest method. The effective interest rate is the rate that exactly discounts estimated cash flows over the life of the financial instrument, or a shorter period when appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, we take into account all contractual terms of the financial instrument (for example early repayment) but not future losses due to uncollectible amounts.

Negative interest on derivatives whereby interest paid is recognised under Interest expense and interest received is recognised under Interest income. Negative interest on balances at central banks is recognised under Interest expense.

Income from securities and associates
All dividends received from investments in equity instruments are included under dividends and fees. Dividends are recognised directly in the statement of income when they are made payable.

Our share in the results of equity-valued associates is recognised under Income from securities and associates using the equity method. Dividends received are deducted from the carrying amount of the equity-valued associate. Due to the fact that these investments in associates using the equity method are part of our investment strategy, we present its income as part of our operating activities.

Net commission income
This item comprises the income, other than income similar to interest, earned on wealth management services provided to third parties. Commission paid to third parties is accounted for as commission expense.

We receive commission for the wide range of services we provide to clients. This can be divided into commission on a transaction basis and periodic commission charged to the client during the year.

Commission on a transaction basis
Commission income on a transaction basis is recognised in the periods in which we provide the services. Transaction commission for which we only provide a service on the transaction date (e.g. commission on buying and selling shares) is taken directly to the statement of income. Transaction commission for which we have to provide a service in the future (e.g. commission on structured products) forms part of the amortised cost and is recognised in the statement of income over the expected term of the instrument.

Periodic commission
Periodic commission (e.g. management fees) is recognised in the statement of income in the period in which the services are provided.

Result on financial transactions
Result on securities trading includes realised and unrealised value differences on gains and losses on financial instruments relating to the securities trading portfolio. Exchange and price gains and losses on trading in other financial instruments are recognised under Result on foreign currency trading. Gains and losses due to ineffectiveness in hedge accounting are recognised under Unrealised gains/ losses on derivatives under hedge accounting. Result on economic hedges includes realised and unrealised gains and losses on derivatives that are not included in a hedge accounting model. Result on financial instruments at fair value through profit or loss comprises unrealised value differences and interest expenses on financial liabilities at fair value through profit or loss.

Other income
Other income comprises non-banking income resulting from the consolidation of non-banking subsidiaries.

Staff costs
Staff costs comprise wages and salaries, pension and early retirement costs, other social security costs and other staff costs such as remuneration in the form of share-based employee benefits.

Share-based payments
Employees may be eligible to receive remuneration in the form of share-based payments. The cost of equity-settled transactions of Van Lanschot Kempen NV with employees is measured by reference to the fair value at the date on which the equity instruments are granted. The fair value is determined based on the share price on the grant date, taking into account the discounted value of expected dividends over the vesting period. The cost of equity-settled transactions of Van Lanschot Kempen NV is recognised, together with a corresponding increase in equity, in the period in which the employee's performance criteria are fulfilled, ending on the date on which the employee becomes fully entitled to the award (the vesting date).

Other administrative expenses
Other administrative expenses comprise IT expenses, costs of marketing and communication, accommodation expenses, office expenses and other administrative expenses.

Depreciation
Depreciation and amortisation are determined on the basis of estimated useful life and charged to the statement of income.

Impairments
This item comprises the balance of the required impairments and reversals of such impairments.

Income tax
Tax on operating profit is recognised in the statement of income in accordance with applicable tax law in the jurisdictions in which we operate. Tax effects of any losses incurred in certain jurisdictions are recognised as assets when it is probable that sufficient future profits will be available in the relevant jurisdiction against which these losses can be offset.

Earnings per share
Earnings per share are calculated by dividing the profit for the year available to the shareholder by the weighted average number of shares outstanding during the period.

Statement of cash flows
The statement of cash flows is prepared using the indirect method. This statement of cash flows shows the source and application of cash items. Cash flows are divided into those from operating, investing and financing activities. Cash and cash equivalents comprise, at face value, all cash in hand, balances at central banks and balances withdrawable on demand at other banks in respect of which the risk of value changes is insignificant.

Segment information
The different operating segments form the basis for our primary segmentation. An operating segment is a business unit that can earn revenues and incur expenses and whose operating results are regularly reviewed by its management or the chief operating decision maker and for which discrete financial information is available. Additional information is reported geographically based on where the business activities are located. Intra-segment transactions are conducted on commercial terms and market conditions (at arm’s length).

RISK MANAGEMENT

1. Risk, capital management and compliance

Our front-office functions are essential in delivering services to our clients. Risk management supports the front office, clients and other stakeholders in ensuring that the risks incurred by Van Lanschot Kempen are controlled and comply with our risk appetite and legal requirements. This section describes our risk appetite, the organisational and governance arrangements that are in place regarding risk management, and the three lines of defence principle. After discussing these general arrangements, the section continues with credit risk, market risk, operational risk, settlement risk, credit valuation adjustment (CVA) risk, strategic risk, interest rate risk, liquidity risk, securitisation risk, climate change risk, financial reporting risk and assets at fair value. An overview of compliance risk is also provided.

1.1 Risk appetite

Solid capital and liquidity ratios are essential prerequisites for a successful proposition to our clients and the financial stability of Van Lanschot Kempen in general. This is reflected in our risk appetite statement. We aim to have a simple and transparent balance sheet.

We have a robust risk appetite framework in place. Each year, the Statutory Board prepares the risk appetite statement, which translates our risk appetite into strategic limits. The risk appetite statement is then submitted to the Supervisory Board for review and approval. Quarterly risk appetite reports serve as important discussion documents for the continuous review of our risk profile.

The risk appetite statement is based on the following guiding principles:

- We only take risks that we understand and can explain;
- We only take risks that – directly or indirectly – serve our strategic objectives;
- The sum of all risks taken should not exceed our risk-bearing capacity;
- When taking risks, we take the requirements and expectations of all stakeholders into account;
- We do not take any risks that could seriously harm our reputation;
- Our risk appetite should be considered in all business decisions at every level of the organisation;
- We avoid risks that could lead to legal or regulatory breaches.

1.2 Organisation of risk, capital management and compliance

The purpose of our risk management framework is to identify and analyse risks at an early stage, as well as to mitigate and monitor those risks. Adequate internal control procedures and reporting systems, including the application of standards and limits, are key elements of the risk management framework.

The organisation of our risk management framework is based on the three lines of defence principle. Day-to-day responsibility for risk control lies with the front office and/or operational departments (the first line of defence) including internal control activities. Compliance, Risk Management and Finance, Reporting & Control form the second line of defence for financial and non-financial risks. These departments are responsible for initiating risk policies and the supervision of risk controls within Van Lanschot Kempen. Internal Audit forms the third line of defence and is responsible for performing independent audits on the risk framework and activities of the first and second line. This set-up creates a clear, balanced and appropriate division of tasks, powers and responsibilities, and ensures independent and effective operation of the risk management function.

Risk Management stands at the core of capital management. We actively manage our capital base to cover risks inherent to our business and meet the capital adequacy requirements of De Nederlandsche Bank (DNB). The adequacy of our capital is monitored by using the rules and ratios established by the Basel Committee on Banking Supervision as transposed into EU law. This legal framework also forms the basis for supervision by DNB. Over the reporting period, we fully complied with all externally imposed capital requirements. Both external and internal capital adequacy targets are taken into account, and the central focus is on safeguarding our financial solidity and stability. Each year, a capital and funding plan is prepared for capital management purposes.

Table 1.2 Risk, capital management and compliance framework

Supervision § 1.2.1	**Supervisory Board** – Risk Committee – Audit and Compliance Committee					
Risk and capital management § 1.2.2	**Statutory Board** – Risk Committee – Credit Risk Committee – Market Risk Committee – Asset & Liability Committee – Compliance & Operational Risk Committee – Credit Committee – Product Boards					
Implementation and review § 1.2.3	Risk Management	Finance, Reporting & Control	Compliance	Internal Audit		
Execution § 1.2.4	Private Banking	Evi	Asset Management	Merchant Banking	Treasury	Credit Restructuring & Recovery

1.2.1 Supervision

The Supervisory Board oversees the risks and capital requirements in relation to the group's operations and portfolio composition. It has set up two committees specifically for this purpose.

The Risk Committee focuses on all identified risks in the group's business activities, as well as the risk management framework. The Committee also prepares decision-making by the Supervisory Board on risk matters.

The Audit and Compliance Committee is tasked with advising the Supervisory Board on financial reporting, internal and external audits, compliance and matters regarding duty of care.

1.2.2 Risk, capital management and compliance

The Statutory Board is responsible for developing and executing the strategy of the group. This includes the capital and funding plan, which is based on a number of risk, capital and compliance policies.

The primary objective of our capital management is to ensure that we comply with external and internal capital requirements in order to support our businesses and to create value for our stakeholders. We manage our capital structure by taking into account changes in economic conditions and the risk characteristics of our activities. To maintain and/or manage our capital structure, we may adjust the amount of dividend payments to shareholder, return capital to shareholder or issue capital securities. These adjustments are under constant review by the Statutory Board. Finally, requests or demands by our supervisors DNB and/or ECB can also influence dividend policies.

The Statutory Board also bears responsibility for ensuring the proper operation of the processes that safeguard the group's liquidity and capital position. In addition, it is required to provide information to the Supervisory Board, which in turn assesses the risk appetite of the group. The decisions of the Statutory Board are taken during meetings of the Executive Board. To ensure the various risk types are managed properly, the Statutory Board has set up the following risk committees:

Risk Committee

The Risk Committee, which includes all members of the Statutory and Executive Boards, discusses overarching risk management themes. In this committee, the various risk types are brought together, discussed and monitored on an integrated level. The committee is involved in setting the annual risk appetite statement, and discusses the risk appetite report and emerging trends in the risk profile. Other areas covered include recovery and resolution planning.

Credit Risk Committee

The Credit Risk Committee sets and adjusts the group's overall credit risk policy and translates this into acceptance and portfolio management policies. In executing its tasks, the committee bears in mind our strategic objectives and the guiding principles contained in the risk appetite statement. Two members of the Executive Board serve on this committee (the CFRO and the member of the Executive Board responsible for Private Banking), along with representatives of Risk Management, Private Banking, Credit Approval, and Credit Restructuring & Recovery. The committee meets on a quarterly basis.

Market Risk Committee

This committee focuses on all market risks within Van Lanschot Kempen and is chaired by the CFRO. Market risk is the risk of loss as a result of changes in market variables, including interest rates (excluding interest rate risk in the banking book), exchange rates and equity prices. It also considers variables not directly observable in the market, such as volatility and correlations, which also influence the value of certain financial instruments. Market risks at Merchant Banking occur due to the trading of securities (mainly equities, equity derivatives and management book investments). Van Lanschot Kempen is exposed to a certain amount of market risk (mainly FX and structured products activities) through its treasury activities. This risk is limited, as the majority of transactions and positions in the statement of financial position are denominated in euros. Van Lanschot Kempen is also exposed to market risk as a result of management book investments. The committee meets on a quarterly basis.

Asset & Liability Committee
The Asset & Liability Committee (ALCO) is responsible for managing risks that result from mismatches between assets and liabilities (interest rate and liquidity risks), as well as the capital position of the bank. ALCO's main tasks are:
- Overseeing the asset-liability management (ALM) process;
- Monitoring and adjusting the funding profile;
- Setting policies on interest rate risk in the banking book[1], liquidity and funding risk, funds transfer pricing and capitalisation;
- Monitoring the development of the balance sheet and balance-sheet projections.

ALCO meets once a month and is chaired by the CFRO. As well as the CFRO, ALCO's members comprise:
- The Chairman of the Statutory Board;
- The Statutory Board member responsible for Private Banking;
- Representatives of Treasury, Risk Management and Finance, Reporting & Control.

On a quarterly basis, ALCO meets as an expanded group, which includes the COO and representatives of the commercial departments.

Compliance & Operational Risk Committee
The Compliance & Operational Risk Committee is responsible for the implementation and execution of our compliance and operational risk management policies. The committee assesses compliance and operational risks, and ensures remedial actions are taken if required. The committee also challenges and approves the annual plans of the Non-Financial Risk Management and Compliance departments. It meets twice a quarter and is chaired by the CFRO. Among other things, the root causes of major operational risk incidents are also discussed in this committee.

Risk Management takes the lead in the committees described above, with the exception of the Compliance and Operational Risk Committee, where both Compliance and Risk Management are in charge. We also have a number of committees that form part of the first line of defence and that cover specific risk-related topics, such as the Credit Committee and the Product Board.

1.2.3 Implementation and review of risk, capital management and compliance policies
Implementation and monitoring of our risk and capital policies is carried out by Risk Management and Finance, Reporting & Control. In addition, Compliance carries out the implementation, monitoring and/or review of compliance policies.

Internal Audit is also involved in reviewing the policies described above.

Risk Management is responsible for:
- Second-line monitoring and management of all risks relating to the statement of financial position at group level, including modelling, measuring, managing and reporting on our credit, market, interest rate, liquidity and strategic risks;
- Business continuity management;
- Information security;
- The risk appetite process;
- Preparing, developing and maintaining policy documents;
- Preparing ICAAP and ILAAP documentation as well as the recovery plan;
- Issuing daily market risk reports;
- Proactively and reactively providing advice on managing risks;
- Raising risk awareness among staff in order to improve their ability to strike a sound balance between risk and return.

Finance, Reporting & Control is jointly responsible with Risk Management for the financial accounting and business control function. Through its various reports, Finance, Reporting & Control fulfils an important role in challenging the businesses and coordinating supervision of risk management.

Compliance has both an advisory and a monitoring role with respect to compliance with applicable laws, rules, regulations, internal policies and procedures, and industry standards relevant for Van Lanschot Kempen. As compliance risks are part of the overall risk governance of Van Lanschot Kempen, Compliance as an independent function is involved in and supports the management of compliance risks by identifying, assessing, monitoring and reporting on such risks. Compliance risks include risks such as personal data integrity, financial crime, business conduct and client protection risks.

Internal Audit reviews the design and effectiveness of the risk organisation and the execution of our risk, capital management and compliance policies. The department reports to the Statutory Board. The applicable policies form the starting point for the independent review by Internal Audit. Processes, infrastructure, organisation and systems are audited based on these policies in order to determine whether the organisation adequately executes its risk, capital management and compliance policies.

1.2.4 Execution of risk, capital management and compliance policies
The commercial departments, i.e. the departments shown under "Execution" in Table 1.2 (excluding Treasury and Credit Restructuring & Recovery), are responsible for preparing their business plans. On the basis of these plans, current and future risks are assessed, including expected capital and liquidity requirements. These assessments serve as input for ALCO.

1.3 Capital requirements
The standards set by the Basel Committee on Banking Supervision, and translated into law, apply to all Dutch banks. The Basel framework consists of three pillars:
- Pillar 1 stipulates capital requirements for credit, market and operational risk.
- Pillar 2 requires banks to have internal processes for risk management and to calculate the capital requirements needed to address all risks that are not included in Pillar 1. The Supervisory Review and Evaluation Process (SREP) is also part of Pillar 2.
- Pillar 3 sets out requirements for disclosure of information about the institution's risk profile to external stakeholders.

Our website has Pillar 3 information (unaudited) and a detailed breakdown of our portfolio of loans to companies and institutions (unaudited), published once a year.

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

Our remuneration policy is explained in the remuneration section and in a Pillar 3 remuneration disclosure (unaudited), which can also be found on our website.

1.4 Individual risks

The following sections detail the individual risk types to which we are exposed. It therefore covers a combination of Pillar 1 and Pillar 2 capital requirements. The risk types covered are:

- Credit risk (Section 2);
- Market risk (Section 3);
- Operational risk (Section 4);
- Settlement risk (Section 5);
- CVA risk (Section 6);
- Strategic risk (Section 7);
- Interest rate risk (Section 8);
- Liquidity risk (Section 9);
- Securitisation risk (Section 10);
- Climate change risk (Section 11);
- Compliance risk (Section 12);
- Financial reporting risk (Section 13).

2. Credit risk

Credit risk is defined as the risk that a counterparty or client is no longer able to fulfil its obligations to the bank. Our credit risk policies focus on the counterparty risks associated with lending to private and corporate clients. Strict selection criteria for new clients and active credit management for existing clients are applied to safeguard the quality of the loan portfolio. The lending activities that we conduct are required to be in line with stated objectives, and individual assessments are used to ascertain this.

As well as from lending activities, credit risk also arises from:

- Investment activities;
- International payment transactions and cash management;
- Foreign exchange (FX) risk;
- Hedging activities;
- Settlement risk.

Our investment activities relate to the management of our liquidity buffer and equity investments. For the liquidity buffer, a limit framework is in place to manage and monitor associated credit risks.

Counterparty credit risk with respect to financial institutions arises from international payment transactions, cash management, FX and hedging activities. Some of these activities also involve settlement risk. For derivatives transactions, counterparty credit risk is mitigated by daily margining.

We apply a strict policy when determining and monitoring country and counterparty (financial institutions) limits. The country limits serve as a cross limit for financial institutions, meaning that the counterparty risks in respect of financial institutions in one country are limited by the relevant country limit, as the country limit is usually lower than the aggregate of the individual counterparty limits.

2.1 Loans and advances

2.1.1 Credit acceptance

Our loan approval policy focuses on maintaining a high-quality loan portfolio. The authority to approve loans and loan reviews is delegated to a limited number of departments, mainly our Credit Approval department.

The authority to approve large loans rests with the Credit Committee, which comprises representatives of the relevant divisions as well as members of the Statutory Board.

The mid- and back-office for nearly all residential mortgage loans is carried out by a third party. A service level agreement (SLA) has been signed to ensure adequate control of the operational risks, including the outsourcing risk. The acceptance process is not outsourced, with the exception of our white label loans that fall within the acceptance framework.

We also offer residential mortgages via a third party under a white label. From a risk management perspective, the credit and outsourcing risks are of particular relevance. An SLA has been signed to ensure adequate control of the operational risks, including the outsourcing risk. The acceptance and management of credit risks have been outsourced to a third party, within our strict guidelines, and these activities are monitored using detailed data from the mortgage portfolio, provided in accordance with prevailing legal requirements. This allows for the recognition of any arrears, for example. We also review random samples of mortgage loans.

Limits on financial institutions and countries are determined using a number of hard criteria such as the external rating, BIS ratios, capital ratios, country of origin and gross domestic product (for countries). Limits can also be adjusted and withdrawn on a daily basis.

New loan requests are assessed to determine if they are in line with our strategy and we adopt a conservative approach to granting them.

The credit risk concentration mainly lies within our Private Banking segment in the Netherlands.

2.1.2 Credit management – policy and processes

A high-quality loan portfolio requires strict credit management. Credit management is carried out at both individual loan and portfolio level. At the individual loan level, explicit attention is devoted to the management of unauthorised overdrafts and accounts past due. Loans with an elevated risk profile are subjected to a risk check. In addition, a portion of the portfolio is regularly reviewed and as part of this review the credit risk of individual clients is scrutinised. The frequency of the reviews varies according to the individual borrower's risk profile, but they take place at least annually. In addition to the financial analysis, the review takes account of future developments in the client's situation (partly in the light of relevant macroeconomic trends).
A deterioration in a client's risk profile may lead to closer supervision, an adjusted rating, corrective measures (such as requiring additional collateral or increasing the frequency of financial reporting), involvement of the Credit Restructuring & Recovery department or a combination of these measures. It may also lead to a stage transfer under IFRS 9 – see Section 2.8.

At portfolio level, credit risks are monitored on a monthly basis. A detailed credit risk report and any relevant developments or expected developments are discussed in the Credit Risk Committee on a quarterly basis. Any negative trend identified in the risk profile of a particular client segment, sector or loan type can lead to the adjustment of the relevant lending policy. Trends in sectors where there is a concentration risk are monitored particularly closely.

If the review, risk check, payment arrears or external signals point to an increased risk of discontinuity, the Credit Restructuring & Recovery department is involved in the credit management process. An estimate is made of the probability of continuity. Depending on the seriousness and magnitude of the problem, either monitoring or intensive supervision is applied. If there are objective indicators of impairment as referred to under the line item Impairments, the Credit Restructuring & Recovery department draws up an impairment proposal. The Impairment Committee determines the impairment for the whole credit portfolio on a quarterly basis.

Active management of past due loans enables potential problem loans to be identified at an early stage. If an individual assessment identifies an increased risk, the Credit Restructuring & Recovery department will supervise the client. Increased credit risk occurs in situations including the following:

- If clients fail to meet their payment obligations (for amounts > €100 and > 1% of the credit exposure for retail clients or > €500 and > 1% of the credit exposure for non-retail clients);
- If clients report difficulties in meeting future payments, e.g. because of a divorce, unemployment etc.;
- In the event of a default (see Section 2.1.3.1);
- For business clients, in the event of a significant decrease in turnover, breach of one or more covenants, a debt service coverage ratio < 1, etc.

The primary goal of the Credit Restructuring & Recovery department is to migrate clients back to accounts with regular status (i.e. not under the supervision of Credit Restructuring & Recovery) by reducing their credit risk. The aim is to do this in accordance with the loan agreements made with these clients, but forbearance measures are applied if necessary. More information on forborne exposures can be found in Section 2.2.

2.1.3 Credit risk measurement

We have developed internal models for measuring and monitoring credit risk for the majority of the loan portfolio. Some of these internal models are also used to determine the required capital that has to be set aside for absorbing unexpected credit losses. For this reason, the models, the use of these models and the model governance have to adhere to strict requirements set out in the Capital Requirements Regulation (CRR).
The CRR distinguishes three approaches for determining the required capital for credit risk: the standardised approach (SA), the foundation internal ratings-based (F-IRB) approach, and the advanced internal ratings-based (A-IRB) approach. We use SA and A-IRB for our loan portfolios.

The standardised approach prescribes a set of rules for determining the required capital based on various characteristics such as client type, loan type, collateral type, and external rating. Under A-IRB banks are allowed to use own estimates for PD, EAD and LGD. The PD is defined as the likelihood that a client will default within one year, the EAD is defined as the bank's expected exposure at the time a client defaults, and the LGD is the expected loss percentage in the event that a client defaults. As a result, A-IRB is more risk-sensitive than SA.

We have approval from DNB to determine and report the required regulatory capital for our residential mortgage exposures portfolio using the A-IRB method. For these models, we have a model governance framework in place. As part of this, the performance of the models is periodically monitored, and these models are also periodically validated against independent models.

The PD model is mostly based on behavioural aspects of the client and the LGD models on the underlying collateral. For the capital calculations a so-called downturn LGD is applied, i.e. the expected loss at default during an economic downturn. Estimation of the EAD is based on the limit and credit utilisation.

Besides the residential mortgage portfolio, we have three other retail portfolios:

- Qualifying revolving retail exposures up to €40,000;
- Other retail exposures up to €2 million;
- Small and medium-sized enterprises (SMEs) with total exposures up to €1 million.

For these three retail portfolios the SA method has been used for capital calculations since the end of 2020.

The non-retail portfolio comprises four sub-portfolios with the following exposures:

- Exposures to corporate clients;
- Exposures to private customers exceeding €2 million (excluding residential mortgages);
- Commercial real estate exposures;
- Exposures to holding companies that are clients with non-controlling interests and shareholdings.

For all these non-retail portfolios the SA method has been used for capital calculations: for the first two sub-portfolios this has been done since the end of 2020; for the other two sub-portfolios this has been done since the first half of 2018. Prior to this the F-IRB method was used for these exposures.

IRB equity portfolio

The IRB equity portfolio includes our own positions in equities in the investment portfolio, subordinated receivables, non-controlling interests and shareholdings which appear on Van Lanschot Kempen's company statement of financial position. We use the simple risk-weighted method to calculate the risk-weighted assets for positions in shares. In this method, a specific risk weighting (190%, 290% or 370%) is assigned to each position, based on a number of characteristics. A risk weighting of 250% is applied for significant investments in financial institutions that are not deducted from equity because they fall below the regulatory threshold. Positions taken in shares and subordinated loans of wholly owned subsidiaries are excluded from IRB. These are reported using the SA method.

Other loans and advances

The risk-weighted assets of the other portfolios, such as the debt securities in our investment portfolio managed by the Treasury department (i.e. excluding retail, non-retail and equity), are calculated on the basis of the standardised approach.

2.1.3.1 Definition of default and credit-impaired assets

In November 2020, we introduced the new definition of default according to the EBA guidelines. Most notably, the materiality threshold was changed to a uniform European standard. The new definition of default had no material impact on ECL levels in 2020. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred:

- A breach of contract such as a more than 90 days past due event with a materiality of more than €100 and more than 1% of total credit obligation (retail exposures) or more than €500 and more than 1% of total credit obligation for non-retail exposures;
- Significant financial difficulty of the issuer or the borrower and an inability to meet future payments;
- Concession(s) granted to the borrower that the lender would not otherwise consider, relating to the borrower's financial difficulty (forbearance);
- A growing likelihood that the borrower will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial market difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit loss.

It may not always be possible to identify a single discrete event; instead the combined effect of several events may have caused financial assets to become impaired. All impaired assets are also classified as defaulted by Van Lanschot Kempen under CRR rules. Van Lanschot Kempen has implemented one definition that serves for all the different purposes.

2.2 Forborne exposures

A loan is regarded as forborne if the borrower is unable to meet its contractual obligations towards the bank and the bank then decides to make a concession to the client by modifying the terms and conditions of the loan agreement. The objective of this modification is to enable the borrower to meet the renewed obligations, and it would not have been offered if those circumstances had not arisen. Forbearance actions may include one or more of the following measures:

- Amendment of the original terms and conditions of the loan agreement with which the client is unable to comply due to financial difficulties, with a view to restoring the client's payment capacity;
- Full or partial refinancing of a forborne exposure.

The purpose of the measures taken in forbearance situations is to maximise the chance of restoring the borrower's payment capacity and to minimise the risk of losses due to having to write off all or part of the loan. The measures must offer the client an appropriate and sustainable solution enabling them to comply with the original obligations arising from the credit agreement in due course.

Application of forbearance measures is exclusively reserved for the Credit Restructuring & Recovery department, which pursues a policy based on general principles that it translates to match the specific situation of the individual client. Given the nature of these loans, the Credit Restructuring & Recovery department carries out intensive credit management. Before any new arrangements are agreed, a detailed analysis is made of the client, their financial situation and the likelihood of income recovery. The outcome of this analysis may have consequences for the client's review frequency and the size of any loan loss provision to be made. If the client qualifies for appropriate forbearance measures, a proposal will be drawn up and submitted to the competent assessor(s) for approval. If a forbearance measure is granted, the borrower is classified as a non-performing credit.

In practice, forbearance measures do not always have the desired effect – i.e. the recovery of the client's payment capacity or an end to the process of declining payment capacity. This may, for example, be the result of a further deterioration in the client's financial circumstances or the failure of those circumstances to improve as expected. Such cases will be reanalysed and a strategy determined. However, the principle is explicitly maintained that the forbearance measure must be appropriate, sustainable and effective. Any new arrangements agreed with the borrower must also meet these strict criteria.

A forbearance situation ends when the "non-performing" status has no longer been applied to the loan for a probation period of two years. The non-performing status must last a minimum of one year starting from the last forbearance measure. The client must moreover have made significant and regular payments of interest and/or principal during at least half of the probation period. During the two-year probation period, no payments by the borrower may be in arrears for more than 30 days. If this condition is not met, the probation period will start again from the date the client is no longer in arrears for more than 30 days.

The recording and monitoring of loans which are subject to forbearance is carried out by the Credit Restructuring & Recovery department. Each quarter, and where appropriate more frequently for specific loans, an individual assessment is carried out of forborne exposures which are in default, in relation to any provision made. In addition to this quarterly assessment (as part of the provisioning process), these loans are subject to extensive credit risk management, the intensity and frequency of which will as far as possible match the specific circumstances of the loan.

As a result of the Covid-19 crisis, a limited number of clients asked for financial assistance. In the period March-September 2020, we assisted these clients with tailor-made solutions: temporary payment suspension for a maximum of six months or temporary liquidity support. In accordance with the *EBA Guidelines on reporting and disclosure of exposures subject to measures applied to the* Covid-19 crisis, these amendments were not registered as forbearance measures and as a result they are not treated as non-performing exposures. If further assistance or amendment of the terms and conditions are necessary, these exposures will be classified as forborne and non-performing.

Tables 2.2.A through 2.2.E show the total volume of forborne exposures. We apply several types of forbearance measures (see Table 2.2.A). Following the decision to apply such a measure, a loan remains under the supervision of the Credit Restructuring & Recovery department until the forbearance situation has ended.

Table 2.2.A Types of forborne exposure	31/12/2020	31/12/2019
Total	43,155	55,452
Repayments/reviews temporarily reduced/suspended	33,538	38,091
Provision of (temporary) additional funding (emergency loan)	7,729	11,584
Temporary reduction in interest rate or loan is made interest-free	1,887	5,503
Conditional and/or partial forgiveness of the loan	—	274

Table 2.2.B Changes in forborne exposures	2020	2019
At 1 January	55,452	69,731
New forborne exposures	14,566	12,184
Additions and repayments	-30,163	-33,286
Assets no longer designated as forborne exposures	-500	-8,362
Impairments	3,799	15,184
At 31 December	43,155	55,452

Additions and repayments are related to clients that have a forborne exposure in place.

Tables 2.2.C and 2.2.D provide an insight into the underlying collateral of forborne loans. This breakdown is based on the collateral used under Basel regulations, with the exception of commercial real estate, for which collateral is based on market values. The value in the Total primary collateral column is the lower of the subscription value or the value of the collateral.

Table 2.2.C Forborne exposures by collateral at 31/12/2020	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Total primary collateral	Secondary collateral and unsecured loans
Total	43,155	2,150	16,856	15,960	34,965	8,189
Mortgage loans	2,150	2,150	—	—	2,150	—
Current accounts	22,520	—	—	15,960	15,960	6,560
Loans	18,485	—	16,856	—	16,856	1,630

Table 2.2.D Forborne exposures by collateral at 31/12/2019	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Total primary collateral	Secondary collateral and unsecured loans
Total	55,452	2,877	24,380	15,948	43,205	12,247
Mortgage loans	3,010	2,877	—	—	2,877	132
Current accounts	20,263	—	—	15,948	15,948	4,315
Loans	32,180	—	24,380	—	24,380	7,799

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

Table 2.2.E Forborne exposures by geographical area	31/12/2020	31/12/2019
Total	43,155	55,452
Netherlands	42,761	55,073
Belgium	—	—
Other	394	379

2.2.1 Write-off policy

We write off loans as soon as there is sufficient certainty about the loss after the sale of collateral and after exploring other redress opportunities.

2.3 Breakdown of the loan portfolio

We adopt a cautious approach to granting unsecured loans. Our loan book mainly consists of loans to Private Banking clients (primarily loans secured by residential real estate), as well as a number of commercial real estate loans and securities-backed loans. The remainder of the loan portfolio comprises consumer loans and private customised financing (other loans), which are solely intended for clients who have placed substantial funds with us. The mortgage loans also include Kempen Dutch Inflation Fund, a fund that invests in leasehold contracts primarily in connection with Dutch residential real estate to create an investment in long-term Dutch inflation-linked cash flows.

Table 2.3 Breakdown of loan portfolio by entity (excluding impairments)	31/12/2020		31/12/2019	
	Limit	Utilisation	Limit	Utilisation
Total	**9,431,894**	**8,512,402**	**9,544,548**	**8,661,663**
Van Lanschot Kempen Wealth Management	8,953,707	8,124,092	9,063,194	8,255,267
Kempen Capital Management	175,614	175,614	219,510	219,510
Van Lanschot Kempen other	302,573	212,696	261,844	186,886

2.4 Collateral

In general, collateral can be used for all current and future amounts owed by a debtor. In addition to residential mortgage collateral and guarantees provided by governments and credit institutions, commercial real estate, financial collateral, receivables, stocks and inventories may serve as collateral. The majority of collateral is not directly linked to a specific financing arrangement.

Tables 2.4.A and 2.4.B provide insight into the underlying collateral of the loan portfolio.

Table 2.4.A Loans and advances to the public and private sectors by collateral at 31/12/2020

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Guarantees	Total primary collateral	Secondary collateral and unsecured loans
Total	**8,448,326**	**6,433,364**	**435,126**	**277,965**	**144**	**7,146,598**	**1,301,728**
Mortgage loans	6,512,265	6,433,364	—	—	144	6,433,508	78,757
Loans	1,274,792	—	435,126	—	—	435,126	839,666
Current accounts	363,652	—	—	191,688	—	191,688	171,964
Securities-backed loans and settlement receivables	297,418	—	—	86,276	—	86,276	211,142
Subordinated loans	199	—	—	—	—	—	199

Table 2.4.B Loans and advances to the public and private sectors by collateral at 31/12/2019

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Guarantees	Total primary collateral	Secondary collateral and unsecured loans
Total	**8,597,894**	**6,216,064**	**462,358**	**374,261**	**4,788**	**7,057,471**	**1,540,424**
Mortgage loans	6,442,472	6,216,064	—	—	876	6,216,940	225,532
Loans	1,322,734	—	462,358	—	3,911	466,269	856,465
Current accounts	518,979	—	—	218,746	—	218,746	300,233
Securities-backed loans and settlement receivables	313,130	—	—	155,515	—	155,515	157,615
Subordinated loans	579	—	—	—	—	—	579

The category Secondary collateral and unsecured loans mainly comprises loans for which collateral has been pledged in the form of operating assets, inventories and receivables, as well as collateral which for technical reasons is not directly linked to a specific loan. Tables 2.4.A and 2.4.B have been drawn up on the basis of the definitions contained in the Basel regulations, with the exception of commercial real estate, which is based on the market value. The value under primary collateral is the lower of the subscription value or the value of the collateral. The total amount of unsecured loans is small. In general, collateral can be used for all current and future amounts owed by a debtor.

The average loan-to-value (LTV) of our mortgage loans, based on 100% foreclosure value, is 74% (2019: 76%).

2.5 Concentration within the loan portfolio
About 82% of our loan portfolio consists of loans to private clients. The credit risk in this portfolio is limited (see Section 2.8, Loss allowance for expected credit loss). We aim for a diversified loan portfolio, reflecting our risk appetite. We have set limits for concentrations in individual sectors.

2.5.1 Individual loan concentrations
The ten largest loans to individual counterparties other than financial institutions totalled €180 million at year-end 2020, compared with a total loan portfolio of €8.5 billion (2019: €280 million; total loan portfolio €8.7 billion).

2.5.2 Geographical concentrations
In line with our strategy, the majority of lending takes place in the Netherlands and Belgium. The geographical breakdown is based on client locations. A small portion of the Belgian market is served from the Dutch branch network.

Table 2.5.2 Loans and advances to the public and private sectors by geographical area	31/12/2020	31/12/2019
Total	**8,448,326**	**8,597,894**
Netherlands	7,761,852	8,097,188
Belgium	265,105	256,050
Other	421,369	244,656

2.6 Encumbered and unencumbered assets
Certain items in the statement of financial position are classified as encumbered. Tables 2.6.A and 2.6.B provide insight into the financial assets treated as encumbered. These tables have been drawn up on the basis of carrying value.

Encumbered assets

Pledged as collateral:
- Cash pledged to a counterparty bank or central clearing party as security for obligations stemming from derivatives (CSA contracts);
- Investments in debt instruments pledged to DNB or counterparty banks in the context of repo transactions or for securities and derivatives clearing purposes;
- Securitised mortgage loans and receivables underlying debt instruments which have been pledged as collateral to DNB for transaction settlements or have been placed with institutional investors in the form of securitisation notes or covered bonds.

Other:
- Statutory reserve deposits with central banks;
- Reserve accounts of the covered bond entities to which we have no access.

Unencumbered assets

Eligible as collateral:
- Investments in debt instruments which appear on the ECB eligible list of marketable assets but are not classed as encumbered at the reporting date;
- Securitised mortgage loans and advances underlying debt instruments which are held by us and which appear on the ECB eligible list of marketable assets but are not classified as encumbered at the reporting date.

Table 2.6.A Encumbered and unencumbered assets	Encumbered assets		Unencumbered assets		31/12/2020
	Pledged as collateral	Other	Eligible as collateral	Not eligible as collateral	Total
Total	2,445,557	22,270	2,386,330	9,348,124	14,202,281
Cash and cash equivalents and balances at central banks	—	14,647	—	2,213,155	2,227,803
Due from banks	154,125	7,623	—	48,836	210,584
Financial assets at fair value through profit or loss	—	—	101,696	189,291	290,987
Financial assets at fair value through other comprehensive income	487,364	—	1,713,669	375,030	2,576,063
Loans and advances to the public and private sectors	1,626,514	—	300,000	6,521,812	8,448,326
Other financial assets at amortised cost	177,554	—	270,965	—	448,518

Table 2.6.B Encumbered and unencumbered assets	Encumbered assets		Unencumbered assets		31/12/2019
	Pledged as collateral	Other	Eligible as collateral	Not eligible as collateral	Total
Total	2,123,693	22,063	2,673,157	8,625,077	13,443,990
Cash and cash equivalents and balances at central banks	—	14,425	—	1,402,739	1,417,164
Due from banks	174,338	7,638	—	115,580	297,556
Financial assets at fair value through profit or loss	—	—	142,448	179,061	321,509
Financial assets at fair value through other comprehensive income	—	—	2,029,900	354,361	2,384,261
Loans and advances to the public and private sectors	1,725,446	—	299,112	6,573,336	8,597,894
Other financial assets at amortised cost	223,909	—	201,697	—	425,606

2.7 Netting of financial assets and liabilities

Tables 2.7.A and 2.7.B show the netting of financial assets and liabilities. The right to net derivatives is laid down in a master netting agreement per counterparty. For information about the netting criteria, please see “Summary of significant accounting principles”.

Table 2.7.A Netting of financial assets and liabilities 31/12/2020					
	Gross	Gross in the statement of financial position	Net in the statement of financial position	Related amounts not netted in the statement of financial position	Net
Derivatives (assets)	398,389	21,686	376,702	9,293	367,409
Derivatives (liabilities)	510,489	21,686	488,802	9,293	479,509

Table 2.7.B Netting of financial assets and liabilities 31/12/2019					
	Gross	Gross in the statement of financial position	Net in the statement of financial position	Related amounts not netted in the statement of financial position	Net
Derivatives (assets)	414,524	47,245	367,279	5,398	361,881
Derivatives (liabilities)	497,071	47,245	449,826	5,398	444,428

2.8 Loss allowance for expected credit loss

Under the IFRS 9 standard, we recognise a loss allowance for ECL on financial assets measured at amortised cost or fair value through profit or loss, as well as for financial guarantees and loan commitments. When there is no significant deterioration in credit risk since initial recognition, ECL is recognised based on a 12-month expected credit loss (Stage 1). When a significant increase in credit risk has occurred, ECL is recognised based on a lifetime ECL (Stage 2). For impaired loans (Stage 3), a lifetime ECL is recognised.

Expected loss measurement

We measure expected credit losses by using a sophisticated approach and an alternative approach. In both these approaches, ECL reflects an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and verifiable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Both approaches calculate a 12-month and a lifetime ECL for the exposures of all three stages. After the risk stage determination in the stage calculation, the relevant ECL is assigned:

- 12-month ECL for Stage 1;
- Lifetime ECL for Stage 2 and Stage 3.

The key elements of the ECL calculation are the probability of default (PD), exposure at default (EAD), loss given default (LGD), and loss given non-cure (LGN). The loss given non-cure is an estimate of the loss arising in the event of a default without cure occurring at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral.

In addition to these four key elements, we incorporate forward-looking information for the sophisticated approach. We identify macroeconomic variables and consider three macroeconomic scenarios in calculating ECL:

- A base-case scenario;
- An upside scenario;
- A downside scenario.

These scenarios are associated with different PDs, EADs and LGNs. In the process of building the PD, cure rate and LGN models for IFRS we included several macroeconomic risk drivers in the long list of risk drivers. Those determined as best-performing during modelling were selected to be part of the model. The macroeconomic scenarios are generated based on inputs from the Bureau for Economic Policy Analysis (CPB), DNB and Van Lanschot Kempen's economic experts. The reported ECL (12-month or lifetime, depending on the stage) is a weighted average of ECLs per macroeconomic scenario. The table below shows the macroeconomic variables used for the sophisticated approach.

Model	Macroeconomic variables
PD calibration	– Gross domestic product (GDP) – Volume of exports (EXP)
Cure rate	– Total investments (TI) – Private consumption (PC) – Residential real estate price (RREP) – Government consumption (GC)
LGN	– Gross domestic product (GDP) – Residential real estate price (RREP)

Significant deterioration in credit risk

To determine the deterioration in credit risk of a financial instrument since initial recognition, we compare the current risk of default at the reporting date with the risk of default on initial recognition.

To calculate the lifetime probability of default (LPD) at origination and the LPD at reporting date, we use four PD models: private individuals, small and medium-sized enterprises, corporates, and commercial real estate. If the increase in LPD exceeds the designated threshold, the exposure is transferred to Stage 2 and the lifetime ECL is calculated.

We use the following thresholds for the different PD models:

– Private investments	0.8
– Small and medium-sized enterprise	0.9
– Corporates	1.3
– Commercial real estate	0.9

A backstop is applied and financial instruments that are materially overdrawn and more than 30 days past due are transferred from Stage 1 to Stage 2. If the financial instrument is credit-impaired, it is transferred to Stage 3.

Threshold

An exposure will be regarded as "significantly deteriorated" if the result of the following formula exceeds the limit:

$$\log\left[\frac{LPD_{reporting}}{1-LPD_{reporting}}\right] - \log\left[\frac{LPD_{origination}}{1-LPD_{origination}}\right]$$

Financial instruments following sophisticated approach

For the majority of financial instruments included in the line item Loans and advances to the public and private sectors, including mortgage loans, loans, current accounts, subordinated loans and financial guarantees and loan commitments, we apply a sophisticated approach to calculate ECL. This approach uses an umbrella model that combines the following sub-models:

- Various models that provide the expected flow of exposures to the default state;
- A PD calibration model giving the flow from performing to default;
- A full prepayment model and amortisation model giving the outflow from the portfolio of an entire exposure due to prepayment or contract expiration;
- A migration model providing flows from performing rating classes to other performing rating classes;
- A cure rate model giving the flow from default to performing classes and the non-cure state;
- Various product-level models that give the expected exposure at the moment a client goes into default;
- An amortisation model showing the contractual payments during the lifetime of a product and the part of the exposure flowing out of the portfolio due to partial prepayments;
- An EAD model giving the exposure as a function of the limit or outstanding amount just before default;
- A product-level model evaluating the part of EAD that may be lost – the loss given loss (LGL) model;
- A discount factor to discount the loss from the moment of default to the moment of reporting.

Financial instruments following the alternative approach

We apply an alternative approach for cash and cash equivalents, due from banks, debt instruments at amortised cost, debt instruments at fair value through other comprehensive income, and loans and security-backed loans issued by the Belgian branch and F. van Lanschot Bankiers (Schweiz) AG. The alternative approach comprises an investments model and a foreign loan model.

Investments model

The investments model is applied to calculate the ECL for cash and cash equivalents, due from banks, debt instruments at amortised cost, and debt instruments at fair value through other comprehensive income. These financial instruments all have a low risk profile. All such exposures are assigned to Stage 1 as long as their external rating is investment grade. We use a simplified model to calculate 12-month ECL, using publicly available data for PD and LGD based on external ratings. If financial assets are downgraded below investment grade, these assets will be sold.

Foreign loans model

For the loans and securitised loans issued by the Belgian branch and F. van Lanschot Bankiers (Schweiz) AG, we have developed a foreign loans model. These two portfolios fall outside the scope of the IRB models and no requirements on historical data have been set. The foreign loan model calculates ECL as the sum of future exposure discounted at the effective interest rate at recognition for non-revolving products and the current effective interest rate for revolving products.

The loss allowance for ECL on financial instruments and the macroeconomic variables used are described in the following section.

Covid-19 impact

The International Accounting Standards Board (IASB) and banking regulators have emphasised that entities should apply appropriate judgement when determining the effects of Covid-19 on ECL during this period of enhanced economic uncertainty arising from the pandemic. This is necessary while models based on historic data cannot make a correct estimate of the increase credit risk stemming from Covid-19. Consequently, Van Lanschot Kempen has performed an additional review on the loan portfolio. We monitored and examined client payment behaviour in the light of Covid-19, looking at whether we were able to derive additional signals from our list of arrears, monthly risk checks, a check on signals of declining savings or AuM, or, for commercial real estate, a combination of a low debt service coverage ratio and high LTV to determine whether there had been a deterioration in credit quality. Based on this client-by-client analysis we have implemented a management overlay on those clients which have shown an increase in credit risk. This resulted in a PD increase by moving these clients one risk bucket higher and a stage transfer from Stage 1 to Stage 2. In addition to the client-by-client analysis, we also analysed if certain economic sectors showed a significant increase in credit risk. We concluded that this applies to the following industries: hospitality, leisure and commercial real estate (excluding residential real estate). We increased the PD of these sectors by moving these exposures one risk bucket higher and also applied a stage transfer to Stage 2. The total management overlay applied for individual clients and the economic sectors resulted in an increase in the provision of €4.9 million.

Even after incorporating this management overlay, the net impact on our credit portfolio was relatively limited. This is reflected in the comparatively small increase in expected credit loss (ECL).

Loss allowances

The table below shows the ECL loss allowances and the corresponding book values, categorised by balance sheet line item and ECL by stage, as at 31 December 2019 and 31 December 2020.

Table 2.8 Loss allowance for expected credit loss	31/12/2020		31/12/2019	
	Carrying value (excluding impairments)	Expected credit loss	Carrying value (excluding impairments)	Expected credit loss
Total	15,137,318	64,863	14,231,141	64,423
Cash and cash equivalents and balances at central banks	2,227,803	0	1,417,165	1
Due from banks	210,584	0	297,557	1
Financial assets at fair value through other comprehensive income	2,576,063	416	2,384,261	549
Loans and advances to the public and private sectors	9,342,017	64,075	9,469,589	63,768
Other financial assets at amortised cost	448,530	12	425,634	28
Financial guarantees and loan commitments	332,320	358	236,935	76

The table below shows the IFRS 9 stage and coverage ratios for loss allowances recognised in the loan portfolio, categorised by ECL stage, as at 31 December 2020 and 31 December 2019.

€ million	As at 31 December 2020				As at 31 December 2019			
	Loan portfolio	Provision	Coverage ratio	Stage ratio	Loan portfolio	Provision	Coverage ratio	Stage ratio
STAGE 1								
Mortgages	5,669	0.4	0.0%	94.0%	5,336	0.4	0.0%	90.7%
Other loans	1,211	2.8	0.2%	66.9%	1,433	2.8	0.2%	75.2%
PB loans	6,880	3.2	0.0%	87.7%	6,769	3.2	0.0%	86.9%
CB loans	30	0.1	0.3%	15.5%	165	0.3	0.2%	52.0%
Mortgages distributed by third parties	475	0.1	0.0%	99.8%	552	0.1	0.0%	99.8%
Total	**7,386**	**3.4**	**0.0%**	**86.8%**	**7,486**	**3.7**	**0.0 %**	**86.4 %**
STAGE 2								
Mortgages	311	0.9	0.3%	5.2%	489	1.4	0.3%	8.3%
Other loans	522	5.9	1.1%	28.8%	400	2.9	0.7%	21.0%
PB loans	833	6.8	0.8%	10.6%	889	4.3	0.5%	11.4%
CB loans	108	1.9	1.8%	55.1%	52	1.3	2.5%	16.4%
Mortgages distributed by third parties	—	—	0.0%	0.0%	1	—	0.0%	0.1%
Total	**941**	**8.7**	**0.9%**	**11.0%**	**942**	**5.5**	**0.6 %**	**10.9 %**
STAGE 3								
Mortgages	51	3.2	6.2%	0.8%	60	5.7	9.6%	1.0%
Other loans	77	33.7	43.9%	4.2%	73	36.0	49.3%	3.8%
PB loans	128	36.8	28.8%	1.6%	133	41.7	31.4%	1.7%
CB loans	57	15.1	26.3%	29.4%	101	12.8	12.8%	31.6%
Mortgages distributed by third parties	1	0.0	1.7%	0.2%	—	—	1.8%	0.1%
Total	**186**	**51.9**	**27.9%**	**2.2%**	**234**	**54.6**	**23.3 %**	**2.7 %**
TOTAL								
Mortgages	6,032	4.4	0.1%		5,885	7.5	0.1%	
Other loans	1,809	42.4	2.3%		1,906	41.7	2.2%	
PB loans	7,841	46.8	0.6%		7,791	49.2	0.6%	
CB loans	195	17.1	8.8%		318	14.5	4.6%	
Mortgages distributed by third parties	476	0.1	0.0%		553	0.1	0.0%	
Total	**8,512**	**64.1**	**0.8%**		**8,662**	**63.8**	**0.7 %**	

Stage 1

The model-based Stage 1 provisions on loans decreased to €3.4 million during 2020, mainly due to an increase in credit quality in the IFRS 9 models. These credit risk improvements are supported by low arrears in the loan portfolio and relatively positive macroeconomic expectations for 2021 and 2022 taking into account the effects of the lock-down, restrictions and the government support and relief measures. The macroeconomic figures published by CPB and DNB in December 2020 predict a recovery in 2021 and 2022 following the sharp recession in 2020. We assume that for some economic sectors the model outcome does not (yet) fully reflect the present credit risks, and we have applied a management overlay to exposures to adjust the credit risks in these sectors. As a result of the overlay, €362 million of exposures were transferred to Stage 2. Without this overlay, the nominal value of Stage 1 would have increased due to improvements in credit risk (mortgages transferring from Stages 2 and 3 to Stage 1).

Stage 2

The model-based Stage 2 provisions increased due to the management overlay, partly offset by positive CPB and DNB predictions as mentioned before, improved credit quality (transfers to Stage 1) and limited transfers to Stage 3. The nominal value of Stage 2 exposures would have been lower if no management overlay had been applied. The combined effect was a higher coverage ratio compared with 2019.

Stage 3

The baseline for Stage 3 provisions is determined by our Credit Risk, Restructuring & Recovery department, with limited IFRS 9 model adjustments. In 2020, Stage 3 provisions decreased marginally due to the release of the provisions for two clients, write-offs and limited new defaults. These decreases were partly offset by an increased provision for two existing exposures.

The repayment of loans by a number of defaulted Corporate Banking clients had no impact on the level of provisions (no provisions were recognised at year-end 2019), but lowered impaired exposure and thus moved the coverage ratio from 23.3% to 27.9%.

The table below shows the total loss allowances recognised per IFRS 9 stage. The total change in Stage 3 amounted to a decrease of €2.5 million, of this amount €3.2 million is related to write-offs, €7.6 million is related to additions of loss allowances and €6.9 million to releases of loss allowances in Stage 3.

IFRS 9	31/12/2020	31/12/2019	Write-offs	Change provision	Total change
Stage 1	3,926	4,305	—	-379	-379
Stage 2	8,786	5,552	—	3,234	3,234
Stage 3	52,151	54,629	-3,220	742	-2,478
Total	**64,863**	**64,486**	**-3,220**	**3,597**	**377**

Loss allowances for ECL change over time for several reasons: the credit risk of financial instruments may significantly increase or decrease, financial instruments may become credit-impaired, or new financial assets may be originated. The following tables explain the changes in the loss allowances during the year and the loss allowance recognised in the statement of income.

Changes in impairments of Financial assets at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	549	—	—	549
Additions or releases without transfer	-187	—	—	-187
New financial assets originated or purchased	55	—	—	55
Total through profit or loss	**416**	—	—	**416**
At 31 December 2020	**416**	—	—	**416**

Changes in impairments of Financial assets at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	544	—	—	544
Additions or releases without transfer	-23	—	—	-23
New financial assets originated or purchased	27	—	—	27
Total through profit or loss	**549**	—	—	**549**
At 31 December 2019	**549**	—	—	**549**

Changes in impairments of Loans and advances to the public and private sectors	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	3,664	5,546	54,558	63,768
Additions or releases without transfer	-1,746	3,559	-872	941
Transfer to Stage 1	543	-3,044	-91	-2,592
Transfer to Stage 2	-315	2,900	-520	2,065
Transfer to Stage 3	-208	-213	2,048	1,626
New financial assets originated or purchased	1,487	—	—	1,487
Total through profit or loss	**3,426**	**8,746**	**55,124**	**67,295**
Amounts written off	—	—	-3,220	-3,220
At 31 December 2020	**3,426**	**8,746**	**51,904**	**64,075**

Changes in impairments of Loans and advances to the public and private sectors	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	3,691	8,621	100,499	112,811
Additions or releases without transfer	-888	-2,905	-12,027	-15,819
Transfer to Stage 1	524	-5,141	-28	-4,644
Transfer to Stage 2	-307	6,400	-4,267	1,826
Transfer to Stage 3	-3,167	-1,429	8,287	3,691
New financial assets originated or purchased	3,812	—	—	3,812
Total through profit or loss	**3,664**	**5,546**	**92,465**	**101,675**
Amounts written off	—	—	-37,907	-37,907
At 31 December 2019	**3,664**	**5,546**	**54,558**	**63,768**

In 2020, the migration matrix for private individuals and small & medium enterprises was recalibrated. This has led to a decrease in provisioning of €0.7 million.

Changes in impairments of Financial guarantees and loan commitments	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	62	6	8	76
Additions or releases without transfer	-20	22	17	19
Transfer to Stage 1	—	-4	—	-3
Transfer to Stage 2	-1	16	—	15
Transfer to Stage 3	-405	—	247	-157
New financial assets originated or purchased	410	—	—	410
Total through profit or loss	**46**	**40**	**273**	**359**
At 31 December 2020	**46**	**40**	**273**	**359**

Changes in impairments of Financial guarantees and loan commitments	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	106	98	82	286
Additions or releases without transfer	-93	-170	-74	-337
Transfer to Stage 1	40	-372	—	-332
Transfer to Stage 2	-8	450	—	442
New financial assets originated or purchased	16	—	—	16
Total through profit or loss	**62**	**6**	**8**	**76**
At 31 December 2019	**62**	**6**	**8**	**76**

All financial instruments included in the line items Cash and cash equivalents, Due from banks, and Debt instruments at amortised cost are classified in Stage 1, and no transfers have taken place.

Credit quality

Van Lanschot Kempen allocates each exposure to a credit risk grade based on a variety of data that are determined to be predictive of the risk of default. Credit risk grades are defined using qualitative (applying experienced credit judgement) and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

We use internally developed rating pools for the line items Loans and advances to the public and private sectors and Financial guarantees and loan commitments.

Credit grade	Description
Investment grade	Non-credit-impaired financial assets that are not placed under the supervision of the Credit Restructuring & Recovery department, internal rating pool 1
Standard monitoring	Non-credit-impaired financial assets that are not placed under the supervision of the Credit Restructuring & Recovery department, internal rating pools 2 to 4
Special monitoring	Non-credit-impaired financial assets that are placed under the supervision of the Credit Restructuring & Recovery department, internal rating pools 1 to 4
Default	Credit-impaired financial assets

All financial instruments under the line items Cash and cash equivalents, Due from banks, Debt instruments at amortised cost and Debt instruments at fair value through other comprehensive income are investment grade, which means their external rating is at least BBB-. We use external ratings for these line items.

The credit quality of the line items Loans and advances to the public and private sectors and Financial guarantees and loan commitments is shown in the tables below. Assessment of credit quality is based on our internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

Credit quality of Loans and advances to the public and private sectors 31/12/2020	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade (AAA to BBB-)	8,106,648	—	—	8,106,648
Standard monitoring (BB+ to B-)	—	962,287	—	962,287
Special monitoring (CCC to C)	—	80,306	—	80,306
Default (DDD to D)	—	—	192,776	192,776
Gross carrying amount	**8,106,648**	**1,042,593**	**192,776**	**9,342,017**
Loss allowance	3,426	8,746	51,904	64,075
Carrying amount	**8,103,222**	**1,033,847**	**140,873**	**9,277,942**

Credit quality of Loans and advances to the public and private sectors 31/12/2019	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade (AAA to BBB-)	8,205,162	—	—	8,205,162
Standard monitoring (BB+ to B-)	—	921,443	—	921,443
Special monitoring (CCC to C)	—	100,651	—	100,651
Default (DDD to D)	—	—	242,334	242,334
Gross carrying amount	**8,205,162**	**1,022,094**	**242,334**	**9,469,589**
Loss allowance	3,664	5,546	54,558	63,768
Carrying amount	**8,201,498**	**1,016,548**	**187,776**	**9,405,821**

Credit quality of Financial guarantees and loan commitments 31/12/2020	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade (AAA to BBB-)	318,232	—	—	318,232
Standard monitoring (BB+ to B-)	—	10,223	—	10,223
Special monitoring (CCC to C)	—	550	—	550
Default (DDD to D)	—	—	3,315	3,315
Gross carrying amount	**318,232**	**10,773**	**3,315**	**332,320**
Loss allowance	46	40	273	358
Carrying amount	**318,186**	**10,733**	**3,042**	**331,962**

Credit quality of Financial guarantees and loan commitments 31/12/2019	Stage 1	Stage 2	Stage 3	Total
Credit grade				
Investment grade (AAA to BBB-)	232,573	—	—	232,573
Standard monitoring (BB+ to B-)	—	3,673	—	3,673
Special monitoring (CCC to C)	—	320	—	320
Default (DDD to D)	—	—	369	369
Gross carrying amount	**232,573**	**3,993**	**369**	**236,935**
Loss allowance	62	6	8	76
Carrying amount	**232,511**	**3,987**	**361**	**236,859**

Macroeconomic variables

We incorporate forward-looking information for the sophisticated approach. We use macroeconomic variables and consider three macroeconomic scenarios in calculating ECL: a base scenario, an upside scenario, and a downside scenario. The weightings of the scenarios were 25% for both the positive and negative scenarios and 50% for the neutral scenario as at 31 December 2019 and 31 December 2020. The table below shows the macroeconomic variables used for the sophisticated approach as at 31 December 2019 and 31 December 2020.

Macroeconomic variables	As at 31 December 2020			As at 31 December 2019		
	2020	2021	2022	2019	2020	2021
Gross domestic product						
Base-case scenario	-3.92%	3.28%	3.28%	1.99%	1.69%	1.39%
Upside scenario	-2.36%	4.84%	4.84%	3.41%	3.11%	2.81%
Downside scenario	-6.98%	0.22%	0.22%	-0.58%	-0.88%	-1.18%
Volume of exports						
Base-case scenario	-3.25%	5.95%	4.45%	2.82%	2.72%	2.32%
Upside scenario	-0.17%	9.03%	7.53%	4.85%	4.75%	4.35%
Downside scenario	-9.29%	-0.09%	-1.59%	-0.86%	-0.96%	-1.36%
Total investments						
Base-case scenario	-5.97%	5.23%	5.23%	6.44%	2.94%	2.94%
Upside scenario	1.53%	12.73%	12.73%	15.29%	11.79%	11.79%
Downside scenario	-20.70%	-9.50%	-9.50%	-9.66%	-13.16%	-13.16%
Private consumption						
Base-case scenario	-6.75%	5.15%	4.85%	1.62%	2.22%	2.62%
Upside scenario	-5.30%	6.60%	6.30%	2.69%	3.29%	3.69%
Downside scenario	-9.59%	2.31%	2.01%	-0.31%	0.29%	0.69%
Residential real estate price						
Base-case scenario	7.42%	2.32%	1.42%	7.23%	3.23%	2.53%
Upside scenario	8.74%	3.64%	2.74%	10.29%	6.29%	5.59%
Downside scenario	4.84%	-0.26%	-1.16%	1.68%	-2.32%	-3.02%
Government consumption						
Base-case scenario	-0.45%	4.15%	3.75%	1.90%	2.70%	1.60%
Upside scenario	-0.23%	4.37%	3.97%	1.89%	2.69%	1.59%
Downside scenario	-0.88%	3.72%	3.32%	1.91%	2.71%	1.61%

For the portfolios that fall under the scope of IFRS9, Van Lanschot Kempen performs a scenario analysis to calculate the sensitivity of the ECL to macroeconomic variables. The main economic drivers of the ECL are gross domestic product (GDP), volume of exports (EXP), total investments (TI), private consumption (PC), residential real estate price (RREP) and government consumption (GC). In the table below, ECLs are shown per stage and per scenario.

Sensitivity analysis as at 31 December 2020	Stage 1	Stage 2	Stage 3	Total	Change
Original situation	3,926	8,786	52,151	64,863	
Base-case scenario	3,657	8,788	51,810	64,255	-608
Upside scenario	2,983	6,900	50,647	60,530	-4,333
Downside scenario	5,376	10,669	53,472	69,517	4,654

Collateral credit-impaired financial instruments

In general, collateral can be used for all current and future amounts owed by a debtor. In addition to residential mortgage collateral and guarantees provided by governments and credit institutions, commercial real estate, financial collateral, receivables, stocks and inventories may serve as collateral. The majority of collateral is not directly linked to a specific financing arrangement. For credit-impaired financial assets, the Credit Restructuring & Recovery department determines the liquidation or recovery value of the available collateral, based on the most recent valuation reports. The table below shows the collateral for financial assets considered credit-impaired.

Collateral for credit-impaired assets as at 31 December 2020	Gross exposure	Impairment	Carrying amount	Value of collateral
Loans and advances to public and private sectors	192,776	51,904	140,872	268,669
Financial guarantees and loan commitments	3,315	273	3,042	5,032

No impairment is recognised for credit-impaired financial instruments if the collateral is sufficient to cover the outstanding obligation. The total carrying amount of credit-impaired financial instruments for which there is no impairment recognised is €73.1 million (2019: €106.0 million).

3. Market risk

Market risk is the risk of loss as a result of changes in market variables, including interest rates, exchange rates and share prices. Other variables not directly observable in the market, such as volatility, long-term dividend expectations and correlations, can also influence the value of financial instruments. The market risk to which we are exposed can be divided into two components: the market risk to which Van Lanschot Treasury (part of the Other activities operating segment) is exposed in respect of its necessary market maintenance, its structured products activities and services to clients. Market risk stemming from trading activities in institutional securities is concentrated at the Merchant Banking operating segment.

3.1 Trading activities in securities

Our trading activities in securities, mainly comprising equities and equity derivatives, are concentrated at the Merchant Banking operating segment. A governance structure has been created to facilitate effective risk management. The risks are managed using value at risk (VaR) limits as well as gross and net limits. Daily stress tests provide information about changes in portfolio values in extreme market conditions and complement the VaR calculation. The VaR for the trading portfolios is computed daily, based on a one-day time horizon with a 97.5% confidence level on one year of historical data. The continued validity of the assumptions underlying the VaR computation is regularly tested using back-testing. Other risks relating to derivatives, which are mainly embedded in our structured notes, are expressed in "the Greeks" (e.g. Delta, Vega, Rho) and are separately monitored on a daily basis or more frequently if necessary. Separate limits are in place for all risk drivers. VaR and other relevant risk parameters are reported to senior management (including one Executive Board member) on a daily basis. The embedded derivatives sold to our clients are hedged by Van Lanschot Kempen. From the second quarter of 2020, sold derivatives have been hedged back-to-back, whereas previously they were macro-hedged per risk driver. This means that the complex derivatives sold to clients are broken down into individual risk drivers (i.e. delta exposure on S&P500 or EurostoXX 50). The total macro exposure per risk driver is calculated and this is hedged by using relatively simple (mostly listed) options. All risk drivers have individual limits and are (intra) daily monitored by us, although some basis risks remain. Moreover, macro-hedging assumes that if the underlying risk drivers (equity, interest rate and currency markets) change, the hedges can be adjusted in a timely manner to keep the portfolio balanced. The exceptional volatility in March led to unforeseen illiquidity in the financial markets. It was thus not always possible for us to adjust the hedges in time and illiquidity in certain hedge instruments led to a significant increase in hedging costs. Besides the exceptional volatility, the changes in dividend yield and lending spread were also very steep. Lastly, market risks are also generated by investments in Kempen's management book (notional €115.9 million; 2019: €85.6 million). These investments provide seed capital for newly launched Kempen Capital Management funds and allow us to co-invest with our clients.

Table 3.1 Trading activities VaR	2020		2019	
	Derivatives-related	Share-related	Derivatives-related	Share-related
At 31 December	431	156	219	158
Highest VaR	1,515	388	582	475
Lowest VaR	141	84	19	113
Average VaR	434	192	359	238

3.2 Van Lanschot Kempen market risk

To a limited degree, Van Lanschot Kempen is also exposed to market risks. These risks stem from its treasury activities (mainly foreign exchange exposure, comprising client transactions and own positions). The Treasury department is part of the Other activities operating segment. The majority of transactions and positions in the statement of financial position are denominated in euros. Exchange rate risk is managed within the required limits and an authorisation structure applies. Foreign exchange positions are shown in Table 3.2.B and include all cash, forward and option positions of the entities in scope of consolidation.

Table 3.2.A Exchange rate risk of treasury trading activities (total gross nominal foreign exchange position translated to x €1,000)	2020	2019
At 31 December	293	546
Highest position	791	1,970
Lowest position	-61	83
Average position	242	462

Table 3.2.B Foreign exchange positions (€1,000)	2020	2019
Total	915	583
Australian dollar	1,037	-8
US dollar	58	344
Pound sterling	48	7
New Zealand dollar	7	50
Singapore dollar	1	57
Norwegian krone	-68	-12
Canadian dollar	-74	30
Swiss franc	-221	-180
Other	126	295

The capital requirement for exchange rate risk was €0.11 million at year-end 2020 (2019: €0.06 million). This amounts to 6% of the net open positions in each currency (2019: 8%).

In addition, some market risk exposure results from investments made in Van Lanschot's management book. The current exposure in this portfolio is €27.1 million (2019: €32.0 million). Credit spread risk in the banking book (CSRBB) is the risk of volatility in earnings and/or equity, caused by spread movements in the swap curve, for banking book instruments that are classified at fair value.

For Van Lanschot Kempen, CSRBB is mainly concentrated in the investment and liquidity portfolios. CSRBB limits have been imposed on these portfolios, which are monitored by ALCO on a monthly basis.

3.3 Market risk: interest rate and share-related instruments

We use the maturity method to calculate the capital adequacy requirement in respect of the general risk on debt instruments in the trading portfolio. Share-related instruments are share instruments included under Financial assets from trading activities (see Table 3.3).

Table 3.3 Market risk	31/12/2020		31/12/2019	
	Risk weighting	Capital adequacy requirement	Risk weighting	Capital adequacy requirement
Total	**241,258**	**19,301**	**188,431**	**15,075**
Interest-related instruments	110,333	8,827	139,633	11,171
Share-related instruments	130,462	10,437	48,015	3,841
Currency-related instruments	463	37	783	63

Weighting and requirements

We use the standardised approach for all types of market risk. The market risk of interest rate derivatives is included under Interest rate-related instruments; the market risk of share-related derivatives is included under Share-related instruments; and the market risk of currency derivatives is included under Currency-related instruments.

4. Operational risk

Operational risks are potential losses that result from inadequate or failed internal processes, systems, inadequate or incorrect human actions, external events and fraud. Within Van Lanschot Kempen, operational losses are classified using operational loss event types as set out in the Basel framework. Managing operational risks is the responsibility of line management (the first line of defence); this also includes the responsibility for information security and business continuity.

We have created a range of instruments for identifying, evaluating, monitoring and managing operational risks to support the bank's management in their roles as risk owners.

– **Operational risk appetite**: This appetite defines the level of – quantitative and qualitative – operational risk we are willing to accept. Exceeding this appetite requires the attention of the Executive Board and will lead to additional mitigation measures as necessary.
– **Risk identification and assessment** via risk and control self-assessments and scenario analysis:
    - **Risk and control self-assessment** is a tool that allows line managers to systematically identify and assess risks so that steps can be taken to manage any risks outside the risk appetite. Risk and control self-assessments are carried out, at tactical (department) level, on the most important value chains of the organisation and on our most important programmes and projects. These assessments are re-performed periodically in order to reassess and update the existing operational risk level.
    - **Scenario analyses** are used to assess low frequency but high-impact risks. The results of these analyses are used to provide insight into the adequacy of the Pillar 1 capital requirement vis-à-vis the operational risk profile.
– **Risk response**: Management is responsible for deciding how to treat risk, and whether to mitigate, accept or transfer (insure) it:
    - **Action tracking**: Action tracking is used to track progress made in the delivery of actions to mitigate identified risks, arising from risk and control self-assessments, failing controls, analysis of incidents or

complaints, findings by Internal Audit and external regulators, and other relevant events.
  - **Control effectiveness monitoring**: To ensure that the most important risks (key risks) are mitigated sufficiently, key controls have been defined; these are assessed on a regular basis to determine their effectiveness.
  - **Risk insurance**: To protect the organisation against major operational risk-related losses, we have taken out insurance policies that cover claims and losses resulting from the services offered. Broadly speaking, these policies are a combination of fraud and professional liability insurance, directors' liability insurance and various other liability and accident insurance policies.
  - **Risk acceptance**: If a risk is assessed to be outside of the risk appetite and it is not possible or economically viable to lower the risk, the risk can be accepted at Executive Board level.
- **Risk monitoring**:
  - **Incident management**: Risks that materialise through an incident are registered in our database via the incident management process. For severe incidents, root cause analyses are carried out. The incidents database allows the systematic recording and analysis of losses resulting from operational risks. It contains information about losses incurred as a result of operational risks in prior years and forms the foundation of the operational risk management measurement system for Van Lanschot and Kempen. A total of 140 incidents entailing a loss of more than €1,000 were logged in the database in 2020 (2019: 112 incidents).
  - **Risk measurement**: This is based on key risk indicators (early warnings), which highlight trends and/or provide prospective information about operational risks.
  - **Risk meetings**: Periodic meetings with risk owners are held to monitor the development of the risk profile in relation to the risk appetite.

Information security
Information security contributes to the protection of client and corporate information. Both automated and manual information processing are carried out. Taking the right measures on the basis of targeted risk analyses of business and IT processes ensures that both our client data and corporate data are adequately protected.

Business continuity management
Business continuity has increased in significance due to the global Covid-19 pandemic. Within Van Lanschot Kempen this is managed using a two-tier model with a crisis management team (CMT) at senior level and a crisis support team which is responsible for the execution of CMT decisions. The goal is to ensure the health of our employees and provide our services at the same level as before the pandemic. As part of this, the vast majority of our people are working from home. To keep our service levels up to par, business-critical teams are still working on our premises. Business continuity analyses are carried out as part of our business continuity management process in order to gain insight into critical processes and the resources needed to ensure continuity of service and address potential threats. Embedding business continuity management in the organisation is essential to give the bank sufficient resilience against the impact of an incident or disaster. Business continuity thus has universal scope within the bank; it comprises policies, standards and procedures aimed at safeguarding critical processes or enabling a restart within a specified timeframe in the event of a disaster. The objective is to keep any financial, reputational and/or other material damage to a minimum, both for us and for our clients. Procedures are tested on a regular basis, with tests of fallback procedures and crisis governance carried out every year.

5. Settlement risk
We are required to hold capital for financial transactions that are not settled within five days of the agreed deadline, if the difference between the agreed settlement price and the price at the reporting date could lead to a loss.

At year-end 2020, financial transactions totalling €25 million (2019: €10 million) had to be reported in the context of settlement risk.

6. CVA risk
Under the CRR, account must also be taken of the risk-weighted assets in relation to credit valuation adjustment (CVA), which must be adequate to cover the risk of a deterioration in the creditworthiness of the counterparty in an OTC derivatives transaction. This CVA capital adequacy requirement is additional to requirements applying to the risk-weighted assets in relation to the "regular" default risk. We use the SA method to calculate the capital requirement for CVA.

7. Strategic risk
Strategic risk can be defined as the threat to our results or equity resulting from failure to respond (adequately) to changes in environmental factors, or from incorrect strategic decisions. Environmental factors include the actions of competitors, clients, potential market entrants and public authorities. Strategic risk is not inherently undesirable, since there can also be an upside to taking on these risks. We take a forward-looking approach to strategic risk, keep a close eye on external developments and set our strategic priorities accordingly. Our strategy puts a strong focus on advanced data analytics, among other areas. Existing risk management practices and measures are assessed regularly to ensure that possible new risks that may arise from changes in strategic direction or in the business environment are captured adequately.

8. Interest rate risk
Interest rate risk in the banking book (IRRBB) is the exposure to adverse market interest rate movements, arising from banking book activities. Adverse interest rate movements may impact a bank's current and/or future earnings, capital and market value. Responsibility for IRRBB management has been delegated by the Executive Board to ALCO. Interest rate risks in non-banking book items are managed as part of market risk.

Our main source of interest rate risk is the maturity mismatch between assets and liabilities. In general, assets have longer interest rate maturities than liabilities, contractually as well as behaviourally. We model client behaviour with respect to the prepayment patterns of mortgages and loans and the interest rate risk profiles of savings and current accounts. Client behaviour risk is another important source of interest rate risk, as actually observed client behaviour may deviate from assumptions. Differences between assumed and actually observed client behaviour could have a material adverse impact on future results.

We pursue a prudent interest rate risk policy that aims to mitigate the effect of prospective interest rate movements which could affect future net interest income, while balancing the costs of hedging activities on current earnings. We manage interest rate risk from both a long- and a short-term perspective. The short-term interest rate risk is addressed mainly from a net interest income perspective (delta net interest income, or ΔNII). This involves an analysis of the interest income under a number of market interest rate scenarios, relative to the baseline scenario in which interest rates are expected to develop based on forward rates.

In 2020, all ΔNII scenarios remained within risk appetite limits. By year-end 2020, the most adverse scenario was a non-parallel scenario in which short-term market rates fall over the next twelve months, with us being unable to reduce savings rates sufficiently. The ΔNII for this scenario was -6.5% at the end of 2020 (end of 2019: -7.6%). Table 8.A shows the interest rate risk metrics.

Table 8.A Interest rate risk metrics	31/12/2020	31/12/2019
Delta net interest income (ΔNII)	-6.5%	-7.6%
Delta economic value of equity (ΔEVE)	-1.4%	-6.9%

We address long-term interest rate risk by means of the economic value approach, which looks at how movements in interest rates impact the value of the bank's assets and liabilities. The rule-of-thumb metric for economic value analysis is duration of equity, which indicates the net impact of parallel interest rate changes on economic value, assuming a linear relationship between these parameters.

In the current interest rate environment, however, the relationship between economic value and interest rate changes is less linear due to, among other factors, "floors" in interest rates on various balance sheet items. For this reason, we focus not only on duration and delta NII, but also on the "true" economic value changes under various scenarios, in which all interest rate cash flows are re-plotted and revalued at shocked interest rate curves. In calculating economic values, we use coupon rates that are "stripped" from margins. In 2020, all delta economic value of equity (ΔEVE) scenarios remained within risk appetite limits. By year-end 2020, the most adverse scenario was an instant upwards shock of 200 basis points. The ΔEVE for this scenario was -1.4% at the end of 2020 (end of 2019: -6.9%).

We aim to neutralise the impact of differences in accounting classifications on interest rate steering. Hence, we mostly hedge the interest rate risk in fair value items in the banking book on a back-to-back basis, by means of interest rate swaps. By doing so, we make sure that Result on financial transactions – to the extent that it arises from banking book items – is only impacted by market changes in credit spreads over the swap curve and that there is no net impact from changes in the swap curve itself. For this reason, the ΔNII scenarios we use to assess our interest rate risk profile do not affect the Result on financial transactions. We use hedge accounting to offset changes in the market value of derivatives that are used for hedging portfolios classified at amortised cost.

9. Liquidity risk

The main objective of our liquidity risk management is to ensure that we are able to maintain or generate sufficient cash resources to meet our payment obligations in full as they come due, on acceptable terms. One of the key elements of our approach towards liquidity risk management is to maintain stakeholder confidence in the bank's solidity at all times.

The main source of liquidity risk that we are exposed to relates to the share of client deposits in our funding base. Although client deposits have proven to be relatively price-inelastic and sticky over time, the withdrawable nature of such deposits poses potential outflow risks, especially for those deposits not covered by the deposit guarantee scheme (DGS).

The roll-over risk with respect to maturing capital market funding is less substantial for us. We use capital market funding as a diversifying funding source from retail deposits, but have a limited number of deals outstanding with no concentration in tenors.

To manage liquidity risks, we use a forward-looking liquidity risk framework that enables the comprehensive measurement, evaluation and calibration of indicators related to liquidity risk. The framework consists of the risk appetite statement, the liquidity buffer, monitoring and reporting, forecasting, funding planning and contingency planning.

Limits for liquidity risk are revised on an annual basis as part of the risk appetite statement. Limits set include, but are not limited to, levels of the liquidity coverage ratio, the net stable funding ratio and stress test survival periods, which are reported on a monthly basis to ALCO. The liquidity buffer is the main defensive element against liquidity risk, and the quality and size of the buffer are monitored frequently, along with in- and outflows in the client deposit base. Finally, each year we outline our capital and funding planning for a three-year horizon, both under regular circumstances in the capital and funding plan, and under potential future stress or emergency situations in the liquidity contingency plan, complemented by the recovery plan.

Part of our liquidity and funding planning is scenario analysis, of which stress testing is a key element. By means of stress testing, we assess our resilience to a variety of adverse liquidity events – Van Lanschot Kempen-specific events, system-wide events, and a combination of these two.

9.1 Contractual maturity

Tables 9.1.A and 9.1.B show the assets and liabilities based on their remaining contractual terms to maturity at the reporting date, without taking behavioural aspects into account. These amounts correspond with the amounts included in the consolidated statement of financial position. Items with no maturity, such as equity instruments, assets and liabilities classified as held for sale, and provisions are presented separately.

Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included.

As savings and current accounts do not have fixed terms, the balances of non-maturity instruments are presented within the withdrawable on demand category.

Due from banks and amounts due to banks include collateral delivered and received related to derivative transactions. Allocation of this collateral over the maturity buckets is conducted in accordance with the maturity classification of the derivative contracts.

Table 9.1.A Contractual maturity of assets and liabilities at 31/12/2020

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Subtotal	Maturity not applicable	Total
Assets								
Cash and cash equivalents and balances at central banks	2,227,803	—	—	—	—	**2,227,803**	—	2,227,803
Financial assets held for trading	—	—	—	—	—	**—**	61,678	61,678
Due from banks	32,133	820	10,742	131,713	35,176	**210,584**	—	210,584
Derivatives	—	32,940	77,422	139,976	126,364	**376,702**	—	376,702
Financial assets at fair value through profit or loss	117,567	3,854	50,190	71,219	—	**242,830**	48,157	290,987
through other comprehensive income	—	101,441	394,267	2,036,817	43,538	**2,576,063**	—	2,576,063
Loans and advances to the public and private sectors	610,176	57,362	122,762	524,037	7,133,990	**8,448,326**	—	8,448,326
Other financial assets at amortised cost	—	105,073	80,875	262,570	—	**448,518**	—	448,518
Investments in associates using the equity method	—	—	—	—	—	**—**	72,202	72,202
Other assets[1]	—	130,759	37,759	39,375	33,687	**241,580**	194,584	436,163
Total assets	**2,987,678**	**432,249**	**774,017**	**3,205,707**	**7,372,755**	**14,772,406**	**376,621**	**15,149,026**
Total assets excluding derivatives	**2,987,678**	**399,309**	**696,595**	**3,065,731**	**7,246,391**	**14,395,704**	**376,621**	**14,772,325**
Equity and liabilities								
Financial liabilities from trading activities	—	26	—	—	—	**26**	—	26
Due to banks	32,613	8,100	1,127	453,039	6,250	**501,129**	—	501,129
Public and private sector liabilities	9,775,835	34,391	57,991	152,320	120,571	**10,141,109**	—	10,141,109
Derivatives	—	29,771	84,375	127,744	246,912	**488,802**	—	488,802
Financial liabilities at fair value through profit or loss	—	11,833	65,509	582,738	80,789	**740,869**	—	740,869
Issued debt securities	—	—	16,263	1,453,634	—	**1,469,897**	—	1,469,897
Lease liabilities	—	—	836	16,344	35,123	**52,303**	—	52,303
Other liabilities[2]	—	53,040	108,690	—	—	**161,730**	64,586	226,316
Subordinated loans	—	—	—	16,909	155,570	**172,479**	—	172,479
Equity	—	—	—	—	—	**—**	1,356,096	1,356,096
Total equity and liabilities	**9,808,448**	**137,161**	**334,791**	**2,802,729**	**645,216**	**13,728,344**	**1,420,682**	**15,149,026**
Total equity and liabilities excluding derivatives	**9,808,448**	**107,390**	**250,416**	**2,674,985**	**398,303**	**13,239,542**	**1,420,682**	**14,660,224**
On-balance gap	**-6,820,770**	**295,088**	**439,226**	**402,978**	**6,727,539**	**1,044,062**	**-1,044,061**	**—**

[1] Includes Property and equipment, Goodwill and other intangible assets, Tax assets and Other assets as presented in the consolidated statement of financial position.
[2] Includes Provision, Tax liabilities and Other liabilities as presented in the consolidated statement of financial position.

Table 9.1.B Contractual maturity of assets and liabilities at 31/12/2019	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Subtotal	Maturity not applicable	Total
Assets								
Cash and cash equivalents and balances at central banks	1,417,164	—	—	—	—	**1,417,164**	—	1,417,164
Financial assets held for trading	—	—	—	—	—	—	49,263	49,263
Due from banks	75,593	28,194	128	141,180	52,461	**297,556**	—	297,556
Derivatives	—	30,869	103,536	138,279	94,595	**367,279**	—	367,279
Financial assets at fair value through profit or loss	87,385	52,648	38,228	98,620	—	**276,882**	44,627	321,509
Financial assets at fair value through other comprehensive income	—	25,258	261,804	1,863,425	233,775	**2,384,261**	—	2,384,261
Loans and advances to the public and private sectors	760,454	83,625	126,072	368,830	7,258,913	**8,597,894**	—	8,597,894
Other financial assets at amortised cost	—	25,001	25,014	375,591	—	**425,606**	—	425,606
Investments in associates using the equity method	—	—	—	—	—	—	52,452	52,452
Other assets[1]	—	112,621	31,841	17,573	—	**162,035**	243,832	405,867
Total assets	**2,340,597**	**358,217**	**586,624**	**3,003,497**	**7,639,744**	**13,928,678**	**390,174**	**14,318,853**
Total assets excluding derivatives	**2,340,597**	**327,348**	**483,088**	**2,865,218**	**7,545,149**	**13,561,399**	**390,174**	**13,951,573**
Equity and liabilities								
Financial liabilities from trading activities	—	2,150	—	—	—	**2,150**	—	2,150
Due to banks	56,377	2,270	5,960	24,048	53,060	**141,715**	—	141,715
Public and private sector liabilities	9,133,688	57,976	53,532	192,568	107,331	**9,545,095**	—	9,545,095
Derivatives	—	35,496	83,220	132,394	198,715	**449,826**	—	449,826
Financial liabilities at fair value through profit or loss	—	50,318	114,212	608,613	134,459	**907,602**	—	907,602
Issued debt securities	—	—	—	1,033,154	511,955	**1,545,109**	—	1,545,109
Lease liabilities	—	—	945	19,701	39,853	**60,499**	—	60,499
Other liabilities[2]	—	48,104	79,495	—	—	**127,600**	49,597	177,196
Subordinated loans	—	—	—	17,274	155,815	**173,090**	—	173,090
Equity	—	—	—	—	—	—	1,316,570	1,316,570
Total equity and liabilities	**9,190,065**	**196,315**	**337,365**	**2,027,753**	**1,201,188**	**12,952,685**	**1,366,167**	**14,318,853**
Total equity and liabilities excluding derivatives	**9,190,065**	**160,819**	**254,145**	**1,895,359**	**1,002,473**	**12,502,859**	**1,366,167**	**13,869,027**
On-balance gap	**-6,849,469**	**161,902**	**249,259**	**975,744**	**6,438,556**	**975,994**	**-975,994**	**—**

The assets comprise many long-term mortgage loans while the liabilities are made up of many short-term deposits. This results in a gap between the "Withdrawable on demand" and "More than five years" columns. Potential liquidity risks are addressed by means of monthly stress tests – discussed monthly in ALCO – that test the bank's resilience to a variety of adverse liquidity events, and taking behavioural aspects into account.

For each transaction we have guaranteed, the maximum guaranteed amount is included in the relevant term bucket under which the bank first has the right to terminate the transaction. For each obligation arising from an irrevocable commitment, the committed amount is classified in the relevant term bucket under which we first have the right to withdraw the commitment.

[1] Includes Property and equipment, Goodwill and other intangible assets, Tax assets and Other assets as presented in the consolidated statement of financial position.
[2] Includes Provision, Tax liabilities and Other liabilities as presented in the consolidated statement of financial position.

9.2 Contractual maturities of undiscounted cash flow of financial liabilities

Tables 9.2.A and 9.2.B show liabilities by maturity based on contractual, undiscounted cash flows and including related future cash flows, such as interest payments. Repayments which are subject to notice are treated as if notice were to be given immediately. However, we expect that many clients will not request repayment at the earliest possible date, and the tables below do not reflect the expected cash flows as indicated by our deposit retention history.

Table 9.2.A Contractual maturities of undiscounted cash flow of liabilities at 31/12/2020

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial liabilities from trading activities	—	26	—	—	—	26
Due to banks	9,316	31,397	1,127	453,039	6,250	501,129
Public and private sector liabilities	9,804,403	34,603	59,786	154,580	159,540	10,212,912
Derivatives	149,545	30,472	35,769	121,669	151,347	488,802
Financial liabilities at fair value through profit or loss	—	12,094	65,794	585,177	79,262	742,327
Issued debt securities	—	5,575	18,899	936,053	508,750	1,469,277
Of which covered bond	—	5,575	1,792	936,053	508,750	1,452,170
Of which floating-rate notes	—	—	17,107	—	—	17,107
Subordinated loans	—	956	8,046	43,145	207,186	259,334
Total undiscounted liabilities	**9,963,264**	**115,123**	**189,421**	**2,293,663**	**1,112,335**	**13,673,806**

Table 9.2.B Contractual maturities of undiscounted cash flow of liabilities at 31/12/2019

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial liabilities from trading activities	—	2,150	—	—	—	2,150
Due to banks	41,530	17,117	5,960	24,048	53,060	141,715
Public and private sector liabilities	9,172,136	56,435	65,175	193,466	125,260	9,612,472
Derivatives	224,376	14,414	24,836	94,385	91,815	449,826
Financial liabilities at fair value through profit or loss	—	51,454	114,536	613,173	137,821	916,984
Issued debt securities	—	5,750	2,797	1,040,859	513,125	1,562,531
Of which covered bond	—	5,750	1,864	1,022,403	513,125	1,543,142
Of which floating-rate notes	—	—	933	18,456	—	19,389
Subordinated loans	—	956	8,576	53,167	222,298	284,997
Total undiscounted liabilities	**9,438,041**	**148,276**	**221,881**	**2,019,097**	**1,143,380**	**12,970,675**

10. Securitisation risk

We treat securitisation as an asset class in our investment portfolio. We are not party to any synthetic securitisations and have no trading position in securitisation transactions.

Funding

We do not structure securitisations for other entities and have no outstanding securitisations in which we act as a seller and/or servicer. We use retained covered bonds, issued out of our Conditional Pass-Through Covered Bond Programme 2, as a contingent liquidity buffer.

Investments

Part of our liquidity investment portfolio is invested in RMBS. We invest only in the most senior and AAA tranches of RMBS transactions. If they comply with the simple, transparent and standardised (STS) requirements, these securitisations qualify as high-quality liquid assets in an assessment of the liquidity coverage ratio. All tranches are ECB eligible, meaning that they have at least two ratings from an external credit assessment institution (ECAI).

As the investments are part of the liquidity buffer, they can be used as collateral, in repo transactions, or sold if necessary. The RMBS portfolio represents a small share of the total investment portfolio.

Risk exposures within the investment portfolio

The credit risks of the investments are not hedged. Our investment portfolio as a whole is monitored by the Treasury and Credit Risk Approval departments on a daily basis. The portfolio is monitored on nominal limits as well as on credit risk limits.

Management

Interest rate risk is limited, as RMBS are typically floating-rate notes. Interest rate risk is monitored at balance sheet level and includes the investment portfolio. We used the SEC-ERBA methodology to calculate the total risk exposure of RMBS investments.

11. Climate change risk

Climate change risk reflects the (physical and/or transitional) impacts of a change in the climate on Van Lanschot Kempen's financial position and/or reputation. The risk of climate change on our activities is periodically assessed. The climate change risk to our private banking activities (the most important lending portfolio here being the mortgage portfolio) is assessed to be limited and no separate lending restrictions are made. In asset management, climate change risks are taken into account when investments are made or investment managers are selected.

12. Compliance risk

As a specialist wealth manager, it is Van Lanschot Kempen's purpose to preserve and create wealth, in a sustainable way, for our clients and the societies we serve. When operating in financial markets, it is crucially important that we conduct our business activities in accordance with the expectations of our clients, shareholder, employees and competent authorities, but also that we follow high ethical standards, in alignment with our values and risk appetite, and within the boundaries of applicable laws, rules, regulations, internal policies and procedures and industry standards relevant to Van Lanschot Kempen. This increases the long-term sustainability of our business activities and helps us to fulfil our purpose.

We maintain a permanent, independent and effective compliance function to identify, assess, monitor and report on compliance risk, i.e. the risk of failure by Van Lanschot Kempen to comply with regulations as applicable to Van Lanschot Kempen and/or of undertaking or failing to undertake those activities prohibited or mandated under applicable regulations. Additionally, we have put in place policies and procedures and systems and controls necessary to manage compliance risk.

The Compliance department is headed by the Chief Compliance Officer, who reports directly to the Chairman of the Statutory Board. The Compliance department fulfils its responsibilities by providing advice and assistance to Van Lanschot Kempen committees and staff, and by continuously monitoring adherence to regulations within Van Lanschot Kempen's day-to-day operations.

Compliance risk has remained a focal point for Van Lanschot Kempen in 2020, both from an internal and an external perspective. Externally, 2020 has again brought significant changes to our regulatory landscape. Examples are the ongoing Brexit and Libor cessation processes, the implementation and development of the 5th and 6th Anti-Money Laundering (AML) Directives and the EU's new sustainable action plan, implemented through regulatory provisions such as the Sustainable Financial Disclosure Regulation (SFDR) and the revised Benchmarks Regulation (BMR).

We are proactively responding to these external regulatory developments through the constitution of dedicated implementation working groups participated in by the Compliance team at Van Lanschot Kempen, as well as through other control functions within the firm. Special efforts have been dedicated to the implementation of various sustainability-related regulatory developments, and we have been working extensively to adapt policies, procedures and controls to the new regulatory requirements as well as to the demands and expectations of clients and investors.

In addition to these external regulatory developments, we have devoted, and continue to devote, substantial resources to the strengthening of our compliance framework and our Compliance team. In this context, the Executive Board has established a group-wide project to enhance our anti-financial crime framework and its policies, procedures and controls. We are currently well positioned to implement the enhancements identified by this overarching project. Finally, in 2019 and 2020 specific parts of Kempen & Co (as of 1 January 2020 part of Van Lanschot Kempen) were the subject of an investigation by the AFM regarding compliance with the Money Laundering and Terrorist Financing (Prevention) Act (Wwft). This investigation has been concluded by the AFM. No formal enforcement measures have been imposed.

Separately, the Compliance team has continued to enhance the compliance framework through dedicated efforts to strengthen our policies and procedures across business lines as well as the compliance risk management programme. We have also continued to develop and deliver a dedicated compliance training programme for staff. The Compliance team was also strengthened in 2020 by the hiring of additional senior compliance experts, including a new head of anti-financial crime, and the establishment of a compliance management team. Further optimising Compliance is integral to our strategic direction.

13. Financial reporting risk

The Statutory Board is responsible for devising and implementing an adequate system of internal control for our financial reporting. The system is designed to provide reasonable assurance as to the reliability of financial reporting and that the financial statements are prepared in accordance with generally accepted accounting principles and applicable legislation and regulations.

We have the following tools in place to manage financial reporting risks:

- Periodic management reports and KPI dashboards, accompanied by analysis of financial and non-financial figures and trends;
- A risk and control framework describing processes and procedures, and setting out primary controls such as authorisations and segregation of duties;
- The findings from the review of the operational effectiveness of the internal control system by Internal Audit, which are discussed with the Executive Board, the Statutory Board, the Audit and Compliance Committee and the Supervisory Board;
- The Van Lanschot Kempen Accounting Manual, which sets out the principles we pursue with respect to financial accounting;
- Assessment and approval of the annual report by the Statutory Board and discussion of this by the Audit and Compliance Committee and by the Supervisory Board.

The management teams of the relevant divisions have provided the Statutory Board with in-control statements on the extent of internal control, based on the results of testing procedures for the risk and control framework, the risks reported on a quarterly basis, the follow-up of these risks, and the incidents reported. Risk Management and Compliance have evaluated these statements.

14. Fair value

14.1 Financial assets at fair value through profit or loss

A portion of the financial instruments are measured at fair value in the statement of financial position. Tables 14.1.A and 14.1.B provide a breakdown of these instruments into three levels. The fair value is based either on quoted prices in active markets, inputs other than quoted prices that are observable in the market, or inputs based on data not observable in the market.

We have developed a policy on the criteria for allocating financial instruments recognised in the statement of financial position at fair value to each of the three levels. A review is carried out at the end of each reporting period to determine whether any changes have taken place in the hierarchy between the levels.

Level 1: Quoted prices in active markets

The fair value of financial instruments traded in an active market is based on the price at the reporting date (market price). The bid price is applied for financial assets and the offer price for financial liabilities. Since these instruments are traded in an active market, their prices adequately reflect current and frequent market transactions between unrelated parties.

Level 2: Inputs observable in the markets

The fair value of financial instruments not traded in an active market (e.g. over-the-counter financial derivatives) is established using cash flow and option valuation models. Using estimates, we make assumptions based on the market conditions (observable data) at the reporting date.

The estimated present value of future cash flows is used to determine the fair value of the other financial instruments. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The discount rate is the same as the market interest rate at the reporting date for a similar instrument subject to the same conditions, taking into account collateral furnished under credit support annexes (CSAs).

The fair value of forward currency contracts is calculated by reference to forward exchange rates at the reporting date.

Estimates and judgements made are based on past experience as well as other factors, including expectations with respect to future events that could reasonably occur given current circumstances. Estimates and judgements are assessed on an ongoing basis.

Level 3: Significance of unobservable market data

The financial instruments in this category are assessed on an individual basis. Their valuation is based on the best estimate of management by reference to the most recent prices, prices of similar instruments and, to a not insignificant extent, information not observable in the market. Unobservable inputs may include volatility, correlation, seasonality and credit spreads. A valuation technique is used in which at least one input that has a significant effect on the instrument's valuation is not based on observable market data. A significant effect on the instrument's valuation is considered to be present when the unobservable input accounts for at least 10% of the total instrument's fair value and exceeds a threshold of €50,000. The effect of fair value adjustments on the instrument's valuation is included in the assessment.

Table 14.1.A Financial instruments at fair value at 31/12/2020

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets from trading activities (FVtPL)	56,622	4,576	480	61,678
Derivatives (FVtPL)	45,381	326,756	4,565	376,702
Financial assets at fair value through profit or loss	201,308	68,580	21,099	290,987
Financial assets at fair value through other comprehensive income	2,576,063	—	—	2,576,063
Total assets	**2,879,374**	**399,912**	**26,144**	**3,305,430**
Liabilities				
Financial liabilities from trading activities (FVtPL)	26	—	—	26
Derivatives (FVtPL)	44,083	442,860	1,859	488,802
Financial liabilities at fair value through profit or loss	—	655,730	85,139	740,869
Total liabilities	**44,109**	**1,098,590**	**86,998**	**1,229,697**

Table 14.1.B Financial instruments at fair value at 31/12/2019	Level 1	Level 2	Level 3	Total
Assets				
Financial assets from trading activities (FVtPL)	44,648	4,152	463	49,263
Derivatives (FVtPL)	31,224	329,517	6,539	367,279
Financial assets at fair value through profit or loss	263,740	44,231	13,539	321,509
Financial assets at fair value through other comprehensive income	2,384,261	—	—	2,384,261
Total assets	**2,723,873**	**377,900**	**20,541**	**3,122,313**
Liabilities				
Financial liabilities from trading activities (FVtPL)	2,150	—	—	2,150
Derivatives (FVtPL)	29,345	417,071	3,410	449,826
Financial liabilities at fair value through profit or loss	—	898,491	9,111	907,602
Total liabilities	**31,496**	**1,315,561**	**12,521**	**1,359,578**

Transfers of financial assets or liabilities between levels

We have developed a policy document for the fair value hierarchy. This divides the variables used into observable and unobservable market inputs. If the unobservable input variables are significant, the instrument is classified as Level 3. An unobservable input variable is significant if the change in the fair value due to the application of the variable is greater than the threshold values. Our policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period.

In 2020, our valuation technique remained unchanged, with non-observable input variables being assessed on significance. As a result of this assessment, some financial instruments included in Derivatives (assets and liabilities) and in Financial liabilities at fair value through profit or loss have been transferred from Level 2 to Level 3 and vice versa. The Derivatives receivables and payables and Financial liabilities at fair value through profit or loss were transferred to Level 2 as a result of the input variables' correlation and seasonality; the shorter remaining term to maturity of these financial instruments meant that these input variables qualified as non-significant, justifying a transfer to Level 2. In the case of Derivatives (assets), this entailed a transfer of €0.8 million from Level 2 to Level 3 and a transfer of €0.8 million from Level 3 to Level 2. In the case of Financial liabilities at fair value through profit or loss, it involved a transfer of €0.0 million from Level 2 to Level 3. The transfer of Derivatives (liabilities) includes a €0.3 million shift from Level 3 to Level 2.

Breakdown of movements in financial assets and liabilities classified under Level 3

Tables 14.1.C and 14.1.D provide a breakdown of the movements in all financial assets and liabilities classified as Level 3 items and recognised at fair value in the statement of financial position.

Table 14.1.C Breakdown of changes in financial liabilities classified as Level 3 in 2020	At 1 January	To statement of income	To equity[1]	Issues	Settlements	Transfers	At 31 December
Assets							
Financial assets from trading activities (FVtPL)	463	40	—	—	-23	—	480
Derivatives (FVtPL)	6,539	604	—	18	-3,357	761	4,565
Financial assets at fair value through profit or loss	13,539	7,442	—	118	—	—	21,099
Total assets	**20,541**	**8,086**	**—**	**136**	**-3,380**	**761**	**26,144**
Liabilities							
Derivatives (FVtPL)	3,410	-1,263	—	—	-319	31	1,859
Financial liabilities at fair value through profit or loss	9,111	-2,085	—	4,000	-7,195	81,308	85,139
Total liabilities	**12,521**	**-3,348**	**—**	**4,000**	**-7,514**	**81,339**	**86,998**
Total assets less liabilities	**8,020**	**11,434**	**—**	**-3,864**	**4,134**	**-80,578**	**-60,854**

1. The changes in value recognised in equity are included in the statement of comprehensive income as Revaluation of financial assets at fair value through other comprehensive income

Table 14.1.D Breakdown of changes in financial liabilities classified as Level 3 in 2019	At 1 January	To statement of income	To equity[1]	Issues	Settlements	Transfers	At 31 December
Assets							
Financial assets from trading activities (FVtPL)	472	-13	—	4	—	—	463
Derivatives (FVtPL)	10,138	-1,034	—	2,358	-5,038	114	6,539
Financial assets at fair value through profit or loss	21,143	2,175	—	641	-8,972	-1,448	13,539
Total assets	**31,753**	**1,129**	—	**3,003**	**-14,010**	**-1,333**	**20,541**
Liabilities							
Derivatives (FVtPL)	8,641	5	—	479	-5,807	92	3,410
Financial liabilities at fair value through profit or loss	27,896	-934		—	-11,620	-6,231	9,111
Total liabilities	**36,537**	**-929**	—	**479**	**-17,427**	**-6,139**	**12,521**
Total assets less liabilities	**-4,784**	**2,058**	—	**2,523**	**3,417**	**4,805**	**8,020**

Table 14.1.E Fair value changes recognised in profit or loss of financial instruments classified as Level 3	2020			2019		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Net interest income	—	—	—	—	—	—
Income from securities and associates	40	7,240	7,280	-13	-668	-681
Result on financial transactions	—	4,155	4,155	—	2,739	2,739
Impairments	—	—	—	—	—	—
Total	40	11,395	11,434	-13	2,071	2,058

1. The changes in value recognised in equity are included in the statement of comprehensive income as Revaluation of financial assets at fair value through other comprehensive income.

Table 14.1.F Notes on fair value determination using unobservable market inputs (Level 3)

	Fair value 31/12/2020	Fair value 31/12/2019	Valuation method	Significance of unobservable market inputs
Assets				
Financial assets from trading activities				
Shares, unlisted	480	463	– Net asset value	– Net asset value – Face value
Derivatives				
Structured product derivatives				
– Options[1]	3,786	3,765	– Option model	– Volatility – Correlation
– Equity swaps[1]	779	2,774	– Discounted cash flow model – Option model	– Volatility – Correlation
Financial assets at fair value through profit or loss				
Debt instruments: company cumprefs (shareholdings) (FVPL mandatory)[1]	2,227	2,024	– Discounted cash flow model	– Interest rate – Discount rates
Shares, unlisted				
	12,204	8,149	– Net asset value	– Most recent published net asset values of the underlying assets – Kempen: Cost or lower market value
	4,563	1,905	– Net asset value	– Net asset value – Market value
	1,789	1,203	– Net asset value	– Multiple analyses of comparable companies less a discount for illiquidity and company size based on EVCA guidelines – Most recently known share price
	316	258	– Net asset value	– EBITA – Issue or transfer price – Market price on final trading day – Face value less provisions
Total assets	**26,144**	**20,541**		
Liabilities				
Derivatives				
Structured product derivatives				
– Credit-linked swaps	31	—	– Discounted cash flow model	n/a
– Options[1]	1,828	3,410	– Option model	– Volatility – Correlation
Financial liabilities at fair value through profit or loss				
Structured debt instruments[1]	85,139	9,111	– Discounted cash flow model – Option model	– Volatility – Correlation
Total liabilities	**86,998**	**12,521**		

1 Please refer to Tables 14.1.G and 14.1.H for the range and sensitivity of these financial instruments. No range or sensitivity information is available for the other financial instruments.

Table 14.1.G Notes on range and sensitivity of unobservable market inputs (Level 3) at 31/12/2020	Significant unobservable market inputs	Range (weighted average)	Sensitivity
Assets			
Derivatives			
Structured products derivatives			
– Options	– Correlation	-10.6%-11.7% (0.6%)	Total impact €0.1m
	– Volatility	13.8%-29.9% (21.8%)	Total impact €3.1m
	– Dividend	-1.0%-3.4% (1.8%)	Total impact €0.5m
– Equity swaps	– Correlation	-24.6%-28.4% (1.2%)	Total impact €0.0m
	– Volatility	-12.3%-27.5% (20.0%)	Total impact €0.0m
	– Dividend	-1.0%-3.4% (2.0%)	Total impact €0.1m
Financial assets at fair value through profit or loss	– Interest rates	-6% - 12% (1%)	Change of 1% - change of €0.0m
Debt instruments: company cumprefs (shareholdings)	– Discount rates	-6% - 12% (1%)	Change of 1% - change of €0.0m
Liabilities			
Derivatives			
Structured products derivatives			
– Options	– Correlation	-25.1%-34.3% (2.2%)	Total impact €0.3m
	– Volatility	n/a	n/a
Financial liabilities at fair value through profit or loss			
Structured debt instruments	– Correlation	n/a	n/a
	– Volatility	n/a	n/a

Table 14.1.H Notes on range and sensitivity of unobservable market inputs (Level 3) at 31/12/2019	Significant unobservable market inputs	Range (weighted average)	Sensitivity
Assets			
Derivatives			
Structured products derivatives			
– Options	– Correlation	-19% - 20% (1%)	Total impact €0.3m
	– Volatility	13% - 18% (16%)	Total impact €0.4m
– Equity swaps	– Correlation	-13% - 15% (2%)	Total impact €0.1m
	– Volatility	n/a	n/a
Financial assets at fair value through profit or loss	– Interest rates	-6% - 12% (1%)	Change of 1% - change of €0.0m
Debt instruments: company cumprefs (shareholdings)	– Discount rates	-6% - 12% (1%)	Change of 1% - change of €0.0m
Liabilities			
Derivatives			
Structured products derivatives			
– Options	– Correlation	-23% - 26% (1%)	Total impact €0.8m
	– Volatility	n/a	n/a
Financial liabilities at fair value through profit or loss			
Structured debt instruments	– Correlation	n/a	n/a
	– Volatility	n/a	n/a

14.2 Financial instruments at amortised cost

Table 14.2 shows the carrying amount and fair value of financial instruments at amortised cost, with the exception of line items Cash and cash equivalents and balances at central banks, Other assets and Other liabilities. For these financial instruments the carrying amount is a reasonable approximation of the fair value.

The value of financial instruments at amortised cost is taken as the amount for which the instrument could be exchanged in a commercial transaction between willing parties, other than in a forced or liquidation sale. If there is an active market, we use the market value to determine the fair value. For financial instruments for which no market prices are available, the fair values shown in Table 14.2 are estimated on the basis of the present value or using other estimation or valuation methods.

Table 14.2 Financial instruments at amortised cost

	31/12/2020		31/12/2019				
	Fair value	Carrying amount	Fair value	Carrying amount	Level	Valuation method	Significant observable and unobservable market inputs
Assets							
Due from banks	210,420	210,584	297,444	297,556	2	Discounted cash flows using applicable money market rates	Interest rate and discount rate
Loans and advances to the public and private sectors	8,652,262	8,448,326	8,855,716	8,597,894	3	Discounted cash flows using current market fees for comparable loans and taking into account the creditworthiness of the counterparty	Interest rate, discount rate and counterparty credit risk
Other financial assets at amortised cost	457,808	448,518	442,305	425,606	1	Quoted prices in active markets	-
Liabilities							
Due to banks	500,796	501,129	141,715	141,715	2	Discounted cash flows using applicable money market rates for liabilities	Interest rate and discount rate
Public and private sector liabilities	10,210,451	10,141,109	9,607,892	9,545,095	3	Discounted cash flows using applicable money market rates for liabilities with a comparable term to maturity, taking account of own credit risk	Interest rate, discount rate and own credit risk
Issued debt securities	1,474,494	1,469,897	1,550,831	1,545,109	1	Quoted prices in active markets	Interest rate and discount rate
Subordinated loans	225,531	172,479	222,483	173,090	3	Discounted cash flows using applicable money market rates for debt instruments with a comparable term to maturity, taking account of own credit risk	Interest rate, discount rate and own credit risk

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER (€1,000)

1. Cash and cash equivalents and balances at central banks	2020	2019
Total	**2,227,803**	**1,417,164**
Cash	33	32
Balances at central banks	2,099,782	1,243,932
Statutory reserve deposits at central banks	14,647	14,425
Amounts due from banks	113,341	158,776
Impairments	0	-1

The increase in Balances at central banks is mainly explained by the funding obtained under the TLTRO III programme (€400 million) and the increase of Public and private sector liabilities. See note 15 (Due to banks) for more information.

Statutory reserve deposits comprise balances at central banks within the scope of the minimum reserves requirement. We cannot use these balances in our day-to-day operations.

Reconciliation with consolidated statement of cash flows	2020	2019	Changes
Cash and cash equivalents	2,227,803	1,417,164	810,639
Due from banks, available on demand	28,841	75,594	-46,753
Due to banks, available on demand	-32,614	-56,377	23,763
Due from/to banks, available on demand, net	-3,773	**19,217**	**-22,990**
Total	**2,224,030**	**1,436,381**	**787,649**

2. Financial assets from trading activities	2020	2019
Total	**61,678**	**49,263**
Debt instruments		
Structured debt instruments	4,502	4,152
Total debt instruments	**4,502**	**4,152**
Equity instruments		
Shares, listed	56,697	44,648
Shares, unlisted	480	463
Total equity instruments	**57,177**	**45,111**

3. Due from banks	2020	2019
Total	**210,584**	**297,556**
Deposits	164,953	206,975
Receivables arising from unsettled securities transactions	28,841	75,594
Loans and advances	16,790	14,987
Impairments	—	-1

Deposits include a total of €154.1 million (2019: €174.3 million) serving as collateral for liabilities arising from derivatives transactions.

4. Derivatives

At 31 December 2020	Asset	Liability	Contract amount
Total	**376,702**	**488,802**	**10,048,314**
Derivatives used for trading purposes			
Currency derivatives	146	137	13,663
Equity derivatives	63	97	160
Client option positions	45,172	43,849	45,172
Total derivatives used for trading purposes	**45,381**	**44,083**	**58,995**
Derivatives used for hedge accounting purposes			
Derivatives: fair value hedge accounting	123,730	126,386	3,865,360
Derivatives: portfolio fair value hedge accounting	-508	82,900	1,693,000
Derivatives: cash flow hedge accounting	365	20,665	100,000
Total derivatives used for hedge accounting purposes	**123,587**	**229,951**	**5,658,360**
Other derivatives			
Economic hedges	20,003	17,955	119,329
Structured product derivatives	187,731	196,813	4,211,630
Total other derivatives	**207,734**	**214,768**	**4,330,959**

At 31 December 2019	Asset	Liability	Contract amount
Total	**367,279**	**449,826**	**11,653,638**
Derivatives used for trading purposes			
Currency derivatives	133	129	11,141
Equity derivatives	172	961	1,133
Client option positions	30,994	28,256	30,994
Total derivatives used for trading purposes	**31,298**	**29,345**	**43,267**
Derivatives used for hedge accounting purposes			
Derivatives: fair value hedge accounting	103,864	97,312	3,454,540
Derivatives: portfolio fair value hedge accounting	2,076	96,745	2,090,000
Derivatives: cash flow hedge accounting	—	20,687	100,000
Total derivatives used for hedge accounting purposes	**105,940**	**214,744**	**5,644,540**
Other derivatives			
Economic hedges	1,376	4,119	130,609
Structured product derivatives	228,665	201,617	5,835,223
Total other derivatives	**230,041**	**205,736**	**5,965,831**

We use derivatives for both trading and hedging purposes.

Note 4, Derivatives shows both the positive and negative market values of the derivatives, as well as their notional values.

The following types of interest rate derivatives are used:
- Interest rate swaps;
- Interest rate options.

The following types of currency derivatives are used:
- Currency options;
- FX forwards.

The following types of equity derivatives are used:
- Equity forwards;
- Futures;
- Long and short structured product options;
- Equity swaps.

Inflation-linked swaps and swaptions are also used.

We use interest rate swaps and inflation-linked swaps as hedging instruments in our hedge accounting.

Ineffectiveness of derivatives for hedge accounting purposes	2020		2019	
	Fair value	Ineffective	Fair value	Ineffective
Total	**-106,364**	**820**	**-108,804**	**-686**
Fair value hedge accounting model	-2,657	465	6,552	326
Portfolio fair value hedge accounting model	-83,407	355	-94,668	-1,012
Cash flow hedge accounting model	-20,300	—	-20,687	—

The total ineffectiveness of fair value hedges at year-end 2020 was €0.8 million (2019: €0.7 million negative), comprising €28.9 million in negative value changes in hedging instruments (2019: €56.0 million negative) and positive changes in the value of the hedged items of €29.7 million (2019: €55.4 million).

Hedged items in cash flow hedge accounting by term at 31/12/2020	Within 1 year	1 to 3 years	3 to 5 years	5 years and longer
Total	—	—	—	**-14,568**
Cash inflow	—	—	—	—
Cash outflow	—	—	—	-14,568

Hedged items in cash flow hedge accounting by term at 31/12/2019	Within 1 year	1 to 3 years	3 to 5 years	5 years and longer
Total	—	—	—	**-15,221**
Cash inflow	—	—	—	—
Cash outflow	—	—	—	-15,221

5. Financial assets at fair value through profit or loss	2020	2019
Total	**290,987**	**321,509**
Debt instruments		
Government paper and government-guaranteed paper	25,332	27,932
Sovereign, supranationals and agencies (SSA) bonds	62,759	62,638
Banks and financial institutions, listed	1,351	19,458
Covered bonds	35,821	79,470
Puttable investment funds	117,567	87,385
Company cumprefs (shareholdings) (FVPL mandatory)	2,227	2,024
Total debt instruments	**245,057**	**278,906**
Equity instruments (FVPL mandatory)		
Shares, listed	—	9,088
Shares, unlisted	45,930	33,515
Total equity instruments	**45,930**	**42,603**

All financial assets at fair value through profit or loss are designated at fair value through profit or loss on initial recognition with the exception of puttable investment funds, company cumprefs (shareholdings) and equity instruments.

The maximum credit risk to which we were exposed in the reporting period is equal to the carrying amount.

Changes in financial assets at fair value through profit or loss	2020	2019
At 1 January	321,509	218,583
Purchases	123,982	162,111
Sales	-42,701	-56,129
Redemptions	-113,797	-18,050
Value changes	3,450	15,294
Other changes	-1,456	-298
At 31 December	**290,987**	**321,509**

6. Financial assets at fair value through other comprehensive income	2020		2019	
	Fair value	Face value	Fair value	Face value
Total	**2,576,063**	**2,520,600**	**2,384,261**	**2,335,985**
Debt instruments				
Government paper and government-guaranteed paper	633,251	616,650	539,189	524,500
Sovereign, supranationals and agencies (SSA) bonds	522,013	506,662	454,305	440,556
Banks and financial institutions, listed	—	—	24,731	24,700
Covered bonds	1,007,503	988,670	928,015	914,155
Asset-backed securities	351,968	349,098	385,661	381,604
Companies, listed	61,328	59,520	52,362	50,470
Total debt instruments	**2,576,063**	**2,520,600**	**2,384,261**	**2,335,985**

Changes in gross carrying amount of Financial assets at fair value through other comprehensive income	Stage 1
At 1 January 2020	2,335,985
Additions or releases without transfer	-291,985
New financial assets originated or purchased	476,600
At 31 December 2020	**2,520,600**

Changes in gross carrying amount of Financial assets at fair value through other comprehensive income	Stage 1
At 1 January 2019	1,798,601
Additions or releases without transfer	326,184
New financial assets originated or purchased	211,200
At 31 December 2019	**2,335,985**

Changes in Financial assets at fair value through other comprehensive income	2020	2019
At 1 January	2,384,261	1,803,584
Purchases	502,135	1,139,837
Sales	-51,680	-150,296
Redemptions	-255,476	-418,551
Value changes	9,497	17,682
Other changes	-12,674	-7,995
At 31 December	**2,576,063**	**2,384,261**

The loss allowance for financial assets at fair value through other comprehensive income is recognised in Other comprehensive income and does not reduce the carrying amount of the financial asset.

7. Loans and advances to the public and private sectors	2020	2019
Total	**8,448,326**	**8,597,894**
Mortgage loans	6,324,624	6,287,753
Loans	1,306,949	1,349,692
Current accounts	390,815	547,762
Securities-backed loans and settlement claims	297,418	313,130
Subordinated loans	199	579
Value adjustments fair value hedge accounting	192,398	162,746
Impairments	-64,075	-63,768

Impairments	2020	2019
Total	**-64,075**	**-63,768**
Mortgage loans	-4,756	-8,027
Current accounts	-32,157	-28,783
Other loans and advances	-27,163	-26,958

Impairments on Loans and advances to the public and private sectors amounted to €64.1 million at year-end 2020 (2019: €63.8 million). For more information, see "Risk management", under 2.8, Loss allowance for expected credit loss.

We have provided our clients with the option of moratorium arrangements in response to the Covid-19 crisis. Few clients have made use of these arrangements.

Changes in gross carrying amount of Loans and advances to the public and private sectors	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	8,205,162	1,022,094	242,334	9,469,589
Additions or releases without transfer	-1,274,663	-456,442	-74,150	-1,805,255
Transfer to Stage 1	613,657	-615,869	-5,161	-7,373
Transfer to Stage 2	-1,104,905	1,112,705	-9,894	-2,094
Transfer to Stage 3	-23,116	-19,895	42,867	-144
New financial assets originated or purchased	1,690,513	—	—	1,690,513
Amounts written off	—	—	-3,220	-3,220
At 31 December 2020	**8,106,648**	**1,042,593**	**192,776**	**9,342,017**

Changes in gross carrying amount of Loans and advances to the public and private sectors	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	7,559,491	1,399,661	336,236	9,295,388
Additions or releases without transfer	-567,299	-833,749	-79,078	-1,480,126
Transfer to Stage 1	1,032,935	-1,039,654	-4,373	-11,092
Transfer to Stage 2	-1,484,481	1,544,877	-61,628	-1,232
Transfer to Stage 3	-40,850	-49,042	89,084	-808
New financial assets originated or purchased	1,705,367	—	—	1,705,367
Amounts written off	—	—	-37,907	-37,907
At 31 December 2019	**8,205,162**	**1,022,094**	**242,334**	**9,469,589**

We acquired no significant financial or non-financial assets during the year through the seizure of collateral held as security (2019: nil). In general, the policy is to dispose of these assets within a reasonably short period. The proceeds are used to redeem the outstanding amount.

See "Risk management" (under 2, Credit risk) for more information about Loans and advances to the public and private sectors.

8. Other financial assets at amortised cost	2020		2019	
	Fair value	Face value	Fair value	Face value
Total	448,518	440,293	425,606	412,000
Debt instruments				
Government paper and government-guaranteed paper	227,781	220,300	211,729	200,000
Banks and financial institutions, listed	172,047	172,000	213,905	212,000
Covered bonds	29,882	29,200	—	—
Asset-backed securities	18,820	18,793	—	—
Impairments	-12	—	-28	—

Changes in gross carrying amount of Other financial assets at amortised cost	Stage 1
At 1 January 2020	412,000
Additions or releases without transfer	-39,999
New financial assets originated or purchased	68,292
At 31 December 2020	440,293

Changes in gross carrying amount of Other financial assets at amortised cost	Stage 1
At 1 January 2019	532,000
Additions or releases without transfer	-120,000
At 31 December 2019	412,000

Changes in Other financial assets at amortised cost	2020	2019
At 1 January	425,606	554,209
Purchases	81,436	—
Redemptions	-51,855	-120,000
Value changes	16	6
Other changes	-6,684	-8,608
At 31 December	448,518	425,606

9. Investments in associates using the equity method

Changes in associates using the equity method	2020	2019
At 1 January	52,452	54,071
Acquisitions and contributions	15,056	4,447
Sales and repayments	-2,217	-15,311
Income from associates	12,398	13,469
Impairments	—	87
Dividend received	-5,572	-4,516
Other changes	85	206
At 31 December	72,202	52,452

All associates valued using the equity method are unlisted investments.

10. Property and equipment	2020	2019
Total	90,317	102,521
Buildings	28,670	31,517
Right-of-use – buildings	42,975	51,648
Right-of-use – transport equipment	7,765	7,318
IT, operating system software and communications equipment	4,592	5,168
Other assets	6,315	6,840
Work in progress	—	30

The total value of Property and equipment fell from €102.5 million to €90.3 million at year-end 2020, mainly due to depreciation on Right-of-use assets – buildings. The decrease in Buildings is due to the sale of a building with carrying amount of €3.5 million, with the realised profit of €2.3 million recognised in the statement of income.

The acquisition of Hof Hoorneman Bankiers increased the carrying amount of Buildings by €1.8 million. Lease liabilities amounted to €52.3 million at year-end 2020 (2019: €60.5 million) and are included in Other liabilities.

Changes in property and equipment 2020	Buildings	Right-of-use – buildings	Right-of-use – transport equipment	IT, operating system software and communications equipment	Other assets	Work in progress	Total
At 1 January	31,517	51,648	7,318	5,168	6,840	30	102,521
Capital expenditure	168	676	524	—	—	—	1,368
Additions	2,815	—	3,533	2,883	895	—	10,126
Disposals	-3,643	—	—	—	—	—	-3,643
Capitalisation of investments	—	—	—	—	—	-30	-30
Depreciation	-2,186	-9,802	-3,823	-3,454	-1,420	—	-20,685
Other	—	453	213	-6	—	—	660
At 31 December	**28,670**	**42,975**	**7,765**	**4,592**	**6,315**	—	90,317
Historical cost	51,602	61,831	15,232	61,362	24,215	—	214,242
Accumulated depreciation and impairments	-22,932	-18,856	-7,467	-56,770	-17,900	—	-123,925
Net carrying amount at 31 December	**28,670**	**42,975**	**7,765**	**4,592**	**6,315**	—	90,317

Changes in property and equipment 2019	Buildings	Right-of-use – buildings	Right-of-use – transport equipment	IT, operating system software and communications equipment	Other assets	Work in progress	Total
At 31 December 2018	35,465	—	—	5,453	7,214	106	48,238
Impact of adopting IFRS 16	—	59,108	7,752	—	—	—	66,860
At 1 January	35,465	59,108	7,752	5,453	7,214	106	115,098
Capital expenditure	668	—	—	3,141	2,196	9	6,014
Additions	—	1,594	3,210	—	—	—	4,804
Disposals	-2,397	—	—	-2	—	—	-2,399
Capitalisation of investments	—	—	—	—	—	-85	-85
Depreciation	-2,219	-9,055	-3,644	-3,424	-2,564	—	-20,906
Other	—	—	—	—	-6	—	-6
At 31 December	**31,517**	**51,647**	**7,318**	**5,168**	**6,840**	**30**	102,521
Historical cost	71,807	60,702	10,962	60,224	23,737	30	227,462
Accumulated depreciation and impairments	-40,290	-9,055	-3,644	-55,056	-16,897	—	-124,942
Net carrying amount at 31 December	**31,517**	**51,648**	**7,318**	**5,168**	**6,840**	**30**	102,521

11. Goodwill and other intangible assets	2020	2019
Total	155,007	**141,311**
Goodwill	103,057	95,247
Other intangible assets	51,950	46,064

The carrying amounts of goodwill arising from acquisitions in earlier years and other intangible assets are given in the table above.

Changes in goodwill and other intangible assets 2020	Goodwill	Client bases	Brand names	Application software	Total
At 1 January	95,247	37,509	5,366	3,189	141,311
Additions	7,810	12,513	—	63	20,386
Amortisation	—	-4,770	-767	-1,154	-6,691
Impairments	—	—	—	—	—
At 31 December	**103,057**	**45,252**	**4,599**	**2,099**	155,007
Historical cost	103,057	63,713	15,330	62,560	244,660
Accumulated amortisation and impairments	—	-18,461	-10,731	-60,461	-89,653
Net carrying amount at 31 December	**103,057**	**45,252**	**4,599**	**2,099**	155,007

Changes in goodwill and other intangible assets 2019	Goodwill	Client bases	Third-party distribution channels	Brand names	Application software	Total
At 1 January	130,247	42,280	—	6,132	4,424	183,083
Additions	—	—	—	—	167	167
Amortisation	—	-4,770	—	-767	-1,402	-6,939
Impairments	-35,000	—	—	—	—	-35,000
At 31 December	**95,247**	**37,509**	—	**5,366**	**3,189**	141,311
Historical cost	130,247	51,200	4,899	15,330	62,497	264,173
Accumulated amortisation and impairments	-35,000	-13,691	-4,899	-9,965	-59,308	-122,863
Net carrying amount at 31 December	**95,247**	**37,509**	—	**5,366**	**3,189**	141,311

The accumulated impairments on goodwill amounted to €88 million at 31 December 2020 (2019: €88 million) and have been deducted from the historical cost. The additions to Goodwill and Client bases are due to the acquisition of Hof Hoorneman Bankiers in the Netherlands in 2020; see “Business combinations in 2020”.

We have defined six CGUs, namely Private Banking, Evi, Asset Management, Merchant Banking, Other and Non-strategic investments. These correspond to our operating segments (see section on segment information) except for the Other activities segment, which is split between Other and Non-strategic investments. For impairment testing, goodwill was allocated to Private Banking, Asset Management, Merchant Banking and Non-strategic investments. The goodwill in Non-strategic investments relates to our subsidiary Holowell. Goodwill from the acquisition of Hof Hoorneman Bankiers (€7.8 million) was allocated to CGU Private Banking.

At half-year 2020, we performed a goodwill impairment trigger analysis to determine whether the Covid-19 crisis is an impairment trigger for one or more of our CGUs. We concluded that a goodwill impairment test for the CGU Merchant Banking was necessary. For the CGUs Asset Management, Private Banking and Non-strategic investments the analysis showed that no impairment test was needed. The impairment test performed did not result in a goodwill impairment for Merchant Banking at half-year 2020.

In 2020, the Structured Products team was transferred from Merchant Banking to our Treasury department (part of the Other activities segment) in anticipation of the most recent strategic update and given the risk profile and complexity of the structured products activities. This transfer, which is in line with our most recent strategic update, has implications for our reporting structure. The results of the structured products activities will no longer be reported as part of Merchant Banking (Securities) but as part of the Other activities segment. As Van Lanschot Kempen’s CGU structure is based on its reporting structure, we analysed whether goodwill should be reallocated to the units affected. It was determined that no goodwill should be reallocated to CGU Other.

The impact of the current economic crisis as a result of the Covid-19 pandemic on the performance of the CGUs with allocated goodwill has been limited during 2020. Private Banking's activities are performing in line with expectations. This segment's operating profit before tax decreased mainly as a result of lower interest income and an addition to loan loss provisions (compared with a release in 2019). The net inflow of assets under management was historically high. Asset Management's operating profit before tax increased compared with the previous year and higher client assets were driven by net inflows and positive market performance. Merchant Banking's performance was in line with expectations.

Allocation of goodwill to CGUs (based on segments)	2020	2019
Total	**103,057**	**95,247**
Private Banking	9,505	1,695
Asset Management	49,292	49,292
Merchant Banking	41,293	41,293
Non-strategic investments	2,967	2,967

Van Lanschot Kempen performed its annual impairment test on the goodwill arising from acquisitions in earlier years. To determine whether an impairment is necessary, the recoverable amount of each CGU is compared with its carrying amount. The recoverable amount is calculated on the basis of value in use. This calculation uses cash flow projections for each CGU for a five-year period. These projections are based on the current year and on the financial estimates for the years 2021 until 2025 used by management in its strategic forecast as per end of 2020. For the period after the explicit projections per CGU, the growth rate is set at the long-term market growth rate of 1.0%. This growth rate applies to all CGUs, as in the long term all CGUs will be impacted by the same economic market developments. The rate is based on our own projections and on wealth management market projections by market experts.

Management has compared the main assumptions against market forecasts and expectations. Cash flow estimates are based on our strategic plans and potential future trends. Events and factors that could have a significant impact on the estimates include stock and bond market developments, effects of mergers and acquisitions, competitive conditions, client behaviour and changes in the client base, cost structure, trends in interest rates and risks, and other circumstances specific to the industry and sector. Cash flows are discounted using a cost of equity for each CGU which reflects the risk-free interest rate, supplemented with a surcharge for the market risk exposure of the CGU.

The weighted average cost of capital (WACC) is used as the discount rate for the cash flows in the impairment test for Non-strategic investments.

CGU	Discount rate before tax %		Discount rate after tax %	
	2020	2019	2020	2019
Private Banking	8.5	8.6	6.4	6.7
Asset Management	10.8	9.6	8.1	7.5
Merchant Banking	12.3	10.9	9.2	8.5
Non-strategic investments	13.4	11.2	10.1	9.1

The impairment test performed in 2020 did not result in goodwill impairments. The model uses two baseline scenarios. For the CGUs with allocated goodwill, a sensitivity analysis was also carried out, focusing particular attention on changes in long-term growth, the discount rate and the long-term EBIT margin. This analysis is captured in the sensitivity table below and underlines our conclusion that no impairment is needed.

In addition, an annual test is carried out for indications of impairment of other intangible assets with a finite useful life. For the line item Client bases, movements in the number of clients are assessed. The useful life tests carried out in 2020 provided no indication of a need for further examination, nor of impairments.

Sensitivity analysis	Change required in each key assumption for headroom to equal zero			
	Headroom	Long-term growth	Discount rate	Long-term EBIT margin
Private Banking	176,345	(2)%	2 %	(5)%
Asset Management	324,935	(652)%	25 %	(28)%
Merchant Banking	79,332	(19)%	9 %	(27)%

	2021	2022	2023	2024	2025	2026-32
Expected amortisation of intangible assets	7,864	7,424	6,614	6,294	3,973	19,782

12. Tax assets	2020	2019
Total	23,155	**18,566**
Current tax assets	6,842	994
Deferred tax assets	16,313	17,573

Changes in deferred taxes 2020	At 1 January 2020	Acquisition subsidiary	Through statement of income	To equity	Tax rate adjustments	At 31 December 2020
Deferred tax assets						
Employee benefits	8,631	—	-413	2,703	836	11,757
Property and equipment	1,736	345	-1,403	-244	161	595
Lease liabilities – buildings	10,710	—	-1,921	257	1,691	10,737
Lease liabilities – transport equipment	1,271	—	-916	1,261	205	1,821
Intangibles	—	105	—	—	—	105
Derivatives	4,218	—	—	-4	642	4,856
Loss available for set-off	3,832	—	-274	-285	—	3,273
Commission	249	—	-54	—	—	195
Other	3,241	—	363	-1,615	287	2,276
Total deferred tax assets before offsetting	**33,887**	**450**	**-4,618**	**2,073**	**3,822**	35,614
Offsetting deferred tax assets						-19,301
Total deferred tax assets after offsetting						16,313
Deferred tax liabilities						
Property and equipment	1,189	300	-1,034	-242	137	350
Right-of-use assets – buildings	10,813	—	-2,452	257	1,620	10,238
Right-of-use assets – transport equipment	1,262	—	-933	1,259	223	1,811
Intangible assets	2,354	3,128	-303	—	402	5,581
Investment portfolio	507	—	—	463	77	1,047
Other	234	—	—	145	—	379
Total deferred tax liabilities before offsetting	**16,359**	**3,428**	**-4,722**	**1,882**	**2,459**	19,406
Offsetting deferred tax assets						-19,301
Total deferred tax liabilities after offsetting						105

Changes in deferred taxes 2019	At 31 December 2018	Effect of changes in accounting policies	At 1 January 2019	Through statement of income	To equity	Tax rate adjustments	At 31 December 2019
Deferred tax assets							
Employee benefits	6,585	—	6,585	-384	2,131	299	8,631
Property and equipment	2,301	-568	1,733	-31	—	34	1,736
Lease liabilities – buildings	—	12,163	12,163	-2,155	—	702	10,710
Lease liabilities – transport equipment	—	1,222	1,222	-44	—	93	1,271
Derivatives	3,483	—	3,483	—	501	233	4,218
Loss available for set-off	11,881	—	11,881	-7,940	—	-110	3,832
Commission	203	—	203	46	—	—	249
Other	3,433	—	3,433	856	-1,153	105	3,241
Total deferred tax assets before offsetting	**27,886**	**12,816**	**40,702**	**-9,651**	**1,480**	**1,357**	33,887
Offsetting deferred tax assets							-16,316
Total deferred tax assets after offsetting							17,573
Deferred tax liabilities							
Property and equipment	1,633	—	1,633	-542	—	98	1,189
Right-of-use assets – buildings	—	11,595	11,595	-1,553	—	771	10,813
Right-of-use assets – transport equipment	—	1,222	1,222	-53	—	93	1,262
Intangible assets	2,588	—	2,588	-266	—	31	2,354
Investment portfolio	-790	—	-790	—	1,270	28	507
Other	111	—	111	—	124	—	234
Total deferred tax liabilities before offsetting	**3,542**	**12,817**	**16,358**	**-2,414**	**1,393**	**1,021**	16,359
Offsetting deferred tax assets							-16,316
Total deferred tax liabilities after offsetting							43

A proportion of the deferred tax assets depends on future taxable profits. Tax losses incurred can be offset against taxable profits in future years. Based on the most recent forecast, it is likely that the existing tax losses can be offset well before expiry. The non-current portion of deferred tax assets that is expected to be recovered or settled after more than 12 months amounts to €7.9 million. See Note 34, Income tax, for more information.

Tax losses to be offset **Financial year**	**Amount**	**Final year for offsetting**
2015	5,925	indefinitely
2016	4,360	indefinitely
2017	736	indefinitely
2018	1,457	indefinitely
2019	613	indefinitely
2020	—	

The total amount of tax losses is recognised as a deferred tax asset based on the prevailing tax rate. The losses of 2015 through 2019 arose from the permanent establishment in Belgium. As Belgium does not apply a time limit for offsetting losses, they can be carried forward indefinitely. In 2020, a loss amount of €1.1 million was set off against the current year result.

	2020	2019
Unrecognised losses	9,499	20,940

Unrecognised losses are losses for which it is not probable that future taxable profit will be available against which the unused tax losses can be utilised. The decrease in unrecognised losses is mainly the result of the liquidation of NNE BV.

13. Other assets	2020	2019
Total	167,684	**143,469**
Interest receivable	19,871	19,534
Commission receivable	48,260	44,305
Transitory items	62,627	44,178
Assets acquired through foreclosures	—	190
Inventories	917	1,078
Other	36,009	34,185

Inventories are related to the non-strategic investments. For better presentation of the other assets categories, commissions receivable are reclassified from transitory items and other. Comparative figures have been adjusted accordingly.

14. Financial liabilities from trading activities	2020	2019
Total	26	**2,150**
Equity instruments		
Shares, listed	26	2,150
Total equity instruments	26	**2,150**

15. Due to banks	2020	2019
Total	501,129	**141,715**
Deposits	68,516	85,338
Payables arising from unsettled securities transactions	23,297	14,847
Loans and advances drawn	9,316	41,530
Special loans from ECB	400,000	—

Special loans from the ECB consist of funding obtained under the targeted longer-term refinancing operations III programme (TLTRO III). The programme is a voluntary initiative of the ECB aimed at providing long-term funding to banks on attractive terms, with the aim of easing the credit conditions of the private sector and boosting bank lending to business. In respons to COVID-19, in Decision (EU) 2020/614 of 30 April 2020 the ECB provided for an additional temporary reduction in interest rates applied to all TLTROs-III under certain conditions which resulted in the funding containing a below-market rate of interest component. The TLTRO III loans are accounted for as a financial liability under IFRS 9 (at amortised cost), and collateralised by eligible securities. This programme has a maturity of three years with an optional redemption each quarter from September 2021 onwards. The interest rate is fixed at the end of maturity or at early redemption. The benefit of the below-market rate of interest is accounted for in accordance with IFRS 9 and is included in the calculated effective interest rate of the loan. This is recognised in the income statement under "Interest income calculated using the effective interest method" over the term of the TLTRO III loans. Based on the current information, we expect to meet the eligibility criteria and thus receive the forecasted below-market rate of interest.

16. Public and private sector liabilities	2020	2019
Total	10,141,109	9,545,095
Savings	3,129,519	2,994,800
Deposits	132,617	161,502
Current accounts	6,510,092	5,988,483
Other client assets	366,837	398,402
Value adjustments fair value hedge accounting	2,044	1,908

17. Financial liabilities at fair value through profit or loss	2020	2019
Total	740,869	907,602
Unstructured debt instruments	35,882	47,936
Structured debt instruments	704,987	859,666

All financial liabilities at fair value through profit or loss are designated at fair value through profit or loss on initial recognition.

We have issued debt instruments which are managed on the basis of fair value. The fair value is paid to the issuer on maturity date. Management believes that valuation at fair value through profit or loss applies, as this largely eliminates or reduces inconsistencies in valuation and disclosure, and performance is assessed on the basis of fair value.

Financial liabilities at fair value through profit or loss include non-structured debt instruments such as floating-rate notes and fixed-rate notes, and structured debt instruments such as index guarantee notes and trigger notes. Our own credit risk in the reporting year fell by €7.6 million (2019: down €5.6 million), reflecting a decrease of €5.9 million on the back of our own credit quality, together with a reduction of €1.7 million for the passage of time and for changes in the notional amount. The cumulative change in the fair value of Financial liabilities at fair value through profit or loss which can be allocated to the changes in own credit risk amounted to a total increase of €1.1 million (2019: €8.7 million).

18. Issued debt securities	2020	2019
Total	1,469,897	1,545,109
Covered bonds	1,409,034	1,491,490
Floating-rate notes	16,263	17,605
Value adjustments fair value hedge accounting	44,601	36,014

Issued debt securities comprise debt instruments with interest rates that are either fixed or variable, in so far as not subordinated. Of these debt securities, €16.3 million becomes payable on demand in 2021 (2020: nil).

Face value versus carrying amount

The value adjustment of debt securities as a result of hedge accounting is recognised under the line item Issued debt securities.

Face value versus carrying amount of issued debt securities at 31/12/2020	Face value	Value adjustments fair value hedge accounting	Premium/discount	Carrying amount
Total	1,430,603	44,601	-5,306	1,469,897
Covered bond	1,414,360	44,601	-5,326	1,453,635
Floating-rate notes	16,243	—	20	16,263

Face value versus carrying amount of issued debt securities at 31/12/2019	Face value	Value adjustments fair value hedge accounting	Premium/discount	Carrying amount
Total	1,514,573	36,014	-5,478	1,545,109
Covered bond	1,497,050	36,014	-5,560	1,527,504
Floating-rate notes	17,523	—	82	17,605

19. Provisions	2020	2019
Total	**64,586**	**49,597**
Provisions for pensions	49,030	39,841
Provision for long-service benefits	3,335	2,552
Provision for restructuring	3,319	3,426
Provision for interest rate derivatives recovery framework	200	184
Provision for financial guarantees and loan commitments	358	76
Other provisions	8,344	3,518

Compared with 2019, provisions increased by €15.0 million, mainly due to the provision for pensions and a provision for interest payments in response to a ruling by the Dutch Financial Services Complaints Authority (Kifid).

We operate a number of employee schemes under which participants receive payments or benefits after they retire. Specifically, there is a pension scheme and a discount scheme for mortgage interest rates, as well as a long-service benefits scheme.

The following defined benefit schemes were valued for the purpose of the 2020 financial statements:

- Van Lanschot Kempen employees were eligible for discounted mortgage interest rates. Entitlement to this discount continued beyond retirement from active service. This plan was closed to new entrants after 2015.
- The long-service benefits depend on the number of years of service.
- The early retirement plan concerns a limited number of employees who were working at the Belgian branch. The outstanding amount is diminishing as this plan has been terminated.
- Both a defined contribution scheme and a defined benefit scheme are in place for employees working at the Belgian branch. The pensionable salary for the defined benefit scheme is taken as the average basic salary over the last five years of service. The pension capital is insured with UKZT (Uitgesteld Kapitaal Zonder Tegenverzekering). The accompanying term life assurance is funded from risk premiums. The defined contribution pension plans have been set up according to the Belgian method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the defined contribution pension plans are treated as a defined benefit plan in the consolidated financial statements.
- Until year-end 2019, Kempen operated an average salary scheme under which 1.875% of the pensionable salary – salary less state pension offset, with an annual ceiling of €41,232 – was accrued for each year of service and which was based on a retirement age of 68. The surviving dependants' pension was insured on a risk basis.
- The pension plans of F. van Lanschot Bankiers (Schweiz) have been set up according to the Swiss method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plans are treated as defined benefit plans in the consolidated financial statements.

Only within a Kempen pension scheme, plan assets fund the obligations (i.e. the scheme is funded). The other schemes are unfunded; payments in any year are made directly by Van Lanschot Kempen.

The pension schemes have been placed with insurers and a pension institution, which are responsible for the pension administration, risk insurance and communication of legal documents to employees who are scheme members. Decisions on and changes to pension scheme content are taken by an internal pensions committee. Where applicable, in the Netherlands the Works Council is consulted for its opinion and/or consent.

The pension schemes of Kempen and Van Lanschot were adjusted and replaced from 1 January 2020 by a single new plan. The new scheme is an individual defined contribution scheme. The former Van Lanschot scheme is classified as a collective defined contribution scheme, and the change of scheme has no impact from an accounting perspective. With the former Kempen scheme classified as defined contribution with guaranteed indexation, the termination of this scheme does have an impact, as the future accrual of entitlements in this plan will cease. This impact of €1.2 million has been processed as a plan amendment and was directly charged to the profit and loss account in the 2019 figures. Because there is still an obligation to pay guarantee costs and to provide indexation on the accrued pension benefits, the remainder of the provision (€35.0 million) stays on the balance sheet. As it has no legally enforceable right to use the surplus in plan assets for settling the obligations for indexation and guarantee costs, Van Lanschot Kempen applies an asset ceiling to the relevant assets in the pension scheme.

The defined benefit obligations are calculated using the projected unit credit method.

Obligations/assets included in the statement of financial position by scheme at 31/12/2020	Pensions	Early retirement	Employee discounts	Long-service benefits
Defined benefit obligations	300,791	30	95	3,335
Fair value of plan assets	251,792	—	—	—
Surplus/deficit	-48,999	-30	-95	-3,335
Obligation at year-end	-48,999	-30	-95	-3,335

Obligations/assets included in the statement of financial position by scheme at 31/12/2019	Pensions	Early retirement	Employee discounts	Long-service benefits
Defined benefit obligations	266,206	45	96	2,552
Fair value of plan assets	226,411	—	—	—
Surplus/deficit	-39,795	-45	-96	-2,552
Obligation at year-end	-39,795	-45	-96	-2,552

Changes in defined benefit obligations for pension scheme	2020	2019
Defined benefit obligations at 1 January	266,206	213,343
Current service costs	2,527	5,442
Interest costs	2,879	4,204
Members' contributions	294	1,498
Gross benefits	-3,843	-2,923
Transfers	-553	-1,059
Discontinuation	—	-1,179
Remeasurements arising from changes in financial assumptions	30,019	51,506
Remeasurements arising from changes in demographic assumptions	1,761	—
Experience adjustments	1,677	-5,067
Effect of foreign exchange rates	-176	440
Defined benefit obligations at 31 December	**300,791**	**266,206**

At 31 December 2020, the weighted average duration of the defined benefit obligation was 24.4 years (2019: 24.5 years).

Changes in defined benefit obligations for early retirement scheme	2020	2019
Defined benefit obligations at 1 January	45	58
Current service costs	-15	-13
Defined benefit obligations at 31 December	**30**	**45**

Changes in defined benefit obligations for long-service benefits scheme	2020	2019
Defined benefit obligations at 1 January	2,552	2,352
Current service costs	156	142
Interest costs	13	33
Financial assumptions	450	120
Gross benefits	-37	-96
Experience adjustments	201	—
Defined benefit obligations at 31 December	**3,335**	**2,552**

Changes in fair value of pension plan assets	2020	2019
Fair value at 1 January	226,411	182,592
Expected return on plan assets	2,563	4,056
Financial assumptions	21,894	36,625
Employer's contribution	4,409	6,848
Employees' contribution	—	—
Gross benefits	-3,543	-2,923
Transfers	-553	-786
Effect of foreign exchange rates	611	—
Fair value at 31 December	**251,792**	**226,411**
Actual return on plan assets	**24,457**	**40,680**

Current service costs of pension scheme included in statement of income	2020	2019
Current service costs	2,527	5,442
Net interest income	2,879	4,204
Expected return on plan assets	-2,563	-4,056
Net costs	**2,843**	**5,590**

Current service costs of early retirement included in statement of income	2020	2019
Current service costs	-14	-13
Net costs	**-14**	**-13**

Current service costs of long-service benefits included in statement of income	2020	2019
Current service costs	156	142
Net interest income	13	33
Financial assumptions	450	120
Net costs	**619**	**295**

Plan assets by investment category	2020		2019	
	Fair value	%	Fair value	%
Total	**251,792**	**100**	**226,411**	**100**
Fixed income	171,995	68	146,320	65
Equities	51,508	20	46,093	20
Mixed funds	2,303	1	2,116	1
Real estate	7,044	3	8,598	4
Cash and cash instruments	-1,027	0	365	0
Other	19,970	8	22,919	10

At each reporting date, an asset/liability matching study is carried out by the pension fund's asset manager, in which the consequences of the strategic investment policies are analysed. The strategic investment policies of the pension fund are bound by the maximum investment risk. The maximum investment risk is linked to a strategic asset mix comprising 73% fixed income and 27% equity income investments, with a duration match of 75%. A bandwidth of 5% is in place. The other investment category consists of funds managed by an external pension fund manager.

The most significant actuarial assumptions made at the reporting date are as follows:

Assumptions	2020	2019
Actuarial interest rate pension	0.15% - 0.60%	0.10% - 1.10%
Actuarial interest rate employee discounts	0.0%	0.3 %
Actuarial interest rate long-service benefits	0.20% - 0.20%	0.50% - 0.50%
Expected return on investments	0.15% - 0.60%	0.10% - 1.10%
Price inflation	1.75& - 2.00%	1.75% - 2.00%
General salary increase	1.00% - 1.75%	1.00% - 1.75%
Retirement age	64-68 years	64-68 years

The mortality rate is based on publicly available mortality tables for the relevant countries. For the calculations at 31 December 2020, the following mortality tables were used:

- Kempen: the mortality tables as published by the Dutch Association of Actuaries (Prognosetafel AG2020);
- Belgian branch: the mortality table as published by the Institute of Actuaries in Belgium (MR/FR) with an age correction of -3 years.
- F. van Lanschot Bankiers (Schweiz): the mortality table as published by BVG (BVG 2015 GT).

For Kempen, a rise of ten basis points in the actuarial interest rate will lead to a decrease of 2.6% in the pension obligations and will have no effect on the current service costs in the statement of income, as no future contributions are to be made due to the change in pension scheme.

For the Belgian branch, a reduction of 25 basis points in the actuarial interest rate will lead to an increase of 3.2% in the pension obligations and a rise of 25 basis points in the actuarial interest rate will lead to a decrease of 3.0% in the pension obligations.

For F. van Lanschot Bankiers (Schweiz), a reduction of 50 basis points in the actuarial interest rate will lead to an increase of 8.50% in the pension obligations and a rise of 50 basis points in the actuarial interest rate will lead to a decrease of -7.4% in the pension obligations.

History of changes in pension scheme gains and losses	2020	2019	2018	2017	2016
Defined benefit obligations	300,791	266,206	213,343	207,094	199,811
Fair value of plan assets	251,792	226,411	182,592	176,818	187,526
Surplus/deficit	**-48,999**	**-39,795**	**-30,751**	**-30,276**	**-12,285**
Actuarial gains/losses on obligations	33,456	43,929	-3,811	-3,010	13,484
Actuarial gains/losses on investments	21,894	36,625	-3,230	120	16,734

Expected contributions for 2021	Pension obligations	Employee discounts	Long-service benefits scheme
Total	**2,084**	**4**	**233**
Expected employer's contributions	1,790	4	233
Expected employees' contributions	294	—	—

Provision for restructuring	2020	2019
At 1 January	3,426	6,356
Withdrawals	-2,966	-6,011
Additions	2,859	3,081
At 31 December	**3,319**	**3,426**

Additions to the provision for restructuring are partly related to the acquisition of Hof Hoorneman Bankiers (€1.6 million).

Provision for interest rate derivatives recovery framework	2020	2019
At 1 January	184	1,025
Withdrawals	-202	-842
Additions	218	2
At 31 December	200	184

Other provisions	2020	2019
At 1 January	3,518	3,632
Withdrawals	-212	-1,178
Release	-79	-522
Additions	5,117	1,541
Other changes	—	45
At 31 December	8,344	3,518

Other provisions include provisions made for various legal claims and defined benefit obligations for employee discount schemes. The increase compared with last year is mainly due to a provision for interest payments in response to a ruling by the Dutch Financial Services Complaints Authority (Kifid) for an amount of €5.1 million, which is reasonable in range of an estimated bandwidth of €5.0 – €5.5 million. An amount of €2.8 million has an expected maturity of one year or longer.

20. Tax liabilities	2020	2019
Total	1,060	792
Current tax liabilities	955	749
Deferred tax liabilities	105	43

21. Other liabilities	2020	2019
Total	212,973	187,306
Interest payable	17,164	20,872
Other accruals and deferred income	42,610	52,668
Lease liabilities	52,303	60,499
Other	100,896	53,268

Other liabilities comprise lease liabilities, income received to be credited to future periods and amounts payable such as accrued interest, payables, suspense accounts and unsettled items.

The increase in Other liabilities is partly due to the purchase price and contingent consideration regarding the acquisition of Hof Hoorneman Bankiers; see "Business combinations in 2020".

Payments not included in lease liability measurement	2020	2019
Total	247	1,776
Leases of low value assets	532	638
Variable lease payments	-285	1,138

Interest expense on leases amounted to €0.8 million at year-end 2020 (2019: €0.9 million), and was recognised in the profit or loss under line item Other interest expense in Note 25, Net interest income.

22. Subordinated loans	2020	2019
Total	172,479	173,090
Certificates of indebtedness	155,570	155,986
Other subordinated loans	16,336	16,450
Value adjustments fair value hedge accounting	573	654

Amortised cost versus carrying amount

The value adjustment of subordinated loans used as hedged items is recognised under Subordinated loans.

Amortised cost versus carrying amount subordinated loans at 31/12/2020	Amortised cost	Value adjustments fair value hedge accounting	Premium/ discount	Carrying amount
Total	166,336	573	5,570	172,479
7.320% subordinated bond loan 08/33	25,000	—	956	25,956
7.218% subordinated bond loan 08/38	25,000	—	1,350	26,350
7.269% subordinated bond loan 08/43	50,000	—	3,264	53,264
3.396% subordinated bond loan 16/26	50,000	—	—	50,000
Other subordinated loans	16,336	573	—	16,909

Amortised cost versus carrying amount subordinated loans at 31/12/2019	Amortised cost	Value adjustments fair value hedge accounting	Premium/ discount	Carrying amount
Total	166,450	654	5,986	173,090
7.320% subordinated bond loan 08/33	25,000	—	1,080	26,080
7.218% subordinated bond loan 08/38	25,000	—	1,457	26,457
7.269% subordinated bond loan 08/43	50,000	—	3,449	53,449
3.396% subordinated bond loan 16/26	50,000	—	—	50,000
Other subordinated loans	16,450	654	—	17,104

The average coupon on the other subordinated loans in 2020 was 6.05% (2019: 6.05%).

23. Total equity	2020		2019	
Total		**1,356,096**		**1,316,570**
Equity attributable to shareholder				
Issued share capital		40,000		40,000
Share premium reserve		154,753		154,753
Revaluation reserve	3,142		1,831	
Actuarial results on defined benefit schemes	-45,511		-37,682	
Currency translation reserve	763		872	
Cash flow hedge reserve	-14,568		-15,221	
Own credit risk reserve	-831		-6,819	
Retained earnings	1,013,750		980,190	
Postponed dividend	59,975		—	
Other reserves		1,016,720		923,172
Undistributed profit (attributable to shareholder)		43,009		92,929
Total equity attributable to shareholder		**1,254,482**		**1,210,853**
Equity attributable to AT1 capital securities				
AT1 capital securities		100,000		100,000
Undistributed profit attributable to AT1 capital securities		1,688		1,688
Total equity attributable to AT1 capital securities		**101,688**		**101,688**
Equity attributable to other non-controlling interests				
Other non-controlling interests		-158		3,606
Undistributed profit attributable to other non-controlling interests		85		423
Total equity attributable to other non-controlling interests		**-73**		**4,029**

The authorised share capital is €100 million and consists of 1,000,000 shares at a nominal value of €100 per share. At 31 December 2019 and 31 December 2020 there were 400,000 shares in issue.

During the financial year Van Lanschot Kempen NV conditionally granted 46,696 depositary receipts for Class A shares in Van Lanschot Kempen NV. For more information on share-based payments, see Note 30, Staff costs.

No option rights have been granted since 2008. By the end of 2020, board members held a total of 266,620 shares and depositary receipts for shares in Van Lanschot Kempen NV. Awards of unconditional shares and depositary receipts to staff are linked to performance and employment contracts. For more information about share schemes for staff and the Statutory Board, see page 61.

Changes in reserves in 2020	Revaluation reserve financial assets at fair value through other comprehensive income	Actuarial results on defined benefit schemes	Currency translation reserve	Cash flow hedge reserve	Own credit risk reserve	Retained earnings	Postponed dividend	Total
At 1 January	1,831	-37,682	872	-15,221	-6,819	980,191	—	923,172
Net changes in fair value	1,311	—	—	653	—	—	—	1,964
Realised gains/losses through profit or loss	—	—	—	—	—	—	—	—
Net reversal of impairment (to profit or loss)	—	—	—	—	—	—	—	—
Value change own credit risk	—	—	—	—	5,987	—	—	5,987
Profit appropriation	—	—	—	—	—	32,954	59,975	92,929
Share plans	—	—	—	—	—	-889	—	-889
Actuarial results	—	-7,829	—	—	—	—	—	-7,829
Other changes	—	—	-109	—	—	1,494	—	1,385
At 31 December	3,142	-45,511	763	-14,568	-832	1,013,750	59,975	1,016,720
Tax effects	-540	3,164	—	638	-1,613	—	—	1,649

In 2021, the proposed dividend for 2020 was set at €72.38 per share. At the general meeting to be held on 27 May 2021, the shareholder will be invited to approve the distribution of the dividend. If the general meeting approves the dividend proposal, we will pay out €20.68 in June and the remainder – in line with ECB and DNB advice – after 30 September 2021. Van Lanschot Kempen has postponed payment of its 2019 dividend, based on the recommendation of the ECB and DNB. The Statutory and Supervisory Boards believe that the 2019 dividend (€149.94 per share) can be paid to our shareholder as soon as circumstances related to Covid-19 allow and on condition that we remain in compliance with our stated capital ratio targets, but also after 30 September 2021. The 2019 dividend to be paid amounts to €60.0 million and is included in Other reserves.

Changes in reserves in 2019	Revaluation reserve financial assets at fair value through other comprehensive income	Actuarial results on defined benefit schemes	Currency translation reserve	Cash flow hedge reserve	Own credit risk reserve	Retained earnings	Total
At 1 January	-3,064	-29,910	104	-13,509	-11,394	970,658	912,883
Net changes in fair value	5,010	—	—	-1,711	—	—	3,298
Realised gains/losses through profit or loss	-523	—	—	—	—	—	-523
Net reversal of impairment (to profit or loss)	408	—	—	—	—	—	408
Value change own credit risk	—	—	—	—	4,575	—	4,575
Profit appropriation	—	—	—	—	—	14,657	14,657
Share plans	—	—	—	—	—	-2,400	-2,400
Actuarial results	—	-7,772	—	—	—	—	-7,772
Other changes	—	—	768	—	—	-2,724	-1,955
At 31 December	1,831	-37,682	872	-15,221	-6,819	980,191	923,172
Tax effects	-1,151	2,490	—	437	-1,180	—	596

Nature and purpose of other reserves

Share premium reserve: Covers amounts paid to Van Lanschot Kempen by shareholder above the nominal value of purchased shares.

Revaluation reserve: Covers movements in the fair value of FVOCI investments.

Actuarial results on defined benefit schemes: Covers actuarial gains and losses on revaluation of investments and defined benefit obligations. The actuarial gains and losses related to a shortfall in minimum performance on defined contribution plan assets, required under Belgian and Swiss law, are also included.

Currency translation reserve: This reserve (which is not available for free distribution) covers currency exchange differences resulting from the valuation of investments in group companies at the prevailing exchange rate in so far as the currency rate risk is not hedged.

Own credit risk reserve: Covers the changes in Van Lanschot Kempen's own credit risk of financial liabilities at fair value through profit or loss.

Cash flow hedge reserve: Covers the share in the gain or loss on hedging instruments in a cash flow hedge that has been designated as an effective hedge.

Retained earnings: Covers past profits added to equity and changes in connection with the share scheme.

24. Contingent liabilities and irrevocable commitments	2020	2019
Total	**1,161,936**	**1,044,862**
Guarantees, etc.	106,570	105,706
Unused credit facilities	1,032,845	901,374
Other	22,520	37,782

For several group companies, guarantees of €239.5 million (2019: €217.6 million) have been issued. It is impossible to predict whether, when and how much of these contingent liabilities will be claimed.

Investigations by supervisory authorities: In 2019 and 2020, specific parts of Kempen & Co (as of 1 January 2020 part of Van Lanschot Kempen Wealth Management) were the subject of an investigation by the AFM regarding compliance with the Money Laundering and Terrorist Financing (Prevention) Act (Wwft). This investigation has been concluded by the AFM. No formal enforcement measures have been imposed.

Contingent assets

In 2015, Van Lanschot Kempen started an appeal against the Dutch tax authorities (*Belastingdienst*) regarding the applied pro-rata percentage which is used for the calculation of its VAT returns in the Netherlands. In March 2020, the Court in Den Bosch ruled in favour of Van Lanschot Kempen. This ruling results in Van Lanschot Kempen being able to claim VAT from the Dutch tax authorities for the previous years (2014-19), which had already been paid. In August 2020, the Dutch tax authorities appealed against the ruling at the Supreme Court. All relevant documentation has now been sent to the Supreme Court. The indicated time frame for the Supreme Court's ruling is June-September 2021. Van Lanschot Kempen considers this material claim a contingent asset.

The following movements are related to the gross carrying amount of the contingent liabilities and the irrevocable commitments. These figures only include IFRS 9-related items and do not therefore reconcile with the table above.

Changes in gross carrying amount of Guarantees and loan commitments in 2020	Stage 1	Stage 2	Stage 3	Total
At 1 January	232,573	3,993	369	236,935
Additions or releases without transfer	31,041	-47,526	-2,130	-18,615
Transfer to Stage 1	251	-251	—	—
Transfer to Stage 2	-54,673	54,673	—	—
Transfer to Stage 3	-4,960	-116	5,076	—
New financial assets originated or purchased	114,001	—	—	114,001
At 31 December	**318,233**	**10,773**	**3,315**	**332,321**

The following tables show the contingent items (contingent liabilities and irrevocable commitments) based on their remaining contractual terms to maturity at the reporting date.

For each transaction that we have guaranteed, the maximum guaranteed amount is included in the relevant term bucket. For each obligation arising from an irrevocable commitment, the committed amount is classified in the relevant term bucket.

Contractual maturity of contingent items at 31/12/2020						
	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Total	**361**	**188,188**	**9,512**	**39,013**	**924,862**	**1,161,936**
Guarantees	361	4,664	7,538	26,905	67,102	106,570
Unused credit facilities	—	183,524	1,974	9,263	838,084	1,032,845
Other irrevocable commitments	—	—	—	2,844	19,676	22,520

Contractual maturity of contingent items at 31/12/2019						
	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Total	**71**	**110,876**	**127,114**	**11,376**	**795,425**	**1,044,862**
Guarantees	71	3,011	1,623	7,036	93,965	105,706
Unused credit facilities	—	107,865	125,491	1,466	666,552	901,374
Other irrevocable commitments	—	—	—	2,874	34,908	37,782

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME (€1,000)

25. Net interest income	2020	2019
Total interest income	**240,592**	**268,282**
Interest income on cash equivalents	—	64
Interest income on banks and private sector	205,804	224,546
Interest income on financial assets at fair value through other comprehensive income	254	3,617
Interest income on other financial assets at amortised cost	6,479	7,939
Interest income calculated using the effective interest method	**212,537**	**236,165**
Interest income on financial assets at fair value through profit or loss	337	1,098
Interest income on derivatives	20,372	21,258
Other interest income	7,345	9,761
Other interest income	**28,055**	**32,116**

Interest expense	2020	2019
Total interest expense	**88,800**	**93,385**
Interest expense on balances at central banks	4,586	4,369
Interest expense on banks and private sector	21,907	25,771
Interest expense on issued debt securities	10,591	10,083
Interest expense on subordinated loans	8,408	9,688
Interest expense on financial assets at fair value through other comprehensive income	521	—
Interest expense calculated using the effective interest method	**46,013**	**49,912**
Interest expense on financial assets at fair value through profit or loss	154	—
Interest expense on derivatives	36,617	37,852
Other interest expense	6,016	5,621
Other interest expense	**42,787**	**43,473**
Net interest income	**151,792**	**174,897**

In 2020, interest result was €23.1 million lower than in 2019. The decrease was mainly caused by lower interest rates as well as the run-off of the Corporate Banking portfolio. While the mortgage volume increased, lower interest rates led to reduced interest income on mortgages. A provision for interest payments in response to a ruling by the Dutch Financial Services Complaints Authority (Kifid) cut interest income by a total €5.1 million in 2020. An additional interest claim of €1.0 million to be received from DSB Bank NV was recognised (2019: €3.9 million). Interest income includes interest from TLTRO III of €2.1 million. The interest result on loans subject to impairment was €2.9 million (2019: €8.6 million).

26. Income from securities and associates	2020	2019
Total	**17,741**	**86,535**
Income from associates using the equity method	12,192	9,469
Realised result of associates using the equity method	588	23,957
Realised and unrealised gains/losses on investments at fair value through profit or loss	-3,355	17,067
Other gains on sales	8,317	36,042

Income from securities and associates was down by €68.8 million. Realised result of associates using the equity method were lower, mainly due to the €23.6 million book profit on the sale of our stake in VLC & Partners and Marfo Food Group in 2019. Realised and unrealised gains/losses on investments at fair value through profit or loss were negative at year-end 2020 mainly due a negative result in our management book. Other gains on sales decreased mainly due to the sale of AIO II in 2019 of €36 million.

27. Net commission income	2020	2019
Total	**296,335**	**290,390**
Securities commissions	24,785	24,342
Management commissions	222,419	217,453
Cash transactions and funds transfer commissions	5,245	6,071
Corporate Finance and Equity Capital Markets commissions	36,188	34,886
Other commissions	7,699	7,637

28. Result on financial transactions	2020	2019
Total	**-32,289**	**-7,407**
Gains/losses on securities trading	2,149	3,545
Gains/losses on currency trading	8,174	8,904
Gains/losses on derivatives under hedge accounting	-4,259	-6,404
Realised gains on financial assets at fair value through other comprehensive income	177	657
Gains/losses on economic hedges/hedge accounting not applied	-37,901	67,204
Gains/losses on financial assets and liabilities at fair value through profit or loss	-629	-81,314

Compared with 2019, result on financial transactions was down by €24.9 million. The balance of losses on economic hedges and losses on financial assets at fair value through profit or loss came in €24.4 million lower. This balance reflects the revaluation result caused by changes in capital market yields in the marked-to-market portfolio and a number of derivatives positions.

Exceptional volatility and illiquidity in certain segments of the financial markets have led to pre-tax losses of €35.1 million in our structured product portfolio. This is recognised in the line item Gains/losses on economic hedges/hedge accounting not applied. We offer structured products to our clients at Private Banking as part of our overall wealth management proposition – as an alternative investment product to help diversify their investment portfolios, with risks and returns tailored to the requirements of the client. In essence, this involves using company-issued debt with embedded derivatives linked to equity indices. The extreme volatility and illiquidity of the markets in reaction to the Covid-19 crisis that began in March 2020 made it impossible to make timely adjustments to these hedges, causing losses to mount.

29. Other income	2020	2019
Total	**9,161**	**8,808**
Net sales	13,333	13,066
Cost of sales	-4,172	-4,258

Other income comprises net sales and cost of sales from non-strategic investments arising from debt conversion. In certain cases, where a company has not been able to repay a corporate loan granted by Van Lanschot Kempen, the loan has been converted into a shareholding, thus giving the company time to recover. We aim to sell any shares in non-strategic investments in due course.

30. Staff costs	2020	2019
Total	**249,335**	**250,577**
Salaries and wages	189,789	188,647
Pension costs for defined contribution schemes	23,615	18,114
Pension costs for defined benefit schemes	3,101	4,998
Other social security costs	20,240	21,204
Share-based payments for variable remuneration	2,614	4,047
Other staff costs	9,976	13,568

Staff costs declined by €1.2 million mainly due to decreases in Other staff costs. Partly as a result of cost-cutting measures, the average number of FTEs fell during 2020. The increase in Salaries and wages was partly due to collective salary agreements.

In 2020, share-based payments in Van Lanschot Kempen NV shares added €1.6 million to equity (2019: €2.0 million). Of the total expenses arising from share-based payments, €1.6 million is included in Salaries and wages (2019: €1.1 million); this amount includes the profit-sharing scheme. Pension costs for defined contribution schemes include €1.1 million for Statutory Board members (2019: €1.1 million).

Pension costs for defined benefit schemes fell due to a change in the pension schemes. The pension schemes of Kempen and Van Lanschot have been replaced by a new individual defined contribution scheme as of 1 January 2020. The former Van Lanschot scheme was classified as a collective defined contribution scheme, and the former Kempen scheme was classified as defined contribution with guaranteed indexation.

The average number of staff in 2020 was 1,750 (2019: 1,834), or 1,630 in full-time equivalents (2019: 1,698), as shown below:

Average FTEs	2020	2019
Total	**1,630**	**1,698**
Netherlands	1,444	1,515
Belgium	132	134
Other	53	49

Conditional depositary receipts for shares in Van Lanschot Kempen NV granted to staff (excluding Statutory Board)	2020	2019
At 1 January	150,613	222,930
Granted	46,696	60,039
Vested	-84,241	-127,107
Forfeited rights	-844	-5,249
At 31 December	**112,224**	**150,613**

Conditional depositary receipts for shares in Van Lanschot Kempen NV are granted to staff both under the variable remuneration policy for identified staff and the long-term share plan (LTP).

The fair value is determined based on the volume-weighted day price for depositary receipts for Class A shares on the second trading day after release of Van Lanschot Kempen's annual figures. The fair value is equal to the share price less discounted value of expected dividends during the vesting period. Depositary receipts in shares Van Lanschot Kempen NV granted in 2020 had a weighted-average fair value of €16.10 (2019: €16.78).

In 2020, 10,296 conditional depositary receipts for shares of Van Lanschot Kempen NV were granted under the LTP to a number of senior managers other than members of the Statutory Board (2019: 12,540). The depositary receipts for Class A Van Lanschot Kempen NV shares will be granted in 2021 on the second trading day after the release of Van Lanschot Kempen's annual figures for 2020.

Long-term share plan

The long-term share plan allows us to award variable remuneration to certain key employees, including identified staff. It offers a special type of variable remuneration in which the total variable pay takes the form of depositary receipts for Class A Van Lanschot Kempen NV shares. For the LTP, 60% of the Van Lanschot Kempen NV shares are awarded immediately and unconditionally, while 40% are awarded conditionally over a period of three years for LTP plans before 2020. For LTP plans from 2020 onwards, 40% are rewarded conditionally over a period of four years.

Conditional depositary receipts for shares will vest if:

(i) Van Lanschot Kempen's financial position allows this in the year of vesting;
(ii) Risks have been reviewed and no material, unforeseen risks have occurred; and
(iii) The individual has not left Van Lanschot Kempen NV in the three or four-year period.

Conditional variable remuneration can be revised down if so prompted by risks and performances identified later (malus).

Employees do not receive any dividends during the vesting period. If an employee ceases to be employed by Van Lanschot Kempen within this period, their rights will be forfeited, except in limited circumstances judged on an individual basis.

A part (around 50%) of the conditionally awarded depositary receipts is used to pay income tax.

31. Other administrative expenses	2020	2019
Total	**112,608**	**135,062**
Accommodation expenses	7,339	9,389
Marketing and communication	6,543	9,206
Office expenses	4,549	4,922
IT expenses	37,679	52,647
External auditors' fees	3,726	3,652
Consultancy fees	14,459	12,261
Travel and hotel fees	1,038	3,497
Information providers' fees	14,140	14,437
External service provider charges	10,483	7,609
Other	12,651	17,442

IT expenses fell mainly due to the completion of our strategic investment programme in 2019. In addition, marketing costs and travel costs were lower compared with the previous year, partly due to the Covid-19 pandemic. Consultancy fees relate to advisory services (business consultancy, tax) and the implementation and maintenance of software and hardware.

The increase in consultancy fees reflects higher costs related to legal advice and strategic and regulatory projects.

Fees charged by the external independent auditors (and their network of offices) can be broken down as follows:

Fees charged by external independent auditors 2020	Auditor PwC	Other auditors	Total auditors
Total	**3,542**	**184**	**3,726**
Financial statements audit fee	2,396	132	2,528
Fee for other audit services	231	—	231
Financial statements audit fee for funds managed by Kempen	583	—	583
Other non-audit assurance fees	332	53	384

Fees charged by external independent auditors 2019	Auditor PwC	Other auditors	Total auditors
Total	**3,512**	**141**	**3,652**
Financial statements audit fee	2,377	96	2,473
Fee for other audit services	210	—	210
Financial statements audit fee for funds managed by Kempen	751	—	751
Other non-audit assurance fees	173	44	217

This is a summary of the services rendered by our auditor PricewaterhouseCoopers Accountants NV:

- Financial statements audit;
- Financial statements audit for funds managed by Kempen;
- Statutory audit of controlled and related entities;
- Audit of the regulatory returns to be submitted to De Nederlandsche Bank;
- ISAE 3402 report on Kempen Capital Management, Private Banking and DGS;
- Non-audit assurance engagements on safeguarding client assets and non-financial information;
- Agreed-upon procedures regarding interest rate risk;
- Review procedures on 30 June and 31 December 2020;
- Comfort letters issued as part of funding transactions and based on Dutch Accounting Standard 3850N;
- Reasonable assurance engagement regarding the third series of the targeted longer-term refinancing operations (TLTRO III).

32. Depreciation and amortisation	2020	2019
Total	**24,712**	**25,201**
Buildings	2,186	2,219
Right-of-use assets – buildings	9,802	9,055
Right-of-use assets – transport equipment	3,823	3,644
IT, operating system software and communications equipment	3,454	3,424
Application software	1,154	1,402
Intangible assets arising from acquisitions	5,537	5,537
Results on disposals of property and equipment	-2,664	-1,879
Other depreciation and amortisation	1,420	1,799

33. Impairments	2020	2019
Total impairments	**1,871**	**22,854**
Cash and cash equivalents and balances at central banks	—	0
Due from banks	-1	1
Financial assets at fair value through other comprehensive income	-132	5
Loans and advances to the public and private sectors	1,739	-11,857
Other financial assets at amortised cost	-15	-6
Financial guarantees and loan commitments	282	-203
Impairment of financial instruments	**1,871**	**-12,059**
Investments in associates using the equity method	—	-87
Goodwill and intangible assets	—	35,000
Assets acquired through foreclosures	—	—
Other impairments	**—**	**34,913**

Total impairments decreased by €21.0 million compared with 2019, mainly due to impairment of goodwill in 2019; for more information, see Note 11, Goodwill and other intangible assets. See subsection 2.8 "Loss allowance for expected credit loss" of the Risk management section for more information on impairments related to financial instruments.

34. Income tax	2020	2019
Operating profit before tax	54,214	119,529
Total gross result	**54,214**	**119,529**
Prevailing tax rate in the Netherlands	25%	25%
Tax	4,370	21,114
Total tax	**4,370**	**21,114**
Expected tax on the basis of the prevailing tax rate in the Netherlands	13,554	29,882
Increase/decrease in tax payable due to		
Non-deductible interest	157	—
Tax-free income from securities and associates	-7,911	-10,122
Taxed release of tax reserves	266	—
Non-deductible costs	1,341	1,382
Non-deductible losses	-81	-113
Adjustments to taxes for prior financial years	-980	3
Impact of foreign tax rate differences	121	-108
Addition/(release) deferred tax assets	-510	181
Other changes	-1,558	9
	-9,155	**-8,768**
Total tax	**4,370**	**21,114**

This tax amount consists of the tax expense for the financial year on the operating result as disclosed in the statement of income, also allowing for any tax relief facilities. When determining the tax amount, we have applied currently existing tax rules. Changes in the effective tax rate were mainly due to the equity holding exemption, deductibility of coupon payments on our AT1 instrument and non-deductible costs. In both 2019 and 2020, the effective tax rate also changed as a result of changes to the statutory tax rate in the Netherlands.

Key income tax components	2020	2019
Total	**4,370**	**21,114**
Standard tax	9,509	28,712
Income/expense from foreign tax rate differences	-93	-108
Income/expense from changes in deferred tax assets	-1,725	-8,913
Income/expense from deferred tax liabilities	-2,340	1,420
Income/expense from prior-year adjustments	-980	3

The breakdown of deferred tax assets and liabilities (including tax rate adjustments) through the statement of income is as follows:

Deferred tax assets	2020	2019
Total	**-1,725**	**-8,913**
Employee benefits	423	-366
Commissions	-54	46
Property and equipment	-2,183	-1,400
Tax-loss carry-forwards	-274	-8,049
Other	363	856

Deferred tax liabilities	2020	2019
Total	**-2,340**	**1,420**
Property and equipment	-2,439	1,186
Intangible assets	99	235

35. Earnings per share	2020	2019
Net result	**49,844**	98,414
Share of AT1 capital securities	-6,750	-5,063
Share of other non-controlling interests	-85	-423
Net result for calculation of earnings per share	**43,009**	**92,929**
Weighted average number of shares in issue	400,000	400,000
Earnings per share (€)	107.52	232.32
Proposed dividend per share (€)	72.38	149.94

To calculate earnings per share, the number of shares consists solely of the weighted average number of shares in issue.

BUSINESS COMBINATIONS IN 2020

On 18 August 2020, Van Lanschot Kempen and Hof Hoorneman Bankiers NV ("Hof Hoorneman Bankiers") announced agreement on the acquisition by Van Lanschot Kempen of Hof Hoorneman Bankiers. The transaction was effected by the transfer of 100% of the shares of Hof Hoorneman Bankiers to Van Lanschot Kempen. This acquisition is in line with our strategy and enables us to expand our assets under management. The acquisition involved amongst others the private banking client relationships, including €2.0 billion in client assets, 58.7 FTEs and the products and services of Hof Hoorneman Bankiers, giving Van Lanschot Kempen decisive control over these activities. On 15 January 2021, Van Lanschot Kempen announced the completion of this transaction and took control effective December 2020. We thus consolidated Hof Hoorneman Bankiers in our statement of financial position as at 31 December 2020, as part of our Private Banking segment.

The table below sets out the allocation of the acquisition price to the fair value of the acquired assets (including any identifiable intangible assets), liabilities and contingent liabilities at the acquisition date. The identifiable intangible assets reflect the acquired client base. The goodwill is attributable to the workforce and the profitability of the acquired business. The goodwill is included in the Private Banking CGU.

Hof Hoorneman Bankiers (€ million)	Fair value of acquisition	Carrying amount of acquisition
Cash and cash equivalents	106.3	106.3
Due from banks	2.3	2.3
Property and equipment	3.5	2.1
Intangible assets	12.5	0.2
Financial assets at fair value through profit or loss	10.0	10.0
Loans and advances to the public and private sectors	22.5	22.5
Other assets	9.7	9.7
Total identifiable assets	**166.8**	**153.1**
Due to banks	1.9	1.9
Public and private sector liabilities	128.3	128.3
Other liabilities	8.4	7.2
Deferred tax liabilities	3.1	
Total identifiable liabilities	**141.7**	**137.5**
Total net assets	**25.1**	**15.6**
Goodwill	7.8	
Consideration	**32.8**	

The consideration includes a contingent amount of €1.2 million related to the earn-out agreement and is recognised under Other liabilities. As Hof Hoorneman Bankiers was consolidated on 31 December 2020, its figures did not contribute to our 2020 statement of income.

RELATED PARTIES

In the normal course of business, we enter into various related party transactions. Parties are considered related if one party exercises control or has significant influence over the other party regarding financial or operating decisions. Parties related to us include our key management personnel, our subsidiaries, affiliates and parties with significant influence in Van Lanschot Kempen. These transactions are conducted at arm's length.

The Executive Board comprises our key management personnel and is responsible for implementing our strategy and managing our activities. The Board is made up of the Chairman of the Van Lanschot Kempen Statutory Board, the Van Lanschot Kempen CFRO, the Van Lanschot Kempen COO and the members of the management team responsible for for our activities Van Lanschot Private Banking and Kempen Asset Management.

Remuneration of Executive Board	2020	2019
Total	7,662	6,510
Fixed salary, amount in cash	2,882	2,961
Fixed salary, amount in shares[1] of Van Lanschot Kempen NV	1,987	1,949
Sign-on bonus, amount in shares[2] of Van Lanschot Kempen NV	400	—
Termination benefit, amount in cash	438	—
Termination benefit, amount in shares[3] of Van Lanschot Kempen NV	312	—
Fixed payment for pension and disability insurance costs	1,643	1,600

For transactions with key management personnel, see “Remuneration of the Statutory and Supervisory Boards”.

Affiliates	2020		2019	
	Income	Expenses	Income	Expenses
Stichting Pensioenfonds F. van Lanschot	1,058	—	1,014	—

Parties with significant influence in Van Lanschot Kempen

On the basis of regulatory guidelines, management has decided that entities with a shareholding of at least 5% in Van Lanschot Kempen are parties with significant influence in Van Lanschot Kempen.

At year-end 2020 and 2019, there were no income, charges or amounts payable or receivable to/from parties with significant influence in Van Lanschot Kempen.

Van Lanschot Kempen did not grant any guarantees in 2020 or 2019, and neither were impairments recognised for receivables.

For transactions in associates, see “Disclosures of interest in other entities”.

1. Expenses recognised under IFRS-EU accounting for Van Lanschot Kempen NV shares differ due to the treatment under IFRS 2. For 2020, expenses under IFRS amounted to €2,205,000 (2019: €2,162,000).
2. Expenses recognised under IFRS-EU accounting for Van Lanschot Kempen NV shares differ due to the treatment under IFRS 2. For 2020, Sign-on bonus expenses under IFRS amounted to €446,000.
3. Expenses recognized under IFRS-EU accounting for Van Lanschot Kempen NV shares differ due the treatment under IFRS 2. For 2020, Redundancy expenses under IFRS amounted €348,000

DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Key judgements and assumptions
We rely on key judgements and assumptions when determining control and significant influence. We have included these under the headings "Basis of consolidation" and "Summary of significant accounting policies".

Interests in subsidiaries
The consolidated statement of financial position and statement of income comprise subsidiaries and entities in which Van Lanschot Kempen has control, but excludes the names of relatively minor subsidiaries and entities.

Subsidiaries (%)	2020	2019
F. van Lanschot Bankiers (Schweiz) AG	100	100
Kempen & Co NV (part of VLKWM from 1 January 2020)	n/a	100
Kempen Capital Management BV (part of Kempen & Co NV till 1 January 2020)	100	n/a
Van Lanschot Participaties BV	100	100
Quion 17 BV	100	100
Hof Hoorneman Bankiers NV	100	—
Allshare BV	100	100
Holowell Holding BV	93	93

No restrictions apply between VLKWM and its subsidiaries.

Consolidated structured entities controlled by Van Lanschot Kempen
In the consolidated statement of financial position, we consolidate structured entities. These are designed in such a way that the voting rights are not the dominant factor in deciding who controls the entity, and the relevant activities are governed by contractual arrangements. Van Lanschot Kempen is exposed to substantially all of the risk of the structured entity and thereby controls it. Therefore, these structured entities do not qualify as a transfer of financial assets and are not derecognised from our statement of financial position.

We consolidate the following structured entities:
– Van Lanschot Conditional Pass-Through Covered Bond Company BV
– Van Lanschot Conditional Pass-Through Covered Bond Company 2 BV

Conditional Pass-Through Covered Bond Programme (CPTCB)
Van Lanschot Kempen established a CPTCB programme in March 2015. Investors have a dual recourse claim: initially against Van Lanschot Kempen, and, in the event of the bank's failure, against a pool of cover assets. In April 2015 the bank launched the first bond loan of €500 million (maturity of seven years: coupon of 0.275%). The second bond loan of €500 million was placed in March 2016 (maturity of seven years: coupon of 0.375%) and the third bond loan of €500 million was placed in February 2017 (maturity of ten years: coupon of 0.875%). All loans were placed with institutional investors.

Conditional Pass-Through Covered Bond Programme 2 (CPTCB2)
Van Lanschot Kempen established a retained CPTCB programme in July 2019. In September 2019, the bank launched the first bond loan of €300 million (maturity of five years: coupon of 0.40%). All loans were retained.

The tables below show the total amounts of the mortgage loans involved in each covered bond programme.

	31/12/2020		31/12/2019	
	Fair value	Carrying amount	Fair value	Carrying amount
Total	2,250,690	2,151,711	2,163,289	2,101,257
Covered Bond Programme	1,886,670	1,803,700	1,812,359	1,758,025
Covered Bond Programme 2	364,020	348,011	350,930	343,232

Van Lanschot Kempen provides no financial or other support to the covered bond entities, and has no intention of providing such support.

Non-consolidated structured entities

Asset-backed securities are classified as financial assets at fair value through other comprehensive income. These investments are structured entities. We do not consolidate these because Van Lanschot Kempen is not exposed to substantially all of the risk of the structured entity. The table below shows Van Lanschot Kempen's investments in non-consolidated structured entities and the total income from these investments. The Investments column shows the carrying value as recognised in the consolidated statement of financial position.

Van Lanschot Kempen has no other interests in non-consolidated structured entities such as commitments, guarantees, provisions, derivatives or other obligations. The maximum exposure to non-consolidated structured entities is equal to the acquisition cost and amounted to €355.2 million at 31 December 2020 (2019: €387.3 million).

Van Lanschot Kempen provides no financial or other support to non-consolidated structured entities, and has no intention of providing such support.

Non-consolidated structured entities 2020	Interest income	Comprehensive income	Total income	Investments
Total	554	-1,591	-1,037	351,968
Asset-backed securities	554	-1,591	-1,037	351,968

Non-consolidated structured entities 2019	Interest income	Comprehensive income	Total income	Investments
Total	833	1,903	2,736	385,661
Asset-backed securities	833	1,903	2,736	385,661

Non-controlling interests

The consolidated statement of financial position and statement of income include a number of non-controlling interests; a list of non-controlling interests in Van Lanschot Kempen subsidiaries is provided below.

Non-controlling interests	31/12/2020	31/12/2019
Total	-73	4,029
Kempen MIP	—	4,122
Consolidated investment funds	79	67
Consolidated shareholdings	-151	-159

Van Lanschot Kempen's minority interests are recognised under non-controlling interests as part of equity.

Changes in non-controlling interests	2020			2019		
	Non-controlling interests	Undistributed profit attributable to non-controlling interests	Total	Non-controlling interests	Undistributed profit attributable to non-controlling interests	Total
At 1 January	3,606	423	4,029	6,529	5,684	12,213
Profit appropriation	97	-97	—	5,376	-5,376	—
Dividend	—	-326	-326	—	-309	-309
Result for the reporting period	—	85	85	—	423	423
Other changes	-3,861	—	-3,861	-8,298	—	-8,298
At 31 December	-158	85	-73	3,606	423	4,029

Kempen Management Investment Plan (MIP)

As a consequence of the merger between Van Lanschot and Kempen as at 1 January 2020, Kempen ceased to exist. In view of this merger, the Executive Board decided to wind up the Kempen Management Investment Plan (MIP) in 2020. The dissolution of Coöperatie MIP and Stichting MIP was completed in Q4 2020. The certificates which Van Lanschot Kempen Wealth Management NV (VLKWM) and the employees of Kempen & Co held in Stichting MIP were bought from them for the nominal value of €1,000. There were 3,801 certificates outstanding with employees and 11,199 with VLKWM. There was no impact on the profit and loss account, as no incremental fair value was granted.

Kempen MIP	31/12/2020	31/12/2019
Number of depositary receipts issued to Kempen employees	—	3,801
Legally required contribution by VLKWM (€)	—	100

Financial information for Kempen MIP	2020	2019
Total assets	—	16,285
Total liabilities	—	—
Equity attributable to shareholders	—	12,163
Equity attributable to non-controlling interests	—	4,122
Total income from operating activities	—	1,285
Total expenses	—	—
Taxes	—	—
Net income	—	1,285
Of which attributable to shareholders	—	959
Of which attributable to non-controlling interests	—	326

Consolidated investments

We consolidate one investment in which a non-controlling minority interest of a third party is included. This comprises a minority stake in Holowell Holding BV of Tholen, the Netherlands (7.37%). In 2019, there were two investments in which non-controlling interests of third parties were included, namely Holowell Holding BV of Tholen, the Netherlands (7.37%) and in Allshare BV of Hoofddorp, the Netherlands (0.20%).

The table below provides aggregated information on consolidated investments.

Financial information consolidated investments	2020	2019
Total assets	6,630	13,661
Total liabilities	8,684	12,568
Equity attributable to shareholders	-1,903	1,253
Equity attributable to non-controlling interests	-151	(159)
Total income from operating activities	7,588	8,431
Total expenses	6,219	6,579
Taxes	356	309
Net income	1,013	1,542
Of which attributable to shareholders	939	1,474
Of which attributable to non-controlling interests	75	68

Associates

Investments in associates using the equity method

As part of our investment policy, we invest in medium-sized companies in the Netherlands, only holding minority interests of between 20% and 49%. These investments are classified as investments in associates using the equity method.

The table below shows the largest investments in associates based on the carrying amount.

Name	Activities	Head office	Interest
Bolster Investments Coöperatief UA	Bolster is a long-term investor specialising in taking minority shareholdings of 20-50% in private companies and pursuing a flexible, long-term investment horizon, allowing its companies' portfolios to realise their long-term growth potential.	Amsterdam	29.75%
Fire Safety Holding BV (Gerco)	Gerco is the Dutch market leader in the field of fire compartmentation of buildings.	Schoonhoven	42.50%
Movares Group BV	Movares provides engineering and consultancy services in the fields of mobility, infrastructure, spatial planning and transport systems.	Utrecht	32.64%
OGD Beheer BV	OGD provides ICT services to medium-sized and large companies, public and semi-public and non-profit organisations. Its services include service management, outsourcing, software development and ICT training.	Delft	32.20%
Ploeger Oxbo Holding BV	Ploeger Oxbo develops, manufactures and sells a wide range of specialist harvesting equipment to customers across the world.	Roosendaal	11.87%
Quint Wellington Redwood Holding BV	Quint is an independent consultancy focusing on the strategic management, sourcing and outsourcing, and implementation of IT-related processes in organisations.	Amstelveen	18.00%
Tecnotion Investment BV	Tecnotion designs, produces and sells linear motors across the world, to the semiconductor, electronics, LCD, automotive and robotics industries among others.	Almelo	37.98%

Aggregated financial information of associates for which Van Lanschot Kempen applies the equity method	2020		2019	
	Associates, equity method	Attributable to Van Lanschot Kempen	Associates, equity method	Attributable to Van Lanschot Kempen
Total	**262,057**	**72,201**	**208,636**	**52,452**
Current assets	183,385	37,996	197,762	40,928
Non-current assets	395,674	83,961	351,481	71,935
Current liabilities	-86,007	-20,849	-86,740	-22,246
Non-current liabilities	-230,995	-32,906	-253,866	-36,549
Goodwill		13,969		11,411
Impairments		-6,455		-6,455
Other		-3,515		-6,572
Other financial information				
Dividend received		5,572		4,516
Income from operational activities		11,423		9,642
Share of net income		12,398		13,606
Unrecognised share of losses		117		120
Comprehensive income		—		—

The table below shows the income and expenses that we report in the statement of income and the positions included in the statement of financial position, as well as guarantees issued at year-end in respect of these entities.

Transactions with associates using the equity method	2020	2019
Income	1	19
Amount payable	1,272	1,193
Guarantees	13,209	28,113

Loans granted to entities in which we exercise significant influence but do not have decisive control are granted on market terms and secured on collateral provided. No impairments were applied to the receivables in either 2020 or 2019.

Van Lanschot Participaties

Investments using the equity method are managed by Bolster Investment Partners, with the exception of our stakes in Bolster Investments Coöperatief. As part of its direct holdings, Van Lanschot Participaties issues subordinated loans and cumulative preference shares, while it also invests in a portfolio of equity funds. In addition, Van Lanschot Participaties is the controlling shareholder of a stake resulting from debt conversions and consolidated in the Van Lanschot Kempen accounts (note that this is not a core activity for Van Lanschot Participaties). The table below shows Van Lanschot Participaties' financial impact on the consolidated statement of financial position and statement of income. The table does not include information about controlling interests.

Investment activity	Item	Carrying value	Interest	Income from securities	Impairments	Total
Direct investment	Investment in associates using the equity method	35,174	—	8,290	—	8,290
Shareholdings	Financial assets at fair value through profit or loss	2,227	203	—	—	203
Subordinated loans	Loans and advances to the public and private sectors	199	25	—	—	25
Fund investment	Financial assets at fair value through profit or loss	12,204	—	5,198	—	5,198
Total		**49,804**	**228**	**13,488**	**—**	**13,716**

Joint ventures in which Van Lanschot Kempen is a partner

We have no joint ventures.

COMMITMENTS

IT contracts

In the past, Van Lanschot Kempen entered into several IT contracts, e.g. for hiring services and capacity, and for licensing and maintenance of our systems. Our future contractual payment commitments for the new and existing IT contracts amount to € 28.2 million, as shown below.

Future payments for IT contracts	
Total	**28,224**
Within 1 year	12,262
1 to 5 years	15,962
More than 5 years	—

Early termination of these contracts could result in additional costs. Exit fees are linked to the remaining term of the contracts.

SEGMENT INFORMATION

Segmentation of our activities is based on operating segments, as our risk and return profile is chiefly affected by differences in our products and services. Internal cost allocation is based on use of services. Our activities break down into five operating segments, while intersegment transactions are conducted on an arm's length basis.

Private Banking
Private Banking offers private clients and entrepreneurs a broad range of products in the private banking market, while also focusing on business professionals and executives, healthcare professionals, foundations and associations.

Evi
Evi is Van Lanschot Kempen's online investment coach in the Netherlands and Belgium. Its activities specifically target mass affluent individuals and Millennials.

Asset Management
A specialist asset manager, Asset Management focuses on a range of investment strategies while also offering fiduciary services to domestic and international institutional clients such as pension funds and insurers.

Merchant Banking
Merchant Banking offers specialist services including equities research and trading, mergers & acquisitions services, capital market transactions and debt advisory services to institutional investors, corporates, financial institutions and public and semi-public entities.

Other activities
These comprise activities in the fields of interest rate, market and liquidity risk management, staff departments, as well as the activities of Van Lanschot Participaties/ Bolster and consolidated investments. In October 2020, we integrated the activities of the Structured Products team from our Merchant Banking segment into our Other activities segment and comparative figures have been adjusted accordingly. This transfer is in line with our most recent strategic update.

Operating segments in 2020 (€ million)

	Private Banking	Evi	Asset Management	Merchant Banking	Other activities	Total
Statement of income						
Net interest income	137.6	2.9	0.1	—	11.2	151.8
Income from securities and associates	—	—	0.1	—	17.6	17.7
Net commission income	134.1	5.3	105.3	48.9	2.6	296.3
Result on financial transactions	1.2	—	-0.1	2.8	-36.2	-32.3
Other income	—	—	—	—	9.2	9.2
Total income from operating activities	**272.9**	**8.2**	**105.5**	**51.7**	**4.4**	442.7
Staff costs	88.7	2.3	51.7	24.6	82.0	249.3
Other administrative expenses	58.6	5.4	13.8	7.1	27.6	112.6
Allocated internal expenses	64.0	1.6	12.9	9.7	-88.2	—
Depreciation and amortisation	6.1	0.0	0.9	0.3	17.4	24.7
Impairments	2.2	—	—	—	-0.3	1.9
Total expenses	**219.6**	**9.3**	**79.4**	**41.7**	**38.5**	388.5
Operating result before tax	**53.3**	**-1.1**	**26.1**	**10.0**	**-34.1**	54.2

Operating segments in 2019 (€ million)	Private Banking	Evi	Asset Management	Merchant Banking	Other activities	Total
Statement of income						
Net interest income	154.0	3.2	0.1	—	17.7	174.9
Income from securities and associates	—	—	-0.7	—	87.3	86.5
Net commission income	130.1	5.1	101.7	49.5	4.0	290.4
Result on financial transactions	1.2	—	-0.0	3.5	-12.1	-7.4
Other income	—	—	—	—	8.8	8.8
Total income from operating activities	**285.3**	**8.2**	**101.1**	**52.9**	**105.6**	**553.2**
Staff costs	97.0	3.5	49.8	23.7	76.6	250.6
Other administrative expenses	63.2	5.4	16.3	8.3	41.8	135.1
Allocated internal expenses	70.7	2.2	13.3	9.1	-95.4	—
Depreciation and amortisation	6.2	0.0	0.9	0.0	18.0	25.2
Impairments	-11.2	0.0	—	—	34.0	22.9
Total expenses	**226.0**	**11.1**	**80.3**	**41.2**	**75.1**	**433.7**
Operating result before tax	**59.3**	**-2.9**	**20.8**	**11.8**	**30.5**	**119.5**

The tables below give additional information on the geographical spread of income from operations.

Geographical segments in 2020 (€ million)	Netherlands	Belgium	Other	Total
Statement of income				
Total income from operating activities	**389.6**	**35.0**	**18.1**	**442.7**
Of which income from other segments	-3.8	2.6	1.3	—
Statement of financial position				
Due from banks	166.9	—	—	166.9
Investments in associates using the equity method	72.2	—	—	72.2
Total non-current assets[1]	**239.1**	—	—	**239.1**

Geographical segments in 2019 (€ million)	Netherlands	Belgium	Other	Total
Statement of income				
Total income from operating activities	**499.1**	**33.0**	**21.1**	**553.2**
Of which income from other segments	-4.9	3.7	1.2	—
Statement of financial position				
Due from banks	193.6	—	—	193.6
Investments in associates using the equity method	52.5	—	—	52.5
Total non-current assets[1]	**246.1**	—	—	**246.1**

1 Other than financial instruments, deferred tax assets and post-employment assets.

Country-by-country reporting on a consolidated basis at 31 December 2020

Country	Name of main subsidiary	Nature of activities	Average number of staff (FTEs)	Total income from operating activities (€ million)	Operating result before tax (€ million)	Income tax (€ million)	Government subsidies (€ million)
Total			**1,630**	**442.7**	**54.2**	**-4.4**	**—**
Netherlands	VLKWM NV	Wealth management	1,444	389.6	56.1	-4.4	—
Belgium	VLKWM NV branch	Wealth management	132	35.0	-1.7	0.1	—
Switzerland	F. van Lanschot Bankiers (Schweiz) AG	Wealth management	31	9.8	0.1	-0.1	—
United Kingdom	KCM Londen Ltd.	Asset management	17	4.7	-1.0	0.2	—
United States	Kempen & Co USA Inc.	Securities trading and research distribution	6	3.2	0.7	-0.2	—
France	Kempen Capital Management NV branch	Asset management	—	0.5	0.0	—	—

Country-by-country reporting on a consolidated basis at 31 December 2019

Country	Name of main subsidiary	Nature of activities	Average number of staff (FTEs)	Total income from operating activities (€ million)	Operating result before tax (€ million)	Income tax (€ million)	Government subsidies (€ million)
Total			**1,698**	**553.2**	**119.5**	**21.1**	**—**
Netherlands	VLKWM NV	Wealth management	1,515	498.8	120.6	20.9	—
Belgium	VLKWM NV branch	Wealth management	133	32.9	-3.5	-0.5	—
Switzerland	F. van Lanschot Bankiers (Schweiz) AG	Wealth management	28	11.9	1.5	0.4	—
United Kingdom	Kempen & Co NV branch	Asset management	16	6.0	0.2	0.0	—
United States	Kempen & Co USA Inc.	Securities trading and research distribution	6	3.2	0.6	0.2	—
France	Kempen Capital Management NV branch	Asset management	—	0.4	0.0	—	—

PROFIT APPROPRIATION

If the annual general meeting approves the dividend proposal as included in these financial statements, the appropriation of net result will be as follows:

Profit appropriation	2020	2019
Total	**43,009**	**92,929**
Addition to/withdrawal from reserves	14,056	32,954
Dividend on shares	28,953	59,975

REMUNERATION OF THE STATUTORY AND SUPERVISORY BOARDS

For further details of remuneration received in 2020, see “Remuneration” on page 64.

Total direct compensation of the individual members of the Statutory Board in 2020

	Fixed salary, amount in cash	Fixed salary, amount in shares of Van Lanschot Kempen NV[1]	Total fixed salary
Total	**1,975**	**1,324**	**3,299**
Karl Guha	730	388	1,118
Constant Korthout	415	312	727
Arjan Huisman	415	312	727
Richard Bruens	415	312	727

Total direct compensation of the individual members of the Statutory Board in 2019

	Fixed salary, amount in cash	Fixed salary, amount in shares of Van Lanschot Kempen NV[1]	Total fixed salary
Total	**2,087**	**1,324**	**3,410**
Karl Guha	773	388	1,160
Constant Korthout	438	312	750
Arjan Huisman	438	312	750
Richard Bruens	438	312	750

Pension and disability insurance costs for the individual members of the Statutory Board	2020	2019
Total	**1,119**	**1,110**
Karl Guha	381	378
Constant Korthout	246	244
Arjan Huisman	246	244
Richard Bruens	246	244

Total remuneration related to 2020, consisting of fixed salary, pension and disability insurance, amounted to €1,499,000 for Karl Guha (2019: €1,538,000); €973,000 for Constant Korthout (2019: €994,000); €973,000 for Arjan Huisman (2019: €994,000); and €973,000 for Richard Bruens (2019: €994,000).

[1] Expenses (in €1,000) recognised under IFRS-EU accounting for Van Lanschot Kempen NV shares differ due to treatment under IFRS 2. For 2020, expenses under IFRS for Karl Guha amounted to €432 (2019: €429), for Constant Korthout to €348 (2019: €346), Arjan Huisman to €348 (2019: €346), and for Richard Bruens to €348 (2019: €346). A proportion of fixed salary is paid in the form of Van Lanschot Kempen NV shares. Karl Guha received 19,456 shares (2019: 18,953) and the other members of the Statutory Board each received 15,677 shares (2019: 15,273). The number of shares granted is based on the average share price for the first four trading days of 2020: €19.92 (2019: €20.45). IFRS takes the share price at grant date as the basis for recognition. This price also amounted to €19.92 (2019: €20.45).

Number of depositary receipts for shares of Van Lanschot Kempen NV held by Statutory Board members in 2020				
	At 1 January	Bought/awarded	Sold/post-employment	At 31 December
Total	**225,423**	**41,197**	**—**	**266,620**
Karl Guha	63,722	12,055	—	75,777
Constant Korthout	62,042	9,714	—	71,756
Arjan Huisman	41,655	9,714	—	51,369
Richard Bruens	58,004	9,714	—	67,718

Loans to Statutory Board members at 31 December 2020				
	At 31 December	Repaid	Interest	Collateral
Total	**1,348**	**27**		
Constant Korthout	—	—	—	—
Arjan Huisman	—	—	—	—
Richard Bruens	600	—	1.90%	Mortgage
	501	18	1.72%	Mortgage
	247	9	1.72%	Mortgage

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

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

Remuneration of the Supervisory Board	2020	2019
Total	607	**613**
Frans Blom	96	77
Willy Duron (until 28 May 2020)	53	127
Manfred Schepers	95	95
Karin Bergstein (from 28 May 2020)	40	—
Jeanine Helthuis	83	76
Bernadette Langius	80	80
Maarten Muller	75	73
Lex van Overmeire	85	85

No loans or advances had been granted to members of the Supervisory Board at 31 December 2020 and 31 December 2019.

The company and its subsidiaries only grant personal loans, guarantees and the like to Supervisory Board members within the scope of normal operations and in keeping with conditions laid down in the financial services regulations for directors of Van Lanschot Kempen, subject to the approval of the Supervisory Board. Loans are not forgiven.

's-Hertogenbosch, 10 March 2021

Supervisory Board

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

Statutory Board

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

EVENTS AFTER THE REPORTING PERIOD

On 11 January 2021, Van Lanschot Kempen NV announced that Karl Guha has decided to step down from his posts as Chairman of Van Lanschot Kempen's Statutory and Executive Boards by the end of 2021.

On 14 January 2021, the transfer of 100% of the shares of Hof Hoorneman Bankiers to Van Lanschot Kempen was effected.

Company statement of financial position and income

Company statement of financial position at 31 December
Before profit appropriation (€1,000)

		2020	2019
Assets			
Cash and cash equivalents and balances at central banks	1	2,040,901	1,334,216
Government paper eligible for central bank refinancing	2	886,365	778,849
Due from banks	3	332,415	321,561
Loans and advances to the public and private sectors	4	8,321,997	8,532,380
Debt instruments	5	2,259,669	2,220,515
Equity instruments	6	86,455	24,595
Investments in group companies	7	244,831	212,365
Investments in associates using the equity method	8	37,027	19,312
Goodwill and other intangible assets	9	147,368	133,129
Property and equipment	10	81,367	94,432
Other assets	11	59,017	40,743
Derivatives	12	296,078	119,856
Accrued assets	11	128,535	102,075
Total assets		**14,922,025**	**13,934,028**
Liabilities			
Due to banks	13	893,422	379,623
Public and private sector liabilities	14	9,619,002	9,202,151
Issued debt securities	15	2,210,766	2,483,895
Other liabilities	16	185,764	143,562
Derivatives	12	376,282	180,469
Accrued liabilities	16	47,051	39,056
Provisions	17	61,090	19,642
Subordinated loans	18	172,479	173,090
Total liabilities		**13,565,856**	**12,621,488**
Issued share capital		40,000	40,000
Share premium reserve		154,753	154,753
Revaluation reserve		3,142	1,831
Reserves required by law		29,348	21,014
Other reserves		984,230	900,327
Undistributed profit attributable to shareholder		43,009	92,929
Equity attributable to shareholder		**1,254,481**	**1,210,853**
AT1 capital securities		100,000	100,000
Undistributed profit attributable to holders of AT1 capital securities		1,688	1,688
Equity attributable to AT1 capital securities		**101,688**	**101,688**
Total equity	19	1,356,169	1,312,541
Total equity and liabilities		**14,922,025**	**13,934,028**
Contingent liabilities		322,005	322,923
Irrevocable commitments		1,003,921	934,442
Contingent liabilities and irrevocable commitments	20	1,325,926	1,257,365

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

Company statement of income (€1,000)

		2020	2019
Income from operating activities			
Interest income		224,707	261,744
Interest expense		91,524	105,150
Net interest income	22	**133,182**	**156,594**
Income from associates using the equity method		4,213	18,809
Other income from securities and associates		43,980	85,679
Income from securities and associates	23	**48,193**	**104,488**
Commission income		199,540	148,727
Commission expense		18,658	18,745
Net commission income	24	**180,882**	**129,982**
Result on financial transactions	25	**-28,516**	**1,323**
Total income from operating activities		**333,742**	**392,388**
Expenses			
Staff costs	26	181,279	161,043
Other administrative expenses	27	78,163	77,929
Staff costs and other administrative expenses		**259,442**	**238,972**
Depreciation and amortisation	28	27,850	21,567
Operating expenses		**287,292**	**260,539**
Impairments of financial instruments		2,095	-12,006
Other impairments		—	35,000
Impairments	29	**2,095**	**22,994**
Total expenses		**289,387**	**283,533**
Operating profit before tax		44,354	108,855
Income tax	30	-5,404	10,864
Net result		**49,759**	**97,991**
Of which attributable to shareholder		43,009	92,929
Of which attributable to holders of AT1 capital securities		6,750	5,063

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

Company statement of changes in equity in 2020
Before profit appropriation
(€1,000)

	Share capital	Share premium reserve	Revaluation reserves	Reserves required by law	Other reserves	Undistributed profit	Total equity attributable to shareholder	Equity attributable to AT1 capital securities	Total equity
At 1 January	**40,000**	**154,753**	**1,831**	**21,014**	**900,327**	**92,929**	**1,210,853**	**101,688**	1,312,541
Net profit (statement of income)	—	—	—	—	—	43,009	43,009	6,750	49,759
Total other comprehensive income	—	—	1,311	-109	-1,189	—	13	—	13
Total comprehensive income	**—**	**—**	**1,311**	**-109**	**-1,189**	**43,009**	**43,022**	**6,750**	49,772
Share plans	—	—	—	—	-889	—	-889	—	-889
To other reserves	—	—	—	—	92,929	-92,929	—	—	—
To reserves required by law	—	—	—	8,443	-8,443	—	—	—	—
Dividends/Capital return	—	—	—	—	637	—	637	-6,750	-6,113
Other changes	—	—	—	—	858	—	858	—	858
At 31 December	40,000	154,753	3,142	29,349	984,230	43,009	1,254,481	101,688	1,356,169

Company statement of changes in equity in 2019
Before profit appropriation
(€1,000)

	Share capital	Share premium reserve	Revaluation reserves	Reserves required by law	Other reserves	Undistributed profit	Total equity attributable to shareholder	Equity attributable to AT1 capital securities	Total equity
At 1 January	**40,000**	**216,149**	**-3,065**	**29,442**	**886,506**	**74,631**	**1,243,663**	—	1,243,663
Net profit (statement of income)	—	—	—	—	—	92,929	92,929	5,063	97,991
Total other comprehensive income	—	—	4,896	768	-4,909	—	755	—	755
Total comprehensive income	—	—	4,896	768	-4,909	92,929	93,684	5,063	98,746
Share plans	—	—	—	—	-2,400	—	-2,400	—	-2,400
To other reserves	—	—	—	—	14,657	-14,657	—	—	—
To reserves required by law	—	—	—	-9,196	9,196	—	—	—	—
Dividends/Capital return	—	-61,396	—	—	—	-59,974	-121,371	-3,375	-124,746
Increase/(decrease) of capital	—	—	—	—	—	—	—	100,000	100,000
Other changes	—	—	—	—	-2,724	—	-2,724	—	-2,724
At 31 December	40,000	154,753	1,831	21,014	900,327	92,929	1,210,853	101,688	1,312,541

Company financial statements: basis of preparation

The company financial statements of Van Lanschot Kempen Wealth Management NV (formerly Van Lanschot NV until 31 December 2019) ("VLKWM") have been prepared in accordance with the legal requirements as set out in Part 9, Book 2 of the Dutch Civil Code.

We have availed ourselves of the option offered in Article 362(8), Book 2 of the Dutch Civil Code to apply the same accounting principles in the company financial statements that apply to the consolidated financial statements (including the accounting principles for the presentation of financial instruments as equity or liabilities). The line items Investments in group companies and Investments in associates are exceptions to this general rule; these are accounted for using the equity method.

The company financial statements are denominated in euros, VLKWM's functional and reporting currency. All amounts are in thousands of euros unless otherwise stated. The totals may not always match the sum of the individual values due to rounding.

NOTES TO THE COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER (€1,000)

1. Cash and cash equivalents and balances at central banks	2020	2019
Total	**2,040,901**	**1,334,216**
Cash	—	—
Balances at central banks	1,943,793	1,201,381
Statutory reserve deposits at central banks	13,047	12,933
Amounts due from banks	84,061	119,902
Impairments	0	-1

Statutory reserve deposits at central banks comprise balances at central banks within the scope of the minimum reserve requirement. These balances cannot be used by VLKWM in its day-to-day operations. The increase in Balances at central banks is mainly explained by the funding obtained under the TLTRO III programme (€400 million) and the increase in Public and private sector liabilities. See note 13 (Due to banks) for more information.

2. Government paper eligible for central bank refinancing	2020		2019	
	Carrying	Acquisition	Carrying amount	Acquisition cost
Total	**886,365**	**913,592**	**778,849**	**802,806**
Government paper at fair value	658,584	657,399	567,121	567,155
Government paper at amortised cost	227,781	256,194	211,729	235,651

Movements in government paper eligible for central bank refinancing	2020	2019
At 1 January	778,850	692,560
Purchases	273,700	363,135
Sales	-20,706	-5,036
Redemptions	-141,447	-264,076
Amortisation of premiums/discounts on debt instruments	-7,569	-9,469
Value changes to equity	3,528	4,363
Value changes to profit and loss	10	-109
Other changes	—	-2,518
At 31 December	**886,365**	**778,850**

The nominal value of government paper eligible for central bank refinancing amounted to €0.9 billion in 2020 (2019: €0.8 billion), while cumulative revaluation amounted to €7.0 million (2019: €4.3 million). Accumulated depreciation and impairments are nil (2019: nil). In 2020, €220.3 million of government paper eligible for central bank refinancing was repayable on demand (2019: €140.8 million). In 2020 and 2019, we held no government paper eligible for central bank refinancing with an original maturity of less than two years.

In 2020, €3 million in government paper was pledged as collateral to De Nederlandsche Bank (2019: nil). The carrying amount of government paper serving as collateral to financial institutions amounted to €82 million (2019: €46 million) and to nil for group companies (2019: €14 million). We do not have free access to these debt instruments.

3. Due from banks	2020	2019
Total	**332,415**	**321,561**
Payable on demand	28,841	31,543
Other receivables	303,574	290,020
Impairments	—	-1

The line item Other receivables comprises deposits to the value of €154 million (2019: €100 million) serving as collateral for obligations arising from derivatives transactions.

Due from banks includes €131.8 million from group companies (2019: €151.8 million).

4. Loans and advances to the public and private sectors	2020	2019
Total	**8,321,997**	**8,532,380**
Mortgage loans	5,726,535	5,604,536
Loans	1,850,559	1,988,033
Current accounts	576,001	812,783
Securities-backed loans and settlement receivables	107,178	90,216
Value adjustment fair value hedge accounting	124,284	98,722
Impairments	-62,561	-61,910

The credit risk in the company financial statements is similar to that described in the consolidated financial statements. For more information, see Risk Management, subsection 2, Credit risk.

Please refer to the consolidated financial statements' "Summary of significant accounting principles" for a more in-depth review of the criteria and the way in which we determine impairments and the write-down of loans and advances to the public and private sectors.

Loans and advances to the public and private sectors include €752.9 million from group companies (2019: €912.1 million).

5. Debt instruments	2020		2019	
	Carrying amount	Purchase price	Carrying amount	Purchase price
Total	**2,259,669**	**2,262,883**	**2,220,515**	**2,219,953**
Debt instruments at fair value	2,048,907	2,040,116	2,006,637	1,995,830
Debt instruments at amortised cost	210,762	222,767	213,877	224,122

Movements in debt instruments	2020	2019
At 1 January	2,220,515	2,242,741
Purchases	370,633	922,658
Sales	-51,680	-191,340
Redemptions	-279,682	-761,666
Amortisation of premiums/discounts on debt instruments	-12,130	-7,443
Value changes to equity	5,992	13,325
Value changes to profit and loss	-144	-278
Other changes	6,165	2,518
At 31 December	**2,259,669**	**2,220,515**

The cumulative revaluation amounted to €20.6 million in 2020 (2019: €13.8 million). Accumulated depreciation and impairment was nil (2019: nil). The nominal value of these debt instruments amounted to €2.2 billion in 2020 (2019: €2.2 billion). In 2021, €373.2 million will be available on demand (2020: €343.1 million). Debt instruments from group companies are nil (2019: nil).

In 2020, debt instruments serving as collateral to De Nederlandsche Bank amounted to €426 million (2019: €4 million). The carrying amount of debt instruments serving as collateral to financial institutions amounted to €154 million (2019: €83 million) and to nil for group companies (2019: €70 million). We do not have free access to these debt instruments.

6. Equity instruments	2020		2019	
	Fair value	Purchase price	Fair value	Purchase price
Total	**86,455**	**93,250**	**24,595**	**33,640**
Listed shares	61,100	59,582	84	73
Unlisted shares	25,355	33,668	24,511	33,567

Movements in equity instruments	2020	2019
At 1 January	24,595	23,542
Purchases	8,629	66
Sales	-3,844	-776
Value changes to profit and loss	546	1,764
Other changes	56,529	—
At 31 December	86,455	24,595

We purchased 33.9% of these shares (2019: 97.78%), with the intention to hold them for an indefinite period. The increase in equity instruments is explained by the merger between Van Lanschot NV and Kempen & Co NV as at 1 January 2020. The listed shares of Kempen are included in Other changes (€56.5 million).

7. Investments in group companies	2020	2019
Total	244,831	212,365
Subsidiaries – credit institutions	19,781	19,888
Other subsidiaries	225,050	192,477

Investments in group companies are measured in accordance with the equity method, with the share in the profit of these interests recognised under Income from securities and associates in the company statement of income.

Movements in investments in group companies	2020	2019
At 1 January	212,365	223,130
Purchases	15,621	20,442
Deconsolidation	-10,025	—
Liquidation	-14,586	-906
Share of profit/(loss)	42,438	82,089
Revaluations	443	-5,175
Dividend received	-52,791	-106,662
Other changes	51,366	-553
At 31 December	244,831	212,365

Cumulative revaluations of investments in group companies stood at nil in 2020 (2019: nil). Accumulated impairments also stood at nil (2019: nil).

In 2020, in the Belgium profile fund 'Van Lanschot Bankiers Katholiek Fonds' was deconsolidated. The increase in Other changes is explained by the merger between Van Lanschot NV and Kempen & Co NV as at 1 January 2020 (€51.2 million).

Name	Head office	Interest
F. van Lanschot Bankiers (Schweiz) AG	Zürich	100%
Kempen Finance BV	Amsterdam	100%
Kempen Capital Management NV	Amsterdam	100%
Kempen Bewaarder BV	Amsterdam	100%
Kempen AM NL BV	Amsterdam	100%
Kempen & Co USA Inc	East Hanover, New	100%
Global Property Research BV	Amsterdam	100%
Van Lanschot Participaties BV	s-Hertogenbosch	100%
BV Beheer- en Beleggingsmaatschappij Orthenstraat	s-Hertogenbosch	100%
BV Foton, Maatschappij tot beheer van industrie- en handelsondernemingen	s-Hertogenbosch	100%
BV Beleggingsmaatschappij De Gevulde Trom	s-Hertogenbosch	100%
Sapphire Investments BV	Amsterdam	100%
Beheers en Beleggings Compagnie Silva Ducis BV	s-Hertogenbosch	100%
Van Lanschot Mezzaninefonds II BV	s-Hertogenbosch	100%
Vakan BV	Amsterdam	100%
Quion 17 BV	Capelle aan den IJssel	100%
Efima Hypotheken BV	s-Hertogenbosch	100%
LansOG Beheer BV	s-Hertogenbosch	100%
Hof Hoorneman Bankiers NV	Gouda	100%

Entities in which VLKWM NV exercises control:
- Van Lanschot Conditional Pass-Through Covered Bond Company BV
- Van Lanschot Conditional Pass-Through Covered Bond Company 2 BV

All investments in group companies are unlisted holdings.

8. Investments in associates using the equity method	2020	2019
Total	**37,027**	**19,312**
Investments in associates	37,027	19,312

Investments in associates are measured in accordance with the equity method, with the share in the profit of these interests recognised under Share of profit/(loss) in the company statement of income.

Movements in investments in associates	2020	2019
At 1 January	19,312	25,707
Purchases	14,875	3,183
Sales	-1,267	-11,240
Share of profit/(loss)	4,107	1,662
At 31 December	**37,027**	**19,312**

Cumulative revaluations of the investments in associates stood at nil in 2020 (2019: nil). Accumulated depreciation and impairments also stood at nil (2019: nil).

Name	Head office	Interest
Bolster Investments Coöperatief UA	Amsterdam	29.75%

Bolster Investments Coöperatief UA is an unlisted interest.

9. Goodwill and other intangible assets	2020	2019
Total	147,368	**133,129**
Goodwill	100,090	92,280
Brands	4,599	5,366
Other intangible assets	42,679	35,484

The goodwill shown above represents goodwill arising from acquisitions. For the impairment test, this goodwill is allocated to the relevant cash-generating units. In 2020, the impairment test has not resulted in a goodwill impairment. Additional information is included in Note 11 to the consolidated financial statements.

Movements in goodwill and other intangible assets 2020	Goodwill	Brands	Other intangible assets	Total
At 1 January	92,280	5,366	35,484	133,129
Additions	7,810	—	9,487	17,297
Amortisation	—	-767	-2,292	-3,058
Impairments	—	—	—	—
At 31 December	**100,090**	**4,599**	**42,679**	**147,368**
Historical cost	100,090	15,330	115,409	230,828
Accumulated amortisation and impairments	—	-10,731	-72,730	-83,461
Net carrying amount at 31 December	**100,090**	**4,599**	**42,679**	**147,368**

Movements in goodwill and other intangible assets 2019	Goodwill	Brands	Other intangible assets	Total
At 1 January	127,280	6,132	40,733	174,145
Additions	—	—	119	119
Amortisation	—	-767	-5,369	-6,135
Impairments	-35,000	—	—	-35,000
At 31 December	**92,280**	**5,366**	**35,484**	**133,129**
Historical cost	127,280	15,330	105,922	248,532
Accumulated amortisation and impairments	-35,000	-9,965	-70,438	-115,403
Net carrying amount at 31 December	**92,280**	**5,366**	**35,484**	**133,129**

10. Property and equipment	2020	2019
Total	81,367	94,432
Buildings	24,858	29,454
Right-of-use - buildings	40,892	49,732
Right-of-use - transport equipment	7,242	5,647
Other property and equipment	8,375	9,569
Work in progress	—	30

Movements in property and equipment 2020	Buildings	Right-of-use - buildings	Right-of-use - transport equipment	Other property and equipment	Work in progress	Total
At 1 January	29,454	49,732	5,647	9,569	30	94,432
Acquisition of subsidiaries	168	—	—	—	—	168
Additions	875	—	3,533	2,754	—	7162000
Disposals	-3,643	—	—	—	-30	-3,673
Depreciation	-1,996	-8,840	-3,823	-3,948	—	-18,607
Other	—	—	1,884	—	—	1,884
At 31 December	25	40,892	7,241	8,375	—	81,367
Historical cost	44,618	57,855	14,709	71,535	—	188,717
Accumulated depreciation and impairments	-19,760	-16,963	-7,467	-63,160	—	-107,350
Net carrying amount at 31 December	24,858	40,892	7,242	8,375	—	81,367

Movements in property and equipment 2019	Buildings	Right-of-use - buildings	Right-of-use - transport equipment	Other property and equipment	Work in progress	Total
At 1 January	33,215	—	—	10,320	106	43,641
Impact of adopting IFRS 16	—	56,361	5,621	—	—	61,982
At 1 January	33,215	56,361	5,621	10,320	106	105,623
Capital expenditure	556	—	—	3,489	9	4,055
Additions	—	1,494	2,832	—	—	4,326
Disposals	-2,277	—	—	—	—	-2,277
Capitalisation of investments	—	—	—	—	-86	-86
Depreciation	-2,040	-8,123	-2,806	-4,240	—	-17,210
At 31 December	29	49,732	5,647	9,569	30	94,432
Historical cost	66,898	57,855	8,454	68,781	30	202,018
Accumulated depreciation and impairments	-37,444	-8,123	-2,806	-59,213	—	-107,586
Net carrying amount at 31 December	29,454	49,732	5,647	9,569	30	94,432

The line item Buildings is related to real estate in own use (€24.9 million; 2019: €26.6 million) and real estate not in own use (€0.0 million; 2019: €3.5 million). Our policy is to sell, over time, any real estate no longer in own use.

We have entered into lease contracts for buildings – including service fees and rent for any parking spaces – as well as car lease and computer lease contracts. These contracts are recognised as right-of-use assets.

Other property and equipment comprises information technology, furniture and fixtures, and communications and safety equipment.

For more information about property and equipment, please refer to the consolidated financial statements “Summary of significant accounting principles”.

11. Other assets and accrued assets

Other assets relate to current tax assets (2020: €6.0 million; 2019: €0.0 million), deferred tax assets (2020: €16.9 million; 2019: €12.1 million) and amounts receivable, such as debtors, suspense accounts and intercompany assets.

Accrued assets relate to interest receivables, commission receivables and transitory items.

All current receivables fall due in less than one year. The fair value of the receivables approximates the carrying amount due to their short-term nature and the fact that provisions for bad debt are recognised, where necessary.

12. Derivatives			
At 31 December 2020	Asset	Liability	Contract amount
Total	296,078	376,282	5,776,411
Derivatives used for trading purposes	41,221	39,932	41,158
Derivatives used for hedge accounting purposes	53,669	126,416	4,806,250
Other derivatives	201,188	209,934	929,003
At 31 December 2019	Assets	Liabilities	Contract amount
Total	119,856	180,469	6,114,664
Derivatives used for trading purposes	27,405	27,405	27,405
Derivatives used for hedge accounting purposes	52,702	136,274	5,004,250
Other derivatives	39,749	16,790	1,083,009

We use derivatives for both trading and hedging purposes. This note shows both the positive and negative market values of the derivatives, as well as their notional values. The following types of derivatives are used: interest rate, inflation-linked, currency and equity derivatives, as well as forward contracts.

The increase in Other derivatives is mainly explained by the merger between Van Lanschot NV and Kempen & Co NV as at 1 January 2020.

13. Due to banks	2020	2019
Total	893,422	379,623
Liabilities withdrawable on demand	419,209	355,737
Other liabilities	474,214	23,886

Due to banks includes €394.5 million from group companies (2019: €325.7 million). Other liabilities include special loans from the ECB, consisting of funding obtained under the Targeted Longer-Term Refinancing Operations III programme (TLTRO III).

Additional information on the TLTRO programme is included in Note 15 to the consolidated financial statements.

14. Public and private sector liabilities	2020	2019
Total	9,619,002	9,202,151
Savings		
Savings withdrawable on demand	2,249,589	2,139,902
Savings not withdrawable on demand	90,143	97,718
Total savings	2,339,732	2,237,620
Other public and private sector liabilities		
Other public and private sector liabilities withdrawable on demand	6,882,290	6,518,822
Other public and private sector liabilities not withdrawable on demand	396,980	445,710
Total other public and private sector liabilities	7,279,270	6,964,531

Savings include all deposit and savings accounts held by private individuals and not-for-profit organisations.

Public and private sector liabilities include €89.5 million from group companies (2019: €136.7 million).

15. Issued debt securities	2020	2019
Total	**2,210,766**	**2,483,895**
Listed debt securities	1,615,516	1,766,744
Unlisted debt securities	595,250	717,151

Movements in issued debt securities	2020	2019
At 1 January	2,483,895	2,491,729
Purchases	121,937	205,572
Sales	-96,817	-117,342
Redemptions	-179,049	-177,662
Amortisation of premiums/discounts on debt instruments	171	1,199
Other changes	-119,370	80,399
At 31 December	**2,210,766**	**2,483,895**

This item consists of debt instruments with rates of interest that are either fixed or variable, in so far as not subordinated. In 2021, €99.5 million of these debt securities will become payable on demand (2020: €179.0 million). The discount on issued debt securities amounted to €5.3 million (2019: €5.5 million) and is included in the item's carrying value.

Issued debt securities from group companies stood at nil in 2020 (2019: €31.2 million).

16. Other liabilities and accrued liabilities

Other liabilities relate to lease liabilities, and amounts payable such as creditors, suspense accounts and intercompany obligations. The increase in Other liabilities is mainly due to the purchase price and contingent consideration regarding the acquisition of Hof Hoorneman Bankiers; please refer to the consolidated financial statements' "Business combinations in 2020".

Lease liabilities stood at €50.7 million (2019: €59.3 million). Payments not included in the lease liability measurement amounted to -€0.2 million (2019: €1.3 million).

Accrued liabilities relate to interest payable and other accruals.

All current liabilities fall due in less than one year. The fair value of the current liabilities approximates the book value due to their short-term nature.

17. Provisions	2020	2019
Total	**61,090**	**19,642**
Pension provision	46,338	11,126
Other provisions	14,751	8,517

The pension provision is a long-term obligation on behalf of employees in our offices in the Netherlands and Belgium. We operate both defined benefit and defined contribution schemes. For more information about these schemes, please refer to Note 19, Provisions, in the consolidated financial statements. The increase in Pension provisions is mainly explained by the merger between Van Lanschot NV and Kempen & Co NV as at 1 January 2020.

Other provisions comprise provisions taken for restructuring, the jubilee benefits scheme, the interest rate derivatives recovery framework, employee discounts, financial guarantees, and all other provisions. These provisions are 42% long-term (2019: 59%) and 58% short-term (2019: 41%). For more information about other provisions, please refer to Note 19, Provisions, in the consolidated financial statements.

18. Subordinated loans	2020	2019
Total	**172,479**	**173,090**
7.320% subordinated bond loan 08/33	25,956	26,080
7.218% subordinated bond loan 08/38	26,350	26,457
7.269% subordinated bond loan 08/43	53,264	53,449
3.396% subordinated bond loan 16/26	50,000	50,000
6.020% subordinated bond loan 04/24	16,456	16,537
Other subordinated loans	453	567

Movements in subordinated loans	2020	2019
At 1 January	173,090	173,473
Redemptions	-113	-113
Amortisation of premiums/discounts on debt instruments	-416	-416
Other changes	-82	146
At 31 December	**172,479**	**173,090**

Subordinated loans provide solvency capital for VLKWM NV. Holders of our subordinated loans have a position in our capital structure between senior claims and share capital. This implies that, in the event of liquidation or bankruptcy, a holder of a subordinated bond will only be repaid after all senior claims have been settled. Depending on the instrument's terms and conditions, early repayment (at its nominal amount) may take place at the optional redemption date and all subsequent interest payment dates.

Interest paid on subordinated loans amounted to €8.4 million (2019: €9.7 million).

19. Total equity	2020		2019	
Total		**1,254,481**		**1,210,853**
Equity attributable to shareholder				
Issued share capital		40,000		40,000
Share premium reserve		154,753		154,753
Revaluation reserve	3,142		1,831	
Actuarial results on defined benefit pension scheme	-45,511		-37,682	
Cash flow hedge reserve	-14,568		-15,221	
Own credit risk reserve	-831		-6,819	
Reserves required by law	29,348		21,014	
Freely available reserves	985,165		960,048	
Postponed dividend	59,975		—	
Other reserves		1,016,720		923,172
Undistributed profit attributable to shareholder		43,009		92,929
Total equity attributable to shareholder		**1,254,481**		**1,210,853**
Equity attributable to AT1 capital securities				
AT1 capital securities		100,000		100,000
Undistributed profit attributable to AT1 capital securities		1,688		1,688
Total equity attributable to AT1 capital securities		**101,688**		**101,688**

The reserves required by law comprise a reserve in the amount of the share in the positive income from associates of €26.3 million (2019: €18.0 million), a reserve for currency translation differences on associates of €0.8 million (2019: €0.9 million) and a reserve required under the Articles of Association from subsidiaries of €2.3 million (2019: €2.1 million).

Tax effects on changes in the revaluation reserves amounted to €0.5 million positive in 2020 (2019: €1.2 million positive).

Liability capital comprises equity and subordinated loans, which are accounted for under non-current liabilities. At year-end 2020, this liability capital amounted to €1,427.0 million (2019: €1,383.9 million).

Distributable items	2020		2019	
Other reserves incl. retained earnings		1,016,720		923,172
Revaluation reserve	3,142		1,831	
Actuarial results on defined benefit pension scheme[1]	-45,511		-37,682	
Cash flow hedge reserve	-14,568		-15,221	
Own credit risk reserve	-831		-6,819	
Reserves required by law	29,348		21,014	
Postponed dividend	59,975		—	
Freely available reserves		985,165		960,048
Share premium reserve		154,753		154,753
Total distributable items		**1,139,918**		**1,114,801**

20. Contingent liabilities and irrevocable commitments	2020	2019
Total	**1,325,926**	**1,257,365**
Guarantees, etc.	322,005	322,923
Unused credit facilities	984,756	900,010
Other irrevocable commitments	19,165	34,432

In 2020, we issued guarantees for a number of group companies for an amount of €220.4 million (2019: €217.9 million).

21. Other notes to the statement of financial position

Foreign currency balance converted to euros

The sum of assets in foreign currencies converted to euros amounted to €216.7 million (2019: €131.8 million) and the sum of liabilities in foreign currencies to €537.8 million (2019: €498.9 million).

Contractual maturity of assets and liabilities

The tables below show the assets and liabilities based on their remaining contractual terms to maturity at the reporting date, without taking behavioural aspects into account. These amounts reconcile with the values disclosed in the company statement of financial position.

Contractual maturity of assets and liabilities at 31/12/2020	Withdrawable on demand	< 3 months	≥ 3 months < 1 years	≥ 1 years < 5 years	≥ 5 years	Total
Assets						
Due from banks	32,138	123,199	19,333	122,570	35,175	332,415
Loans and advances to the public and private sectors	1,233,462	60,548	202,442	344,108	6,481,438	8,321,997
Total assets	**1,265,600**	**183,747**	**221,775**	**466,678**	**6,516,613**	8,654,412
Liabilities						
Due to banks	419,193	6,170	1,127	453,039	13,893	893,422
Public and private sector liabilities	9,254,194	34,387	57,985	134,145	138,291	9,619,002
Issued debt securities	—	11,833	81,772	2,036,373	80,789	2,210,766
Subordinated loans	—	—	—	16,909	155,570	172,479
Total liabilities	**9,673,387**	**52,390**	**140,884**	**2,640,466**	**388,543**	12,895,670

Contractual maturity of assets and liabilities at 31/12/2019	Withdrawable on demand	< 3 months	≥ 3 months < 1 years	≥ 1 years < 5 years	≥ 5 years	Total
Assets						
Due from banks	31,564	171,250	2,610	16,367	99,770	321,561
Loans and advances to the public and private sectors	1,614,455	47,427	106,074	345,412	6,419,012	8,532,380
Total assets	**1,646,018**	**218,677**	**108,685**	**361,779**	**6,518,782**	8,853,941
Liabilities						
Due to banks	355,737	17,067	76	—	6,743	379,623
Public and private sector liabilities	8,800,382	43,608	194,890	54,334	108,938	9,202,151
Issued debt securities	—	50,957	115,665	1,662,641	654,633	2,483,895
Subordinated loans	—	—	—	17,274	155,815	173,090
Total liabilities	**9,156,119**	**111,632**	**310,630**	**1,734,249**	**926,129**	12,238,759

Financial instruments measured at fair value

The tables below show financial instruments designated at fair value through profit or loss. For a review of valuation models and techniques and for information about these instruments, see Risk management, Section 14, Fair value.

Financial instruments at fair value at 31/12/2020 Item	Fair value determination using listed market prices	Fair value determination using observable market inputs	Fair value determination using non-observable market inputs	Total
Assets				
Government paper eligible for central bank refinancing	658,584	—	—	658,584
Debt instruments	2,048,907	—	—	2,048,907
Equity instruments	61,100	22,655	2,700	86,455
Derivatives (receivables)	41,158	254,990	—	296,148
Total assets	**2,809,749**	**277,645**	**2,700**	3,090,094
Liabilities				
Issued debt securities	—	655,730	85,139	740,869
Other liabilities	26	—	—	26
Derivatives (liabilities)	40,348	335,934	—	376,282
Total liabilities	**40,374**	**991,664**	**85,139**	1,117,177

Financial instruments at fair value at 31/12/2019 Item	Fair value determination using listed market prices	Fair value determination using observable market inputs	Fair value determination using non-observable market inputs	Total
Assets				
Government paper eligible for central bank refinancing	567,121	—	—	567,121
Debt instruments	2,006,638	—	—	2,006,638
Equity instruments	84	22,001	2,510	24,595
Derivatives (receivables)	27,405	92,451	—	119,856
Total assets	**2,601,248**	**114,452**	**2,510**	2,718,209
Liabilities				
Issued debt securities	—	928,723	9,111	937,834
Derivatives (liabilities)	27,405	153,064	—	180,469
Total liabilities	**27,405**	**1,081,787**	**9,111**	1,118,303

The table below shows value changes recognised in profit or loss and in the revaluation reserve of financial instruments designated at fair value.

Value changes of financial instruments designated at fair value

	2020			2019		
Item	Value changes recognised in profit or loss	Value changes to revaluation reserve	Total value changes	Value changes recognised in profit or loss	Value changes to revaluation reserve	Total value changes
Government paper eligible for central bank refinancing	10	3,528	3,538	-109	4,363	4,254
Debt instruments	-144	5,985	5,841	-278	13,325	13,046
Equity instruments	2,655	—	2,655	1,764	—	1,764
Derivatives	-37,545	—	-37,545	73,894	—	73,894
Issued debt securities	-494	—	-494	-80,929	—	-80,929
Total	**-35,518**	**9,513**	-26,005	**-5,659**	**17,688**	12,029

Financial instruments at amortised cost
The table below shows the nominal and fair value of financial instruments at amortised cost, with the exception of financial instruments where the nominal value is a reasonable approximation of the fair value. The value of financial instruments at amortised cost is taken as the amount for which the instrument could be exchanged in a commercial transaction between willing parties, other than in a forced or liquidation sale. If there is an active market, we use the market value to determine the fair value. For financial instruments for which no market prices are available, the fair values shown in the table are estimated on the basis of the present value or other estimation or valuation methods.

Financial instruments at amortised cost	2020		2019			
	Fair value	Carrying amount	Fair value	Carrying amount	Valued using	Valuation method
Assets						
Government paper eligible for central bank refinancing	236,360	227,781	225,038	211,729	Listed market prices	Listed market prices
Due from banks	332,251	332,415	321,232	321,561	Observable market inputs	Discounted cash flows using applicable money market rates
Loans and advances to the public and private sectors	8,520,343	8,321,997	8,833,666	8,532,380	Unobservable market inputs	Discounted cash flows using current market fees for comparable loans and taking into account the creditworthiness of the counterparty
Debt instruments						
– Other debt instruments at amortised cost	211,409	210,762	217,295	213,877	Listed market prices	Listed market prices
Liabilities						
Due to banks	893,089	893,422	379,623	379,623	Observable market inputs	Discounted cash flows using applicable money market rates for liabilities
Public and private sector liabilities	9,688,389	9,619,002	9,264,948	9,202,151	Unobservable market inputs	Discounted cash flows using applicable money market rates for liabilities with a comparable term to maturity, taking account of own credit risk
Issued debt securities	1,474,494	1,469,897	1,554,751	1,546,061	Listed market prices	Quoted prices in active markets
Subordinated loans	225,531	172,479	222,483	173,090	Unobservable market inputs	Discounted cash flows using applicable money market rates for liabilities with a comparable term to maturity, taking account of own credit risk

Commitments not recognised in the statement of financial position
In the past, VLKWM entered into several IT contracts, e.g. for hiring services and capacity, and for licensing and maintenance of our systems. Our future contractual payment commitments for new and existing IT contracts amount to €28.2 million, of which €12.3 million within one year and €16.0 million between one and five years.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME
(€1,000)

22. Net interest income	2020	2019
Total interest income	**224,707**	**261,744**
Interest income on cash equivalents	—	63
Interest income on banks and private sector	190,123	216,128
Interest income on debt instruments	—	14,535
Interest income on derivatives	20,372	21,258
Other interest income	14,211	9,761

Interest expense	2020	2019
Total interest expense	**91,524**	**105,150**
Interest expense on balances at central banks	4,586	4,369
Interest expense on banks and private sector	22,000	33,427
Interest expense on issued debt securities	10,591	10,083
Interest expense on subordinated loans	8,408	9,688
Interest expense on derivatives	36,617	37,852
Other interest expense	9,322	9,731

The line item Other interest expense includes interest expense on leases, which amounted to €0.8 million at year-end 2020 (2019: €0.9 million).

23. Income from securities and associates

This item includes the income realised by associates and by securities, and other income related to associates and securities.

24. Net commission income	2020	2019
Total	**180,882**	**129,982**
Securities commissions	20,953	10,338
Management commissions	112,406	111,845
Cash transactions and funds transfer commissions	5,230	6,058
Corporate Finance and Equity Capital Markets commissions	35,629	—
Other commissions	6,664	1,741

The increase in Corporate Finance and Equity Capital Market commissions is explained by the merger between Van Lanschot NV and Kempen & Co NV as at 1 January 2020 (2019: €34.2 million).

25. Result on financial transactions	2020	2019
Total	-28,516	1,323
Gains/losses on securities trading	2,149	66
Gains/losses on currency trading	7,332	8,020
Gains/losses on derivatives under hedge accounting	820	-686
Realised gains on debt instruments	177	657
Gains/losses on economic hedges – hedge accounting not applied	-38,365	74,580
Gains/losses on financial assets and liabilities at fair value through profit or loss	-629	-81,314

In 2020, exceptional volatility and illiquidity in certain segments of the financial markets led to pre-tax losses of €35.1 million in our structured product portfolio. Additional information is included in Note 28 to the consolidated financial statements.

26. Staff costs

The average number of staff in 2020 was 1,335 (2019: 1,166), or 1,227 in full-time equivalents (2019: 1,094). Of these, 160 were employed outside the Netherlands (2019: 131).

Staff costs	2020	2019
Total	181,279	161,043
Salaries and wages	137,044	118,337
Pension costs	20,596	16,618
Other social security costs	15,312	14,916
Other staff costs	8,328	11,172

Staff costs increased by €20.2 million, mainly due to increases in Salaries and wages. The increase in Salaries and wages is mainly due to the merger between Van Lanschot NV and Kempen & Co NV as at 1 January 2020. For details of remuneration in 2020, see “Remuneration of the Statutory and Supervisory board”.

27. Other administrative expenses

Other administrative expenses comprise IT expenses, accommodation expenses, costs of marketing and communication, consultancy fees, office expenses and other administrative expenses.

For more information about our external auditors’ fees, please refer to Note 31, Other administrative expenses, in the consolidated financial statements.

28. Depreciation and amortisation

This item includes the depreciation and amortisation on buildings, IT, operating system software and communications equipment, application software, intangible assets arising from acquisitions, results on disposals of property and equipment, and other depreciation and amortisation.

29. Impairments

This item comprises the balance of the recognised impairments and reversals of such impairments.

30. Income tax

This tax amount consists of the tax expense for the financial year on the operating result as disclosed in the statement of income, also allowing for any tax relief facilities. We have applied currently existing tax rules to determine the tax amount. The effective tax rate amounts to -12.2% (2019: 10.0%). Changes in the effective tax rate were mainly due to the equity holding exemption and non-deductible costs. The tax effect due to the deduction of coupon payments on our AT1 instrument in line with new tax regulation is included in "Other changes" for the current year. This new tax regulation also led to an adjustment to taxes for prior financial years.

Income tax	2020	2019
Operating profit before tax	44,354	108,855
Prevailing tax rate in the Netherlands	25%	25%
Expected tax	11,089	27,214
Increase/decrease in tax payable due to:		
Tax-free interest	157	—
Tax-free income from securities and associates	-14,621	-17,365
Taxed release of tax reserves	266	—
Non-deductible costs	1,121	961
Adjustments to taxes for prior financial years	-1,092	9
Impact of foreign tax differences	—	-151
Movements in deferred taxes	-655	180
Other changes	-1,669	16
	-16,493	**-16,350**
Total tax	**-5,404**	**10,864**

Other information

INDEPENDENT AUDITOR'S REPORT

To: the general meeting and the supervisory board of Van Lanschot Kempen Wealth Management N.V.

Report on the financial statements 2020

Our opinion

In our opinion:

– the consolidated financial statements of Van Lanschot Kempen Wealth Management N.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at 31 December 2020 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
– the company financial statements of Van Lanschot Kempen Wealth Management N.V. ('the Company' or 'Van Lanschot Kempen Wealth Management') give a true and fair view of the financial position of the Company as at 31 December 2020 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2020 of Van Lanschot Kempen Wealth Management N.V., 's-Hertogenbosch. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

– the consolidated statement of financial position as at 31 December 2020;
– the following statements for 2020: the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
– the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

– the company statement of financial position as at 31 December 2020;
– the company statement of income and the company statement of changes in equity for 2020; and
– the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Van Lanschot Kempen Wealth Management N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

Overview and context of the 2020 audit

Van Lanschot Kempen Wealth Management is a Dutch wealth management institution, operating through the business segments Private Banking, online investments and savings platform *Evi*, Asset Management, Merchant Banking, and Other. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'.

The reliability and continuity of information processing is significant to the Company's operational, regulatory and financial reporting processes. Also, IT change initiatives (such as the implementation of digital solutions, moving infrastructure and applications to the cloud and the realisation of a more integrated IT environment across the Group) bring inherent operational and reputation risks that could also have an indirect and direct impact on the business and financial reporting processes of the Group. Since these change initiatives affect systems, (outsourcing) processes and the effectiveness of controls, they could affect the financial statements and our audit. We have therefore identified the reliability and continuity of IT systems as a key audit matter.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the statutory board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain including the impact of COVID-19. In the section 'Summary of significant accounting policies', subsection 'Significant accounting judgements and estimates' of the financial statements, the Group describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Of the judgements and estimates mentioned in this section, we considered the impairments of financial assets and the determination of fair value of financial instruments as most significant for the financial year 2020, and therefore, also identified these two areas 'Impairment of loans and advances to the public and private sector', and 'Fair value measurement of level 2 and 3 financial instruments' as key audit matters to our audit.

Other areas of focus in our audit were the impairment of goodwill, the assessment of compliance with laws and regulations and the accounting for the acquisition of Hof Hoorneman Bankiers N.V. Though these are areas of focus in our audit, these were not the matters of most significance in the audit of the financial statements of the current period, therefore, these were not considered to be our key audit matters.

We ensured that the audit teams, both at group and at component levels have the appropriate skills and competences which are needed for the audit of a wealth management organisation with banking operations. We, therefore, also included experts and specialists in the areas of IT, accounting and valuation of financial instruments, hedge accounting, impairment of goodwill, purchase price allocation, employee benefits and pensions, real estate valuation and taxation in our team.

Impact of COVID-19 on our 2020 audit approach

Following the COVID-19 outbreak, auditors are facing challenges in performing their audits. In response to that, we have switched into working remotely. Inquiries and meetings with management were done via video conferencing. Teams and team members were reminded of the importance of staying alert to the quality of evidence and to perform sufficient and appropriate tests over the audit evidence obtained to be satisfied that the Group's records are complete, accurate and authentic. The following highlights the areas of focus in our audit that were primarily impacted by COVID-19:

- the impact on our audit materiality, including the basis on which our materiality is determined, outlined in the section 'Materiality;
- the impact on our Group audit. We have reassessed our planned audit procedures in relation to the work of component auditors, such as organising video conference meetings with local management and component teams instead of our annual site visits and remote review of selected working papers of the work performed by components. Furthermore, active dialogues, clear communication and effective use of technology have allowed us to direct and supervise the performance of our component teams. Also refer to 'The scope of our Group audit';
- the impact on the Company's control environment due to remote working. We have carried out video conferencing meetings with screen-sharing as part of procedures in evaluating the Company's controls design, implementation and operational effectiveness. We also have paid specific attention to the reliability and continuity of IT systems as described in the section 'Key audit matters' below;
- the impact on the Company's fraud risks exposure and operational incidents. Our procedures are explained in the section 'Our focus on the risk of fraud and non-compliance with laws and regulations';
- the impact on the Company's capital and liquidity position.
- the Company's impairment allowances on loans and advances to customers, fair value of financial assets and liabilities and impairment assessment of goodwill. Uncertainty of the current environment and the continual changing nature of the unprecedented impact of the COVID-19 pandemic has added further complexity and challenges when auditing accounting estimates. Our procedures included assessment of these accounting implications and the relevant disclosures in the financial statements in accordance with the financial reporting framework applied by Van Lanschot Kempen Wealth Management. Reference is made to the section 'Key audit matters'.

The outline of our audit approach was as follows:

Materiality
- Overall materiality: €3.8 million (2019: €4.1 million).

Audit scope
- We conducted our audit work primarily in the Netherlands.
- We held video conferencing meetings with our component teams and local management in the Netherlands and Belgium.
- Audit coverage: 95.1% of consolidated income from operating activities, 97.2% of consolidated total assets and 97.7% of consolidated profit before tax.

Key audit matters
- Impairments of loans and advances to the public and private sectors.
- Fair value measurement of level 2 and 3 financial instruments.
- Reliability and continuity of IT systems.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below.

These, together with qualitative considerations, helped us to determine the nature, timing

and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall Group materiality	€3.8 million (2019: €4.1 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 5% of the weighted average of profit before tax from continuing operations, excluding the gain from the sale of one of the Group's non-strategic operations. The current and previous two years have been weighted with current year receiving twice the weight in the measurement of materiality as we consider the current year to be more relevant (2019: 5% of profit before tax from continuing operations, excluding the gain from the sale of one of the Group's non-strategic operations).
Rationale for benchmark applied	Based on the current year financial performance, which is impacted by the effects of the COVID-19 virus outbreak, we reconsidered the use of the 5% profit before tax benchmark. To avoid significant fluctuations (positive and negative) in our materiality calculation due to one-off events (e.g. the loss in the structured products portfolio resulting from the extreme volatility and illiquidity of the markets in reaction to the COVID-19), we assessed relevant performance indicators (i.e. PBT, CET1, operational income) and we deemed that a three-year weighted average of 5% profit before tax is the most appropriate alternative benchmark to apply in calculating our materiality level for our audit 2020.
Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €1,3 million and €3,8 million. To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €1.3 million and €3.8 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons. Examples of areas that we focussed on due to qualitative reasons are the accuracy of disclosures around e.g. the impacts of COVID-19, fair value disclosure, and the remuneration of the supervisory board and the statutory board.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €190,000 (2019: €200,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Van Lanschot Kempen Wealth Management N.V. is the parent company of a group of entities. The financial information of this Group is included in the consolidated financial statements of Van Lanschot Kempen Wealth Management N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate.

In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by each component auditor.

The group audit primarily focused on the significant component Van Lanschot Kempen Wealth Management N.V., as this component is considered to be individually financially significant to the Group. This component was subject to the audit of the complete financial information (full scope audit). Additionally, we selected four other components (Van Lanschot Belgian Branch, Van Lanschot Participaties B.V., Kempen Capital Management B.V. and the in 2020 newly acquired Hof Hoorneman Bankiers N.V.) for full scope audit procedures, as well as two other components (Quion 17 B.V. and Kempen Finance B.V.) for the audit of specific account balances, to achieve appropriate coverage on financial line items in the consolidated financial statements.

Compared to prior years, F. van Lanschot (Schweiz) AG is, taken its non-significance to the Group, not considered in scope as a component in the group audit 2020 anymore. Our local PwC auditors still performed statutory and regulatory audit procedures in line with prior years and we performed desktop review procedures over the financials of this component in line with other non-significant components.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Income from operating activities	95.1 %
Total assets	97.2 %
Profit before tax	97.7 %

None of the remaining components represented more than 3.1% of total group assets, profit before tax or income from operating activities. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

For the components Van Lanschot Belgian Branch, Hof Hoorneman Bankiers N.V. and Quion 17 B.V., we instructed component auditors that are familiar with the local laws and regulations to perform the audit work. For the other components, the group audit team performed the work.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we have obtained sufficient and appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

We issued instructions to the component audit teams in our audit scope. These instructions included, amongst others, our risk analysis, materiality and scope of the work. We explained to the component audit teams the structure of the Group, the main developments that are relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach. Using virtual conferencing meetings, we were in active dialogue throughout the year with all component audit teams in scope for group reporting including upon the conclusion of their work. During these calls, we discussed the instructions, the significant accounting and audit issues identified by the component auditors, their reports, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements.

Normally, the group engagement team visits the component teams and local management and reviews a selection of working papers of component auditors on a rotational basis.

Since the COVID-19 outbreak limited our ability to physically visit any of the components in scope of our group reporting this year, we conducted a series of video conference meetings with local management along with component teams in the Netherlands and Belgium. During these meetings, we discussed the strategy and financial performance of the local businesses, as well as the audit plan and execution, significant risks and other relevant audit topics.

Due to COVID-19, we were also not able to physically review a selection of working papers of selected component auditors.We, therefore, remotely performed virtual file reviews of the component auditors of the Belgium branch and Quion B.V.

The group engagement team performed the audit work on the group consolidation, financial statement disclosures and a number of complex items, such as derivative financial instruments, hedge accounting impairments of goodwill and the impairments of loans and advances to the public and private sector.

Van Lanschot Kempen Wealth Management N.V. has outsourced various parts of its services to third parties, amongst which: payment services, mortgage administration services and parts of its IT software management. In our assessment related to these service providers, we evaluated the design and tested the operating effectiveness of the internal controls in place at Van Lanschot Kempen Wealth Management N.V. over the outsourced services. Furthermore, where available, we evaluated the ISAE 3402 type 2 assurance reports rendered by independent auditors and/or we performed additional substantive audit procedures ourselves. Based on the procedures performed, we conclude that in the context of our audit of the financial statements of Van Lanschot Kempen Wealth Management N.V., we could rely on the ISAE 3402 type 2 assurance reports in combination with our substantive audit procedures performed.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group’s financial information, as a whole, to provide a basis for our opinion on the financial statements.

Our focus on the risk of fraud and non-compliance with laws and regulations

Fraud

The objectives of our audit in respect to fraud are:
- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

As in all of our audits, in assessing the risks of material misstatement in the financial statements, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the statutory board that may represented a risk of material misstatement due to fraud. We evaluated the design and the implementation and, where considered appropriate tested the operating effectiveness, of internal controls that mitigate fraud risks, performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by Van Lanschot Kempen Wealth Management, we incorporated elements of unpredictability in our audit and we have also involved our forensics specialist in our fraud risk assessment.

We refer to the key audit matters ‘Impairments of loans and advances to the public and private sectors’ and ‘Fair value measurement of level 2 and 3 financial instruments’ that are examples of our approach related to an area with higher risk due to accounting estimates where management makes significant judgements.

The primary responsibility for the prevention and detection of fraud lies with the statutory board with the oversight of the supervisory board.

Laws and regulations

There is an industry risk that emerging compliance or litigation areas have not been identified and/or addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory processes.

The objectives of our audit, in respect to non-compliance with laws and regulations:
- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

In line with Standard 250 we made a distinction between those laws and regulations which:

- have a direct effect on the determination of material amounts and disclosures in the financial statements.

- For this category we believe that we obtained sufficient audit evidence regarding compliance with the provision of those laws and regulations; and
- not have a direct effect on the determination of material amounts and disclosures in the financial statement (e.g. Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft)), but where compliance may be fundamental to the operating aspect of the business, to the Company's ability to continue its business or to avoid material penalties. For this category, we performed specific procedures to identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

The primary responsibility for the prevention and detection of non-compliance with laws and regulations lies with the statutory board with the oversight of the supervisory board. We refer to the section 'Risk Management' of the annual report where the statutory board included its risk assessment on non-compliance with laws and regulations and we refer to the section 'Report of the Supervisory Board' where the supervisory board reflects thereon.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context.

Compared to last year, we do not consider the risk of impairment of goodwill as a key audit matter anymore since:
- the last year's impairment of goodwill reduced the carrying value;
- strategic changes in the CGU's reduced the risk profile; and
- the underlying businesses of the CGU's are not significantly affected by the uncertain economic conditions following from COVID-19.

As such, the level of estimation uncertainty decreased accordingly.

The other key audit matters did not change compared to previous year, as these are related to the daily operations of the Group and are also not likely to disappear in the coming years. Changes in facts, circumstances, risks, processes and audit approach can, however, change the content of a key audit matter from year to year.

Key audit matter	Our audit work and observations
Impairments of loans and advances to the public and private sectors See note 7 to the financial statements for the disclosures of loans and advances to the public and private sectors including impairments, the paragraph 'Impairments of financial assets' of the summary of significant accounting principles and subsection 2.8 and 2.9 of the 'Risk Management' paragraph containing the disclosures in view of credit risk including the implications of COVID-19. The gross loans and advances to the public and private sectors amount to €8,512 million (2019: €8,661 million), the total impairment as at 31 December 2020 amounts to €64 million (2019: €64 million). In accordance with the requirements of IFRS 9 'Financial instruments', the Company applies a three-stage expected credit loss impairment model. The Company determines loan impairments in stage 1 (allowance equal to twelve-month expected credit loss), and stage 2 (amount equal to the life-time expected credit loss) on a modelled basis. For stage 3 exposures, a loan-by-loan impairment is determined on which a model overlay is applied to account for macro-economic variables and forward-looking information. *Model methodology and inputs (stage 1 and 2)* For the modelled loan impairments, the Company utilises the point in time probability of default (PD), the loss-given default (LGD) and the exposure at default (EAD) models for the majority of the loan portfolio. The critical data elements as input for these models are retrieved from the core banking source systems. Three global macro-economic scenarios are incorporated into these models and the probability of the scenarios is weighted in order to determine the expected credit losses. When specific macro-economic exposures are not sufficiently covered by the models or when data limitations or other inherent model limitations are identified, a top-level adjustment is made. *Stage 3 – specific impairment allowance* For each individually impaired loan, the Company determines an impairment allowance based on the most likely scenario taking into account timely identification of impairment triggers, expected future cash flows, discount rates and the value and recoverability of the corresponding collateral. This impairment allowance is the neutral scenario (baseline). A model overlay is applied to calculate for alternative scenarios and the impact of macro-economic variables and forward- looking information. The final ECL is a weighted average over scaled ECLs under the neutral and alternative scenarios. *Judgements and estimation uncertainty* The judgements and estimation uncertainty in the impairment allowance of loans and advances is primarily linked to the following aspects: – the identification of impaired loans including the assessment for which loans credit risk has significantly (de)/increased since inception (stage transfers); – the determination of the future cash flows based on the appropriate use of key parameters (such as forward-looking information) and the valuation of the recoverable collateral for the specific loan by loan (stage 3) impairment allowance. Furthermore, the probability weighting of each impairment scenario in this category is inherently subjective in nature; – the assumptions regarding the PDs, LGDs, LGN's and EADs applied, including the assumptions applied in overlay models in the model-based impairment allowances (stages 1 and 2); – the uncertainties related to the incorporation of the implications of COVID-19 in the ECL models (macro-economic scenarios and predictions, model performance, etc.); and – any top side adjustments that management applies across the model-based impairment allowances (stages 1 and 2). Given the above, we consider this area to be subject to a higher degree of estimation uncertainty, where the estimate is impacted by a higher level of complexity, subjectivity and other inherent risk factors (e.g. COVID-19). Therefore, we consider the impairments of loans and advances to the public and private sectors as a key audit matter in our audit.	*Control design and operation effectiveness* We evaluated the design and tested the operating effectiveness of key controls in the following areas: – the loan origination process; – the internal credit risk management process to assess the loan quality classification to identify impaired loans; – the methodology and controls applied in measuring and determining significant increase in credit risk; – the review and approval process that management has in place for timely, accurate and complete determination of stage 3 specific impairment allowances; and – the review and approval process that management has in place for the outputs of the impairment models, and the top-level adjustments that are applied to the model outputs. Based on the testing of controls, we determined that it was appropriate to place reliance on the above controls for the purpose of our audit. *Assessment of model-based impairments stages 1 and 2* With support of our internal valuation experts, we challenged management on the model-based impairments (stages 1 and 2) by inquiry and review of the applied model methodology, the (updated) model performance monitoring dashboard, the evaluation of the macro-economic scenarios and macro-economic variables applied and the assessment of stage transfers as at 31 December 2020. Taken the complexity of the model, together with our internal valuation experts and IT specialists, we performed the following: – determined that the model was assessed fit-for purpose and periodic model monitoring is in place to ensure the models are still suitable for its intended use; – determined that appropriate change control policy and procedures are in place; – determined that management uses appropriate skills and knowledge in using the model; – performed substantive procedures over maintenance of completeness and accuracy of data and significant assumptions through the estimation process; – tested operating effectiveness of relevant controls (e.g. controls around automated interfaces) that safeguard completeness and accuracy of significant assumptions and data throughout the estimation process; – determined whether the significant assumptions (e.g. macro-economic scenarios, PDs, LGD's, LGN's and EAD's) used by management to develop the estimate are appropriate in the context of the applicable financial reporting framework; and – determined whether the data (e.g. contractual terms of financial assets, macro-economic predictions) are appropriate in the context of the applicable financial reporting framework and are relevant and reliable in the circumstances. Finally, together with our internal valuation experts, we specifically addressed the implications of COVID-19 on the ECL models by performing the following: – we performed enquiries with the departments Group Risk Management, Special Recovery & Restructuring, and Finance, Reporting & Control; – we verified whether changes were needed and whether appropriate changes were made to models, underlying assumptions and/or staging policy following the implications of COVID-19; – we reconciled the applied updated macro-economic predictions with the latest publications of the external parties (i.e. CPB and DNB); – we assessed the sensitivity analysis performed by management related to, amongst others, the applied macro-economic forecasts; and – we assessed management overlay amounting to €4.9 million by verifying management's assumptions and methodology in deriving this overlay. Based on the above, we assessed that the methodology and inputs for the stage 1 and 2 models to be in line with market and industry practice. *Assessment of specific impairment allowance stage 3* Considering the inherent estimation risk of individually impaired loans, we performed risk-based sample testing for which we selected samples from: – the total loan portfolio to gather evidence as to the correct classification of exposures as being in stage 1, 2 or 3; and – the stage 3 population to gather evidence as to the correct estimate for the impairment allowance was made by management In the selection of our risk-based sample, we specifically considered the implications of COVID-19 for certain industries deemed to be at higher-risk (e.g. leisure, hospitality and commercial real estate). We analysed the latest developments at the borrower as described below and considered whether the key judgements applied in the impairment allowance are acceptable for the balance as at 31 December 2020.

Key audit matter	Our audit work and observations
	The following judgemental areas were tested for the risk-based sample: – classification as a performing or non-performing loan based on the (non-)existence of triggering events; – nature and accuracy of the assumptions and data related to expected future cash flows with reference to the current economic performance (including implications of COVID-19), the assumptions most commonly used in the industry, and a comparison with external evidence or historical trends (if applicable); and – the valuation of the corresponding collateral (e.g. using appraisal reports and/or other information) with support of our valuation experts, with reference to industry standards and the inspection of legal agreements and supporting documentation to confirm the existence and legal right to collateral. Based on the above, we assessed the methodology and inputs in determining the stage 3 impairment allowance to be in line with market and industry practice. Finally, we assessed the completeness, accuracy and adequacy of the disclosures relating to the provision for impairment losses, as disclosed in note 9 to the financial statements, to evaluate compliance with disclosure requirements included in EU-IFRS 9.
Fair value measurement of level 2 and 3 financial instruments See subsection 14 of the Risk management paragraph in the financial statements: 'fair value' that contains the fair valuation policies, its disclosures and the split of financial instruments into level 1, 2 and 3. The total asset value of financial instruments measured at fair value level 2 and 3 as at 31 December 2020 amounts to €426 million (2019: €398 million) and the total liability value amounts to €1,185 million (2019: €1,328 million). The fair value measurement of financial instruments consists of: – financial assets and liabilities from trading activities; – derivatives; – financial assets and liabilities at fair value through profit or loss; and – financial assets at fair value through other comprehensive income. *Level 2 and 3 financial instruments* In the determination of the fair value of financial assets and liabilities, management applies a market approach method. For level 2 and 3 financial instruments, directly observable data like market prices or other market information are not available causing the fair value to be subject to (significant) judgement and estimation uncertainty. The fair value of such financial instruments is determined using either proxy valuations (level 2) or valuation techniques (such as discounted cash flow models and option valuation models) (level 3), in which judgements made by management and the use of data and assumptions such as: market prices, credit spreads, yield curves, correlations and volatilities are important factors. Due to the higher degree of estimation uncertainty, the complexity and subjectivity of the valuation techniques used in measurement of such financial instruments, and other inherent risk factors like the implications of COVID-19 on key assumptions and the unexpected volatility and illiquidity in the markets this area is subject to a higher risk of material misstatement. Therefore, we consider the valuation of level 2 and 3 financial instruments as a key audit matter in our audit.	*Control design and operating effectiveness* We evaluated the design and tested the operating effectiveness of the internal controls with respect to the governance over the applied valuation models, the financial instrument deal capturing process, the source data management and the valuation of financial instruments. We determined that we could rely on these controls for the purpose of our audit. *Assessment of the fair value valuation of financial instruments* Taken the complexity of the fair value valuation for each type of level2 and 3 instruments, together with our internal valuation experts, we applied a combination of testing how management made the estimate and developed our own auditor's point estimate or range. Specifically, we performed the following: For financial instruments tested by means of how management made the estimate, we: – determined that the models were validated prior to usage and when there were changes to the model, periodic reviews are in place to ensure it is still suitable for its intended use. For financial instruments for which we developed our own auditor's point estimate or range, we: – developed for a sample of financial instruments our own auditor's point estimate or range. For both testing strategies applied, we: – determined that appropriate change control policy and procedures are in place; – determined that management uses appropriate skills and knowledge in using the model; – performed substantive procedures over maintenance of completeness and accuracy of data and significant assumptions through the estimation process; – tested operating effectiveness of relevant controls (e.g. controls around automated interfaces) that safeguard completeness and accuracy of significant assumptions and data throughout the estimation process; – determined whether the significant assumptions (e.g. discount rate, projected future cash flows) used by management to develop the estimate are appropriate in the context of the applicable financial reporting framework; – determined whether the data (e.g. risk-free rate, market data related to similar transactions and contractual terms and conditions of the instruments) are appropriate in the context of the applicable financial reporting framework and are relevant and reliable in the circumstances; and – reconciled the assumptions and data to available external resources. Furthermore, we evaluated the impact study performed over the €35.1 million (pre-tax) loss due to COVID-19 on the Structured Products desk incurred in 2020 and the measures taken to reduce future risk of re-occurrence. Based on the above addressed procedures, we found that management's outcome of the models and classification of the fair value of the level 2 and 3 financial instruments are reasonable. We assessed the completeness and accuracy of the disclosures relating to the financial instruments measured at fair value and verified compliance with disclosure requirements from EU IFRS 7.

Key audit matter	Our audit work and observations
Reliability and continuity of IT systems See subsection 4.0 'Business continuity management' of the Risk Management paragraph. The Group relies on the reliability and continuity of information technology (IT) systems for its operational, regulatory and financial reporting processes. The Group's accounting and reporting processes are heavily dependent on IT general controls (ITGCs) that establish and preserve the ongoing integrity of the system access rights and restrictions intended in the design of internal control. The Group is executing a significant number of IT projects to continue to meet the high reporting standards and expectations from stakeholders relating to operating effectiveness, efficiency, cybersecurity and data quality. In this way, the Group is accommodating the ongoing regulatory changes imposed to the banking industry. These projects result in changes in several of the Group's control activities related to financial reporting. This could increase the risk of material misstatement in financial reporting. We consider the integration of the Belgian branch's IT environment into the environment managed in the Netherlands ('Project Minerva') one of the most significant IT projects that were completed during the year. Deficiencies in ITGCs as such could have a pervasive impact across the Group's internal control framework. Also, outsourcing activities within the Group and to third party service providers is considered an additional focus area to our audit as this brings extra complexity to the IT environment. Through the period of change, there is an increased risk that ITGCs are not operating as intended. As a result of the above changes, in combination with the increased threat and probability of cyberattacks following COVID-19, we identified the reliability and continuity of information technology of the Group as a key audit matter.	We focused on the ITGCs to the extent relevant for the purpose of our audit of the financial statements. As part of our audit, our efforts were focused on: – entity-level controls over information technology in the IT organisation, including IT governance, IT risk management and cybersecurity management; – governance over the strategic IT transformational projects including vendor risk and third-party assurance; – for the procedures performed on the outsourced activities relevant to our audit scope, we refer to the section 'The scope of our group audit' above; – management of access to programmes and data, including user access to the network, access to and authorisations within applications, privileged access rights to applications, databases and operating systems; – management of changes to applications and IT infrastructure, including the change of the management process and the implementation of changes in the production systems; – computer operations, including batch monitoring, back-up and recovery and incident management; and – management of cybersecurity, through understanding of the Group's approach to enhancing and managing cybersecurity. The integration of the Belgian branch's IT environment into the environment managed in the Netherlands was part of our audit procedures. We performed both controls testing and test of details to evaluate on the proper migration of data relevant to the audit of the financial statements and to address the risk that controls do not function properly as a result of the change. We evaluated the Group's assessment and procedures related to the COVID-19 situation (for both internal and key outsourced systems). We have not identified significant impact on the IT environment or cyberattacks due to the COVID-19 situation during the year under audit. Our audit procedures indicate that we could place reliance on these controls for the purpose of our audit.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- About Van Lanschot Kempen
- Strategic framework
- Value creation
- Progress report
- Report of the Supervisory Board
- Renumeration report
- Corporate governance
- Executive and Supervisory Boards
- Reconciliation of IFRS and management reporting
- Other information, including the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information that is required by Part 9 of Book 2 and the sections 2:135b and 2:145 subsection 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 and section 2:135b subsection 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The statutory board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code and the remuneration report in accordance with the sections 2:135b and 2:145 subsection 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Van Lanschot Kempen N.V. on 13 May 2015 by the general meeting following a recommendation by the supervisory board. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of five years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 31 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the statutory board and the supervisory board for the financial statements

The statutory board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the statutory board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the statutory board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the statutory board should prepare the financial statements using the going-concern basis of accounting unless the statutory board either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so. The statutory board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 10 March 2021

PricewaterhouseCoopers Accountants N.V.

Original has been signed by
R.E.H.M. van Adrichem RA

APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2020 OF VAN LANSCHOT KEMPEN WEALTH MANAGEMENT N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things, of the following:

– Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
– Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
– Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory board.
– Concluding on the appropriateness of the statutory board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
– Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicated with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related actions taken to eliminate threats or safeguards applied.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

ARTICLES OF ASSOCIATION ON PROFIT APPROPRIATION

Profit is appropriated in accordance with Article 28 of the Articles of Association. This article states that profit is at the disposal of the General Meeting (Article 28 (1)).

Distributions may only be made if equity exceeds the issued and paid-up share capital, plus the reserves required by law (Article 28 (2)).

Profit is distributed after adoption of the financial statements, which should prove that such distribution is justified (Article 23 (3)).

With due observance of Article 28 (2), the General Meeting can decide to distribute from a reserve it is not required to keep under the law (Article 28 (5)).

GLOSSARY

Advanced internal ratings-based approach (A-IRB)
The most sophisticated credit risk measurement technique. Under A-IRB, a bank is allowed to develop its own models, based on direct or indirect observations, to estimate parameters for calculating risk-weighted assets. Credit risk under A-IRB is determined by using internal input for probability of default (PD), loss given default (LGD), exposure at default (EAD) and maturity (M).

Amortised cost
The amount for which financial assets or liabilities are initially recognised less redemptions, plus or minus accumulated depreciation/amortisation using the effective interest rate method for the difference between the original amount and the amount at maturity date, less impairments or amounts not received.

Assets under administration (AuA)
Assets which are entrusted by clients to Van Lanschot Kempen purely for custody or for which solely administrative services are performed. Clients take their own investment decisions, over which Van Lanschot Kempen has no influence.

Assets under discretionary management
Client assets entrusted to Van Lanschot Kempen under a discretionary management agreement, irrespective of whether these assets are held in investment funds, deposits, structured products (Van Lanschot Kempen index guarantee contracts) or cash.

Assets under management (AuM)
Assets deposited with Van Lanschot Kempen by clients, breaking down into assets under discretionary management and assets under non-discretionary management.

Assets under monitoring and guidance
Client assets that are only subject to monitoring, plus minor advisory and related services. Clients make their own investment decisions and Van Lanschot Kempen has little or no influence on the management of these assets.

Assets under non-discretionary management
Client assets held for clients by Van Lanschot Kempen, irrespective of whether these assets are held in investment funds, deposits, structured products (index guarantee contracts) or cash, with either a Van Lanschot Kempen investment adviser advising the client on investment policy or clients making their own investment decisions without Van Lanschot Kempen's input.

Basel III
The framework drawn up by the Basel Committee on Banking Supervision, which introduces a stricter definition of capital and several new ratios and buffers with which banks must comply.

Basel IV
The reform of Basel III, commonly referred to as "Basel IV", involves the final calibration and design of capital output floors, based on revised standardised approaches. It also includes reforms of the IRB approach and the standardised approach for credit and operational risk.

Capital conservation buffer
Capital Requirements Directive IV (CRD IV) requires Van Lanschot Kempen to maintain Common Equity Tier 1 capital equivalent to 2.5 times total risk exposure as a capital conservation buffer. If an institution fails to maintain this capital conservation buffer, it will be restricted in making discretionary distributions.

Cash flow hedges (hedge accounting)
Instruments to hedge the exposure to fluctuations in cash flows of assets, liabilities or future transactions, arising as a result of interest rate changes and/or inflation.

Client option positions
Clients are unable to buy or sell share options directly on the stock exchange. Van Lanschot Kempen purchases or sells on behalf of these clients and covers this with offsetting transactions on the stock exchange. Such receivables and payables are recognised under Derivatives.

Combined buffer requirements
From 2016, subject to transitional provisions, institutions have been required to maintain capital buffers in addition to the own funds requirements contained in the Capital Requirements Regulation (CRR). For Van Lanschot Kempen, the combined buffer requirement consists of the capital conservation buffer extended by the institution-specific countercyclical capital buffer. The G-SII buffer, O-SII buffer and systemic risk buffer are not applicable to Van Lanschot Kempen.

Common Equity Tier 1 (CET 1) capital
Also referred to as core capital. CET 1 capital encompasses a bank's share capital, share premium and other reserves, adjusted for deductions as specified by regulators, such as goodwill, deferred tax assets and IRB shortfall.

Common Equity Tier 1 (CET 1) ratio
CET 1 capital as a percentage of total risk-weighted assets.

Contingent liabilities
All commitments arising from transactions for which the bank has given a guarantee to third parties.

Countercyclical capital buffer
Common Equity Tier 1 capital equivalent to the total risk exposure amount (calculated in accordance with the CRR) multiplied by the weighted average of the countercyclical buffer rates. The countercyclical buffer rates are set by the designated authority in each member state on a quarterly basis. The buffer is determined by calculating the weighted average of the countercyclical buffer rates that apply in the jurisdictions of the relevant credit exposures.

Credit-linked swaps
Swaps where variable interest payments linked to Euribor, possibly with a lower or upper limit, are exchanged for credit guarantees in respect of a third party. The counterparty is obliged to pay out if the third party is no longer able to meet its payment obligations. The contract will identify specific payment-triggering events.

Credit risk
The risk that loans are not repaid, not fully repaid or not repaid on time.

Credit support annex (CSA)
Forming part of an international swaps and derivatives agreement (ISDA), a CSA regulates credit support (collateral) for obligations resulting from derivatives.

Credit valuation adjustment (CVA)
An adjustment made on the valuation of derivatives transactions with a counterparty, reflecting the current market value of counterparty credit risk.

Currency options
Currency options grant their buyer the right, but not the obligation, to buy or sell a quantity of a certain currency at a pre-determined exchange rate during or at the end of a pre-determined period. The currency option constitutes an obligation for the seller. Van Lanschot Kempen's currency options mainly relate to client transactions covered by offsetting transactions in the markets.

De Nederlandsche Bank (DNB)
The Dutch central bank. dnb.nl/en

Defined benefit scheme
A pension scheme other than a defined contribution scheme (see below). In a defined benefit scheme, the company has the constructive obligation to make up any deficit in the scheme. This does not have to be based on any legal requirements, but may be simply on the basis of an historical intention on the part of the company to make up any deficits.

Defined contribution scheme
A scheme in which the company makes agreed contributions to a separate entity (a pension fund) to secure pension rights. The company is not obliged, either legally or effectively, to pay additional contributions if the pension fund does not have enough assets to cover all of its current and future obligations.

Derivatives
Financial assets whose value derives from the value of other financial assets, indices or other variables. Van Lanschot Kempen holds both derivatives whose size (face value), conditions and prices are determined between Van Lanschot Kempen and its counterparties (OTC derivatives), and standardised derivatives traded on established markets.

Discounted cash flow (DCF)
A method to value an investment by estimating future cash flows, taking account of the time value of money.

Duration of equity
A measure of the interest rate sensitivity of equity that reflects the impact on equity of a 1% parallel shift in the interest curve.

Dutch Authority for the Financial Markets (AFM)
The Dutch regulator for financial institutions in the Netherlands. afm.nl/en

Economic hedges
Derivatives used to manage risks without applying hedge accounting, carried at fair value. At Van Lanschot Kempen, these primarily take the shape of interest rate derivatives.

Effective interest rate
The rate that discounts estimated cash flows to the net carrying amount of the financial asset over the life of an instrument, or, where appropriate, over a shorter period.

Efficiency ratio
Operating expenses excluding impairments and result from the sale of public and private sector loans and advances, as a percentage of income from operating activities.

Engagement
A sustainability strategy that seeks to persuade companies, fund managers, borrowers and other stakeholders through active dialogue that their sustainability policies should be made compatible with international treaties and conventions.

Expected loss (EL)
Expected loss on loans, expressed in the formula EL=PD*EAD*LGD.

Expected credit loss (ECL) IFRS 9
The probability-weighted estimate of credit losses (i.e., the present value of all cash shortfalls) over the expected life of a financial instrument.

Exposure at default (EAD) Basel
Exposure at the time of a client's default, also referred to as net exposure.

Exposure at default (EAD) IFRS 9
The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Fair value hedges (hedge accounting)
A fair value hedge comprises one or more swaps concluded to cover the changes in fair value resulting from changes in interest rates, of debt securities, for example. Hedge relations are typically exact hedges, involving debt securities with fixed rates and terms being offset by swaps with exactly the same terms and fixed interest rates.

Fiduciary management
Holding assets as a trustee or in another fiduciary role for individuals, trusts, pension providers and other institutions. These assets are not included in the consolidated financial statements because they are not Van Lanschot Kempen's assets.

Fitch
Credit rating agency. fitchratings.com

Forbearance
Making a concession regarding the terms and conditions of a loan agreement due to actual or anticipated financial difficulties which prevent a client from meeting its obligations

vis- à-vis Van Lanschot Kempen. The concession enables the client to meet the revised obligations. This may also include the whole or partial refinancing of the existing loan.

Forum Ethibel
A Belgian consultancy in the field of corporate social responsibility (CSR) and socially responsible investment (SRI). forumethibel.org

Forwards
Contractual obligations to purchase or sell goods or financial assets at a future date at a pre-determined price. Forward contracts are customised contracts traded on the OTC markets.

Foundation internal ratings-based approach (F-IRB)
An advanced credit risk measurement technique. Under F-IRB, a bank is allowed to develop its own models, based on direct or indirect observations, to estimate parameters for calculating risk-weighted assets. Credit risk under F-IRB is determined by using internal input for probability of default (PD). In contrast to A-IRB, the loss given default (LGD) is included, based on prescribed values.

Funding ratio
The ratio between public and private sector liabilities and total loans and advances (excluding bank borrowing and lending).

Futures
Contractual obligations to purchase or sell goods or financial assets at a future date at a pre-agreed price. Futures are standardised contracts traded on organised markets, with stock exchanges acting as intermediaries and requiring daily settlement in cash and/or deposits of collateral. Van Lanschot Kempen has a number of futures on share indices on its books, partly for own use and partly for clients, for offsetting transactions in the markets.

General meeting
The body formed by voting shareholders and others with voting rights.

Global Reporting Initiative (GRI)
An independent organisation which develops guidelines for sustainability reports. Van Lanschot Kempen's integrated annual report is based on GRI. globalreporting.org

Gross exposure
The value at which receivables are recognised in the consolidated statement of financial position, with the exception of derivatives. Gross exposure is calculated on the basis of an add-on percentage of the nominal value (fixed percentages in accordance with the Financial Supervision Act) and the positive replacement value.

Hedge
Protection of a financial position – against interest rate risks in particular – by means of a financial instrument (typically a derivative).

IFRIC (International Financial Reporting Interpretations Committee)
The interpretative body of the International Accounting Standards Board (IASB). IFRIC interprets the application of International Financial Reporting Standards (IFRS) to ensure consistent accounting practices throughout the world and provide guidance on reporting issues not specifically addressed in IFRS.

Impairment
Amount charged to the result for possible losses on non-performing or irrecoverable loans and advances. Alternatively, an impairment test may suggest lower asset values, if fair values have dipped below carrying amounts and/or the fair value of investments and associates have moved below cost.

Interest rate option
An agreement between a buyer and a seller, under which the seller guarantees the buyer a maximum interest rate (cap) or minimum interest rate (floor) for a fixed term.

Interest rate risk
The risk that profit and equity are impacted by changes in interest rates, in particular in the event of an intentional or unintentional mismatch in the terms of funds lent and borrowed.

Interest rate swaps
A contract in which two parties exchange interest payments for a pre-agreed period and a notional principal amount, while not swapping the face value. An interest rate swap typically involves exchanging fixed-rate cash flows for floating-rate cash flows in the same currency, with the floating rate based on a benchmark interest rate (usually Euribor).

Internal capital adequacy assessment process (ICAAP)
Strategies and procedures designed for the bank's continuous assessment as to whether the amount, composition and distribution of its equity still reconcile with the size and nature of its current and potential future risks.

Internal ratings-based approach (IRB)
An advanced approach used to calculate credit risk. Van Lanschot Kempen applies both the foundation internal ratings- based (F-IRB) and advanced internal ratings-based (A-IRB) approaches. In this report, IRB refers to both internal ratings-based models.

International Financial Reporting Standards (IFRS)
Accounting and reporting standards drawn up by the International Accounting Standards Board. These standards have been adopted by the European Union and have been applied by us from the 2005 financial year.

Irrevocable commitments
All obligations resulting from irrevocable commitments that could result in loans being granted.

KCM
Kempen Capital Management NV

Level 1: Quoted prices in active markets
The fair value of financial instruments traded in an active market is based on the price at the reporting date (market price). The bid price is applied for financial assets and the offer price for financial liabilities. Since these instruments are traded in an active market, their prices adequately reflect current and frequent market transactions between unrelated parties.

Level 2: Inputs observable in the markets
The fair value of financial instruments not traded in active markets (e.g. over-the-counter financial derivatives) is established using cash flow and option valuation models. On the basis of its estimates, Van Lanschot Kempen selects a number of methods and makes assumptions based on the market conditions (observable data) at the reporting date.

Level 3: Significance of unobservable market data
The financial assets in this category have been assessed on an individual basis. Their valuation is based on management's best estimate by reference to the most recent prices, prices of similar instruments and, to a not insignificant extent, information not observable in the market.

Leverage ratio (LR)
The leverage ratio represents the relationship between total assets plus contingent items and the Basel III Tier 1 capital. It is calculated in accordance with the Delegated Act.

Liquidity coverage ratio (LCR)
The LCR represents the ratio between high-quality liquid assets and the balance of cash outflows and cash inflows in the next 30 days.

Liquidity risk
The risk that the bank has insufficient liquid assets available to meet current liabilities in the short term.

Loss given default (LGD) Basel
An estimate of the loss for Van Lanschot Kempen after liquidation of the received collateral.

Loss given default (LGD) IFRS 9
The loss given default is an estimate of the loss arising in the event of a default occurring at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is typically expressed as a percentage of EAD.

Market risk
The risk that the value of a financial position changes due to movements in stock exchange prices, foreign exchange and/ or interest rates.

Morningstar
Morningstar rates mutual funds and ETFs from 1 to 5 stars based on how well they have performed in comparison to similar funds and ETFs.

Net stable funding ratio (NSFR)
The relationship between available stable funding and the required amount of stable funding.

Non-performing loans (NPL)
Loans are classed as non-performing if they meet one or more of the following criteria: 1) significant limit overrun for a period of more than 90 days; 2) a probability of default of 1; 3) a provision has been taken; 4) forborne exposures for which the two-year probation period has not started.

Operational risk
The risk of direct or indirect losses as a result of inadequate or defective internal processes and systems, inadequate or defective human acts, or external events.

Net Promoter Score (NPS)
The NPS provides information on client loyalty and the number of promoters of the organisation. The score lies within a range of –100 to 100 points, the higher the better. The formula is as follows: NPS = % promoters - % detractors. Promoters give the organisation a score of 9 or 10, whereas detractors award a score of between 0 and 6.

Non-controlling interests
Non-controlling interests in entities that are fully consolidated by Van Lanschot Kempen.

OECD Guidelines
The OECD Guidelines describe what the Dutch government expects from multinational enterprises when it comes to corporate social responsibility. The Guidelines provide companies with guidance in the field of e.g. supply chain management, human rights, child labour, environment and corruption.

Principles for Responsible Investment (PRI)
The Principles for Responsible Investment (PRI) provide a framework for incorporating environmental, social and governance criteria in investment policies.

Probability of default (PD) Basel
The likelihood that a client will default within one year.

Probability of default (PD) IFRS 9
The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time during the assessed period if the facility has not been previously derecognised and is still in the portfolio.

Proxy voting
Kempen regards it as its fiduciary responsibility to vote at shareholder meetings for its own (Kempen) funds and – at the request of clients – for discretionary mandates. Its proxy voting policy describes how it fulfils this responsibility. kempen.nl/proxyvoting

Residential mortgage-backed securities (RMBS)
Securities backed by residential mortgages. A provider of residential mortgages (typically a bank) will sell these on to a separate entity, a special purpose vehicle (SPV). To finance the mortgages, the SPV will then issue securities called RMBS, which are secured by the mortgages.

Risk-weighted assets (RWA)
The assets of a financial institution after being adjusted by a weighting factor, set by its regulators, that reflects the relative risk attached to the relevant assets. Risk-weighted assets are used to calculate the minimum amount of capital the institution needs to hold. CRR/CRD IV uses the term "total risk exposure amount" instead of RWA, but for now we follow common usage.

SEC-ERBA
Securitisation: External-ratings-based approach.. Provided that securitisations meet operational requirements and have an external rating, the risk weight of a securitisation can be derived from, among other factors, the external rating, seniority and tranche maturity.

Settlement risk
The risk for financial transactions that are not settled within five days of the agreed deadline if the difference between the agreed settlement price and the price at the reporting date could lead to a loss.

Shortfall
The difference between the calculated expected loss (EL) and the provision made for a loan for which the capital adequacy requirement is calculated using the IRB method. If the calculated EL exceeds the provision made, the difference must be deducted from Common Equity Tier 1 capital.

Solvency
The bank's buffer capital expressed as a percentage of risk-weighted assets.

Standard & Poor's
Credit rating agency. spratings.com

Standardised approach (SA)
A method used under Basel to measure operational, market and credit risks, based on a standardised approach, in which risk weightings are prescribed by the regulators.

Strategic risk
Current or future threats to the bank's results or equity resulting from not or inadequately responding to changes in the environment and/or from taking incorrect strategic decisions. This is a part of the business risk.

Structured products
Synthetic investment instruments specially created to meet specific needs that cannot be met by the standardised financial assets available in the markets.

Sustainable Development Goals (SDGs)
In 2015, the United Nations set out the Sustainable Development Goals (SDGs) for 2030: a set of 17 highly ambitious goals relating to climate, poverty, healthcare, education and other challenges.

Tier 1 capital ratio
The ratio between total Tier 1 capital and risk-weighted assets.

Total capital ratio
The percentage of a bank's capital adequacy, calculated by dividing qualifying capital by the risk-weighted assets as defined by the Bank for International Settlements (BIS).

Total risk exposure amount (TREA)
The sum of risk weighted exposure amounts for credit risk, foreign-exchange risk, settlement risk, counterparty risk, operational risk, market risk and for credit valuation adjustment (CVA) risk.

Total Tier 1 capital
Total Tier 1 capital of the bank includes share capital, share premium and other reserves, adjusted for certain deductions set by the regulator, such as goodwill and shortfall.

Total Tier 2 capital
Capital instruments and subordinated loans may be designated Tier 2 capital under certain conditions.

UN Global Compact
A non-binding United Nations pact to encourage and support global businesses to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for companies, setting out ten principles in the areas of human rights, labour, the environment and anti-corruption.

Value at risk (VaR)
Statistical analysis of historical market trends and volatilities, used to estimate the likelihood that a portfolio's losses will exceed a certain amount.

Van Lanschot Kempen
Van Lanschot Kempen Wealth Management NV and its subsidiaries

VLKWM
Van Lanschot Kempen Wealth Management NV (formerly named Van Lanschot NV)

Weighted average cost of capital (WACC)
A measure of the average cost of a company's capital, in which debt and equity are proportionally weighted.

Wft (Financial Supervision Act)
Wft governs the supervision of the financial sector in the Netherlands.

Wholesale funding
A type of funding, in addition to savings and deposits, used by banks to fund operations and manage risks.

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We welcome your views and opinions – please see our contact details above.

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