



Van Lanschot



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Van Lanschot NV Financial report 2016 annual results



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KEY DATA¹

Deviating from their recognition in our annual accounts, non-strategic investments, one-off gains/charges and costs related to the Strategy 2020 investment programme are shown separately.

(x € million)	2016	2015		H2 2016	H1 2016
Statement of income					
Net result	69.8	42.8	63%	38.3	31.5
Underlying net result	81.3	60.1	35%	43.6	37.7
Efficiency ratio excluding one-off charges (%)	80.3	74.4		79.5	81.1

(x € million)	31-12-2016	31-12-2015		30-06-2016	
Statement of financial position and capital management					
Equity attributable to shareholders	1,340	1,299	3%	1,301	3%
Equity attributable to non-controlling interest	13	21	-35%	13	5%
Savings and deposits	9,680	9,908	-2%	9,686	0%
Loans and advances to clients	9,624	10,504	-8%	10,305	-7%
Total assets	14,877	15,832	-6%	15,433	-4%
Funding ratio (%)	100.6	94.3		94.0	
Risk-weighted assets	5,623	6,431	-13%	6,091	-8%
Common Equity Tier I ratio (%) ²	19.0	16.3		17.3	
Tier I ratio (%) ²	19.0	16.3		17.3	
Total capital ratio (%) ²	20.9	17.0		18.2	
Basel III					
Common Equity Tier I ratio (%) (fully loaded) ³	18.6	15.4		16.9	
Liquidity coverage ratio (%)	156.6	139.5		140.2	
Net stable funding ratio (%)	130.6	118.1		121.2	
Leverage ratio (%) (fully loaded) ³	6.9	6.1		6.4	

(x € billion)	31-12-2016	31-12-2015		30-06-2016	
Client assets					
- Assets under management	69.4	63.0	10%	66.2	5%
- Assets under administration	57.5	50.3	14%	54.3	6%
- Assets under administration	2.1	2.8	-24%	2.2	-2%
- Savings and deposits	9.7	9.9	-2%	9.7	0%

	2016	2015		H1 2016
Key figures				
Weighted average of outstanding ordinary shares (x 1,000)	40,908	40,920		40,959
Underlying earnings per share (€)	1.89	1.26		0.88
Return on average Common Equity Tier I capital (%) ⁴	7.3	4.9		6.8
Number of staff (FTEs at period end)	1,670	1,666		1,646

¹ Total figures in this document may not add up due to rounding.

² At 31 December 2015 and 2016 based on phase-in and including retained earnings. At 30 June 2016 based on phase-in and excluding retained earnings.

³ At 31 December 2015 and 2016 including retained earnings. At 30 June 2016 excluding retained earnings.

⁴ Based on underlying net result.



RESULTS

(x € million)	2016	2015		H2 2016	H1 2016
Commission	243.7	265.6	-8%	126.3	117.4
- Of which securities commissions	200.5	207.8	-4%	100.2	100.3
- Of which other commissions	43.2	57.8	-25%	26.1	17.1
Interest	212.9	202.8	5%	102.6	110.3
Income from securities and associates	29.2	28.1	4%	20.7	8.5
Result on financial transactions	-3.9	24.1		-8.0	4.0
Income from operating activities	481.8	520.6	-7%	241.6	240.2
Staff costs	219.7	212.0	4%	112.5	107.2
Other administrative expenses	154.2	160.0	-4%	73.1	81.1
Depreciation and amortisation	12.9	15.5	-17%	6.4	6.5
Operating expenses	386.8	387.4	0%	192.0	194.8
Gross result	95.0	133.1	-29%	49.6	45.4
Addition to loan loss provision	-6.9	51.0		-5.1	-1.7
Other impairments	1.1	8.0	-87%	0.6	0.5
Impairments	-5.8	59.0		-4.5	-1.3
Operating profit before tax of non-strategic investments	7.4	10.6	-30%	4.3	3.1
Operating profit before one-off charges and tax	108.2	84.7	28%	58.4	49.8
Loss on sale of non-performing real estate loans	-	23.2		-	-
Derivatives recovery framework	8.0	-		-	8.0
Other one-off charges	7.2	7.2		5.1	2.0
Strategy 2020 investment programme	7.3	-		7.0	0.3
Operating profit before tax	85.8	54.3	58%	46.3	39.5
Income tax	16.0	11.5	39%	8.0	8.0
Net result	69.8	42.8	63%	38.3	31.5
Underlying net result	81.3	60.1	35%	43.6	37.7

UNDERLYING NET RESULT

(x € million)	2016	2015		H2 2016	H1 2016
Net result	69.8	42.8	63%	38.3	31.5
One-off charge on the sale of non-performing real estate loans	-	23.2		-	-
One-off charge related to derivatives recovery framework	8.0	-		-	8.0
Cost of Strategy 2020 investment programme	7.3	-		7.0	0.3
Tax effects	-3.8	-5.9		-1.7	-2.1
Underlying net result	81.3	60.1	35%	43.6	37.7

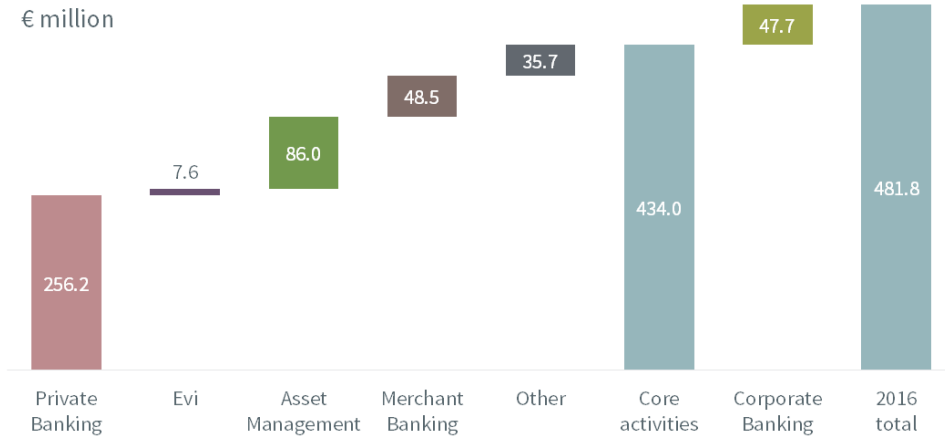


INCOME FROM OPERATING ACTIVITIES

Private Banking, Evi, Asset Management and Merchant Banking generated 83% of total income, with Private Banking accounting for 53%, Evi⁵ – previously reported under Private Banking – for 2%, and Asset Management and Merchant Banking generating 18% and 10% respectively. These core activities accounted for 99% of commission income (2015: 98%) and 73% of interest income (2015: 78%).

Income from operating activities by segment

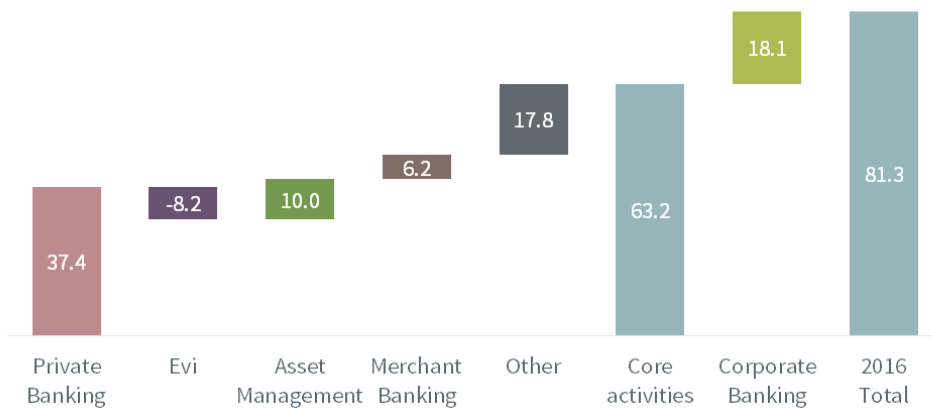
€ million



Evi is still loss-making, as it has required capital spending on technology, product development and marketing, and was allocated internal expenses. All other activities make positive contributions. In the underlying net result, the 2016 net result has been adjusted for the one-off charge related to the derivatives recovery framework (€8.0 million gross) and costs related to the Strategy 2020 investment programme (€7.3 million gross).

Underlying net result

€ million



⁵ Starting from 2016H2, we are reporting on Evi as a separate segment, whereas these activities were previously part of Private Banking. Comparative figures for full 2015 have been adjusted accordingly.



(x € million)	Private Banking	Evi	Asset Management	Merchant Banking	Other	Core activities	Corporate Banking	Total
Commission	104.0	3.6	86.2	46.7	0.1	240.7	3.0	243.7
Interest	151.0	3.9	0.0	0.0	13.1	168.1	44.8	212.9
Other income	1.3	0.0	-0.2	1.8	22.4	25.2	0.0	25.2
Income from operating activities	256.2	7.6	86.0	48.5	35.7	434.0	47.7	481.8
Staff costs	83.8	3.2	36.3	22.8	68.6	214.8	4.9	219.7
Other administrative expenses	60.8	7.1	20.9	7.0	57.2	153.1	1.1	154.2
Indirect costs	56.0	7.8	14.8	9.9	-106.1	-17.6	17.6	0.0
Depreciation and amortisation	2.2	0.1	0.4	0.1	10.1	12.9	0.0	12.9
Operating expenses	202.9	18.2	72.5	39.8	29.8	363.2	23.6	386.8
Gross result	53.3	-10.6	13.6	8.7	5.9	70.9	24.2	95.0
Impairments	1.2	0.0	0.0	0.0	-7.1	-5.8	0.0	-5.8
Operating profit before tax of non-strategic investments					7.4	7.4		7.4
Operating profit before one-off losses and tax	52.1	-10.6	13.6	8.7	20.4	84.1	24.1	108.2
Derivatives recovery framework	0.9					0.9	7.1	8.0
One-off charges	3.2				4.0	7.2		7.2
Strategy 2020 investment programme	5.4	1.8				7.3		7.3
Operating profit before tax	42.5	-12.5	13.6	8.7	16.4	68.7	17.0	85.8
Income tax	10.0	-2.9	3.5	2.5	-1.4	11.7	4.3	16.0
Net result	32.6	-9.5	10.0	6.2	17.7	57.0	12.8	69.8
Underlying net result 2016	37.4	-8.2	10.0	6.2	17.8	63.2	18.1	81.3
Underlying net result 2015	15.1	-11.1	18.6	20.1	13.9	56.6	3.6	60.1

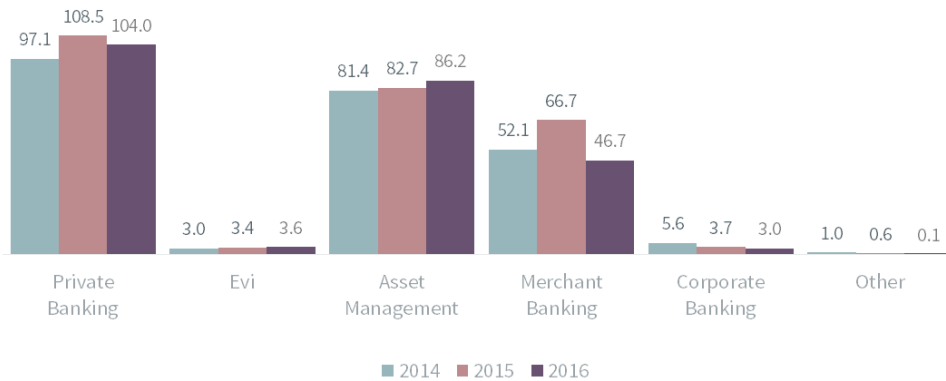
Commission

(x € million)	2016	2015		H2 2016	H1 2016
Securities commissions	200.5	207.8	-4%	100.2	100.3
- Management fees	173.8	172.5	1%	87.6	86.2
- Transaction fees	26.7	35.3	-24%	12.6	14.0
Other commissions	43.2	57.8	-25%	26.1	17.1
Commission	243.7	265.6	-8%	126.3	117.4

Commissions and fees, our main source of income, worked out at €243.7 million in 2016. Management fees were slightly up on 2015, while market conditions sharply reduced transaction fees and other commissions – taking total commissions down by 8%. At 87% in 2016, recurring securities commission as a proportion of total securities commission increased on FY 2015 (83%).

Commission income by segment

€ million



Private Banking's commission income recorded a €4.5 million decrease on 2015, chiefly due to lower transaction fees, as our clients are engaging in fewer transactions in today's volatile markets. In addition, management fees were subject to some slight margin pressure in 2016.

Evi's 2016 securities commissions edged up by €0.2 million on 2015 despite Evi lowering its fees in mid-2015. The increase was mainly driven by growth in assets under management in 2016, to €830 million.

New mandates and income from KCM London (from 1 October 2015) pushed up commission income at Asset Management. Average margins, by contrast, contracted in the wake of growing fiduciary management and bond strategy inflows as well as fee pressure on existing mandates. Fiduciary mandates have come to account for 60% of assets under management in the segment (2015: 55%), on the back of KCM London and other new mandates. Bond funds and mandates saw their share go up to 25% (2015: 23%).

In keeping with developments in the European capital markets, clients' reduced trading and issue activities have led to lower transaction fees at Merchant Banking. Other commissions also declined as Kempen Corporate Finance landed fewer assignments. The third quarter saw the tide turn, with Merchant Banking's clients taking advantage of improved sentiment to carry out capital market transactions while Kempen Corporate Finance advised on more transactions. As a result, Merchant Banking notched up €27.4 million in commission income in H2 2016, sharply higher than the €19.3 million it recorded in the first half of 2016 and ahead of the year-earlier figure of €26.1 million. Merchant Banking had shown an exceptionally strong performance in H1 2015.



Interest

(x € million)	2016	2015		H2 2016	H1 2016
Gross interest margin	253.3	279.0	-9%	121.2	132.1
Interest equalisation	-26.4	-33.6	21%	-11.6	-14.8
Miscellaneous interest income and charges	-20.2	-48.3	58%	-9.1	-11.1
Loan commission	6.2	5.7	7%	2.1	4.0
Interest	212.9	202.8	5%	102.6	110.3

Despite a challenging interest rate climate, our 2016 interest income of €212.9 million was 5% ahead of the €202.8 million recorded in 2015, mostly due to lower amortisation charges on previously discontinued interest rate hedges. The interest margin⁶ added 18 basis points to 139 basis points in 2016 and the 'clean' interest margin⁶ was 15 basis points up, to 130 basis points.

Amortisation on previously discontinued interest rate hedges was €27.1 million down on 2015, which benefited interest result and shows up in Miscellaneous interest income and charges.

A smaller loan portfolio implies less interest income, and the decline was fed both by Corporate Banking's run-off and by Private Banking. Interest income generated by our investment portfolio was also down on 2015, while we also cut mortgage rates in the year. This mix of downward effects was offset in part by further cuts in savings rates and reduced costs of wholesale funding.

Lower 2016 equalisation charges reflect the fall in investment portfolio securities purchased above par.

Income from securities and associates

(x € million)	2016	2015		H2 2016	H1 2016
Dividend	3.6	10.5	-66%	1.3	2.3
Capital gains	9.4	2.9	222%	8.5	0.9
Valuation gains and losses	16.1	14.8	9%	10.9	5.3
Income from securities and associates	29.2	28.1	4%	20.7	8.5

Income from securities and associates relates to investments of our equity investment company Van Lanschot Participaties and stakes in our own investment funds. Van Lanschot Participaties focuses on entrepreneurs and owner-directors, both existing Van Lanschot Private Banking clients and entrepreneurs who are potential clients. We provide growth capital, facilitate management buy-outs and acquire shareholdings with the aim of tailoring equity solutions. We occasionally also take stakes in our own investment funds, for instance by financing their start-ups or to demonstrate our confidence in these funds.

Our dividend receipts were down in 2016 (at €3.6 million), as 2015 brought a relatively high dividend payment from a minority holding. At €9.4 million, the year's capital gains were up thanks to the sale of a stake in one of our own investment funds.

Valuation gains were 9% higher at €16.1 million (2015: €14.8 million), reflecting the value increase of investment funds in which we hold positions.

⁶ The interest margin is calculated on the basis of a 12-month moving average. The clean interest margin equals the gross interest margin adjusted for interest equalisation and interest-related derivatives amortisation.



Result on financial transactions

(x € million)	2016	2015		H2 2016	H1 2016
Result on securities trading	-3.0	0.8		-1.3	-1.7
Result on currency trading	6.9	12.3	-44%	3.4	3.5
Result on investment portfolio	7.8	15.6	-50%	1.8	6.1
Result on interest rate hedges	-7.7	1.2		-4.4	-3.3
Other income	-8.0	-5.7	-39%	-7.5	-0.5
Result on financial transactions	-3.9	24.1		-8.0	4.0

The negative €3.0 million figure clocked up for Results on securities trading primarily reflects Merchant Banking's negative trading positions from market-making for clients. Results on currency trading fell to €6.9 million, to which the ongoing wind-down of Corporate Banking activities was a key contributor.

Our €7.8 million profit on the investment portfolio breaks down into two separate parts: we recorded profits of €8.5 million on the sale of bonds in the investment portfolio (2015: €15.5 million) and we made a negative €0.7 million on our mark-to-market portfolio (2015: €0.1 million).

The year's €7.7 million loss on interest rate hedges relates to a negative performance of the Kempen Dutch Inflation Fund I NV structured product on our own books. This loss is partly offset by interest income related to the product, which is recognised under Interest.

At a negative €8.0 million, Other income comprises charges on debt securities (medium-term notes) issued by Van Lanschot (- €12.6 million) as well as the €4.3 million positive result generated by our Structured Products Desk and €0.3 million by our derivative financial instruments.

OPERATING EXPENSES

(x € million)	2016	2015		H2 2016	H1 2016
Staff costs	219.7	212.0	4%	112.5	107.2
Other administrative expenses	154.2	160.0	-4%	73.1	81.1
Depreciation and amortisation	12.9	15.5	-17%	6.4	6.5
Operating expenses	386.8	387.4	0%	192.0	194.8

Staff costs

At €219.7 million, staff costs were 4% up on 2015 (€212.0 million), partly because Asset Management was looking at higher staff costs due to the activities acquired in the United Kingdom (an effect to the tune of €3.3 million). At the end of 2016 we employed 1,670 full-time equivalent staff (FTEs), not including non-strategic investments. This is four FTEs more than at the end of 2015 (1,666). The increase is attributable to the acquisition of Staalbankiers' private banking activities (25 FTEs added by the end of 2016) coupled with higher FTE numbers at Asset Management and Merchant Banking. Private Banking, Corporate Banking and our staff departments, by contrast, are showing lower overall numbers of FTEs.

Other administrative expenses

Other administrative expenses amounted to €154.2 million in 2016, 4% below 2015 (€160.0 million) in the wake of lower IT costs – both maintenance and management (- €7.1 million) and project costs (- €9.8 million) – and office costs (down €2.0 million). 2016 regulatory expenses, by contrast, were €7.5 million up on 2015 and comprised contributions to the deposit guarantee scheme, the single resolution fund, Belgium's savings tax and regular payments to DNB. The total bill for regulation and supervision came to €8.9 million. In Asset Management, the UK acquisition added €3.5 million to expenses.

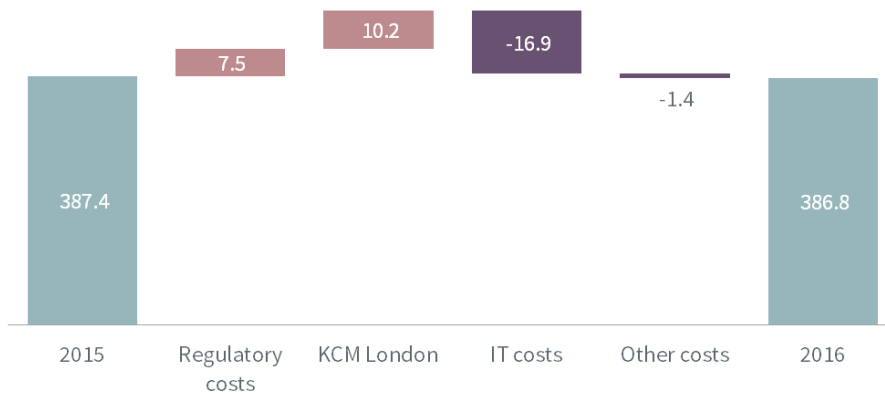


Depreciation and amortisation

At €12.9 million, depreciation and amortisation in 2016 recorded a fall of €2.6 million (17%) on 2015 (€15.5 million), mainly due to reduced amortisation of software applications. By year-end 2016, intangible assets had been amortised an initial €0.2 million to take account of the acquisition of Staalbankiers' private banking activities. The acquisition's projected fair value of €20 million will be amortised over a period of eight years⁷.

Operating expenses

€ million



In 2016, our total operating costs dipped below those in 2015: to €386.8 million from €387.4 million. The underlying picture is one of structural cost savings, mainly on reduced IT run costs as we outsourced our mainframe and are looking at lower application costs. Other structural costs savings include accommodation costs and printing. Other types of costs were up, though, and we faced steeper regulatory costs (+ €7.5 million) as well as the expense arising from the acquisition of KCM London (+ €10.2 million, of which €5.6 million was one-off). The year 2017 should be one of rising costs on the one hand – e.g. related to transition and regular costs arising from the acquisition of Staalbankiers' private banking activities – while we will persist in cutting costs on the other.

Efficiency ratio

The efficiency ratio – i.e. operating expenses excluding one-off charges and expenses in relation to our Strategy 2020 investment programme in relation to income from operating activities – rose to 80.3% in 2016 from 74.4% in 2015. Its deterioration was primarily attributable to a lower Result on financial transactions and Other commissions. Operating expenses in 2016 were on a comparable level to 2015.

IMPAIRMENTS

(x € million)	2016	2015		H2 2016	H1 2016
Private Banking	1.2	22.1	-94%	-1.1	2.4
Corporate Banking	0.0	23.9		-1.0	1.0
Merchant Banking	-	0.1		-	-
Other	-8.1	4.9		-3.0	-5.1
Addition to loan loss provision	-6.9	51.0		-5.1	-1.7
Impairment on investments and participating interests	0.8	4.0	-79%	0.5	0.4
Impairment on assets obtained through the seizure of collateral	0.2	4.0	-95%	0.1	0.1
Other impairments	1.1	8.0	-87%	0.6	0.5
Impairments	-5.8	59.0		-4.5	-1.3

⁷ The initial acquisition price was agreed at €16 million and paid on 15 December 2016. The final acquisition price (a maximum of €4 million higher or lower) may yet deviate, depending on the AuM actually transferred. The fair value of the acquisition is fully recognised in intangible assets and will be amortised over time.



Addition to loan loss provision

In 2016, €6.9 million was released from loan loss provisions, compared with a sizeable addition of €51.0 million in 2015. Corporate Banking's addition to loan loss provisions, in particular, was nil in 2016, compared with €23.9 million in 2015. Private Banking also added significantly less: €1.2 million in 2016 against €22.1 million in 2015. The segment Other saw a release of €8.1 million in 2016, compared with a €4.9 million addition in the year-earlier period, mainly resulting from lower provisions for incurred but not reported (IBNR) items. Winding down our Corporate Banking loan portfolio, the improvement in our credit quality and intensive and preventive credit management meant that, a lower IBNR provision of only €7.0 million (year-end 2015: €14.5 million) was required and €7.5 million could be released.

In 2015 the addition to loan loss provisions relative to average risk-weighted assets worked out at 74 basis points, while 2016 ended on a net release from loan loss provisions (11 basis points relative to risk-weighted assets).

ONE-OFF CHARGES

In 2016 we recognised €15.2 million in one-off charges compared with €30.4 million in 2015, with the greater proportion earmarked for the implementation of the uniform recovery framework for SME clients with interest rate derivatives (€8.0 million). Under the framework we will offer courtesy payment to clients so affected in 2017.

(x € million)	2016	2015	H2 2016	H1 2016
Sale of non-performing real estate loans	-	23.2	-	-
Derivatives recovery framework	8.0	-	-	8.0
One-off charges related to FTE reductions	3.9	2.3	2.3	1.6
Termination of contract with IT suppliers	-0.2	2.4	-0.2	-
Gains and impairments on office buildings	3.4	2.5	3.0	0.4
Other one-off charges	7.2	7.2	5.2	2.0
One-off charges	15.2	30.4	5.2	10.0

STRATEGY 2020 INVESTMENT PROGRAMME

When releasing our strategy update in April 2016, we launched our Strategy 2020 investment programme. Between mid-2016 and the end of 2019 we will invest €60 million in developing an omnichannel private banking model and completing the transformation of our IT landscape. In 2016, a total €7.3 million was invested under the programme, a proportion of which was put towards preparations to transfer our mortgage back-office to Stater in the course of 2017 and for outsourcing payments to Fidor. We spent some of that amount on our omnichannel service to our clients, including the launch of our discretionary management app.

INCOME TAX

Income tax for 2016 amounted to €16.0 million (2015: €11.5 million), which works out at an effective tax rate of 18.6% and is thus lower than in 2015 (21.2%). Our effective tax rate is relatively low due to income covered by equity exemption rules.



EARNINGS PER SHARE

Consolidated earnings break down as follows:

<i>(x € million)</i>	2016	2015	H2 2016	H1 2016
Net result	69.8	42.8	38.3	31.5
Net interest on perpetual loans	-	-0.9	-	-
Share of non-controlling interests	-4.1	-7.7	-2.3	-1.8
Net result for calculation of earnings per ordinary share	65.7	34.2	36.1	29.7
Earnings per ordinary share (€)	1.61	0.83	0.88	0.73
Underlying net result for calculation of earnings per ordinary share	77.2	51.5	41.3	35.9
Underlying earnings per ordinary share (€)	1.89	1.26	1.01	0.88
Weighted number of outstanding ordinary shares (x 1,000)	40,908	40,920		

Profit attributable to non-controlling interests in 2016 primarily concerned non-controlling interests in our non-strategic investments, while also including the management investment plan launched in 2010 for selected staff at Kempen & Co (Kempen MIP).

We will propose to pay a 2016 cash dividend to Van Lanschot shareholders of €1.20 per share, a pay-out ratio of 64% based on the underlying result (2015: €0.45, pay-out ratio of 36%).



STATEMENT OF FINANCIAL POSITION

(x € million)	31-12-2016	31-12-2015		30-06-2016	
Statement of financial position and capital management					
Equity attributable to shareholders	1,340	1,299	3%	1,301	3%
Equity attributable to non-controlling interests	13	21	-35%	13	5%
Savings and deposits	9,680	9,908	-2%	9,686	0%
Loans and advances to clients	9,624	10,504	-8%	10,305	-7%
Total assets	14,877	15,832	-6%	15,433	-4%
Funding ratio (%)	100.6	94.3		94.0	
Return on assets (%) ⁸	0.55	0.38		0.49	

From the second quarter of 2016, we stopped netting current account balances at individual client level, and comparative 2015 figures for loans, savings, total assets, and related figures and ratios have been adjusted accordingly.

LOAN PORTFOLIO

(x € million)	31-12-2016	31-12-2015		30-06-2016	
Mortgage loans	5,718	5,980	-4%	5,940	-4%
Other loans	2,200	2,375	-7%	2,393	-8%
Private Banking	7,917	8,355	-5%	8,333	-5%
Loans to SMEs	679	933	-27%	809	-16%
Real estate financing	705	1,065	-34%	918	-23%
Corporate Banking	1,384	1,998	-31%	1,727	-20%
Mortgages distributed by third parties	485	332	46%	416	17%
Total	9,786	10,685	-8%	10,476	-7%
Impairments	-162	-180	-10%	-171	-5%
Total	9,624	10,504	-8%	10,305	-7%

In 2016 our loan portfolio contracted by 8% to €9.6 billion due to the Corporate Banking run-off (-31%) and a decline at Private Banking (-5%). Our loan portfolio is concentrated in the Netherlands (97%).

Private Banking

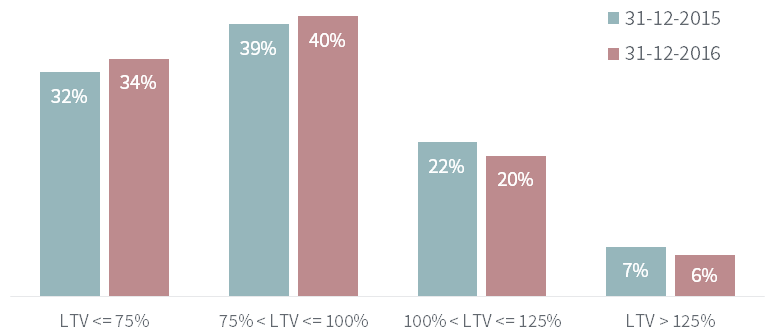
Private Banking's loan portfolio breaks down into mortgages and other loans. In 2016, the mortgage portfolio shrank by 4%, as repayments and early repayment exceeded new business. The second half, in particular, saw more clients clear their mortgage debt altogether. The sale of our c. €100 million mortgage portfolio in Belgium also pushed down mortgage volumes. As a result, the relative share of Private Banking-provided residential mortgages in the total loan portfolio advanced slightly to 58% in 2016 (year-end 2015: 56%). The mortgage portfolio is marked by limited losses and a low number of foreclosures.

⁸ Return on assets is based on underlying net result and total assets

At the end of 2016, the mortgage portfolio commanded an average loan-to-value (LTV) of 64% based on foreclosure values – an improvement on last year (year-end 2015: 71%).

Other loans comprises loans to wealthy private individuals and also includes business loans that fit with the Private Banking relationship model. This item contracted by 7% to €2.2 billion in 2016, as entrepreneurs took out fewer loans and current account overdraft facilities declined.

Private Banking: mortgages loan-to-value
% of Private Banking Netherlands mortgages

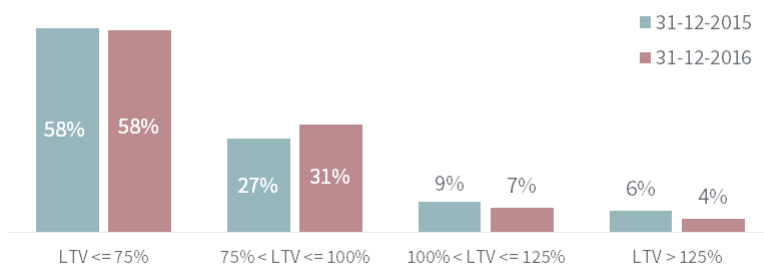


Corporate Banking

At the end of 2016, the commercial portfolio of real estate and SME loans totalled €1.4 billion (end-2015: €2.0 billion). Risk-weighted assets came down by €0.7 billion⁹ and worked out at €1.2 billion (year-end 2015: €1.9 billion).

Corporate Banking's SME loans contracted by 27% to a nominal value of €0.7 billion at year-end 2016 and accounted for 7% of our total loan portfolio. Its €0.7 billion real estate portfolio is well-spread across types of collateral. The collateral assets against which the loans are secured are typically located in the Randstad conurbation comprising the cities of Amsterdam, Rotterdam, Utrecht and The Hague. The average LTV has improved slightly, to 73% (year-end 2015: 74%).

Corporate Banking: real estate loan-to-value



Mortgages distributed by third parties

In April 2015 we started providing mortgages through a network of mortgage brokers, as part of our liquidity management drive. This portfolio of regular Dutch mortgages is meant to supplement our investment portfolio and enable us to generate attractive returns on available liquidity. This specific mortgage portfolio stood at €0.5 billion by the end of 2016 and so accounts for 5% of our total loan portfolio. We have set the maximum limit for this portfolio at €600 million.

⁹ The €0.7 billion reduction in risk-weighted Corporate Banking assets includes clients transferred to Private Banking (effect €0.1 billion) and changes in risk-weighted assets through rating changes (€0.1 billion reduction). Ignoring these effects, risk-weighted assets at Corporate Banking contracted by €0.5 billion.



PROVISION

We provide for the impaired loans in our loan book. Impaired loans stood at €500 million at the end of 2016 (year-end 2015: €575 million) and provisions amounted to €155 million, working out at 31% (year-end 2015: 29%). The tables below break down the total loan portfolio and provisions.

The total impaired ratio improved to 5.1% from 5.4% by the end of 2016, while the proportion of impaired loans at Private Banking came down slightly to 3.2% (year-end 2015: 3.4%). The coverage ratio of Mortgages increased to 58% (year-end 2015: 42%), while decreasing for Other loans to 36% (year-end 2015: 40%)¹⁰. At Corporate Banking the impaired ratio was up to 17.9% (year-end 2015: 14.5%), while impaired loans fell in absolute terms, primarily as a result of the portfolio's run-off.

31-12-2016 (x € million)	Loan portfolio	Impaired loans	Provision for impaired loans	Impaired ratio	Coverage ratio
Mortgages	5,718	80	46	1.4%	58%
Other loans	2,200	172	62	7.8%	36%
Private Banking	7,917	252	108	3.2%	43%
Loans to SMEs	679	178	35	26.2%	20%
Real estate financing	705	70	11	9.9%	16%
Corporate Banking	1,384	248	47	17.9%	19%
Mortgages distributed by third parties	485	-	-		
Total	9,786	500	155	5.1%	31%
Impairments	-162				
Total	9,624	500	155		
Incurring but not reported (IBNR)			7		
Provision including IBNR			162		

31-12-2015 (x € million)	Loan portfolio	Impaired loans	Provision for impaired loans	Impaired ratio	Coverage ratio
Mortgages	5,980	126	53	2.1%	42%
Other loans	2,375	159	63	6.7%	40%
Private Banking	8,355	285	117	3.4%	41%
Loans to SMEs	933	184	38	19.7%	21%
Real estate financing	1,065	107	11	10.0%	11%
Corporate Banking	1,998	290	49	14.5%	17%
Mortgages distributed by third parties	332	-	-		
Total	10,685	575	166	5.4%	29%
Impairments	-180				
Total	10,504	575	166		
Incurring but not reported (IBNR)			15		
Provision including IBNR			180		

¹⁰ The overall provision at client level is split among different products based on exposure at default. This split, which is determined at the moment of default, is kept constant irrespective of the development of the exposures of the different products over time. If an impaired mortgage loan is not fully repaid when the underlying asset is sold, the remaining exposure will shift to Other loans, while the remaining provision will still be reported under Mortgages.



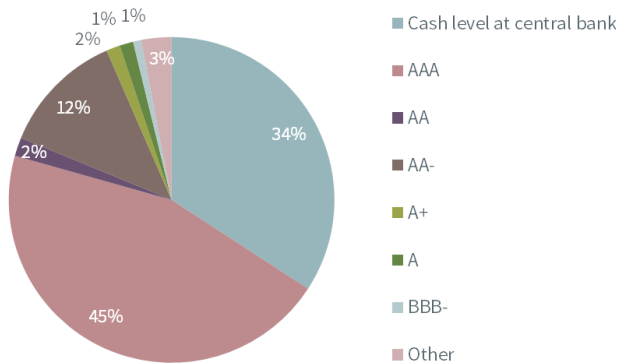
INVESTMENT PORTFOLIO AND CASH

The total investment and cash portfolio¹¹ amounted to €3.8 billion at year-end 2016 (year-end 2015: €4.1 billion). The investment portfolio saw a reduction in government paper by €0.7 billion compared with year-end 2015, while the held-to-maturity portfolio stood at €0.5 billion by the end of the year and so hardly changed in size or composition in the year. Cash held with central banks added €0.7 billion relative to its end-of-2015 level.

These portfolios are primarily held for asset and liability management purposes, and mainly include low-risk and highly liquid instruments. The year-end 2016 charts below break down these portfolios by counterparty, country and rating category.

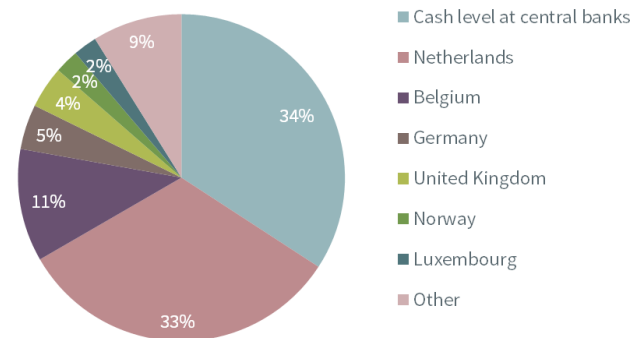
Investment portfolio and cash by rating at 31-12-2016

100% is €3.8 billion



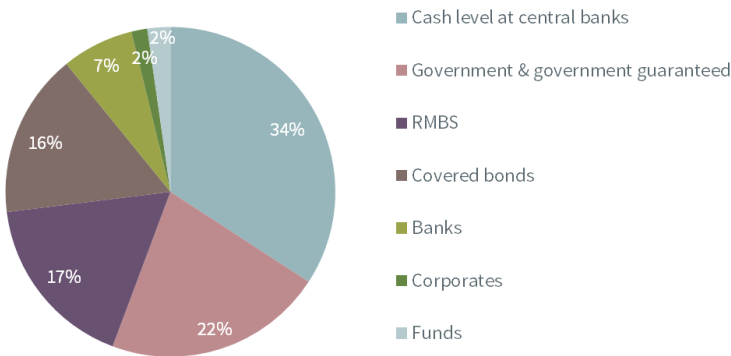
Investment portfolio and cash by country at 31-12-2016

100% is €3.8 billion



Investment portfolio and cash by counterparty at 31-12-2016

100% is €3.8 billion



CAPITAL AND LIQUIDITY MANAGEMENT

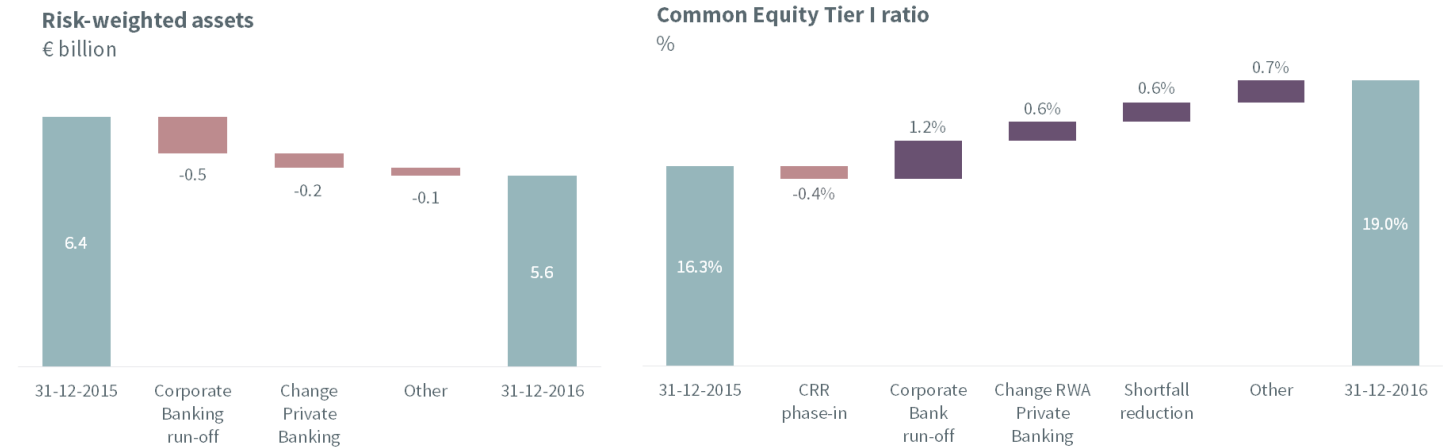
In 2016 our capital base again improved significantly.

(x € million)	31-12-2016	31-12-2015		30-06-2016	
Risk-weighted assets	5,623	6,431	-13%	6,091	-8%
Common Equity Tier I ratio (%)	19.0	16.3		17.3	
Tier I ratio (%)	19.0	16.3		17.3	
Total capital ratio (%)	20.9	17.0		18.2	

¹¹ Investment portfolio and cash comprises the balance of available-for-sale investments, financial assets held to maturity, financial assets designated at fair value through profit or loss, and cash withdrawable on demand from central banks.

CAPITAL MANAGEMENT

Risk-weighted assets declined by €0.8 billion to €5.6 billion in 2016 (year-end 2015: €6.4 billion). At 19.0%, our phase-in Common Equity Tier I ratio clearly improved during 2016 (2015: 16.3%), reflecting our robust capital position. The €0.5 billion reduction in risk-weighted assets at Corporate Banking benefited the CET I ratio by 1.2%. The ratio also gained 0.6 percentage points from the fall in Private Banking's risk-weighted assets that resulted from lower loan volumes and rating changes.



FUNDING

We aim to retain access to both retail and wholesale markets through diversified funding.

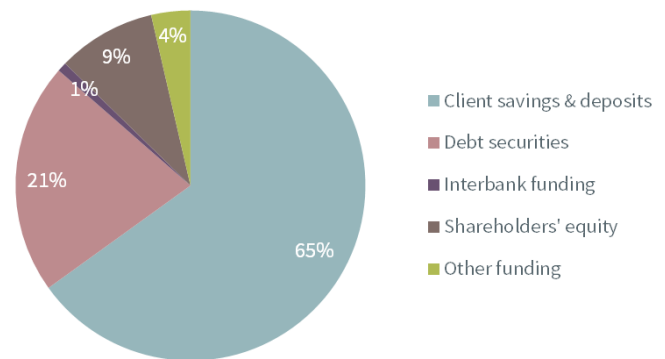
By year-end 2016 our funding ratio had increased to 100.6% (year-end 2015: 94.3%) in the wake of a sharper fall in loans and advances to clients (- 8%) relative to savings and deposits (- 2%). The net €0.2 billion contraction in savings and deposits occurred at the deposits end.

In March 2016 we successfully placed a €500 million, seven-year conditional pass-through covered bond, while October saw us engage in a €50 million subordinated private placement with an institutional investor. Both transactions fit in with our funding diversification aims.

In addition, we redeemed two loans in the capital markets in the year, a senior unsecured loan in CHF in April and a benchmark senior unsecured loan in EUR in October. Net issued debt securities came down by €0.2 billion.

Funding mix at 31-12-2016

100% is €14.9 billion



BASEL III

At the end of 2016 our ratios based on Basel III rules as currently known were as follows:

	31-12-2016	Norm
Common Equity Tier I ratio (fully loaded) (%) ¹²	18.6	> 9.5
Leverage ratio (fully loaded) (%)	6.9	> 3
Liquidity coverage ratio (%) ¹³	156.6	> 100
Net stable funding ratio (%) ¹⁴	130.6	> 100

¹² The norm breaks down as follows: standard buffer 4.5%, conservation buffer 2.5%, countercyclical buffer between 0% and 2.5%.

¹³ Based on the LCR Delegated Act.

¹⁴ Based on Basel III at 31-12-2016: net stable funding ratio (BCBS 295).



CLIENT ASSETS

(x € billion)	31-12-2016	31-12-2015		30-06-2016	
Client assets	69.4	63.0	10%	66.2	5%
Assets under management	57.5	50.3	14%	54.3	6%
Assets under administration	2.1	2.8	-24%	2.2	-2%
Savings and deposits	9.7	9.9	-2%	9.7	0%
Client assets	69.4	63.0	10%	66.2	5%
Private Banking	28.2	26.4	7%	25.6	10%
Evi	1.5	1.4	5%	1.4	6%
Asset Management	37.8	32.9	15%	37.2	2%
Other	1.8	2.3	-21%	2.0	-7%

(x € billion)	Private Banking	Evi	Asset Management	Other	Total
Client assets at 31-12-2015	26.4	1.4	32.9	2.3	63.0
Assets under management in/outflow	-0.2	0.0	2.8	0.0	2.7
Market performance of assets under management	0.8	0.0	2.1	0.0	2.9
AuM of Staalbankiers' private banking clients	1.7				1.7
Change in assets under administration	-0.5			-0.2	-0.7
Savings and deposits in/outflow	0.1	0.0	-0.1	-0.3	-0.2
Client assets at 31-12-2016	28.2	1.5	37.8	1.8	69.4

PRIVATE BANKING

In 2016 total client assets grew by €1.8 billion (7%) to €28.2 billion. This was due primarily to the acquisition of Staalbankiers' private banking activities, which saw €1.7 billion in assets under management and nearly €0.3 billion in savings transfer to Van Lanschot. With the AuM so acquired being mostly at the discretionary end, we saw the share of assets under discretionary management rise to 54% of total assets under management (year-end 2015: 50%).

Client Assets Private Banking

€ miljard





Ignoring the acquisition of the Staalbankiers private banking activities, assets under management at Private Banking grew by 4% (€0.6 billion), the net outcome of a positive market performance (+ €0.8 billion), net inflows in assets under discretionary management (+ €0.1 billion) and net outflows in assets under non-discretionary management (- €0.3 billion).

Assets under administration fell by €0.5 billion. These investment portfolios are merely administered by Van Lanschot; we have little or no control over them and their earnings are relatively limited.

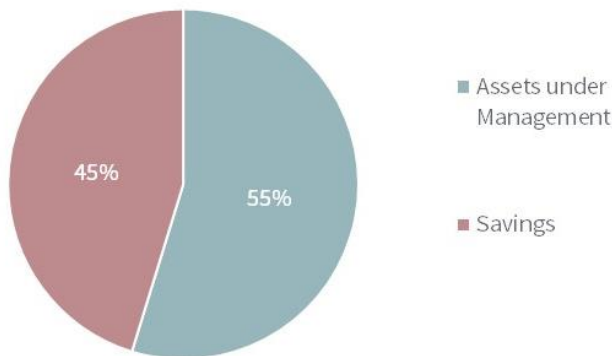
Savings and deposits were up by €0.1 billion in 2016. Despite Staalbankiers savings, there was a net savings outflow as we continue to be selective in terms of savings. In Belgium we reduced institutional savings and deposits in line with our funding strategy.

Evi

Client assets held by Evi van Lanschot totalled €1.5 billion in 2016 and have remained stable despite volatile market conditions. In 2016 clients put c. €50 million in invested capital with Evi, while taking out almost €15 million in savings. To help generate additional growth, we launched Evi4Kids and Evi Doelbeleggen in the Netherlands, and started Evi Beleggen in Belgium.

Breakdown of Evi client assets

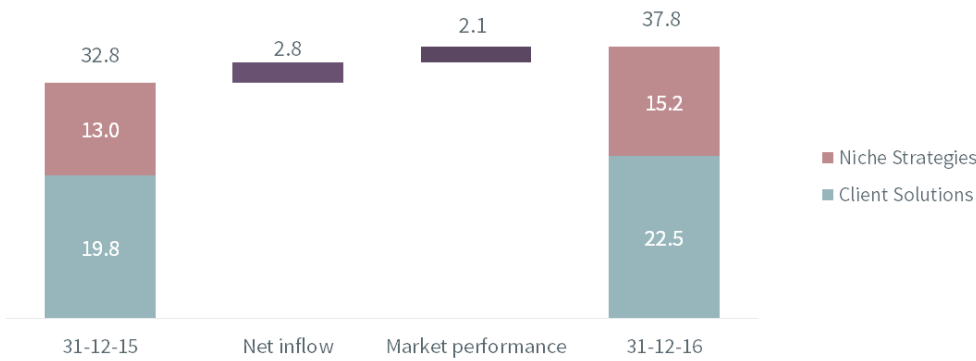
100% is €1.5 billion



ASSET MANAGEMENT

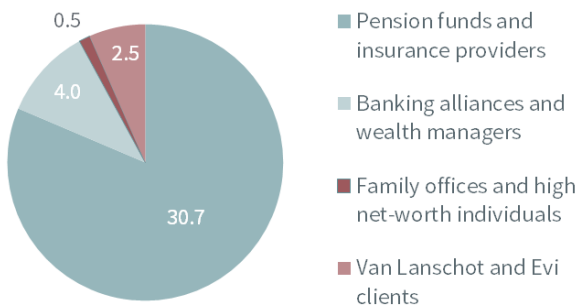
Assets under management at Asset Management were up by 15% to €37.8 billion from €32.8 billion. Asset Management recorded net inflows of €2.8 billion in 2016, on the back of the Univé fiduciary mandate (over €1 billion) and the c. €1 billion investment-grade corporate bonds mandate for Fonds de Réserve pour les Retraites (FRR). The remainder of the inflow largely derived from bonds-driven investment strategies. Positive value trends in almost all investment strategies also underpinned a market performance of €2.1 billion.

AuM at Asset Management
€ billion



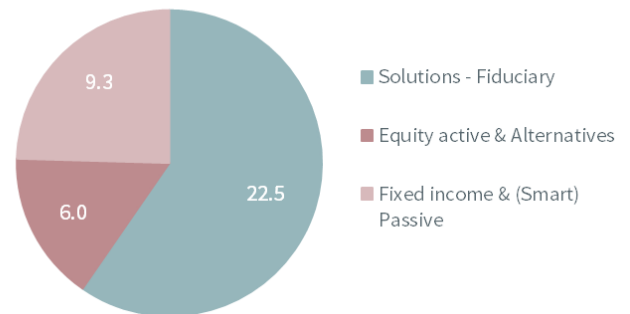
AuM breakdown by client type

Total is € 37.8 billion



AuM breakdown by type of service

Total is € 37.8 billion



In addition to third party funds, Kempen Capital Management also manages our private banking discretionary management mandates and Evi Beleggen products, amounting to total assets under management of €9.1 billion at the end of 2016.



Disclaimer and cautionary note on forward-looking statements

This document contains forward-looking statements on future events and developments. These forward-looking statements are based on the current information, insights and assumptions of Van Lanschot's management about known and unknown risks and uncertainties. Forward-looking statements do not relate strictly to historical or current facts and are subject to such risks and uncertainties that by their very nature fall outside the control of Van Lanschot and its management.

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RECONCILIATION OF IFRS AND MANAGEMENT REPORTING

The table below shows the adjustments that need to be made from IFRS to management reporting.

	2016				
	IFRS	Non-strategic investments	One-off charges	Strategic investment programme	Managerial
Commission	243.7	-	-	-	243.7
Interest	209.8	1.7	1.3	-	212.9
Income from securities and associates	29.7	-0.5	-	-	29.2
Result on financial transactions	-3.9	-0.0	-	-	-3.9
Other income	45.2	-45.2	-	-	-
Income from operating activities	524.4	-43.9	1.3	-	481.8
Staff costs	247.4	-23.8	-3.9	-	219.7
Other administrative expenses	176.8	-8.7	-6.7	-7.3	154.2
Depreciation and amortisation	16.6	-4.1	0.4	-	12.9
Operating expenses	440.7	-36.5	-10.2	-7.3	386.8
Gross result	83.7	-7.4	11.5	7.3	95.0
Impairments	-2.1	-	-3.7	-	-5.8
Operating profit before tax of non-strategic investments	-	7.4	-	-	7.4
Operating profit before one-off losses and tax	85.8	-	15.2	7.3	108.2
Recovery framework ork interest rate derivatives	-	-	8.0	-	8.0
Other one-off charges	-	-	7.2	-	7.2
Strategy 2020 investment programme	-	-	-	7.3	7.3
Operating profit before tax	85.8	-	-	-	85.8
Income tax	16.0	-	-	-	16.0
Net profit	69.8	-	-	-	69.8



EVENTS AFTER THE REPORTING PERIOD

In January 2017, Van Lanschot Participaties reached agreement on the sale of its minority stake in TechAccess, generating an expected gain on the sale of €6.5 million and a potential earn-out payment in 2017.

In February 2017, we placed a €500 million 10-year conditional pass-through covered bond with institutional investors.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016**

Before profit appropriation

(€ thousand)

	31-12-2016	31-12-2015
Assets		
Cash and cash equivalents and balances at central banks	1,585,473	881,024
Financial assets held for trading	16,913	6,863
Due from banks	188,748	200,073
Derivatives	307,320	333,411
Financial assets designated at fair value through profit or loss	336,238	712,578
Available-for-sale investments	1,680,036	2,159,141
Held-to-maturity investments	513,438	523,639
Loans and advances to the public and private sectors	9,624,048	10,504,423
Investments in associates using the equity method	75,559	56,299
Property and equipment	72,003	79,239
Goodwill and other intangible assets	194,453	175,122
Tax assets	41,687	51,698
Assets classified as held for sale	103,639	-
Other assets	137,856	148,265
Total assets	14,877,411	15,831,775
Equity and liabilities		
Financial liabilities from trading activities	5	418
Due to banks	128,696	698,125
Public and private sector liabilities	9,679,764	9,908,391
Derivatives	338,851	324,760
Financial liabilities designated at fair value through profit or loss	894,255	804,603
Issued debt securities	2,116,094	2,480,005
Provisions	34,047	23,668
Tax liabilities	7,073	4,911
Other liabilities	157,482	148,809
Subordinated loans	167,218	118,151
Total liabilities	13,523,485	14,511,841
Issued share capital	41,092	41,017
Treasury shares	-4,059	-1,058
Share premium reserve	481,258	479,914
Other reserves	756,445	745,322
Undistributed profit attributable to shareholders	65,735	34,163
Equity attributable to shareholders	1,340,470	1,299,358
Non-controlling interest in perpetual capital securities	-	-
Undistributed profit attributable to non-controlling interest in perpetual capital securities	-	943
Equity attributable to non-controlling interest in perpetual capital securities	-	943
Other non-controlling interests	9,391	11,985
Undistributed profit attributable to other non-controlling interests	4,065	7,648
Equity attributable to other non-controlling interests	13,456	19,633
Total equity	1,353,926	1,319,934
Total equity and liabilities	14,877,411	15,831,775
Contingent liabilities	68,024	82,502
Irrevocable commitments	145,918	492,392
	213,943	574,894



CONSOLIDATED STATEMENT OF INCOME FOR 2016

(€ thousand)

	2016	2015
Income from operating activities		
Interest income	395,880	513,762
Interest expense	186,064	313,153
Net interest income	209,817	200,609
Income from associates using the equity method	11,646	11,813
Other income from securities and associates	18,025	17,052
Income from securities and associates	29,671	28,865
Commission income	253,456	272,738
Commission expense	9,786	7,176
Net commission income	243,670	265,562
Result on financial transactions	-3,938	23,342
Other income	45,180	42,762
Total income from operating activities	524,400	561,140
Expenses		
Staff costs	247,364	233,657
Other administrative expenses	176,768	171,468
Staff costs and other administrative expenses	424,132	405,125
Depreciation and amortisation	16,597	17,391
Operating expenses	440,729	422,516
Release of/addition to loan loss provision	-6,862	51,004
Other impairments	4,747	10,933
Impairments	-2,115	61,937
Result from sale of public and private sector loans and advances	-	22,403
Total expenses	438,614	506,856
Operating profit before tax	85,785	54,284
Income tax	15,986	11,530
Net result	69,800	42,754



SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2016

(€ thousand)

	2016	2015
At 1 January	1,319,934	1,350,518
Revaluation of shares, investments and derivatives (other comprehensive income)	69,800	42,754
Revaluation of shares, investments and derivatives (other comprehensive income)	-2,917	-14,486
Shares issued	1,419	-
Dividends	-25,180	-23,756
Movements by virtue of share plan	-4,231	3,518
Redemption non-controlling interest in perpetual capital securities	-	-27,250
Acquisition of/change in other non-controlling interests	-4,398	-11,619
Others	-501	255
At 31 December	1,353,926	1,319,934

SUMMARISED CONSOLIDATED CASH FLOW STATEMENT FOR 2016

(€ thousand)

	2016	2015
Cash and cash equivalents at 1 January	868,662	1,121,931
Net cash flow from operating activities	113,456	-6,545
Net cash flow from discontinued operations	-	-
Net cash flow from investing activities	845,193	301,663
Net cash flow from financing activities	-277,211	-548,387
Cash and cash equivalents at 31 December	1,550,100	868,662



SEGMENT INFORMATION

Operating segments 2016 (€ million)	Private Banking	Evi	Asset Management	Merchant Banking	Corporate Banking	Other activities	Total
Statement of income							
Net interest income	150.8	3.9	-	-	43.8	11.3	209.8
Income from securities and associates	-	-	-0.3	-	-	29.9	29.7
Net commission income	104.0	3.6	86.2	46.7	3.0	0.1	243.7
Result on financial transactions	1.3	-	0.1	1.8	-	-7.0	-3.9
Other income	-	-	-	-	-	45.2	45.2
Total income from operating activities	256.0	7.6	86.0	48.5	46.8	79.5	524.4
Staff costs	87.0	3.2	36.3	22.8	4.9	93.1	247.4
Other administrative expenses	67.0	8.9	20.9	7.0	7.2	65.7	176.8
Allocated internal expenses	56.0	7.8	14.8	9.9	17.6	-106.1	-
Depreciation and amortisation	2.2	0.1	0.4	0.1	-	13.8	16.6
Impairments	1.2	-	-	-	0.0	-3.4	-2.1
Total expenses	213.5	20.1	72.5	39.8	29.7	63.1	438.6
Operating result before tax	42.5	-12.5	13.6	8.7	17.1	16.4	85.8
Efficiency ratio (%)	83%	264%	84%	82%	63%	84%	84%

Operating segments 2015 (€ million)	Private Banking	Evi	Asset Management	Merchant Banking	Corporate Banking	Other activities	Total
Statement of income							
Net interest income	155.9	2.1	0.0	-0.3	55.3	-12.5	200.6
Income from securities and associates	-	-	0.3	-	-	28.6	28.9
Net commission income	108.5	3.4	82.7	66.7	3.7	0.6	265.6
Result on financial transactions	1.8	-	-0.1	3.4	-0.8	19.0	23.3
Other income	-	-	-	-	-	42.8	42.8
Total income from operating activities	266.2	5.6	82.9	69.8	58.2	78.4	561.1
Staff costs	82.4	3.0	30.2	24.5	6.7	86.9	233.7
Other administrative expenses	31.5	8.1	13.7	8.0	0.7	109.4	171.4
Allocated internal expenses	103.6	9.8	14.0	8.8	22.8	-159.0	-
Depreciation and amortisation	5.5	0.2	0.2	0.1	-	11.4	17.4
Impairments	22.1	-	-	0.1	23.9	15.8	61.9
Result from sale of public and private sector loans and advances	-	-	-	-	22.4	-	22.4
Total expenses	245.1	21.0	58.1	41.5	76.5	64.5	506.9
Operating result before tax	21.0	-15.5	24.8	28.3	-18.3	13.9	54.3
Efficiency ratio (%)	84%	379%	70%	59%	52%	62%	75%