Van Lanschot

F. van Lanschot Bankiers NV

2016 Annual Report

Every step of the way

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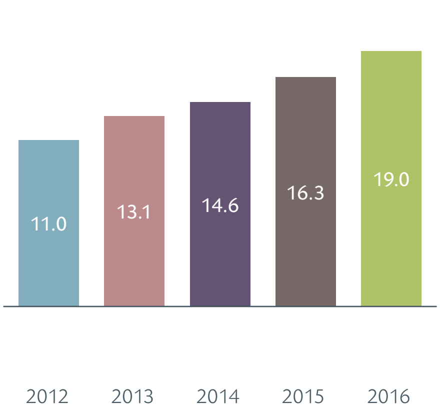
This 2016 annual financial report of F. van Lanschot Bankiers NV has been prepared to comply with Dutch law. F. van Lanschot Bankiers NV (hereafter ‘Van Lanschot’) is a 100% subsidiary of Van Lanschot NV.

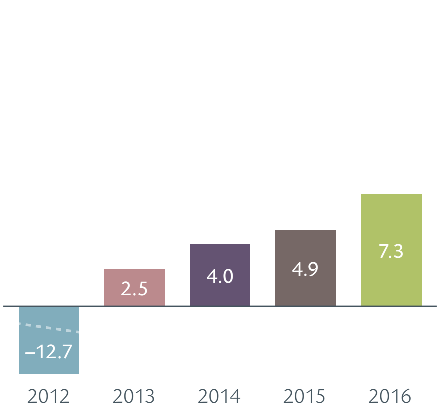
Key data[1]

1. Results

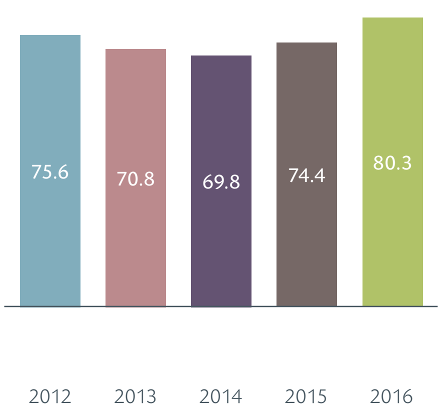
Common Equity Tier I ratio, including NSIs[2] (%)



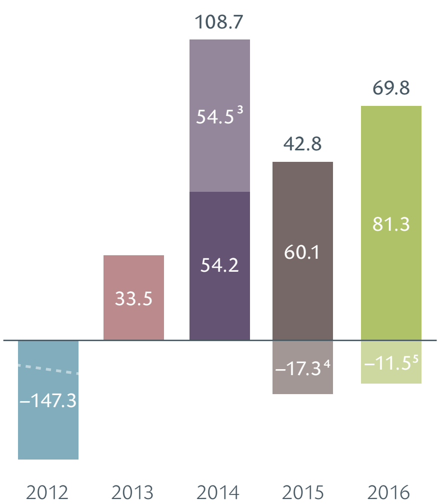
Return on average Common Equity Tier I based on underlying net result, including NSIs[2] (%)



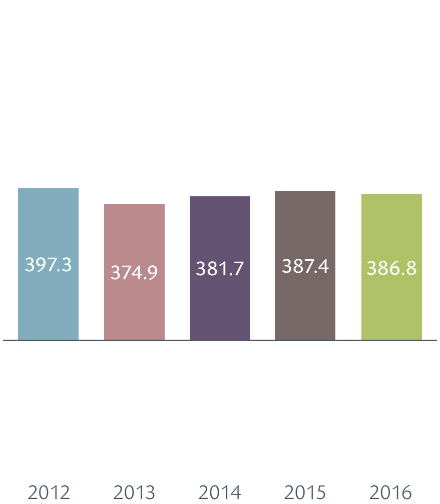
Efficiency ratio, excluding one-off gains and losses (%)



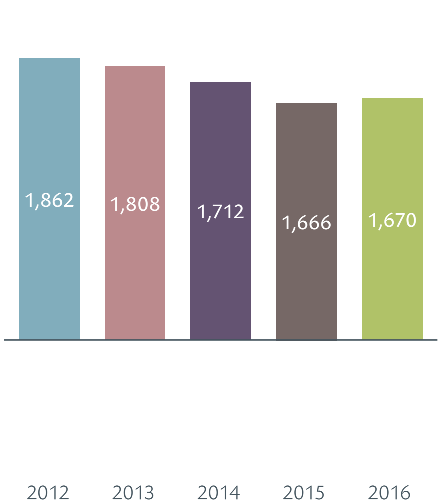
Net result, including NSIs (x € million)



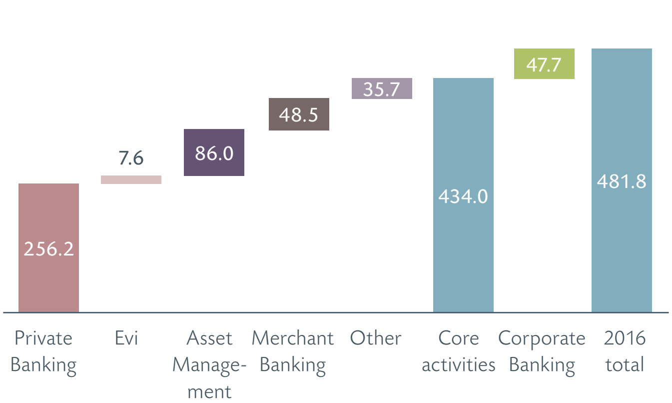
Operating expenses (x € million)



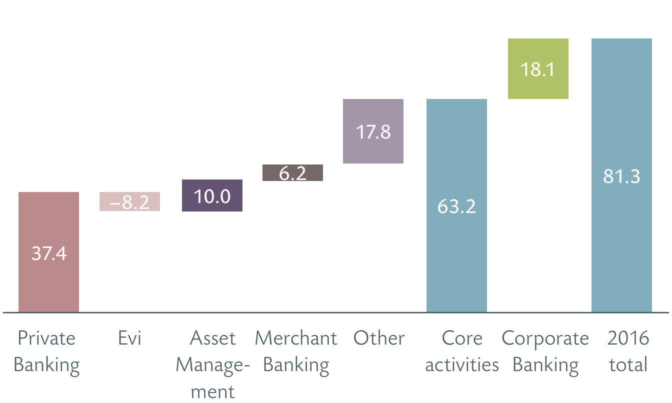
Number of staff (FTEs, at year-end)



Income from operating activities, by segment (x € million)



Underlying net result[6] (x € million)



1 Excluding non-strategic investments (NSIs), unless stated otherwise.

2 From 2014 in compliance with Basel III regulatory framework, based on phase-in and including retained earnings. Figures for previous years are based on compliance with Basel II.

3 One-off net gain resulting from changes to pension scheme.

4 One-off charge resulting from changes to non-performing real estate loans.

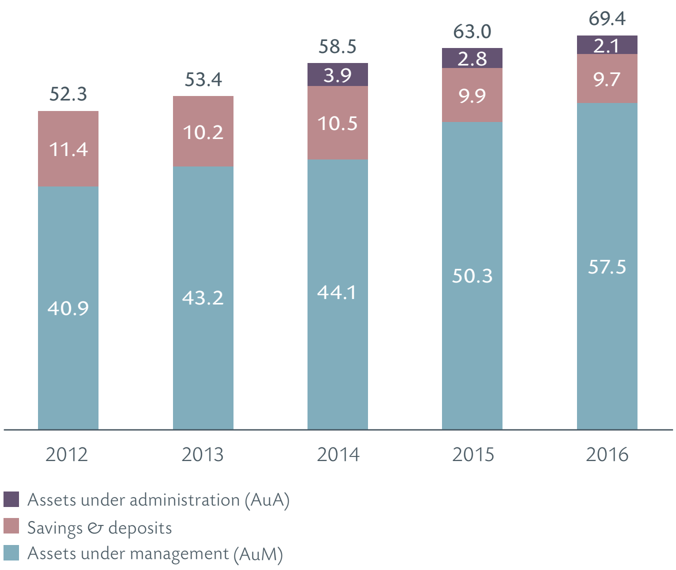
5 Charges resulting from derivatives recovery framework and Strategy 2020 investment programme.

6 The underlying net result is the net profit adjusted for the one-off charge related to the derivatives recovery framework and the cost incurred for the Strategy 2020 investment programme.

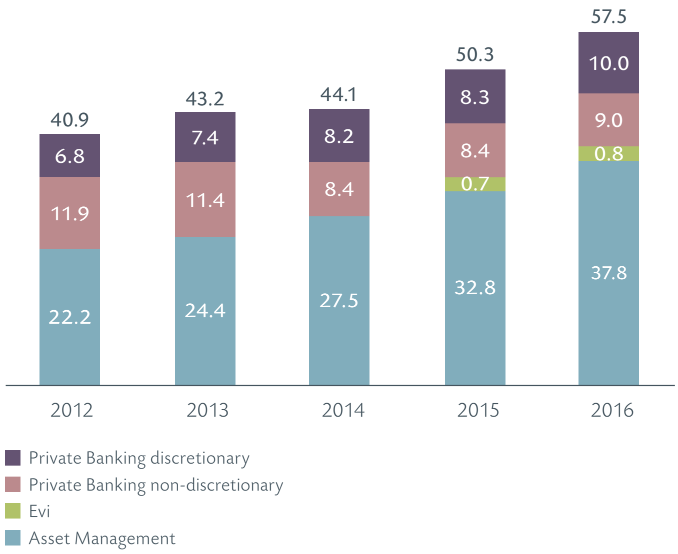
The directors' report uses unrounded figures and total amounts may deviate from the sum of the parts. Percentage changes are based on these unrounded figures.

2. Client assets[7,8]

Client assets (x € billion, at year-end)

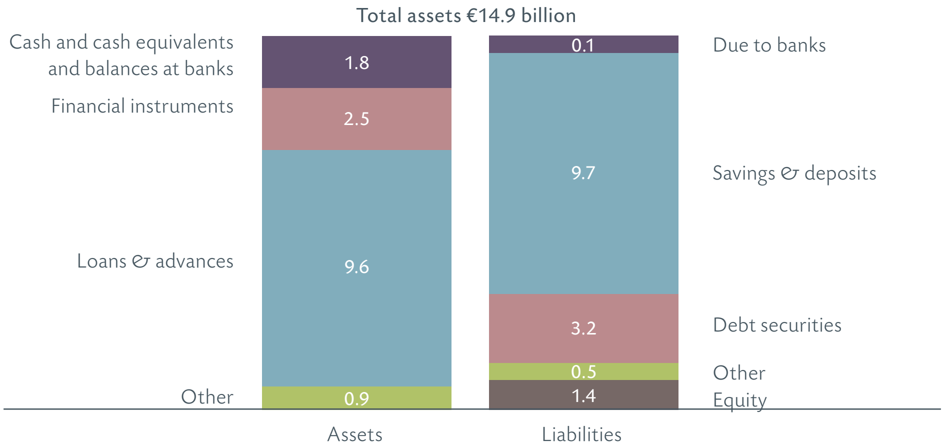


Assets under management[7,9] (x € billion, at year-end)

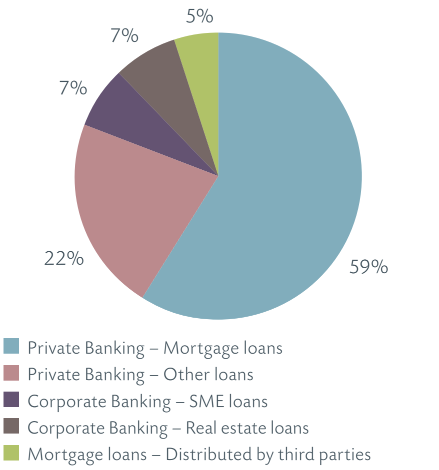


3. Statement of financial position

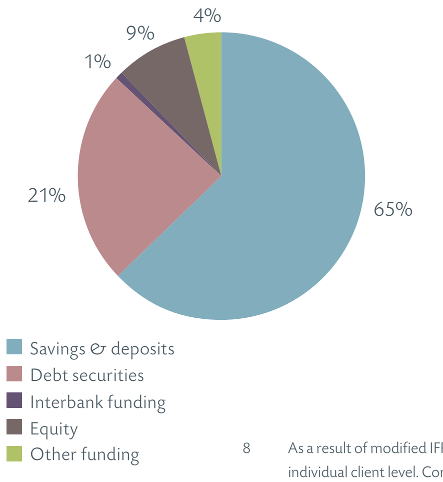
Statement of financial position at 31 December 2016 (x € billion)



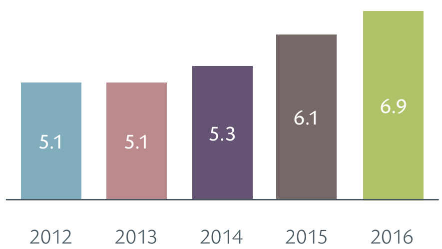
Loan portfolio, excluding provision (100% = €9.8 billion)



Funding mix (100% = €14.9 billion)



Leverage ratio (fully loaded) (%)



7 AuA was introduced in 2015. This item reflects portfolios merely administered by Van Lanschot Kempen, over which we have little or no control, and on which earnings are relatively limited. As a result, some portfolios were moved from AuM to AuA. Comparative figures at 31/12/2014 have been adjusted accordingly, but not those for previous years.

8 As a result of modified IFRS interpretations, from 2016 we no longer net current account balances at individual client level. Comparative figures at 31/12/2015 have been adjusted accordingly, but not those for previous years.

9 From 2016 we report on Evi as a separate segment, whereas these activities were previously part of Private Banking. Comparative figures for 2015 have been adjusted accordingly, but not those for previous years.

Key data (x € million, unless stated otherwise)	2016	2015	Notes
Including non-strategic investments (NSIs), unless otherwise indicated			
Results			
Income from operating activities (excluding NSIs)	481.8	520.6	Private Banking, Evi, Asset Management and Merchant Banking generated 83% of income
Operating expenses (excluding NSIs)	386.8	387.4	Lower recurring costs offset increased regulatory expenses and KCM London costs
Loan impairments	–6.9	51.0	Release of provisions thanks to improved quality of other loans and lower provisions for incurred but not reported (IBNR)
Net result	69.8	42.8	Including charges for derivatives recovery framework (€6 million net) and costs of Strategy 2020 investment programme (€5.5 million net)
Underlying result [10]	81.3	60.1	Evi is still loss-making, as it has required capital spending on technology, product development and marketing, and indirect costs. All other activities make positive contributions.
Statement of financial position[8]			
Loans	9,624	10,504	Down due to further Corporate Banking portfolio run-off, sale of Van Lanschot Belgium mortgage portfolio and shrinking mortgage portfolio
Savings & deposits	9,680	9,908	Reduction reflects funding strategy
Total assets	14,877	15,832	
Equity	1,354	1,320	
Risk-weighted assets	5,623	6,431	Down due to Corporate Banking portfolio run-off and improved credit quality
Common Equity Tier I ratio (%) [2]	19.0	16.3	Ratio well ahead of 15-17% target
Tier I ratio (%) [2]	19.0	16.3	
Total capital ratio (%) [2]	20.9	17.0	
Basel III			
Common Equity Tier I ratio (fully loaded) (%) [11]	18.6	15.4	Already complying with Basel III capital requirements
Liquidity coverage ratio (%)	156.6	139.5	Comfortable liquidity position
Net stable funding ratio (%)	130.6	118.1	Well-diversified funding profile
Leverage ratio (fully loaded) (%) [11]	6.9	6.1	
Client assets (x € billion)	69.4	63.0	
– Assets under management	57.5	50.3	Growth on inflows at Asset Management, acquisition of Staalbankiers' private banking activities and favourable market performance
– Assets under administration	2.1	2.8	
– Savings & deposits[8]	9.7	9.9	Reduction reflects funding strategy
Other financial data			
Interest margin (%)	1.39	1.21	
Addition to/release from loan loss provision as a % of average RWA	–0.11	0.74	Release of provisions thanks to improved quality of other loans and lower provisions for IBNR
Efficiency ratio excluding one-off gains/losses (%)	80.3	74.4	Falling income caused increase in efficiency ratio; we are watching this development closely
Underlying earnings per share (€)	1.89	1.26	
Return on average Common Equity Tier I (%)	7.3	4.9	Return based on underlying net result
Funding ratio (%)	100.6	94.3	Further Corporate Banking portfolio run-off pushes up funding ratio
Staff			
Number of FTEs (at year-end, excluding NSIs)	1,670	1,666	

10 The underlying result in 2015 was the net result adjusted for the one-off charge arising from the sale of non-performing real estate loans; in 2016 it reflected the net result adjusted for charges arising from the derivatives recovery framework and costs related to the Strategy 2020 investment programme.

11 Including retained earnings.

Strategy

To enable us to help our clients achieve their business, personal and social goals, we have opted to position ourselves as a specialist, independent wealth manager. Our mission is to preserve and create wealth for our clients.

Our knowledge and experience, our track record and our personal approach set us apart from the competition in our selected market segments and offer exciting growth opportunities. We strive to achieve our objectives in harmony with all our stakeholders, and thus to make a contribution to society.

Profile[1]

Van Lanschot

evi

Private Banking	Evi
– Financial guidance to help clients achieve their goals – Specialist services for entrepreneurs, family businesses, high net-worth individuals, business professionals and executives, healthcare professionals, foundations and associations – Responsive, transparent and tailored personal service – Strong network and local presence in 37 offices – 27 in the Netherlands, eight in Belgium and two in Switzerland	– Digital savings and investment service to preserve and build wealth, with an online coach – Focus on new entrants to the wealth market and clients who make a conscious choice for online service delivery – In tune with the trend towards increasing individual responsibility in areas such as pensions and healthcare – Evi is configured as a separate core activity to take maximum advantage of further growth potential – Active in the Netherlands and Belgium

Kempen Capital Management

Kempen & Co Merchant Bank

Asset Management	Merchant Banking
– Specialist European asset manager with a sharp focus and a clear investment philosophy – Focusing on a number of investment strategies: small caps, real estate, high-dividend equities, fixed-income securities and funds of hedge funds – Targeting open architecture-based banks and asset managers, pension funds, insurers, foundations and associations, and family offices – Offering institutional clients a fiduciary service that provides them with fully comprehensive asset management solutions – Offices in Amsterdam, London and Edinburgh	– Specialist services including equities research and trading, mergers & acquistions services, capital market transactions and debt advisory services – Focusing on institutional investors, corporates, financial institutions and public and semi-public entities – Pursuing a niche strategy and, in addition to acquiring a substantial share of the Benelux market, has evolved into an international market leader in European real estate and life sciences, with financial institutions & fintech recently added as a new niche in the European operations – Offices in Amsterdam and New York

1 For a visual representation of our operational group structure in 2016, see our corporate.vanlanschot.nl/strategy.

Strategy 2020

Our wealth management strategy was updated in April 2016. Our mission and approach remain unchanged and we are building further on our strong foundation. The next phase entails responding to the changing needs of our clients, trends and developments within our sector and the challenging economic climate.

Society and the sector in which we operate are changing drastically. The shifting of responsibility for building a pension from the collective to the individual is just one example of this. Client expectations are also changing due to technological advances and digitisation.

For our clients | **For our sector**

- Low interest rate environment
- More individual responsibility
- Stricter regulation
- Changes in pensions
- Technological changes and digitisation

Opportunities for Van Lanschot Kempen

- More demand for advice and wealth planning
- Interest in investment products
- More demand for online services
- Development of omnichannel private banking
- Growth in fiduciary asset management

These developments present opportunities for Van Lanschot Kempen. To leverage these, we are taking the following principal steps in each core activity:

Private Banking	Evi
– Improve client experience with omnichannel service model – Grow client assets by exploiting opportunities and reinforcing frontline effectiveness	– Offer accessible, high-quality online services backed by the know-how of a private bank – Play into the trend towards more individual responsibility, for example in pensions

Asset Management	Merchant Banking
– Expand distribution to new markets and client segments – Launch new investment strategies – Continue developing UK as a second home market	– Continue employing capital-light business model – Build on solid, sustainable position in selected niches

We will continue to wind down Corporate Banking's loan portfolio and simplify our processes and organisation. We seek external partnerships for the provision of more universal, standardised banking services such as payments and mortgage servicing, allowing us to further sharpen our focus on activities in which we excel and create value for our clients.

Continue to wind down Corporate Banking	Right-size support departments and streamline operations	Finalise transformation of IT landscape	Outsource standardised, universal banking services

Investing in client experience, growth, cost reduction and people

The services we provide reflect the greater independence of many of our clients, though we believe that digital service delivery must always go hand in hand with personal contact. To reinforce our position and further improve client experience, we are investing €60 million in IT resources between mid-2016 and 2019, in addition to what we consider a normalised annual level of change costs of around €20 million. This investment programme will finance the introduction of our omnichannel private banking model and completion of the transformation of our IT landscape. These in turn should improve the efficiency of our mid and back-office, leading to a structural reduction in our operating expenses. Costs are likely to increase in the short term, partly due to regulatory costs, the growth of our Evi platform, the strengthening of our distribution capacity within Asset Management and the integration of Staalbankiers' private banking activities. Overall, however, we anticipate a net reduction in fixed costs in the period up to 2020.

We will continue to invest in our staff. The growing trend towards process automation means we need fewer people, but with more specific expertise and skills. Our goal is an entrepreneurial and personal culture in which people are able to develop their talents, feel engaged and are conscious of the dynamic social environment in which Van Lanschot Kempen operates.

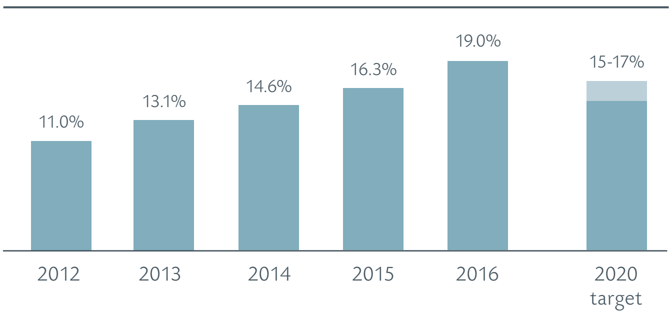
Capital management policy

Our transformation into a specialist, independent wealth manager began in 2013, and since then we have successfully scaled back our corporate loan portfolio. Our capital ratio currently stands at 19.0%, and will rise further as we continue to reduce our corporate lending. In addition to these high capital ratios, we also want to offer shareholders of Van Lanschot NV attractive returns. Based on our current plans and current legislation, we are projecting a capital surplus of at least €250 million in the period to 2020; subject to the approval of the regulator, this surplus will be returned to the shareholders of Van Lanschot NV. With this in mind, starting from the 2016 financial year we have raised our target pay-out ratio from 40-50% to 50-70%.

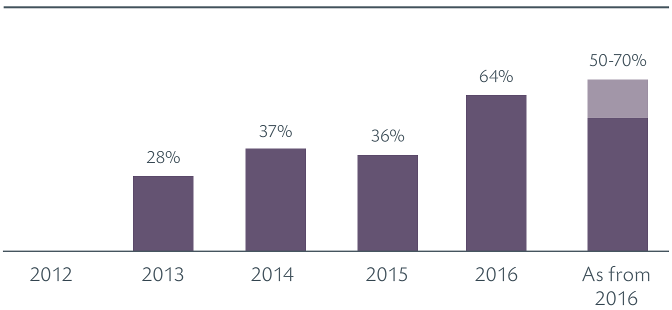
Financial objectives

Including non-strategic investments (NSIs), unless stated otherwise.

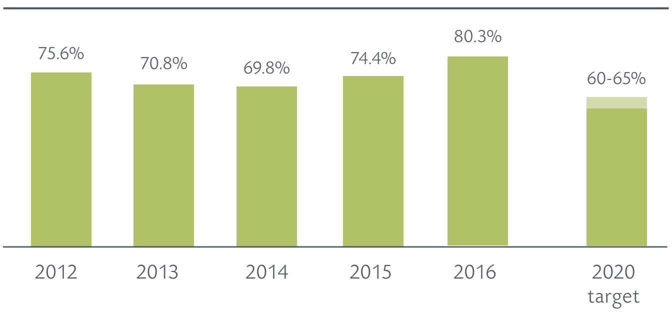
Common Equity Tier I ratio (phase-in)



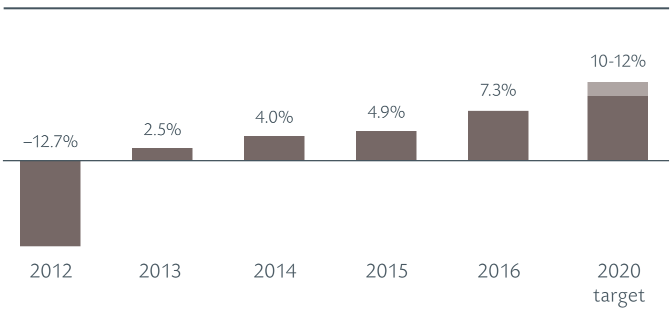
Dividend pay-out ratio[2]



Efficiency ratio, excluding NSIs[3]



Return on Common Equity Tier I[4]



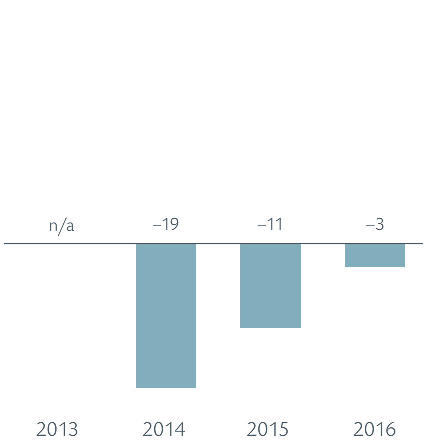
2 Based on underlying net profit attributable to shareholders of Van Lanschot NV.

3 The efficiency ratio in 2016 excludes a one-off charge for the derivatives recovery framework and costs incurred for our Strategy 2020 investment programme. In 2015 it excluded a one-off charge arising from the sale of non-performing real estate loans and in 2014 a pension scheme gain.

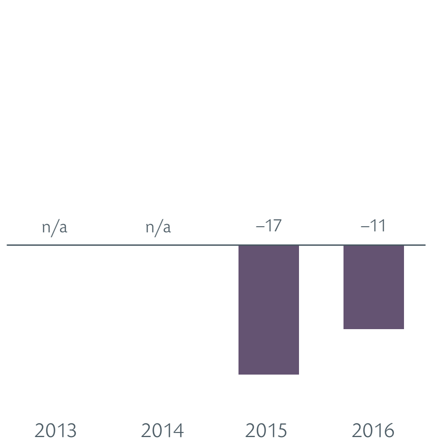
4 Return on average Common Equity Tier I based on underlying net profit. On current expectations and market conditions, we believe that a return on CET I of 10-12% is achievable in the medium term.

Non-financial objectives

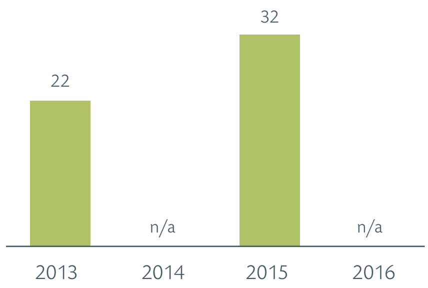
NPS Private Banking[5]



NPS Evi[5]



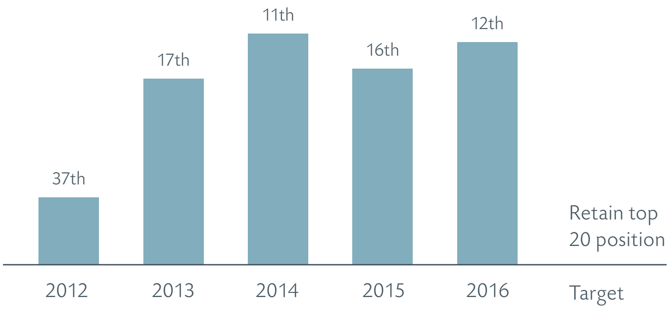
NPS Asset Management



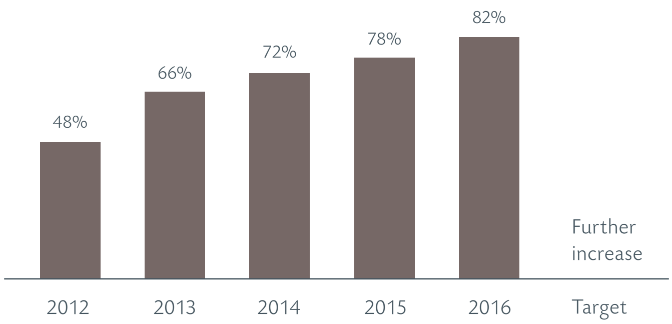
The Net Promoter Score (NPS) provides information on client loyalty and the number of promoters of the organisation. The NPS lies within a range of –100 to 100 points, the higher the better. The formula is as follows: NPS = % promoters - % detractors. Promoters give the organisation a score of 9 or 10, whereas detractors award a score of between 0 and 6.

Asset Management measures its NPS every two years. The next measurement, in 2017, will include clients of KCM London for the first time.

Transparency Benchmark ranking

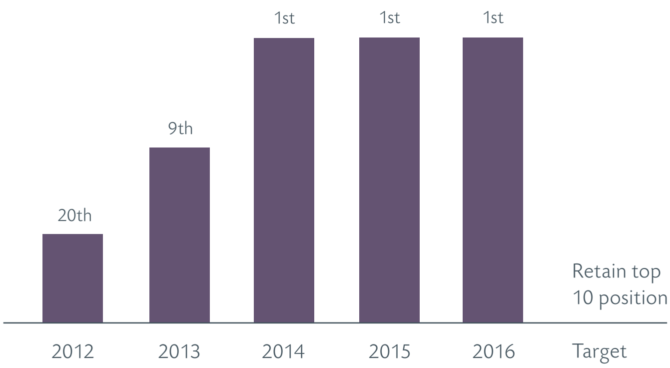


Assets under screening Van Lanschot Kempen



Assets under screening comprise client investments that are screened for sustainability as a percentage of total assets under management (AuM). We also subject the assets on our own balance sheet to sustainability screening. As a result, we have received an annual sustainability certificate from the Belgian research bureau Forum Ethibel every year since 2011.

Sustainalytics peer group ranking



The Transparency Benchmark measures how Dutch businesses report their activities in relation to corporate social responsibility. The Sustainalytics agency carries out sustainability screening on companies worldwide, awarding a maximum score of 100 points. We top the rankings in our peer group of medium-sized banks.

Employee engagement

A health and engagement scan was performed in 2015 by occupational safety, health and welfare service ArboNed. Based on the ArboNed definition, our employee engagement score was 71%. No scan was carried out in 2016, and a new method will be applied in 2017. Our aim is to increase employee satisfaction and engagement.

5 Dutch activities only.

SWOT analysis

To identify our strengths and weaknesses, and the threats and opportunities presented by our operating environment, we have performed a SWOT analysis. Its main findings are set out in the table below.

Strengths

- Strong brand names, reliable reputation, rich history
- Clear choice for wealth management targeting institutional and private clients
- Four core activities with their own distinct culture, positioning and strong client base
- Capital freed up by winding down corporate loan portfolio
- Strong balance sheet, outstanding capital ratios, plentiful cash reserves and diversified funding mix
- Size, flexibility and independence make for swift and nimble action
- Proven track record in corporate responsibility and responsible investing

Weaknessess

- Relatively high fixed-costs base
- Limited international geographical coverage
- IT environment still complex given the nature of our businesses

Opportunities

- Economic and social conditions generate additional demand for wealth management solutions, for example for pensions and care
- Investments in areas such as omnichannel client service delivery and a new payment proposition provide opportunities to profit from the increasingly digital financial sector
- Evi platform offers opportunities to further broaden the client base and could serve as a feeder for Private Banking
- Growing demand for sound/sustainable investment products and impact investing, partly due to global developments such as climate change and the Sustainable Development Goals (SDGs)

Threats

- Market trends may prevent projected growth in client assets from being attained
- Clients focus more on short-term than long-term returns in volatile markets
- Persistently low interest rates on money and capital markets keep investment returns low
- Increasing complexity resulting from new legislation drives costs up
- New market entrants with lower fixed-costs bases offering (online) asset management services
- Rapid developments in IT are driving increased competition and require capital spending
- Labour market competitiveness of the financial sector

Progress made in 2016

Private Banking

- Client satisfaction: Net Promoter Score improved in 2016
- Further progress made in optimising our product and service offering:
  - Preparation for renewal of discretionary management services and introduction of product advice completed; commercial roll-out in early 2017
  - Increase in investment products offering impact investing; preparation for expansion of sustainable investment products
  - Development of alternative products platform
- Further expansion of digital distribution channels: Introduction of discretionary management app in August, roll-out of new website for clients in the fourth quarter. The investment advice app will be launched in early 2017.
- Client acquisition: Good progress made in training private bankers in order to attract and retain clients, by offering a broad programme of training, individual coaching and support
- Transition to a regional model: Implementation of the regional model was successfully completed in 2016. Private Banking operates from four regional offices plus a network of 23 local offices in the Netherlands, creating a combination of local presence and pooling of specialist expertise.

Evi	
– Further development of Evi concept: Evi became a stand-alone core activity in 2016; Evi4kids and Evi Doelbeleggen (goal-based investing) introduced; website refreshed	◕
– Introduction of Evi online investment service in Belgium: Completed successfully in 2016	●
Asset Management	
– Improve open architecture solutions: Collaboration with Private Banking strengthened by new governance structure and shared processes	◕
– Development of the United Kingdom as second home market: Integration of KCM London completed successfully; fiduciary management team strengthened and sales organisation enlarged to include investment strategies	◕
– Growth in existing investment strategies: Distribution structure renewed, with greater focus on specific client segments in the Netherlands, the United Kingdom, France and Germany. Net investment strategy inflows totalled €1.6 billion in 2016.	◑
– Launch new strategies: Good progress made on introduction of 'Focusing capital on the long term' and multi-asset and European high-yield bond strategies, which are scheduled for launch in 2017	◑
– Expand market share among large Dutch pension funds in the Netherlands: Appointed as fiduciary manager provider for Het nederlandse pensioenfonds, the general pension fund established on the initiative of a.s.r. Additionally, a number of new mandates were acquired and there is a good pipeline for 2017.	◑
– Responsible investing further integrated in investment process; assets under screening increased to 85%	●
Merchant Banking	
– Phased expansion of existing niches: European real estate, life sciences and Benelux all maintained their positions in 2016 and enlarged their teams. Financial institutions & fintech was introduced as a new niche in 2016.	◕
– Develop international distribution: Relationships with clients were further intensified (with a particular focus on the United Kingdom)	◑
– Invest in unique research: A number of new analysts were recruited, the coverage was increased and broadened further, and preparations were made for the launch of a new website and client intelligence tools. In addition, a project was launched for a new research approach ahead of the implementation of MiFID II.	◕
Group	
– Integration of Van Lanschot and Kempen's corporate and support departments completed	●
– Further simplify corporate governance: • Separate banking licence for Kempen & Co ended • Shareholder base broadened through sale of Delta Lloyd's stake of around 30% in Van Lanschot NV	●
– Bolt-on acquisition through takeover of private banking activities from Staalbankiers	●
– Discuss findings of health and engagement scan (staff survey) at team level and hold workshops focusing on lifestyle, vitality and sustainable employability	◕
– Continue implementation of HR policy by training, developing and retaining talented employees, recruiting graduates and selective recruitment of talent for senior positions (for more information, read 'The people behind Van Lanschot Kempen' on page 46)	●
– Make active contribution to social entrepreneurship by expanding Charity Service and help to preserve cultural and social heritage by establishing the Van Lanschot Kempen Foundation	●

● KPI fully achieved ◕ KPI largely achieved ◑ KPI stable, partially achieved ◔ KPI achieved to a small extent ○ KPI not achieved

Priorities for 2017

Drawing on our wealth management strategy as updated in April 2016, we have identified our 2017 priorities for our core activities. These should contribute to the achievement of our objectives in 2020.

Private Banking

- Improve client experience and increase client satisfaction
- Increase assets under management, number of clients and profitability
- Stand out from the competition and improve client experience through further roll-out of omnichannel service concept
- Continue developing investment services: Renewed discretionary management and introduction of product advice
- Complete outsourcing of mortgage servicing: Prepare outsourcing of payment services ready for completion in 2018
- Integrate private banking clients from Staalbankiers
- Expand sustainable investment and impact investing proposition

Evi

- Further increase number of clients and assets under management
- Reinforce commercial skills: Continue developing and broadening the team and improve data analysis, sales funnel management and management information
- Optimise processes (mobile onboarding, iDEAL transfer, sales and customer care)
- Invest further in infrastructure upgrades

Asset Management

- Support Private Banking objectives
- Achieve renewed growth in existing investment strategies with a focus on real estate, high dividend and small caps in the Netherlands, the United Kingdom, France and Germany
- Continue developing the United Kingdom as a second home market
- Build on the fiduciary management activities in the Netherlands, focusing on larger pension funds with a leading role in the consolidation of the industry and developing Het nederlandse pensioenfonds
- Introduce new strategies: European high-yield bonds and multi-asset funds

Merchant Banking

- Invest in uniqueness of proposition and build further on position in existing niches (sector expertise, teams, client relationships)
- Further develop the new financial institutions & fintech and infrastructure niches
- Implement a data-driven approach to client intelligence and research
- Roll out innovative structured products and research distribution platforms

Group

- Invest in development and vitality of our staff (training, health, attracting new talent)
- Continue winding down Corporate Banking's loan portfolio
- Prepare for introduction of new legislation and regulations (e.g. MiFID II, IFRS 9, Basel 3.5/4)
- Investigate scope for further selective acquisitions
- Reinforce our position in society (sustainable enterprise, sponsorship, staff volunteering) by further developing Van Lanschot Kempen Foundation and making an active contribution to social entrepreneurship (Ashoka)
- Climate: Aim for an overarching environmental policy (organisation, balance sheet, client investments) and carbon emission reduction targets[6]
- Investigate how we as a wealth manager can contribute to the Sustainable Development Goals (SDGs[7])

6 For more information on climate and Van Lanschot Kempen, see 'What our stakeholders expect' (page 16) and 'Risk and capital management' (page 48).

7 For more information on the Sustainable Development Goals, see 'What our stakeholders expect' (page 18) and 'Asset Management' (page 39).

How we create value

As a specialist, independent wealth manager we aim to contribute to the achievement of our clients' business, personal and social objectives. The diagram on page 15 gives an overview of our impact and the value we create, and is in line with international annual reporting guidelines such as those drawn up by the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI). The model we have chosen centres around four elements: input, business model, outcomes and social relevance.

Our business model results in direct outcomes. We enable our clients to preserve and create wealth, and we fund them or help them obtain funding. As well as financial remuneration, we offer our employees personal development, while shareholders of Van Lanschot NV receive dividends and capital growth. We also provide sustainability feedback to the companies and the managers of the funds in which we invest, so they can improve their performance. Likewise, we nurture long-term, stable relationships with other stakeholders – civil society organisations, regulators and other financial institutions.

The last column of our value creation model captures our social relevance in the short and longer term. Wealth gives people the opportunity to achieve their business, personal and social objectives. We contribute to a positive business climate by enabling entrepreneurs to invest and to take risks. Through our engagement with companies and fund managers we contribute to a more sustainable business sector and financial sector. The way we deploy our financial resources, employees and network means we can help address a range of social challenges, particularly in the arts, the preservation of cultural heritage and the nurturing of social entrepreneurship. And lastly, for 280 years we have been offering our people high-quality employment and opportunities for development.

How we create value

Input

People and knowledge

Knowledge of
– Economies and capital markets
– Sectors
– Clients
Own and partners' knowledge

1,764 employees (at year-end)
37% 63%

Brand, reputation and relationships

– Rich history
– Showing integrity, relevant, alert, clear and personal
– Stable stakeholder relationships focused on mutual interest
– Leading sustainability benchmarks

Financial assets

Client assets
– AuM €57.5bn
– AuA €2.1bn
– Savings & deposits €9.7bn

Capital base and funding
– Share capital €1.4bn
– Debt €3.2bn

Materials and resources

Investment in and maintenance of IT, materials and office accommodation
Averaging €175m a year

Business model

Specialist, independent wealth manager

Private Banking
Van Lanschot

Evi van Lanschot
evi

Kempen Capital Management
Asset Management

Kempen & Co Merchant Bank
Merchant Banking

Approach

– Client-centricity
– Handling client assets responsibly and transparently
– Continuous improvement and innovation
– Distinctive activities carried out by Van Lanschot Kempen, non-core processes outsourced

Earnings model

+ Commission income
+ Interest
– Costs
– Provisions
– Taxation

Outcomes

Investing in development
– On-the-job training
– €3.7m training spent
p. 47

Stakeholder relationships focused on the longer term

Client satisfaction (NPS)
Private Banking: –3
Evi: –11
Asset Management: 32*
p. 10

Shareholder base
Shareholder refreshment, continued long-term focus

Preserving and creating wealth for clients
40% return on AuM
(neutral profile, 5 years)
p. 28

82% of AuM screened
Engagement dialogues with 180 companies and 20 fund managers
ESG
p. 38

Lending
€9.6bn of which
€6.2bn in mortgages
127,156 tonnes carbon emissions**
p. 25

Capital raised
– European Real Estate €1.7bn
– Life Sciences & Healthcare €0.1bn
– Benelux Corporates €0.4bn
p. 42

Net result €69.8m
Dividend €49.0m
p. 20

Carbon emissions 4,950 tonnes CO_2
p. 17

Relevance***

Contribution to achievement of clients' business, personal and social goals

Positive business environment

More responsible companies and financial sector

Social engagement

High-quality employment and development opportunities

* 2015 figure. Asset Management measures its NPS every two years. ** Refers to total assets on our balance sheet. *** For examples see our website.

2016 figures.

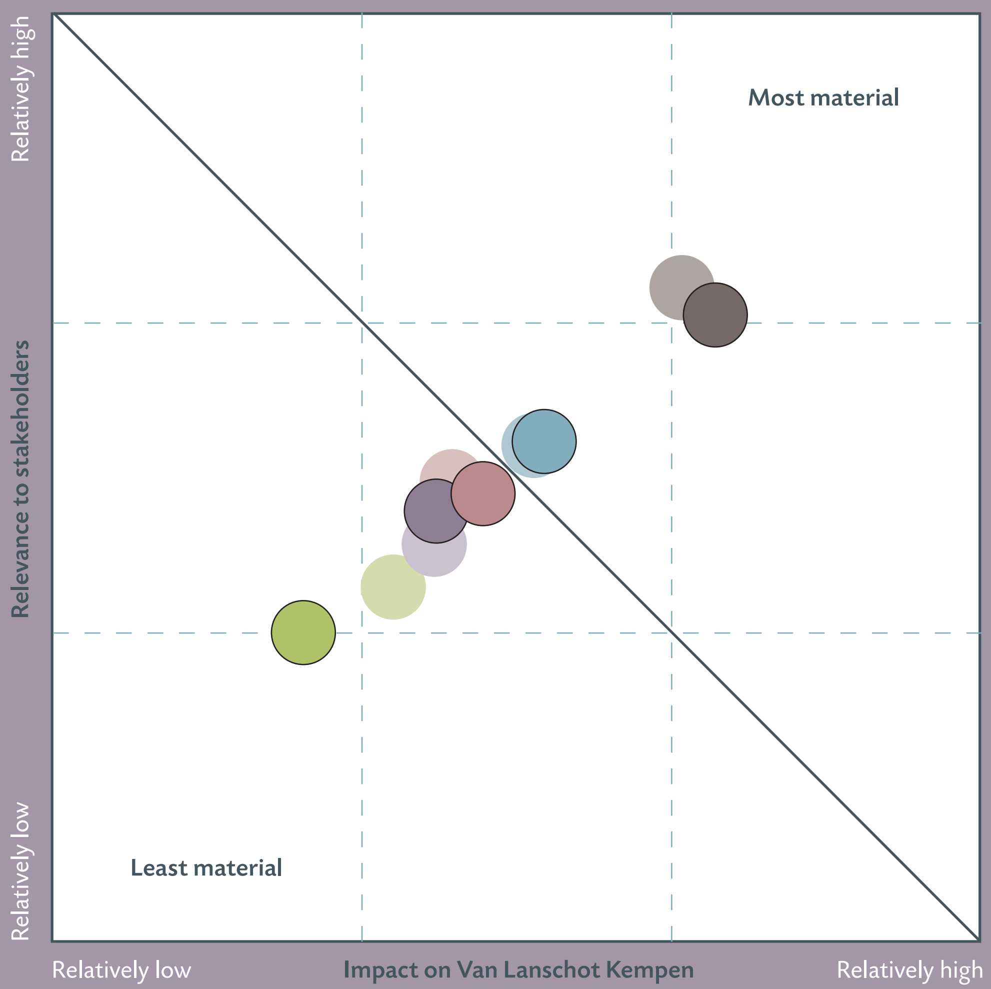
What our stakeholders expect

For us, corporate social responsibility means doing business honestly with respect for the world around us and with an eye to future generations. Active dialogue with our stakeholders is central to this.

Van Lanschot Kempen identifies several different groups of stakeholders: clients, shareholders, bondholders, employees, civil society organisations, governments/regulators, and other financial institutions. We engage with them in a constant dialogue throughout the year. The topics we discuss vary from one stakeholder group to another. We talk with our clients, for instance, about sustainable and impact investing, with the shareholders of Van Lanschot NV about our financial performance and strategy execution, and with our regulators about financial solidity. The frequency and form of this dialogue depend on the stakeholder group. We have set out the most important expectations, discussion topics and forms of dialogue for each stakeholder group in our Corporate Social Responsibility (CSR) supplement.

We sit down with our stakeholders every two years to map out which topics are important to them and which topics they see as important to Van Lanschot Kempen's success. The outcome is set out in the materiality matrix below. Note that we do not update this matrix every year, as the material issues have proved to be fairly stable over time. The matrix was drawn up at the end of 2013 (pale colours) and 2015 (bright colours) and is based in part on ISO 26000. Of the five main themes, 'organisational governance' and 'fair operating practices' were the ones considered most material by Van Lanschot Kempen's stakeholders in both 2013 and 2015. These are the topics, therefore, that we address in detail in this annual report.

Van Lanschot Kempen materiality matrix



Organisational governance
1. Financial management
2. Decision-making/stakeholders
3. Strategy and CSR
4. Management of clients' money
5. External communication

Fair operating practices
6. Financial and economic crime
7. Lobbying
8. Fair competition
9. Cooperation/partnerships
10. Fair marketing
11. Responsible products
12. Consumer service and complaints
13. Client privacy

Social
14. Human rights
15. Discrimination
16. Child labour
17. Employment conditions
18. Bonuses
19. Collective negotiations
20. Health/working environment
21. Employee development

Community
22. Financial education
23. Social and community investment
24. Social engagement
25. Job creation
26. Local well-being and income

Climate/environment
27. Pollution
28. Use of materials
29. Climate impact
30. Biodiversity

Material topics

The table below gives more detailed insight into the five main themes from the matrix. It shows for the most material topics of each main theme what our stakeholders expect of us, and how we met those expectations in 2016. Further information about the materiality matrix can be found in the CSR supplement accompanying this annual report.

	Stakeholder expectations broken down by topic	How did we meet them?	More information
Organisational governance	Our stakeholders expect us to be and to remain a financially healthy company (1) and that we do business responsibly in keeping with our strategy (3). This entails stable stakeholder relationships (2) and the responsible management of our clients' money (4), as well as transparent communication on the results achieved (5).	– Consistent strategy implementation enabled us to further improve our financial ratios and increase our assets under management.	p. 4,5
		– We again raised our assets under screening in 2016 and further integrated corporate social responsibility in our investment processes. We also informed our clients comprehensively about responsible investment (engagement) and expanded our product offering (more sustainable and impact investing possibilities).	p. 38
		– We retained our top 20 position in the Transparency Benchmark.	CSR supplement
Fair operating practices	In addition to guaranteeing client privacy (13) and preventing involvement in financial and economic crime (6), our stakeholders need responsible products which take account of the world around them and of future generations (11). They also want our offering to be aligned with client needs and our services to be clear, cost-effective and safe under all market conditions (10). If clients are dissatisfied, they expect their complaints to be handled properly (12).	– To ensure that our services are aligned with our clients' needs, our wealth planning tool gives us a clearer insight into their wishes and goals, and enables us to translate them into personal plans (Wealth Planning Service). We have also used it as the basis to develop other services including a healthcare planning tool, which analyses clients' future wishes in terms of care, together with the necessary funds.	p. 30
		– We paid considerable attention once again to client due diligence (CDD), judicious service provision, and protecting privacy. The CDD working instructions for employees were further refined, for instance, and there was a strong focus on clear and non-misleading client communication.	p. 54
Social	It is important to our stakeholders that the bank's directors and employees possess all the relevant knowledge (21) and are appropriately remunerated (18), and that they operate in a work environment that is safe, inclusive and personal (17). This helps ensure full use of the available talent.	– We continued to invest in employee training last year, e.g. the last group of staff completed their compulsory Wft training.	p. 47
		– In addition, we acted on the results of the health and engagement scan carried out in 2015.	p. 47
		– In 2016 our remuneration policy was unchanged.	p. 66
Community	Our stakeholders expect us to engage in social and community investments (23) and to contribute actively to society, for instance through donations and by providing volunteers (24).	– We actively contributed to the further development of social entrepreneurship through our partnership with Ashoka.	p. 31
		– We helped clients donate to good causes through our Charity Service, and our sponsorship supported the arts, artists, the Van Gogh Museum and sport.	p. 19
		– Last year we placed our charitable initiatives under the auspices of the newly created Van Lanschot Kempen Foundation, which will focus on financial education, the arts and culture, health and promoting social cohesion through sport.	p. 18
Climate/ environment	Climate/environment had not yet emerged as a clearly material topic for our stakeholders by the end of 2015. This appears to have changed in 2016, particularly in terms of our balance sheet and investments for clients (see note on p. 24). We are therefore adding this as one of our material topics from 2016.	– We have broken down our climate policy into our own organisation, our assets on our balance sheet and the investments of our clients (AuM).	p. 21
		– For our own organisation, we are maintaining our earlier target for reducing carbon emissions (average –2% per FTE per year), and have extended the period to 2025.	p. 21
		– We calculated the carbon emissions of our assets on our balance sheet for the first time in 2016.	p. 21
		– We added 'climate/environment' to our ESG policy as an engagement theme.	p. 38
		– Our Carbon Disclosure Project (CDP) score is B (on a scale from A to D-).	Website

Sustainable Development Goals set a marker for the future

In 2015, the United Nations drew up a new agenda for global sustainable development by 2030. It includes 17 Sustainable Development Goals (SDGs), which the private sector has adopted as important waymarks. Van Lanschot Kempen has been focusing since mid-2016 on how it can contribute as a wealth manager to achieving the SDGs. See the Asset Management section for more information.

Global Reporting Initiative

Communicating transparently on our policy and results is an important element of corporate social responsibility. Only then can external stakeholders assess our performance effectively. Our report therefore follows the guidelines set out by the Global Reporting Initiative (GRI) – the international standard for CSR reporting. See the GRI table on our website (corporate.vanlanschot.nl/responsible/external-assessment).

Dilemmas

Our ambition to be a responsible bank regularly confronts us with dilemmas in everyday practice, most of which boil down to conflicting stakeholder expectations. Please find below a few dilemmas we faced in 2016.

How to remain attractive as an employer in an industry that has lost its shine?

Since the financial crisis and the rapid emergence of new technology companies, banks have seen their popularity with young talent decline. Tighter regulation makes it harder for banks to act swiftly – like fintech start-ups, for instance. It has become increasingly difficult to get the pick of the crop to opt for a financial sector career, particularly in areas of scarcity such as digitisation. Trends in online and mobile technology are moving rapidly and we are becoming ever more dependent on scarce knowledge and experience in these areas. So can we persuade talent that working for a financial institution means you are right at the cutting edge of digitisation and that you will have unique opportunities to innovate services for clients?

How can we demand commitment and focus from our staff while encouraging them to enhance their long-term employability?

Our staff are extremely loyal and work exceedingly hard every day to help achieve our goals. This requires focus on the here and now. And yet it's important that every employee look ahead and think of their own future prospects. Major technological changes and market developments may cause labour markets to require very different qualifications and skills pretty soon. It might well be that many things we do today will no longer be around in the same shape within five or ten years. How do we raise awareness among our people and encourage them to enhance their employability in the long term, without infusing them with a sense that their jobs are about to disappear?

Responsible investing – Where do we draw the line?

Social organisations regularly challenge us on companies in which we invest, expecting us to engage them on lapses and abuses, even if these occur very deep in the supply chain. In the real world, this isn't as easy as it sounds. For one thing, we have far too many investee companies to probe their supply chains in this kind of depth. Also, many companies have such lengthy and complex production chains that it is very hard to identify direct involvement in most cases – there is too great a distance between the company and the environmental breach, the poor labour conditions or the corruption scandal.

Compliance with external guidelines and benchmarks is no easy task

At Van Lanschot Kempen, we aspire to comply with key guidelines on corporate social responsibility while also aiming to do even better on external sustainability benchmarks. This is not always plain sailing: the body of guidelines keeps growing and their substance is constantly changing. Worse, guidelines do not always sit comfortably with external benchmark requirements. The GRI4 guideline we observe, for instance, exhorts us to focus primarily on material topics in our annual report. But we would see our position come down in, say, the Transparency Benchmark if we strictly observed this guideline, as most benchmarks expect us to also report on less material themes.

External assessment

Van Lanschot Kempen's CSR performance is assessed by a variety of external organisations. For more information, see corporate.vanlanschot.nl/responsible/external-assessment.

Van Lanschot Kempen Foundation

We set up the Van Lanschot Kempen Foundation (VLKF) in 2016. It is important for us that we support community projects for a better world and future generations. The VLKF will deploy financial resources and our employees' know-how to benefit a wide range of community projects. The foundation will pursue initiatives in the Netherlands in four specific areas: financial education and talent development; art and culture; healthcare; and social cohesion through sport.

A variety of projects are already running within Van Lanschot and Kempen to support good causes and community projects in the Netherlands, including The Next Generation and the Charity Committee, as well as the Social Enterprise project at Kempen. We are confident that combining Van Lanschot and Kempen's initiatives in the VLKF will enhance the social impact of our efforts.

Sponsorship

Arts sponsorship is an integral part of our market positioning as a wealth manager. The support we give to the arts, artists and museums helps to both preserve and expand our cultural heritage. Van Lanschot has been an official partner of the new entrance space at the Van Gogh Museum in Amsterdam since 2015. We also launched our Van Lanschot Art Prize in 2015. The award is presented each year to a contemporary artist whose work best conveys the spirit of the age to future generations. Mirjam Offringa was the winner in 2016, with her video artwork *Contact*.

Two sponsorship deals were signed via Evi, with the Amsterdam Student Rowing Club Nereus and with the football club Koninklijke HFC, focusing on support for coaches.

Kempen & Co's sponsorship activities are in keeping with its brand and positioning. It supports a variety of cultural, community and sporting initiatives in the Netherlands, including our role as principal sponsor of the Nereus rowing club and of the Pinoké hockey club in Amstelveen. We identify with the mentality of top sportspeople, with their focus on outstanding performance in a highly international and competitive field. We also sponsor the Holland Festival – an international event for theatre, music, dance, opera, film and the visual arts in Amsterdam.

Financial performance

2016 was a good year for Van Lanschot Kempen despite low interest rates, major volatility and global political and social uncertainty. Client assets rose to €69.4 billion from €63.0 billion, while our assets under management (AuM) added 14% to €57.5 billion from €50.3 billion. At €386.8 million, operating expenses were just below 2015 levels, while the underlying picture points to structural cost savings in the IT arena in particular. Bolstered by improving economic conditions, the quality of our loan portfolio was up, sparking a significant release from loan loss provisions. This combined with our solid operational result to push up sharply our underlying net result[1], to €81.3 million, enabling us to propose a significantly higher dividend of €1.20 per share.

Results (x € million)	2016	2015	%
Commission	243.7	265.6	–8%
Interest	212.9	202.8	5%
Income from securities and associates	29.2	28.1	4%
Result on financial transactions	–3.9	24.1	
Income from operating activities	**481.8**	**520.6**	**–7%**
Staff costs	219.7	212.0	4%
Other administrative expenses	154.2	160.0	–4%
Depreciation and amortisation	12.9	15.5	–17%
Operating expenses	**386.8**	**387.4**	**0%**
Gross result	**95.0**	**133.1**	**–29%**
Addition to loan loss provision	–6.9	51.0	
Other impairments	1.1	8.0	–87%
Impairments	**–5.8**	**59.0**	
Operating profit before tax of non-strategic investments[2]	7.4	10.6	–30%
Operating profit before one-off charges and tax	**108.2**	**84.7**	**28%**
One-off charges	15.2	30.4	
Strategy 2020 investment programme	7.3	–	
Operating profit before tax	**85.8**	**54.3**	**58%**
Income tax	16.0	11.5	39%
Net result	**69.8**	**42.8**	**63%**
Underlying net result[1]	**81.3**	**60.1**	**35%**

1 The underlying net result in 2015 was the net result adjusted for the one-off charge arising from the sale of non-performing real estate loans; in 2016 it reflected the net result adjusted for charges arising from the derivatives recovery framework and costs related to the Strategy 2020 investment programme.

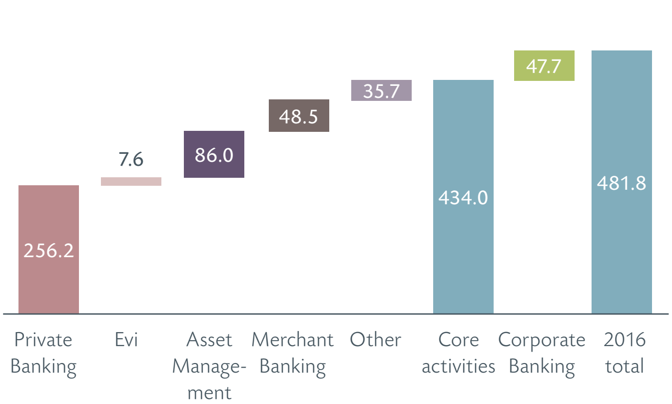
2 We have included a number of non-strategic investments in our consolidated figures, which we intend to sell in due course as these do not fit into our wealth management strategy. Gross results from our non-strategic investments are recognised before tax.

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

Income from operating activities

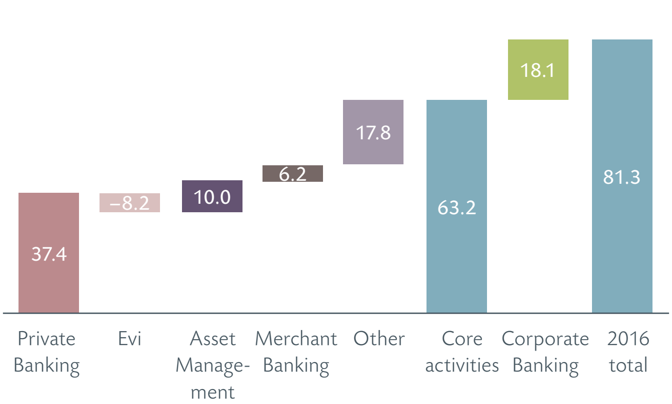
Private Banking, Evi, Asset Management and Merchant Banking generated 83% of total income, with Private Banking accounting for 53%, Evi[3] – previously reported under Private Banking – for 2%, and Asset Management and Merchant Banking generating 18% and 10% respectively. These core activities accounted for 99% of commission income (2015: 98%) and 73% of interest income (2015: 78%).

Income from operating activities, by segment (x € 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.

Underlying net result (x € million)



3 From 2016 we report on Evi as a separate segment, whereas these activities were previously part of Private Banking. Comparative figures for full 2015 have been adjusted accordingly.

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).

Commission

Commission (x € million)	2016	2015	%
Securities commissions	200.5	207.8	–4%
– Management fees	173.8	172.5	1%
– Transaction fees	26.7	35.3	–24%
Other commissions	43.2	57.8	–25%
Commission	**243.7**	**265.6**	**–8%**

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 full 2015 (83%).

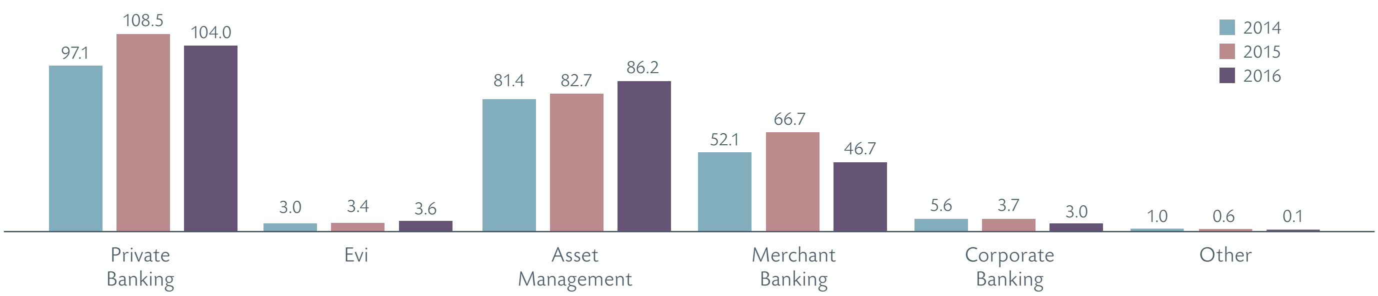
Climate

With stakeholders increasingly expecting banks to help address climate change, we signed the climate statement of the Dutch Banking Association (NVB) in 2015 and further enhanced of our policies in 2016.

Our policies make a distinction between the climate impact: 1) of the assets on our balance sheet, 2) investments on behalf of clients, and 3) of our own organisation.

- In 2016, we developed and applied (using 2015 data) a new methodology to determine the carbon emissions of the total assets on our own balance sheet, arriving at a total of 127,156 tonnes carbon emissions. We expect to fine-tune this approach in 2017 as well as to repeat this exercise based on 2016 data. At the same time, we will investigate what measures we can take to reduce our balance sheet's climate impact.
- The year also saw us enhance our climate policy for client investments and improve its integration into our responsible investment policies. We started engaging laggard companies in terms of climate policies and performance, and are encouraging them to take concrete measures to reduce their carbon emissions (see Asset Management climate policy on page 38).
- We have also stepped up in terms of the climate impact of Van Lanschot Kempen. We have set environmental targets for our own organisation and periodically monitor our progress (see our CSR supplement or corporate.vanlanschot.nl/responsible/environment).

Commission income by segment (x € 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 AuM 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 AuM 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 the second half of 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 the first half of 2015.

Interest

Interest (x € million)	2016	2015	%
Gross interest margin	253.3	279.0	–9%
Interest equalisation	–26.4	–33.6	21%
Miscellaneous interest income and charges	–20.2	–48.3	58%
Loan commission	6.2	5.7	7%
Interest	**212.9**	**202.8**	**5%**

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

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 margin added 18 basis points to 139 basis points in 2016 and the 'clean' interest margin[4] 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

Income from securities and associates (x € million)	2016	2015	%
Dividend	3.6	10.5	–66%
Capital gains	9.4	2.9	
Valuation gains and losses	16.1	14.8	9%
Income from securities and associates	**29.2**	**28.1**	**4%**

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.

Result on financial transactions

Result on financial transactions (x € million)	2016	2015	%
Result on securities trading	–3.0	0.8	
Result on currency trading	6.9	12.3	–44%
Result on investment portfolio	7.8	15.6	–50%
Result on interest rate hedges	–7.7	1.2	
Other income	–8.0	–5.7	–39%
Profit on financial transactions	**–3.9**	**24.1**	

The negative €3.0 million figure clocked up for Result on securities trading primarily reflects Merchant Banking's negative trading positions from market-making for clients. Result 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

Operating expenses (x € million)	2016	2015	%
Staff costs	219.7	212.0	4%
Other administrative expenses	154.2	160.0	–4%
Depreciation and amortisation	12.9	15.5	–17%
Operating expenses	**386.8**	**387.4**	**0%**

5 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.

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.

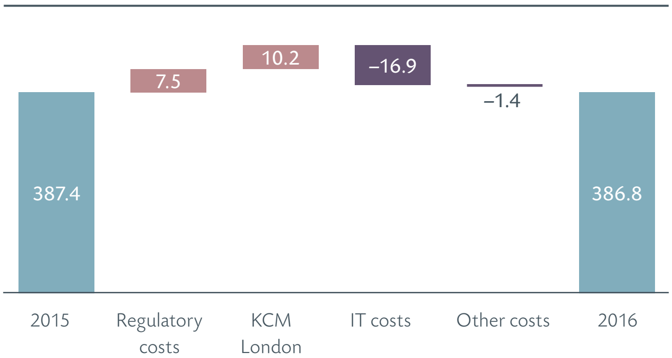
Other administrative expenses

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 years[5].

Operating expenses (x € 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

Impairments (x € million)	2016	2015	%
Private Banking	1.2	22.1	–94%
Corporate Banking	0.0	23.9	
Merchant Banking	–	0.1	
Other	–8.1	4.9	
Addition to loan loss provision	**–6.9**	**51.0**	
Impairment on investments and participating interests	0.8	4.0	–79%
Impairment on assets obtained through the seizure of collateral	0.2	4.0	–95%
Other impairments	**1.1**	**8.0**	**–87%**
Impairments	**–5.8**	**59.0**	

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 as 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.

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

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 in 2016 break down as follows:

Earnings per share (x € million)	2016	2015
Net result	**69.8**	**42.8**
Net interest on perpetual loans	–	–0.9
Share of other non-controlling interests	–4.1	–7.7
Net result for calculation of earnings per share	**65.7**	**34.2**
Earnings per share (€)	**164.34**	**85.41**
Underlying net result for calculation of earnings per share	77.2	51.5
Underlying earnings per share (€)	193.00	128.75
Weighted number of outstanding shares (x 1,000)	400	400

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's shareholder of €49.0 million.

Statement of financial position

Statement of financial position (x € million)	31/12/2016	31/12/2015	%
Statement of financial position and capital management			
Equity attributable to shareholder	1,340	1,299	3%
Equity attributable to non-controlling interests	13	21	−35%
Savings & deposits	9,680	9,908	−2%
Loans and advances to clients	9,624	10,504	−8%
Total assets	14,877	15,832	−6%
Funding ratio (%)	100.6	94.3	
Return on assets (%)[6]	0.55	0.38	

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

Loan portfolio (x € million)	31/12/2016	31/12/2015	%
Mortgage loans	5,718	5,980	−4%
Other loans	2,200	2,375	−7%
Private Banking	**7,917**	**8,355**	**−5%**
Loans to SMEs	679	933	−27%
Real estate financing	705	1,065	−34%
Corporate Banking	**1,384**	**1,998**	**−31%**
Mortgages distributed by third parties	**485**	**332**	**46%**
Total	**9,786**	**10,685**	**−8%**
Impairments	−162	−180	−10%
Total	**9,624**	**10,504**	**−8%**

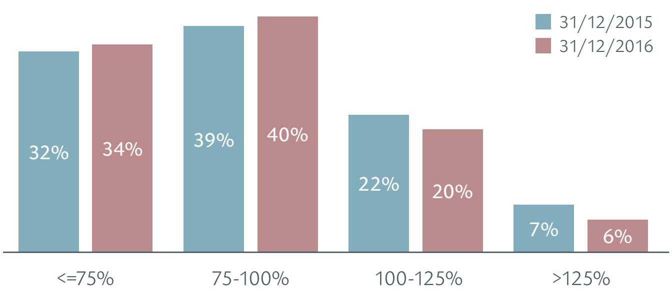
In 2016 our loan portfolio contracted by 8% to €9.6 billion due to the Corporate Banking run-off (−31%) and a decline at Private Banking (−5%). Our loan portfolio is concentrated in the Netherlands (97%).

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. 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.

Private Banking: mortgage loan-to-value (% of Private Banking NL mortgages)



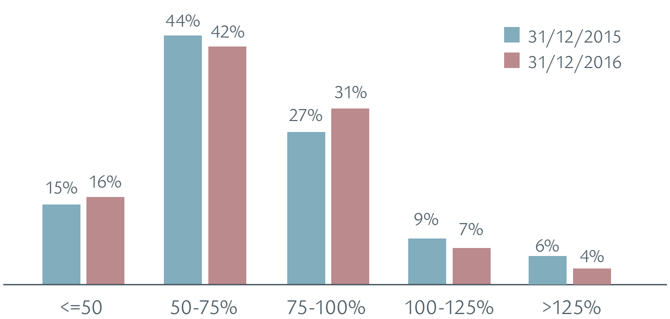
Other loans comprises loans to wealthy private individuals and also includes business loans that fit with the Private Banking relationship model. This item contracted by 7% to €2.2 billion in 2016, as entrepreneurs took out fewer loans and current account overdraft facilities declined.

Corporate Banking

At the end of 2016, the commercial portfolio of real estate and SME loans totalled €1.4 billion (year-end 2015: €2.0 billion). Risk-weighted assets came down by €0.7 billion[7] 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 (100% = €705 million)



6 Return on assets is based on underlying net result and total assets.

7 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.

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.

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%)[8]. 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.

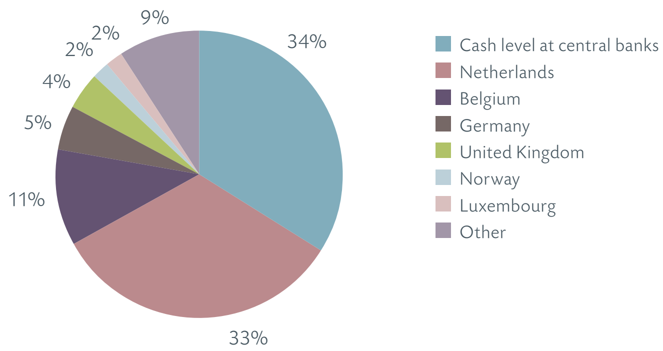
Provision (x € million) 31/12/2016	Loan portfolio	Impaired loans	Provision for impaired loans	Impaired ratio	Coverage ratio	Impaired ratio 2015	Coverage ratio 2015
Mortgages	5,718	80	46	1.4%	58%	2.1%	42%
Other loans	2,200	172	62	7.8%	36%	6.7%	40%
Private Banking	**7,917**	**252**	**108**	**3.2%**	**43%**	**3.4%**	**41%**
Loans to SMEs	679	178	35	26.2%	20%	19.7%	21%
Real estate financing	705	70	11	9.9%	16%	10.0%	11%
Corporate Banking	**1,384**	**248**	**47**	**17.9%**	**19%**	**14.5%**	**17%**
Mortgages distributed by third parties	485	–	–				
Total	**9,786**	**500**	**155**	**5.1%**	**31%**	**5.4%**	**29%**
Impairments	–162						
Total	**9,624**	**500**	**155**				
IBNR			7				
Provision including IBNR			**162**				

Investment portfolio and cash

The total investment and cash portfolio[9] 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 chart breaks down these portfolios by country.

Investment portfolio and cash by country at 31/12/2016
(100% = €3.8 billion)



8 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.

9 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 and liquidity management

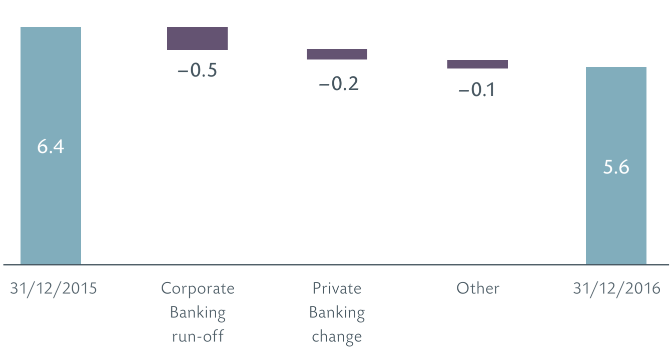
In 2016 our capital base again improved significantly.

Capital and liquidity management (x € million)	31/12/2016	31/12/2015	%
Risk-weighted assets	5,623	6,431	–12%
Common Equity Tier I ratio (%)	19.0	16.3	
Tier I ratio (%)	19.0	16.3	
Total capital ratio (%)	20.9	17.0	

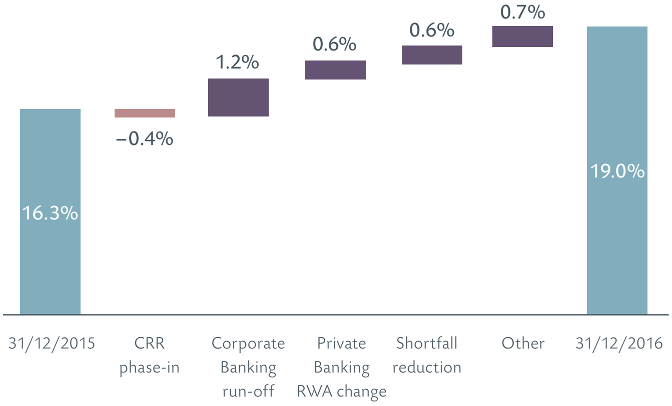
Capital management

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.

Risk-weighted assets (x € billion)



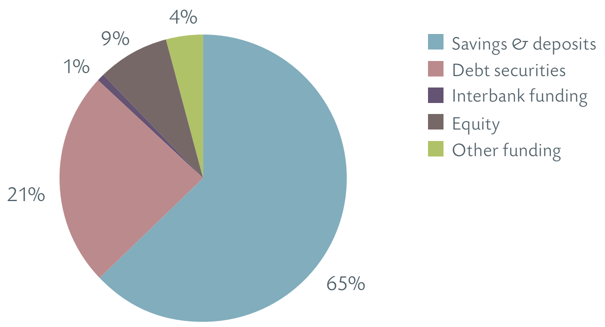
Common Equity Tier I ratio (including retained earnings)



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.

Funding mix at 31/12/2016
(100% = €14.9 billion)



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.

Basel III

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

Basel III ratios	31/12/2016	Norm
Common Equity Tier I ratio (fully loaded) (%) [10]	18.6	> 9.5
Leverage ratio (fully loaded) (%)	6.9	> 3
Liquidity coverage ratio (%) [11]	156.6	> 100
Net stable funding ratio (%) [12]	130.6	> 100

Client assets

Client assets (x € billion)	2016	2015	%
Client assets	**69.4**	**63.0**	**10%**
AuM	57.5	50.3	14%
AuA	2.1	2.8	–24%
Savings & deposits	9.7	9.9	–2%
Client assets	**69.4**	**63.0**	**10%**
Private Banking	28.2	26.4	7%
Evi	1.5	1.4	5%
Asset Management	37.8	32.9	15%
Other	1.8	2.3	–21%

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

11 Based on the LCR Delegated Act.

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

Client assets (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**
AuM in/outflow	−0.2	0.0	2.8	0.0	2.7
Market performance of AuM	0.8	0.0	2.1	0.0	2.9
AuM of Staalbankiers' private banking clients	1.7				1.7
Change in AuA	−0.5			−0.2	−0.7
Savings & 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 AuM 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 AuM (year-end 2015: 50%).

Ignoring the acquisition of the Staalbankiers private banking activities, AuM 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).

AuA 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.

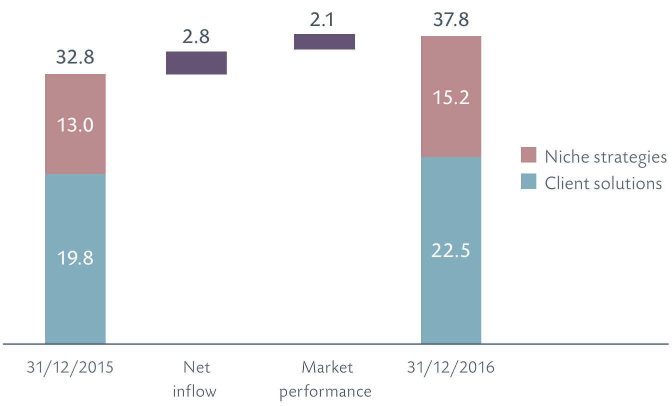
Evi

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 nearly €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.

Asset Management

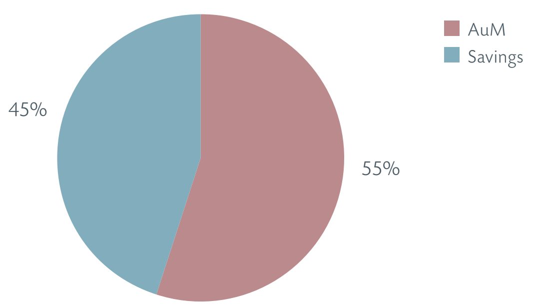
AuM at Asset Management were up by 15% to €37.8 billion from €32.8 billion. Asset Management recorded net inflows of €2.8 billion in 2016, on the back of the Univé fiduciary mandate (over €1 billion) and the c. €1 billion investment-grade corporate bonds mandate for Fonds de Réserve pour les Retraites (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 (x € billion)

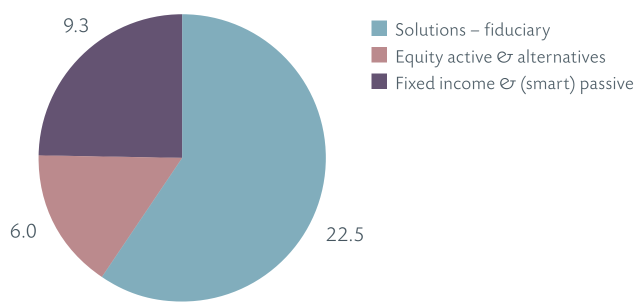


In addition to third party funds, Kempen Capital Management also manages our private banking discretionary management mandates and Evi Beleggen products, amounting to total AuM of €9.1 billion at the end of 2016.

Breakdown of Evi client assets (100% = €1.5 billion)



AuM breakdown by type or service (x € billion)



Private Banking

Responsive, transparent and tailored personal service

Financial performance

Private Banking (x € million)	2016	2015	%
Interest	151.0	155.9	–3%
Income from securities and associates	–	–	–
Commission	104.0	108.5	–4%
Result on financial transactions	1.3	1.8	–30%
Income from operating activities	**256.2**	**266.2**	**–4%**
Staff costs	83.8	82.4	2%
Other administrative expenses	60.8	31.5	93%
Allocated internal expenses	56.0	103.5	–46%
Depreciation and amortisation	2.2	5.5	–60%
Operating expenses	**202.9**	**222.9**	**–9%**
Impairments	**1.2**	**22.1**	**–94%**
Operating result before one-off gains/losses and tax	**52.1**	**21.1**	**–**
Derivatives recovery framework	0.9	–	–
Other one-off charges	3.2	–	–
Strategy 2020 investment programme	5.4	–	–
Operating profit before tax	**42.5**	**21.1**	**–**
Income tax	10.0	6.0	67%
Net result	**32.6**	**15.1**	**–**
Underlying net result	**37.4**	**15.1**	**–**

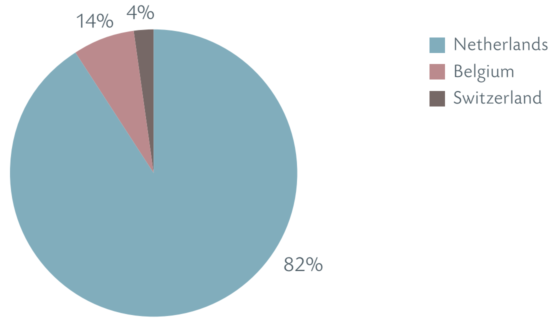
Private Banking aims to help our clients preserve and create wealth at every stage of their lives. We look to the long term, planning years and even decades ahead when setting goals. We continue to cherish our rich history, but our services are firmly rooted in the here and now, whether we are monitoring the lightning pace of economic and geopolitical change or rapidly modernising the way we serve our clients.

Markets were jittery in the run-up to the Brexit vote and the US presidential election. The lack of clarity surrounding future central bank policy fuelled a climate in which our clients took a cautious stance and engaged in fewer transactions. Our bankers continued to communicate proactively, highlighting what returns were still to be had under current market conditions, for instance, and what additional actions our clients might need to take to meet their goals. Pursuing returns also entails certain risks, which meant we had to provide our clients with additional views and insights into those risks in 2016. At the end of the day, market conditions and average risk appetites made any meaningful short-term returns unrealistic last year.

Regional approach

We adjusted Private Banking's organisation at the beginning of 2016 to pool our knowledge and expertise more effectively and further enhance the quality of our services. Clients are now served by teams of private bankers, investment specialists and commercial support staff working out of four regional offices, with local offices in cities where we have traditionally been active. This enables us to offer our clients enhanced quality while maintaining our local presence.

Assets under management: by country (€18.9 billion)



Target group approach

Services provided by specialist teams to clearly defined target groups – entrepreneurs, family businesses, high net-worth individuals, business professionals and executives, healthcare professionals, and foundations and associations – proved as successful as ever. In addition to the Netherlands, we are active in Belgium – where we entered the French-speaking market this year with the opening of our new Liège office – and in Switzerland, where we offer our solutions primarily to Dutch and Belgian clients.

The Van Lanschot client experience: responsive and transparent

The advice and communication we offer our clients are responsive and transparent. A substantial proportion of those clients are entrepreneurs, which means our advisers too must be able to think entrepreneurially, understand commercial banking and guide family businesses. Van Lanschot responds to its clients' concerns and acts as a sparring partner, especially for complex questions or unusual situations, such as pension solutions or tailored mortgages.

We ask our clients how they want to be served, so that we can offer them a personal, tailored service. This can still take the traditional form of face-to-face contact with a private banker, but is now also possible digitally and online, using apps and portals. Whatever form and frequency of interaction the client prefers, we want them to have the best possible understanding of their situation and the choices our advisers make or propose. We are committed to an omnichannel approach combining traditional, local and personal private banking with integrated digital platforms and online tools.

> 'Clients want to do business with Van Lanschot when it suits them. They want to be able to consult, communicate and interact with us at any time and via any channel. They want it now, and they want it to be easy. We aim to deliver that while always offering the same outstanding Van Lanschot experience.'
> *Richard Bruens, Executive Board member responsible for Private Banking*

Our clients gave Private Banking an average rating of 7.6. – the same as last year – while our Net Promoter Score[1] again rose significantly, to –3 (2015: –11).

Digital as part of the Private Banking service

The way our clients want to be served is changing, which is why we are making increasing use of artificial intelligence and big data in our advisory services. This includes developing algorithms that provide relevant client signals to advisers, who can then respond proactively. The discretionary management app we launched this year gives our clients a round-the-clock view of their investment portfolio, which we can then use as a basis for discussing the feasibility of the client's dreams and goals.

> 'The discretionary management app lets clients check regularly whether it is now more or less likely that they can achieve their goals through their current investments and risk profile. This in turn results in more meaningful conversations between clients and Van Lanschot.'
> ***David Versteeg**, Digital and Innovation Director*

We rolled out our new *Mijn Van Lanschot* portal, which offers additional functions and opportunities for interaction. Clients can use it to review their investment portfolio at a glance, any time of the day or night. It is important to stress that the way we use technology is not driven purely by a desire to increase efficiency or reduce costs, but above all by the ongoing enhancement of our service offering in response to our clients' changing needs.

> 'We are modernising Van Lanschot so that we remain attractive to existing and new clients, and to our staff. As a wealth manager, we have to evolve with our clients and the world at large. We aren't fixated on products: a mortgage proposal is important, but beneath it lies a need on the part of a client, and they are at the heart of everything we do. That's the right approach for today's world.'
> ***Ernst Jansen,** COO Private Banking*

Staalbankiers

The acquisition of Staalbankiers' private banking operations provided us with new client relationships, approximately €1.7 billion in assets under management, over €300 million in savings and a limited number of securities-backed loans. Staalbankiers, like Van Lanschot, is a relatively small, specialist firm, where personal attention to the client's wishes is paramount. We acquired several Staalbankiers products – including Multi Asset Optimisation and Socially Responsible Discretionary Management – along with clients and their assets, plus 25 highly qualified Staalbankiers private bankers and investment experts. Taking over Staalbankiers' private banking operations also gave us an internal boost: our assets under management grew and we bolstered our position.

1 The scope of the NPS has been expanded: as of 2016, it includes Private Banking, Private Office, business advisers and foundations and associations. The corresponding figure for 2015 has been adjusted accordingly.

Wealth and healthcare planning

We launched our Wealth Planning Service in 2014. A client's wishes are analysed in conversation with their private banker and prioritised using a tablet app. These can then be translated into business, social and personal objectives. In 2016 we developed a concise, online version of this tool for individuals and entrepreneurs. Private Banking takes a holistic view of clients and the goals they set themselves, both during and after their working life. We also prepare them for the day when they need assistance: will they want standard or tailored solutions when the time comes? If they are considering a retirement facility or care in the home, what level of assets will they have to set aside? Our annual Dutch Wealth Report reveals that almost half of the high net-worth individuals in the Netherlands feel that the quality of the care on offer is inadequate. Yet only 18% of the country's millionaires have put money aside to buy care (two-thirds are willing to do so). The healthcare planning service we launched in March 2016 provides insight into personal wishes, possibilities and costs.

> 'Our healthcare planning service addresses a need that has been sensed, but not previously looked at specifically. This is in spite of all the changes we've seen in recent years: the Long-Term Care Act, personal contributions, and the role of children and neighbours, but also e-health solutions. When you look at these things with clients, they can have a major impact on wealth, and hence also on conversations about the future to have with their children today.'
> ***Chris Zegers,** Healthcare Director*

GovernanceScan

We launched our GovernanceScan in September 2016 for board members of fund-raising bodies, trusts and religious institutions. This online tool, combined with in-depth discussions, helps them to become more professional and to meet the demand for increasingly detailed reporting on their operations.

Business professionals and executives

Business professionals and executives are a well-defined target group within Private Banking. Business professionals are partners at accountancy, law and consultancy firms, while executives sit on the management and supervisory boards of listed Dutch companies. We currently serve at least half the partners at the Big Four accountancy firms, around a third of the partners at the major international law offices, and about a quarter of management and supervisory board members at listed companies. We have identified plenty of scope for further growth here, as well as among related target groups such as partners at private equity firms and executive search agencies.

Business professionals and executives have a lot in common in terms of their financial situation: they accumulate assets quickly, they are largely responsible for their own pensions, they need a customised mortgage service and their pay often depends in part on the business's profits. They have similarly complex legislation and regulations to deal with, along with increasingly strict compliance requirements.

'A lot of executives need a professional partner they can talk to. We explore their wishes and goals and offer tailored solutions to help them achieve their ambitions. We understand that their time is limited and that they need to decide quickly, based on trust. Executives demand the maximum from themselves, and they expect the same from their private bankers.'
***Sybelle Gielisse**, Business Professionals and Executives Director*

The partners of the Big Four accountancy firms have to deal with strict rules and restrictions on private investment designed to prevent insider trading or any hint of it. A little over a year ago, we set up our CompliantBeheer service – a discretionary management solution that takes account of the specific restrictions applying to each Big Four firm.

Van Lanschot Belgium

Van Lanschot Belgium has been active in the Belgian market for a quarter of a century, catering for high net-worth individuals and institutional investors. We are one of two banks in Belgium that work with a Forum Ethibel certificate, confirming the responsible way in which we handle the assets entrusted to us.

We opened a new office in Liège in March, staffed by a new team that will address the market in French-speaking Belgium. A client reception site in Turnhout was converted to a commercial branch in the fourth quarter of 2016, which will allow us to serve Belgium's Kempen region more effectively.

The volume of institutional savings declined in line with our funding strategy. Our asset management activities grew substantially in 2016, particularly through our 'profile funds'. These are optimally aligned with the Belgian tax regime in a simple, cost-effective and transparent way, so that clients do not pay VAT on management fees, stock-exchange tax on buying or selling securities, or capital gains tax. Transparency means that it is always clear for each fund which underlying instruments it is investing in directly.

'We want clients to realise that while you could still get some kind of return four years ago at a limited risk, this is no longer the case today. Inflation came in at 2% in 2016, which means if you don't put your assets to work, you're going backwards. That's why our advisers are talking to clients to help them determine their horizon and priorities.'
***Michel Buysschaert**, Chairman of the Management Committee at Van Lanschot Belgium*

We have been rolling out Evi Beleggen, our online investment service, in Belgium since February 2016 (see 'Evi' on page 33). The idea is to build on the success of Evi van Lanschot in the Netherlands. We are not the first online investment bank in Belgium, but we are the first to offer a service of this kind based on private banking expertise.

'The relative number of bank branches in Belgium is much larger than in the Netherlands, and e-adoption is less advanced, which means the switch to online will take some time yet. We follow a different rhythm from Van Lanschot in the Netherlands, but we're headed in the same direction.'
***Geoffroy Vermeire**, member of the Management Committee at Van Lanschot Belgium*

Responsible and sustainable investment and impact investing

Responsible and sustainable investment is an integral part of our investment service. We expanded our sustainable investment offering in 2016, based on active dialogue with our clients and other stakeholders, who expect us to move from 'doing no harm' to actively 'doing good' and playing our full part in society. A new sustainable variation (*Duurzaam+*) is now available within our discretionary management offering, which includes considerably more external sustainable investment funds than before.

We also added impact investing to our offering in 2016 (see 'Charity Service' in this section). This form of investment gives our clients the opportunity to pursue a social or environmental return as well as a financial one. We have begun to offer investments in green bonds, for instance, which enable clients to invest in environmentally friendly projects that help address climate issues. Our first micro-finance fund, providing micro-entrepreneurs in less developed countries with access to finance, was also offered in 2016. In addition, we joined the Global Impact Investing Network, a not-for-profit network organisation focused on the further development of impact investing. We will continue to expand our impact investment offering in the year ahead to help achieve the Sustainable Development Goals (see page 39).

Partnership with Ashoka

Van Lanschot has partnered with Ashoka, the world's oldest and largest not-for-profit networking organisation run for and by social entrepreneurs. Bringing Ashoka's network into contact with Van Lanschot's clients and relations led to a further series of interesting networking meetings and work-shops in 2016. In June, for example, Van Lanschot clients attended the Ashoka inauguration event in The Hague, at which several new Dutch fellows (social entrepreneurs selected by Ashoka) were presented. Workshops were held prior to the event, at which our clients helped social entrepreneurs to sharpen up their business cases and brainstormed new funding channels. Our aim in 2017 is to put the Dutch fellows in contact not only with our clients and relations, but also with our own bankers and specialists. The latter boast expert knowledge in all sorts of fields that could be of interest to social entrepreneurs.

We actively involved our clients in responsible and sustainable investment once again in 2016, partly through a survey to discover how they rate the quality of the information we provide. The survey results show that our clients view responsible and sustainable investment as an important subject on which they would like to be kept informed. We responded by further enhancing our communication in this area and paid even more attention to the results of our engagement efforts.

Impact investing added to Charity Service

Van Lanschot rolled out the Charity Service for its clients three years ago. The service broadens and deepens our role as a wealth manager and is intended to advise our clients in the field of philanthropy. Since then, we have seen a growing interest on our clients' part not only in philanthropy, but also in social entrepreneurship and impact investing. We responded in 2016 by expanding our Charity Service to include an impact investing element. We use personal advisory discussions to determine our clients' wishes and needs in terms of social impact and then help them choose the most appropriate donation or investment strategy.

The Charity Service once again organised a variety of philanthropy and impact investing sessions in 2016, including several in conjunction with Ashoka (see page 31). Van Lanschot also played host in September 2016 to the first Dutch meeting of the European organisation Philanthropy Impact. For more information, see vanlanschot.nl/charity-service.

Evi van Lanschot

For wealthy individuals of today and tomorrow

Financial performance

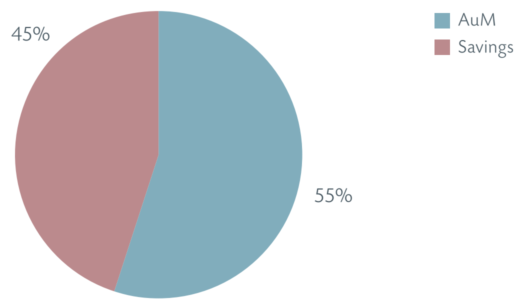
Evi (x € million)	2016	2015	%
Interest	3.9	2.1	85%
Income from securities and associates	–	–	–
Commission	3.6	3.4	6%
Result on financial transactions	–	–	–
Income from operating activities	**7.6**	**5.6**	**37%**
Staff costs	3.2	3.0	8%
Other administrative expenses	7.1	6.8	5%
Allocated internal expenses	7.8	9.8	–20%
Depreciation and amortisation	0.1	0.2	–30%
Operating expenses	**18.2**	**19.7**	**–8%**
Impairments	**–**	**–**	**–**
Operating result before one-off gains/losses and tax	**–10.6**	**–14.2**	**25%**
Other one-off charges	–	1.3	–
Strategy 2020 investment programme	1.8	–	–
Operating profit before tax	**–12.5**	**–15.5**	**19%**
Income tax	–2.9	–4.4	33%
Net result	**–9.5**	**–11.1**	**14%**
Underlying net result	**–8.2**	**–11.1**	**27%**

Evi van Lanschot is Van Lanschot's online savings and investment coach. Evi guides new and experienced investors in the Netherlands and Belgium towards reliable investment, pension and savings solutions.

Now the start-up phase has been completed, the service can continue to mature. Evi became an autonomous core activity in 2016, so that it can respond quickly to its clients' needs and develop new products. Assets entrusted to Evi were fairly stable in 2016, at €1.5 billion. In a volatile and uncertain investment market, clients placed around €50 million in invested capital with Evi, while withdrawing almost €15 million in savings.

We have invested heavily since Evi was rolled out in 2013, with examples in 2016 including technology, product development and marketing. Evi also invested in Evi4Kids – an investment account for children, with a long-term horizon and a focus on the risks associated with investment. We rolled out Evi Doelbeleggen too, which helps investors identify their financial goals and then achieve them by paying in regularly. These investments, which are recognised directly in the statement of income and allocated internal expenses, meant that Evi did not yet achieve a positive return in 2016.

Client assets by product (€1.5 billion)



These investments enable Evi to build a scalable platform, in which additional clients do not translate into additional costs. The service aims to grow the number of clients and assets of existing and new clients. Evi's focus in 2017 will be on tailoring its services to reflect its client requirements even better by investing in new processes, infrastructure and online visibility.

Clients decide for themselves which service model best suits their needs – Private Banking's offering or Evi's. Evi is aimed at newcomers to the wealth market and clients who specifically opt for an online service. Anyone with €1,000 or more to invest is welcome at Evi. Questions about financial planning and structuring become a lot more important as assets increase, however, and Van Lanschot Private Banking offers a comprehensive wealth management solution.

The funds in which Evi invests are managed responsibly. They comply, in other words, with our ESG criteria.

Instapmiljonair

Our *Instapmiljonair* ('Millionaire-to-be') campaign reinforced our already strong reputation. We offer people with smaller amounts of money the same know-how as our traditional Private Banking clients enjoy. The fact that we are part of Van Lanschot gives clients confidence in our investment proposition, while Evi helps Van Lanschot retain both today's high net-worth individuals and those of tomorrow.

Solutions

We guide online clients to a variety of solutions. Evi Beheer does all the investment work on the client's behalf, while with Evi Advies, the client invests with Evi as coach. We also offer Evi Pensioen: a tax-friendly, long-term pension solution for the portion of salary up to €100,000 as well as that above it. Individual pension saving is becoming more important all the time, so we see opportunities for growth.

Looking for the best match

We have noticed that our clients are no longer focusing purely on returns but also increasingly on the feasibility of their goals, such as setting aside a good pension or paying for their children's education. We have adjusted our proposition accordingly. We explore our client's goals first, and only then do we look at the appropriate product. If there is a match, we want the client to understand the product fully.

Evi Doelbeleggen is a variation on Evi Beheer; rather than investing for the client based on a single risk profile, we lower the risk exposure as the target date approaches.

In contact

With interest rates remaining low, from autumn 2016 onwards we focused primarily on savers, whose assets were losing value. We communicated with this group – many of whom have never invested – in all sorts of different ways.

Golden Bull

Transparency about Evi's activities and costs is crucial. The cost comparison tool on our website helps us provide a clear insight into our costs, and allows comparison with other providers. The clarity of our communication was one of the reasons Evi scooped the Netherlands' Golden Bull (*Gouden Stier*) award in 2016 for best online asset manager. The jury singled out Evi's scenario analysis for asset performance and its comprehensive quarterly reporting.

Our clients gave Evi an average rating of 7.4 in 2016 (2015: 7.5). Its NPS score rose to –11 (2015: –17).

In Belgium

Our proposition rolled out in Belgium in 2014 with the savings service Evi Sparen. We added the investment service Evi Beleggen in February 2016, focusing at first on Evi savings clients interested in taking their first steps in investing. In 2017 Evi Beleggen will focus increasingly on new clients.

Asset Management

Focus on continued growth

Financial performance

Asset Management (x € million)	2016	2015	%
Interest	–	–	–
Income from securities and associates	–0.3	0.3	–
Commission	86.2	82.7	4%
Result on financial transactions	0.1	–0.1	–
Income from operating activities	**86.0**	**82.9**	**4%**
Staff costs	36.3	30.2	20%
Other administrative expenses	20.9	13.7	53%
Allocated internal expenses	14.8	14.0	5%
Depreciation and amortisation	0.4	0.2	–
Operating expenses	**72.5**	**58.1**	**25%**
Impairments	**–**	**–**	**–**
Operating profit before tax	**13.6**	**24.8**	**–45%**
Income tax	3.5	6.2	–43%
Net result	**10.0**	**18.6**	**–46%**
Underlying net result	**10.0**	**18.6**	**–46%**

Asset Management, trading as Kempen Capital Management (KCM), is a specialist asset manager with a sharp focus and a clear investment philosophy. We operate in a competitive and rapidly changing investment market: there was palpable pressure on management fees in the year under review; ever more stringent transparency requirements are being imposed; and the pensions market is consolidating. Clients have become more cost-conscious and our active asset management products have to compete with index-trackers and other forms of passive investment. However, in niche markets such as real estate and small caps, where there are fewer active players and clear opportunities for outperformance, KCM remains convinced that it can offer an attractive proposition for its clients. KCM is also meeting a client need in the area of fiduciary management, with customised solutions to address clients' specific circumstances.

An unusual investment year

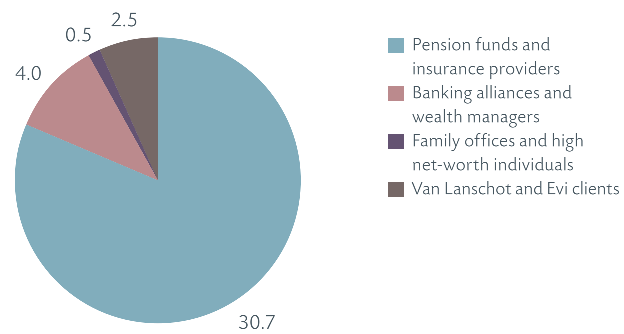
2016 was an unusual investment year both for our clients and ourselves. First there was the referendum on EU membership in the United Kingdom in June, in which just under 52% of the electorate voted to leave. This was followed by another surprise in the US presidential elections in November. We reiterated our expectation that the prevailing market conditions would lead to lower investment returns than usual. KCM and other market experts believe that this situation will continue as long as valuations stay on the high side, growth is limited and interest rates remain virtually flat.

We devoted a lot of time and attention to developing scenarios prior to the events referred to above, which are also significant for investors. It would be premature to conclude at this stage that we are in a different investment climate; at the same time, we are convinced that our strategy of focusing on a limited number of specialisms is the right one for all situations, including in periods of lower returns.

> 'The focus on the long term and continuity that we have maintained since our incorporation has not been suddenly abandoned in a weaker year for a policy of "hope for the best". That is appreciated: our client retention rate is 93%.'
> *Mark Geneste, Executive Director at Global Institutional Clients & Marketing*

Our investment strategies for investment funds and institutional mandates are focused on a select number of segments: small caps, real estate, high-dividend equities, corporate bonds and funds of hedge funds. We also provide a range of fiduciary management services, including strategic advice, manager selection, monitoring and integrated risk management. Our services are aimed at pension funds, insurers, banks and asset managers, family offices, and foundations and associations, while Van Lanschot Private Banking clients are another key target group.

AuM breakdown by client type (€37.8 billion)



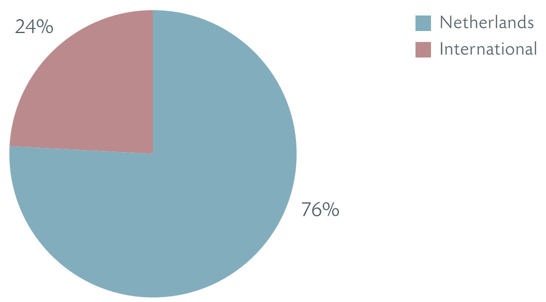
In 2014 we added a number of global variants to our investment strategies for real estate and small caps, including Kempen (Lux) Global Property Fund and Kempen (Lux) Global Small-cap Fund. These global strategies have built up a strong track record, enabling us to introduce them to a wider group of investors. We are also working towards the further expansion of our investment strategies in line with our strengths and philosophy, such as European high-yield bonds and multi-asset funds, which enable investors to take advantage of different asset classes.

More diversification

Assets under management (AuM) grew by 15% in 2016, thanks to a combination of a net inflow of €2.8 billion and the results on investments, especially bonds. In January, the French public pension reserve fund Fonds de Réserve pour les Retraites (FRR) selected KCM for the active management of its investment-grade corporate bond mandate. At around the same time, we were appointed by Univé to provide the fiduciary asset management for its investments.

The UK fiduciary management activities acquired from MN in 2015 were integrated into our organisation in 2016. The process of migrating clients from MN to KCM was carried out with great care, enabling us to retain all clients, and we have since also welcomed our first new client. We have modified the organisation, including the appointment of a new Managing Director and establishing a sales team for our investment strategies. We will now focus on attracting new clients, both for fiduciary management and investment strategies. This will make the United Kingdom our second home market. We have also scaled up the distribution of existing investment strategies in France and Germany with the aim of sharpening the focus on client groups and creating a broader, more diversified basis for our income.

AuM by client nationality (€37.8 billion)



Focusing capital on the long term

In uncertain times, short-term solutions, for example temporarily 'stepping out of the market', are sometimes seen as a tempting alternative. However, as these solutions often prove to be less profitable, we have stepped up our emphasis on 'focusing capital on the long term' alongside our existing investment strategies. With this in mind, in 2016 we initiated SHIFTTO.org, a website focusing entirely on long-term investment with content contributed by pension specialists, investors, scientists, policymakers and other experts. While KCM was involved at the inception, SHIFTTO.org represents all parties that advocate a long-term focus and active shareholdership.

If institutional investors primarily demand short-term returns from their asset managers, this in turn puts pressure on the management of listed companies and reduces their propensity to invest. That is bad for the market, the economy and society; 'focusing capital on the long term' should be a priority for everyone.

Anticipating change

We expanded the cooperation between Private Banking and Asset Management during the year under review, not least by broadening our discretionary management proposition.

We were closely involved in the acquisition of Staalbankiers' private banking activities, and supplied the content for the new discretionary management app. Asset Management was also involved in the inception of the Evi Pensioen pension investments solution in 2016. We were ahead of the curve when it came to the changes in the Dutch pension fund sector, and in October we were selected as the independent fiduciary management service provider for Het nederlandse pensioenfonds, a general pension fund established on the initiative of the insurer a.s.r.

Data and people

We made substantial investments in our data infrastructure in 2016. Data and people are at the heart of the services we offer. We use technology, artificial intelligence and big data to improve the efficiency and quality of our service. We are strengthening our investment analyses by drawing information from external databases, which we combine with our own research and use to enhance our analyses of real estate and other areas. This puts our investment decisions on a firmer footing, with earlier correlations, more in-depth analyses and greater predictive value. As a consequence, our people are able to make even more of a difference for our clients.

All of this demands a vital organisation which is dynamic, resilient and flexible. We invest actively in programmes to achieve this, an approach which enjoys wide support throughout our organisation.

> 'We have launched a vitality programme to keep our staff fit. We encourage them to work hard, but within limits. A healthy business is one in which staff have a good work-life balance. An organisation that is so emphatically focused on the long term needs to take good care of its people.'
> *Paul Gerla, Executive Board member responsible for Asset Management*

Engagement

KCM is an engaged investor that does not invest in financial instruments of companies and/or entities that consistently and fundamentally contravene environmental, social and governance (ESG) criteria. Since 2011 we have set ourselves the target of increasing the assets screened by non-financial criteria (measured as a percentage of total AuM) year-on-year. We achieved this target once again in 2016, mainly by adding new asset classes to the screening process. See table on page 38.

Our policy on responsible investment incorporates a clear engagement ambition, under which we seek to encourage positive changes at companies and investment funds by actively engaging with them. In the course of 2016, we engaged 75 companies directly and 105 via collaborative engagement initiatives. We also maintained a dialogue with 20 external fund managers.

This approach works, as illustrated for example by our successful dialogue in recent years with the American high-yield manager Neuberger Berman. There were two important topics for engagement, the first of which concerned an investment in a controversial arms company. KCM noted that the Neuberger Berman High Yield Bond Fund had a stake in Aecom, a company that is excluded from the KCM investment universe due to its involvement in the production of nuclear weapons.

Neuberger was amenable to dialogue and, following a number of discussions and meetings, decided to sell this investment. It also emerged from these discussions that, while Neuberger takes ESG criteria into account in its decision-making process, this applied principally for equities and debt instruments issued in emerging markets, not for high-yield investments. KCM successfully persuaded Neuberger to integrate ECG criteria into its decision-making process for high-yield investments as well.

This example illustrates how engaging in active dialogue enables KCM to act on behalf of its clients, including Van Lanschot, to help make the financial sector more sustainable. For more information about our policy on sustainable investment and engagement.

Responsible investment policy

More and more investors are basing their investment choices on both financial and non-financial information. In other words, they are no longer judging companies or investment funds solely on the basis of their financial results, but also on their environmental and social performance. We also incorporate non-financial information in our investment process alongside financial data. This is what we mean by responsible investment.

Founded on international guidelines

Van Lanschot Kempen signed up to the UN Global Compact (UNGC) in 2008. These international United Nations guidelines on areas including the environment, employment conditions, human rights and corruption provide an important framework for our responsible investment policy. The same goes for another international UN initiative that is endorsed by Van Lanschot Kempen: the Principles for Responsible Investment (PRI).

Screening and dialogue geared towards positive change

At Van Lanschot Kempen, we have translated both sets of guidelines into specific criteria on the basis of which KCM periodically screens its investments. The screening criteria can be found in the Convention Library on our website at corporate.vanlanschot.nl/responsible/core-banking-activities. If the screening process reveals that companies or investment funds are involved in controversial weapons, they are excluded. An engagement process can be initiated in the case of companies and investment funds that infringe our environmental, social and governance criteria in other ways.

Our engagement activities are aimed at companies, investment funds and other stakeholders:

- If it is found that companies are taking insufficient measures to control material environmental, social and governance risks, KCM's portfolio managers can select them for engagement. In each case, KCM draws up specific engagement targets. Companies that make insufficient progress towards meeting these targets can be excluded.
- We also engage with external fund managers, in the process of which we challenge them about their responsible investment policies. We encourage them to be transparent and to exercise their voting rights. Fund managers are also encouraged to engage with companies in their investment portfolio that have material environmental, social or governance issues.
- KCM likewise challenges clients, sector peers and credit rating agencies to pursue responsible investment and other policies.

We also take part in collaborative engagement initiatives to enhance the effectiveness of our efforts. These are dialogues with companies and fund managers that are carried out on behalf of several institutional investors and asset managers at once.

Exercising voting rights is another essential element of responsible investment. KCM casts its vote at the general meetings of Dutch businesses and by proxy in the case of international companies. Voting guidelines and records for 2016 are accessible from the KCM website at kempen.nl/proxyvoting.

Most of the companies and fund managers we have approached in recent years have shown a willingness to improve their policies or portfolios. Only a few were not prepared to do so, to which we responded by excluding them.

Assets under screening (AuS)	2016		2015	
	AuM (x € billion)	AuS as % of AuM	AuM (x € billion)	AuS as % of AuM
Private Banking[1]	18.9	75	16.7	79
Evi	0.8	100	0.7	100
Asset Management[2]	37.8	85	32.8	76
Total	**57.5**	**82**	**50.3**	**78**

Engagement case – La Doria

Many responsible investors believe in the importance of good working conditions – not just for the employees of the company in which they invest, but also for those employed in the supply chain. We engaged in dialogue with several companies on this topic in 2016. One of them was La Doria, an Italian supplier of tomato and other food products. La Doria employs around 750 permanent staff and 1,500 seasonal workers, and has been accused in recent years of practices tantamount to 'modern slavery'. The accusations relate primarily to tomato-pickers from Africa and Eastern Europe, who were said to be working under very poor conditions for La Doria agricultural suppliers in southern Italy.

To obtain an accurate picture, KCM not only contacted La Doria, but also a number of its clients, namely supermarkets which claim that they do not tolerate poor working conditions at their suppliers. It transpired from these discussions that there is indeed evidence of poor working conditions in the Italian agricultural sector but that La Doria is not directly involved. In fact, according to the supermarkets, La Doria is actually one of the most sustainable operators in the market, for example encouraging its suppliers to harvest mechanically rather than by hand where possible. In view of these practices, the risk of involvement in modern slavery is very small. Moreover, all suppliers used by La Doria are bound by the company's ethical code. La Doria's own seasonal workers are given employment contracts where possible, are paid at least the minimum wage and are asked to work as little overtime as possible. La Doria has stated that it wishes to be as transparent as it can about its production conditions, and accordingly announced in 2016 that it was commissioning an independent third party to carry out further screening of its suppliers. Once the findings become available, we will discuss them with the company if necessary.

1 The percentage of AuS at Private Banking declined in 2016 as we were only able to add a small proportion of AuM originating from Staalbankiers. Without Staalbankiers the AuS of Private Banking would remain unchanged (79%) in 2016. We plan to extend AuM screening in 2017, which will most likely result in a higher level of AuS at Private Banking.

2 The AuS increased as we added the AuM from the UK acquisition as well as some money market funds to our screening.

Climate policy

We have further integrated climate change into our ESG policy. It now forms part of our quarterly ESG screening process and is discussed periodically with our portfolio managers, who in turn encourage companies to take tangible steps to reduce their carbon emissions and make a positive contribution to climate-friendly solutions. We also participate in various collective engagement initiatives, such as the Principles for Responsible Investment (PRI) platform and the Institutional Investors Group on Climate Change (IIGCC). Under the IIGCC banner, in 2016 we called on a number of companies, including Shell and Rio Tinto, to provide greater clarity on their response to the climate issues that figure in the public debate. Climate is a topic that will remain high on the agenda in the coming year.

'Issues such as carbon are discussed much more emphatically today than even just two years ago. However, we need to remain alert: a sustainability policy is not static, but is something that changes continuously and that anticipates or develops in line with changes in society.'
Erik Luttenberg, Managing Director at Kempen Capital Management

More communication and extra attention for voting process

As in previous years, in 2016 we again devoted more attention to communication about responsible investment, for example by further improving our client reports on engagement. We also carried out an extensive study of our own voting policy and explored the options for improving both the policy and the actual voting process. We plan to implement a refined voting policy and to broaden the voting process. Among other things, this means that we will intensify our dialogue with companies regarding agenda items at shareholders' meetings, and provide more extensive reports on our voting behaviour.

Awards

The Kempen Sustainable European Small-cap Fund was placed on the shortlist of the Sustainable Investment Awards 2016, organised by British magazine *Investment* Week. The fund had been nominated for the Best ESG Investment Fund and Best Sustainable Investment fund awards. In addition, SHIFTTO.org was nominated for an Award for Innovation (Research and Methodology).

The Kempen (Lux) Sustainable European Small-cap Fund qualified once again for the Novethic FNG SRI Label, showing that non-financial criteria have been systematically integrated into the investment process and transparently reported. At the same time – instead of using research organisation Trucost as we did in previous years – we have drawn on MSCI ESG Research to establish the fund's carbon footprint at the end of 2016. This was 57% below the MSCI European Small Cap Index (note that, now that sufficient data is available, we screen the fund against this benchmark), the seventh year in a row that the fund was less carbon-intensive than its benchmark.

Sustainable Development Goals

The Sustainable Development Goals (SDGs) were established by the United Nations at the end of 2015 and serve as a sustainable development agenda for the 2015-30 period. The agenda comprises 17 sustainability goals distributed across various topic areas including poverty and hunger, climate change, education, water and human rights. The private sector is increasingly expected to contribute to the achievement of the SDGs. KCM, along with a large group of asset managers, signed a statement in 2016 committing to promoting sustainable development investing (SDI), in other words investments which make a positive contribution to the realisation of the SDGs. In addition, in 2016 Van Lanschot Kempen signed up to a joint Sustainable Development Goals Investing (SDGI) Agenda, an initiative by the financial sector aimed at making a maximum contribution to the realisation of the SDGs by pooling strengths and collaborating intensively with De Nederlandsche Bank (DNB). The initiative was shared with a wide audience at the end of 2016.

Performance overview of KCM's investment strategies (comparison with benchmark, one-year horizon) (in %)

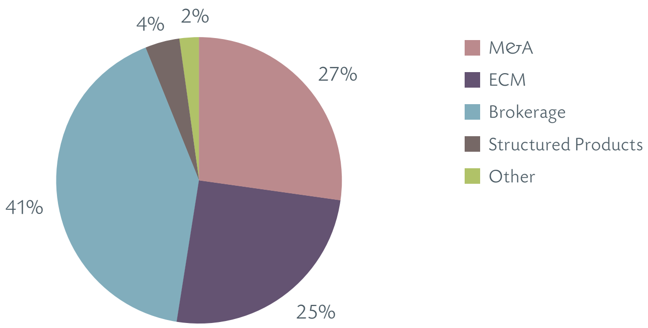
Merchant Banking

Being relevant to our clients every day

Financial performance

Merchant Banking (x € million)	2016	2015	%
Interest	–	−0.3	–
Income from securities and associates	–	–	–
Commission	46.7	66.7	−30%
Result on financial transactions	1.8	3.4	−48%
Income from operating activities	**48.5**	**69.8**	**−31%**
Staff costs	22.8	24.5	−7%
Other administrative expenses	7.0	8.0	−13%
Allocated internal expenses	9.9	8.8	13%
Depreciation and amortisation	0.1	0.1	−46%
Operating expenses	**39.8**	**41.4**	**−4%**
Impairments	**–**	**0.1**	**−92%**
Operating profit before tax	**8.7**	**28.3**	**−69%**
Income tax	2.5	8.2	−69%
Net result	**6.2**	**20.1**	**−69%**
Underlying net result	**6.2**	**20.1**	**−69%**

Commission income by type of transaction (€46.7 million)



Merchant Banking is made up of two units: Corporate Finance and Securities, operating under the name Kempen & Co. Corporate Finance is a leading player in its niche markets (Benelux, European real estate, life sciences and now also financial institutions & fintech) in the fields of mergers and acquisitions, capital market deals and debt advisory services. The team provides clients with high-quality, independent advice on the best structure, timing and positioning of transactions they are considering. Our Securities department supplies specialist research reports on listed companies in the same niche markets as Corporate Finance, and provides liquidity to international institutional investors.

In addition to our focus on these niche markets, our independence also sets us apart: Kempen & Co does not finance any companies, thus guaranteeing our objectivity.

All companies to which Corporate Finance provides services are first subjected to screening. Screening based on our ESG criteria also forms an integral part of our stock selection process and our research reports. If a company does not meet these ESG criteria, Kempen & Co engages its management.

Financial institutions & fintech

Our selection of financial institutions & fintech as a new niche market reflects the rapidly developing financial world in the wake of changing regulations and technological innovation. These changes give operators with a technological background an opportunity to acquire a share of the financial services market. This is forcing traditional financial service providers to reinvent themselves, resulting in mergers, acquisitions, investments and disposals, including the sale of non-performing loans (mostly in the real estate segment). We wish to take advantage of this dynamic environment. The focus in fintech is initially on the payments sector, which has seen the fastest changes and now contains a number of mature operators. Other promising segments include technology platforms targeting the insurance industry (insurtech) or operating in the fields of compliance, customer due diligence and anti-money laundering (regtech).

'This rapidly developing niche is crying out for an independent, specialist adviser which is not itself active in this market and which does not hold shares in any market operators. Our independence means that banks can use our services without fear of giving anything away to their competitors. Kempen & Co acts as a linking pin between the demand for and supply of capital.'
Paul Pruijmboom, Managing Director at Kempen Corporate Finance

The rise of fintech and recent IPOs of numerous financial institutions in the Netherlands have also sparked a substantial increase in interest in the financial sector on the part of investors. In response to this, in early 2016 we began writing research reports on listed banks and insurers in the Benelux region.

Corporate Finance

In the first half of the year the Corporate Finance department was confronted with the challenging capital markets, with clients staying firmly on the sidelines especially around the time of the Brexit vote. The most notable impact of this was a reduced volume of capital market transactions compared with the exceptionally strong first half of 2015. The third quarter brought better economic performance and an improvement in sentiment on the capital markets, and Corporate Finance clients took advantage of this improved sentiment to execute capital market transactions.

Our team works for companies, public and semi-public entities and private equity investors for whom sustainability is becoming an increasingly important parameter in their strategic decisions. Every assignment we consider accepting is screened by our Engagement Committee and discussed with the transaction team. The reputation of the client company is also an important criterion in determining whether or not we take on an assignment. We increasingly look not only at the business unit for which we will be executing the transaction, but also at the wider activities of the company as a whole.

Transactions

Our European Real Estate team responded to the flight of savers and investors to real estate, a search for income which continued in 2016. Kempen & Co was active in the European real estate sector as sole bookrunner in the €100 million accelerated bookbuild offering by Germany's ADO Properties in April, nine months after being intensively involved in coordinating the company's IPO. Subsequently we acted as joint bookrunner in its €200 million accelerated bookbuild offering in September. We also participated as joint bookrunner in a comparable transaction by TAG Immobilien and in the capital increases by the Belgian real estate companies Befimmo and WDP. Our M&A team was sole adviser to the German housing association Vonovia in its €3 billion bid for the Austrian real estate operator conwert. This latter transaction was a genuine milestone for the client, both in view of its size and the fact that it was its first major cross-border acquisition in the residential real estate segment.

The Life Sciences team was particularly active, for example assisting in capital increases by Mainstay (Ireland), Probiodrug (Germany) and Biocartis (Belgium), all companies for which Kempen has coordinated IPOs in recent years. The team was also reinforced by the recruitment of a number of highly experienced bankers in this sector.

Our Financial Institutions & Fintech team supported Van Lanschot Chabot in the acquisition of the financial service provider Mandema & Partners from NN Group. We were also part of the syndicate appointed for the sale of Delta Lloyd's stake in Van Lanschot. Our Benelux team was involved in the secondary placement of Boskalis's 15% stake in Fugro and executed a number of transactions for Van Oord.

'As a player in the corporate finance market, our only assets are our people, with their superlative specialist expertise and their relationships with our clients. The best way of standing out from the competition is by ensuring that our staff are relevant for the client day in, day out: that is our licence to operate.'
Jeroen Berns, Managing Director at Kempen Corporate Finance

Securities

The market climate was also challenging for Securities in 2016, partly because of increased volatility. There was a net reduction in our commission income of 25%.

Securities targets the same niches as Corporate Finance, namely the Benelux area, European real estate, life sciences and financial institutions & fintech, but also serves a fifth niche – infrastructure. Launched in 2015, this was successfully developed in 2016 alongside financial institutions & fintech.

In the current climate of persistently low interest rates, in which corporate investments have fallen and the real economy appears to be relatively immune to activity on stock exchanges, we believe that public authorities will begin supporting more infrastructure projects. Countries with a strong infrastructure are best positioned for economic growth, while new investments in the sector immediately translate into more jobs. The same applies for electricity networks, investments in new energy, high-speed trains, and so on. Operating from this principle, our Global Property Research (GPR) team put together a new global infrastructure index, the GPR Pure Infra Index.

As an integral part of its service, Securities takes advantage of technology to provide customised products that are relevant for its clients. In a landscape in which clients can be overwhelmed with information, we consistently opt for a more data-driven approach in which we only give our clients information that is relevant for them.

'Merchant Banking often starts with research; our analysts monitor equities in our selected niches, write reports on them and make recommendations to our clients, i.e. institutional investors. We move from content to flow, where we can act as a broker. In the next stage we are involved in capital market transactions: IPOs, rights issues and other deals. Our research and flow activities demonstrably add value for companies, and our engagement also makes us relevant in capital market transactions.'
Joof Verhees, Executive Board member responsible for Merchant Banking

Structured products

We launched our structured investment products for Asset Management and Private Banking as a means of limiting the potential downside in the present market climate. Our guaranteed products can be useful for Private Banking clients in structuring their investment portfolios and can help them achieve positive returns with a reduced risk profile. In response to calls for more transparency regarding this class of investments, in 2016 we launched the website kempenmarkets.nl to provide clients with detailed information about structured products.

Our service went digital in the year under review with the implementation of a platform for self-built structured products, SC Pro. This is a web-based tool which was originally designed to help Van Lanschot Private Banking advisers develop and price structured products. The tool improves the efficiency of the deal origination process and makes for both better execution and an improved user experience. Our intention is to develop the SC Pro platform further so that qualified end clients will ultimately be able to access it themselves, and put together their own structured products, within certain limits.

Selected Kempen & Co transactions in 2016

European Real Estate

VONOVIA
Public offer for conwert
€2,900,000,000
Sole M&A adviser
December 2016
KEMPEN & CO

WDP
Capital increase with priority allocation rights
€177,717,000
Joint Global Coordinator
Joint Bookrunner
November 2016
KEMPEN & CO

PERRY CAPITAL
Sale of 19% stake in Axiare
€170,741,249
Adviser
Sole manager
October 2016
KEMPEN & CO

hamborner REIT
Rights issue
€166,521,301
Joint Bookrunner
September 2016
KEMPEN & CO

Befimmo
Capital increase with priority allocation rights
€127,256,570
Joint Global Coordinator
Joint Bookrunner
September 2016
KEMPEN & CO

ADO
Accelerated bookbuild offering
€198,800,000
Joint Global Coordinator
Joint Bookrunner
September 2016
KEMPEN & CO

BUWOG group
Convertible bond
€300,000,000
Co-Manager
September 2016
KEMPEN & CO

COIMARES
Initial public offering
€359,500,000
Joint Bookrunner
May 2016
KEMPEN & CO

ADO
Accelerated bookbuild offering
€99,750,000
Sole Bookrunner
April 2016
KEMPEN & CO

TAG Immobilien AG
Placement of treasury shares
€58,250,000
Joint Bookrunner
March 2016
KEMPEN & CO

Life Sciences & Healthcare

BIOCARTIS
Accelerated bookbuild offering
€32,674,282
Joint Bookrunner
November 2016
KEMPEN & CO

transgene
Rights issue
€46,407,514
Joint Bookrunner
November 2016
KEMPEN & CO

probiodrug
Accelerated bookbuild offering
€14,884,960
Sole Global Coordinator
Joint Bookrunner
October 2016
KEMPEN & CO

PHARMING
Acquisition of licence to RUCONEST® in N-America
€60,000,000
Financial adviser to the Supervisory Board
August 2016
KEMPEN & CO

transgene
Strategic study
Adviser
July 2016
KEMPEN & CO

MAINSTAY MEDICAL
Direct share placement
€30,000,022
Financial adviser
Coordinating placement agent
June 2016
KEMPEN & CO

nanobiotix
Private placement
€21,230,900
Sole Bookrunner
March 2016
KEMPEN & CO

Benelux Corporates and Financial Institutions & Fintech

Boskalis
Secondary placement of 15% stake in Fugro
€183,945,231
Joint Bookrunner
December 2016
KEMPEN & CO

LUCAS BOLS
Formation of Passoã joint venture with Rémy Cointreau Group
Adviser
December 2016
KEMPEN & CO

Van Oord Marine ingenuity
Acquisition of Bilfinger's Offshore wind activities
Adviser
July 2016
KEMPEN & CO

Van Lanschot Chabot
Acquisition of Mandema & Partners from NN Group
Adviser
July 2016
KEMPEN & CO

delta lloyd
Secondary placement of 30% stake in Van Lanschot
€198,400,000
Co-Lead Manager
Retail Coordinator
June 2016
KEMPEN & CO

MiFID II

MiFID II comes into effect on 3 January 2018, and is a comprehensive EU Directive governing the provision of securities services. Under MiFID II, investors will have to pay separately for research. This is likely to have an impact on demand for research, and we expect it to lead investors to look more closely at its costs and relevance. Our view is that, alongside the genuinely major players, it will be mainly specialist, boutique service providers such as Kempen & Co which survive, because of their ability to be demonstrably relevant thanks to their in-depth knowledge of niches and their related networks.

Awards

As in previous years, we ended the year under review high in the rankings in the various categories of the Extel Survey, finishing second in Benelux Trading & Execution, taking the number-one slot in European Real Estate based on corporate votes and coming third in this category based on client votes. In addition, several analysts, sales traders and traders secured a top-five position in the individual ranking, three of them at number one. This demonstrates yet again the high level of attention that Kempen Securities devotes to quality, something that is visibly appreciated by both clients and companies.

At the SRP Structured Products & Derivatives Awards 2017, Kempen & Co was honoured as Best Distributor in the Regional category (Netherlands) for the third year in a row, while also scooping an award in the Best Performance category for the second year running.

Van Lanschot Participaties

Moving together towards long-term capital appreciation

Van Lanschot Participaties holds participating interests and is managed by Kempen Investments. Its pursues three types of activity:

1. Acquiring and managing direct minority holdings
2. Managing non-strategic investments
3. Managing interests in private equity funds and other holdings

At year-end 2016, the total portfolio commanded a market value of over €150 million (2015: €110 million).

1. Direct minority holdings

Van Lanschot Participaties focuses on entrepreneurs and owner-directors, both existing Van Lanschot Private Banking clients and entrepreneurs who are potential clients. We offer additional services to this key target group, e.g. providing growth capital, facilitating management buy-outs and acquiring share-holdings from existing shareholders. Van Lanschot Participaties acquires non-controlling interests of between 20% and 50% in unlisted companies, sticking to an investment range of between €5 million and €15 million. These investments come in the form of multiple instruments, from ordinary shares to preference shares and/or loans, subordinated or otherwise. Our portfolio of direct minority holdings comprised 13 companies at 31 December 2016.

Combining minority interests and a long-term investment horizon gives us a distinctive profile in the Dutch private equity market. We select exceptional companies led by successful and driven managers keen to work together on creating value for clients, employees and shareholders.

In 2016, business acquisition prices were high enough for owner-directors to consider a sale or partial sale, but still realistic enough to be profitable for buyers.

Price is not the only aspect informing transactions, and other factors also have their part to play – working in favour of players with distinctive profiles such as Van Lanschot Participaties. As shareholders, we look to make a long-term commitment to companies embarking on the next stage of their growth. Assessing whether the company meets certain environmental, social and governance criteria also forms an integral part of the due diligence we undertake before acquiring an interest in a company.

2016 was a successful investment year in which we added three new minority stakes. In February, we took 43% in Trophy Assets Holding, a European market leader in designing, producing, assembling and distributing sports trophies and related products. On the back of active acquisition policies among other factors, Rijen-based Trophy Assets Holding has staged impressive growth in both sales and results. Working with management, we will continue and where possible accelerate its growth strategy.

In July we acquired 45% in Market Food Group (MFG) in Bunschoten-Spakenburg, the parent company of artisan bakeries such as Bakkerij 't Stoepje and organic boulangerie format Le Perron. MFG was looking for an investor willing to support its growth strategy focusing on healthy and sustainable bread and pastry products, a role that perfectly fits with our investment approach.

In October we became shareholders of Adomex International, an Uithoorn-based wholesale company that has led the global market for decorative greenery and foliage for years: Adomex supplies wholesalers and exporters of flowers, cash & carries, bouquet shops and florists across Europe.

In 2017, we will remain on the lookout for exceptional companies to invest in.

Direct minority holdings[1]

Movares | Ploeger Oxbo Group | Trophy Assets | Marfo | Tecnotion | OGD ict-diensten | Adomex | Ormit | Kraan | Gerco | Quint | TechAccess | Market Food Group

1 Page 198 provides more information on our investments in associates using the equity method.

'Van Lanschot Participaties is about shareholdership for the long haul; we don't aim for a rapid exit. This gives us a chance to truly contribute to the development of a company and implementation of its strategy. We look beyond the quarterly figures and hang in there when the going gets tough. Of course, we invest to make a profit, but putting the company's continuity and growth first means that returns are bound to follow.'
Joost Bakhuizen, Managing Director at Kempen Investments

2. Non-strategic investments

Van Lanschot Participaties also holds a number of companies classed as non-strategic investments. These are typically majority interests arising from debt-for-equity swaps agreed by Van Lanschot. Our aim is to divest our shareholdings in such non-strategic investments over time.

At this point, Van Lanschot Participaties manages three non-strategic interests: AIO II, Holonite and Allshare. AIO II of Breda is the holding company of the Medsen chain of chemists and wholesale chemist Ceban. Van Lanschot Participaties has been a minority shareholder in AIO II since 2009 and had the option to increase its holding to a majority stake. We exercised this option in 2016 and now hold 72%.

Holonite, in which Van Lanschot Participaties holds 90%, makes high-quality composite stone products and finishing elements and is based in Tholen, the Netherlands.

In 2016 we acquired a 97% shareholding in Allshare, which develops software for the financial sector. Based in the Dutch town of Hoofddorp, Allshare is a key supplier to Van Lanschot Kempen. In this context, Van Lanschot initially provided a loan to Allshare, which was partly converted to shares later in the year.

3. Private equity funds and other holdings

A third category of Van Lanschot Participaties activities concerns the management of holdings in private equity funds and other interests.

Van Lanschot Participaties built its portfolio of interests in private equity funds before 2010. As it no longer focuses on investing in such funds, these interests are gradually being wound down.

Non-strategic investments

The people behind Van Lanschot Kempen

Strengthening what's shared, preserving what's unique

An excellent experience for our clients begins with an excellent working environment for our people. Van Lanschot Kempen is a committed employer: our people and our knowledge are our most important capital. We are also a modern employer, and prefer dialogue to complex rules and procedures. We want to approach our people in a way that is fair and personal. In addition to annual performance appraisals, managers and employees keep up a constant dialogue, through which their mutual expectations can be effectively aligned.

Although our people are as diverse as our clients, they share a desire to be challenged and inspired. We respond to this by offering extensive training and development opportunities, alongside good pay and competitive employment conditions. In return, we expect 100% effort and dedication.

More than the sum of our parts

We merged our corporate and support departments last year, aligned workflows and processes more effectively with one another and harmonised our employment conditions for these departments. We now have a single remuneration policy and onboarding process for new employees. As well as integrating our recruitment and appointment policy, we have developed a common screening process for new employees.

Corporate functions at Van Lanschot and Kempen have been aligned more closely, helping us to improve quality and efficiency. Placing teams together enables them to learn from each other. As people increasingly work together it is becoming easier to stream talent between the different business units. Recruiters from both Van Lanschot and Kempen work together to employ new staff, and we use our own employees as ambassadors in the university towns.

It is important to our position in the employment market that, in addition to the overall Van Lanschot Kempen narrative, we also make use of the Van Lanschot, Evi and Kempen brands individually: a private bank known for its personal touch, an online coach to help anyone build their assets, an asset manager for institutional clients and a specialist merchant bank. We look for talent that can contribute to what makes our core activities unique and can strengthen what they share.

Talent approach

It goes without saying that our learning-management infrastructure is compliant with the Financial Supervision Act (Wft). We have also opted to apply the expertise, integrity and competence requirements laid down by the Dutch Securities Institute (DSI) to our investment service. We made good progress in training private bankers in order to attract and retain clients, by offering a broad programme of training, individual coaching and support.

But we do lots more too: we offered Van Lanschot and Kempen executives the 'Balanced Leadership' package from the Comenius training programme – a series of executive courses designed to broaden and deepen their vision of leadership and diversity. Trainees and young professionals are provided with a personal leadership skills programme. Socially responsible business is an increasingly established element of our training, in keeping with the wishes that our clients have expressed in our stakeholder dialogue. In our succession planning, we paid special attention to our 'Generation Next' group of talented and ambitious employees, in whom we identify future leaders.

Diversity

We approach talent *inclusively*: we need all our people's talents, including the ability to work together and bring ideas to the table. Diversity at Van Lanschot Kempen means that we want our people to be just as diverse as the society in which we live. We see different backgrounds as an asset and want to be an organisation in which everyone can flourish and all kinds of people are willing and able to work together.

We want to do better, year by year, in terms of 'visible diversity', such as our age profile and gender balance. And we recognise that we have to take active steps in this regard and to demonstrate their success. We take targeted initiatives, including recruitment events aimed at women, specific attention to recruiting and developing women in our organisation, and encouraging internal diversity networks. We take it as read that an explicitly inclusive corporate culture will enable us, step by step, to achieve an appropriate balance. The fact that the gender balance among our trainees is now roughly 50/50 illustrates our ambitions.

Dealing with change

Private Banking reorganised itself on a regional basis in 2016, pooling all its knowledge and skills at four regional offices. Clients and prospects can talk in person to our people at one of these offices or at client reception sites around the country. We invested considerable time, attention and energy in communicating with our employees about these changes, which inevitably had a certain impact on them. We also provided intensive preparation and guidance for the acquisition of Staalbankiers' private banking activities.

Meanwhile, our clients' wishes are evolving all the time, and all sorts of technological developments are taking place in the financial markets. We encourage our employees to respond to changes proactively and to test the ongoing relevance of their current job at regular intervals, to ensure their long-term employability, whether inside or outside Van Lanschot Kempen.

We also keep our organisation fresh by recruiting new people with knowledge and experience of digitising services. This helps us adapt to changing client needs and integrate the provision of digital and personal services in a smart and professional way. In 2016, in addition to further expanding its Dutch home market, Kempen Capital Management (KCM) focused on responding to international opportunities for growth, particularly in the United Kingdom, Germany and France. This is a crucial move if we are to achieve healthy growth in both our investment funds and our fiduciary services. KCM's set-up has been greatly improved as it is now structured around specific client groups, including family offices, banks, pension funds and insurers. We have spent a great deal of time and attention on our staff and have completed the process with due care, in close consultation with all concerned.

Competition for scarce top talent

Although top talent is thin on the ground, a number of high potentials have chosen to work at Van Lanschot Kempen rather than a bigger bank. They see an opportunity to make a difference at an early stage of their career within a compact and dynamic organisation. Our performance in socially responsible business is another reason for new recruits – millennials in particular – to pick us. We intend to highlight this performance even more strongly to this target group than we do already.

We are working hard to increase our visibility to the relevant target groups and use social media to attract young talent and future trainees to us at an early stage, so that we can go on filling existing and future vacancies. It is equally important that our managers are active on social media. This personal touch is relevant, as recruitment – certainly that of top talent – is increasingly occurring via networks rather than in the traditional way.

> 'We try to be as targeted as possible when placing vacancies rather than just "post and pray", and use both traditional and informal channels. If we correctly identify our target groups, we know where to look when we have a position to fill, and the target groups can see whenever an interesting job with us comes up.'
> ***Dineke Melker**, HRM Director*

Employee engagement

Van Lanschot scored 71% for employee engagement in the 2015 health and engagement survey, 9% more than the 62% average score for corporate Holland. The survey's key objectives were to engage managers and staff on the subject of health and vitality in the workplace and to keep absenteeism as low as possible. We decided not to conduct a new survey in 2016, but to use the existing results as the point of departure for further raising the engagement and vitality of our staff. This was done by discussing the results at team level and by challenging staff at action workshops to make their own contribution to vitality in the workplace and to address their own physical health. Van Lanschot also organised specific workshops and training in areas including lifestyle, vitality and long-term employability, with their outcomes to be charted in the next survey.

A previous engagement survey among Kempen staff prompted the creation of a vitality programme which, following its success in 2016, will be continued in 2017. The programme comprises a varied range of workshops. It encourages employees to increase their mental and physical resilience and supports them as they do so.

Staff	2016	2015
Staff (in FTEs at year-end)	1,670	1,666
Absenteeism (%)	3.9	3.7
Investments in training (x € million)	3.7	4.3
Training hours (total number of hours, individually and collectively)[1]	73,984	82,365
Male/female ratio (%)	63/37	61/39

Number of staff	2016		2015	
	Number	FTEs	Number	FTEs
Van Lanschot	1,086	1,022	1,107	1,041
Van Lanschot Belgium	155	148	150	143
Van Lanschot Switzerland	23	22	24	23
Kempen & Co	500	478	477	458
Total	**1,764**	**1,670**	**1,758**	**1,666**

Staff composition

The number of FTEs employed at Van Lanschot Kempen rose slightly in 2016 by four FTEs to 1,670 (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.

Education and training: hours and investment

In 2016, we once again invested in education and training programmes for our staff, and the last group of employees due to complete their Wft training did so in 2016. The number of training hours fell as most staff had already completed their courses in 2015. The 2016 fall in investments in training to €3.7 million (2015: €4.3 million) was partly down to relatively cheap Wft courses. Individual employees spent an average of 8.5 days on training (2015: 9.9 days).

Absenteeism

The rate of absenteeism moved slightly up in 2016, to 3.9% from 3.7% in 2015. Absenteeism policies and prevention are a continual focus.

Further information on HRM

For more details, see corporate.vanlanschot.nl/responsible/good-employer.

1 Number of training hours for Van Lanschot only.

Risk and capital management

Key risk themes for Van Lanschot Kempen

1. The European Central Bank (ECB) has taken drastic monetary measures to support inflation rates. So far, their impact seems limited, and there has been growing criticism from market participants. Nevertheless, the ECB looks set to continue its programme and interest rates are at historically low levels as a result. Interest rates are generally expected to remain at these low levels for some time, which poses a real challenge for our pricing strategy and management of interest rate risk. Like other banks, we face a significant negative carry on our liquidity buffer, with only limited possibilities to compensate for this. Clients are increasingly opting for new mortgages fixed at lower rates for longer periods, thereby adding to the repricing risk. In 2016, we managed to stabilise our interest margin, but pressures look set to rise if this situation persists. However, the impact for Van Lanschot Kempen is less significant than for most other banks, since the larger part of our results are commission-based.

Actions: The Asset & Liability Committee (ALCO) is devoting extra attention each month to interest rate risks and to managing the duration. Interest rate swaps are used to keep the duration within the targeted ranges. To limit the rise in the liquidity buffer, we make carefully considered choices regarding the composition of our balance sheet, funding sources and pricing strategy. Even more than before, we are performing multiple interest rate (stress) scenarios with horizons of up to two years to assess impact as well as mitigating measures.

2. Technological developments within the financial sector are accelerating at an unprecedented pace. Themes such as big data, apps, blockchain and omnichannel are all hot topics, but at the same time the risk from cybercrime is increasing exponentially. Fintech start-ups are new entrants that use innovative technology and often target one specific segment of the banking services market. It is essential for traditional banks to continue to invest in technological developments while at the same time safeguarding the interests of all stakeholders. Large banks are leveraging their economies of scale to acquire fintech companies, which poses an additional competitive challenge for smaller banks. A strong vision that leads to clear choices and focus is essential for Van Lanschot Kempen.

Actions: In April 2016, we presented Strategy 2020. Key components in this strategy update are our omnichannel proposition and the investment budget allocated to IT and online initiatives. We have set up a comprehensive programme to create an edge for our Private Banking clients. Talented staff will be recruited and we are seeking partnerships with small, innovative technology players in the industry. We are firmly committed to this strategy and this will be one of the key topics on the Executive Board agenda for the next few years.

3. Despite major improvements in the industry and strong capital buffers, new and complex banking regulation is growing steadily. In addition to new and amended regulations from the European Banking Authority (EBA), the Basel Committee has issued additional requirements that will be translated into legislation in 2017. In addition, MiFID II, IFRS9 and resolution planning are on the agenda, and will impact operations and systems. The Single Supervisory Mechanism (SSM) is leading regulators to put even more pressure on bank staff via asset quality reviews, benchmark studies and on-site inspections. The costs of complying with these regulations are high. In many cases, banks such as Van Lanschot Kempen have to meet the same standards as high street banks. Correct and timely implementation is a complex and costly undertaking.

Actions: Senior staff within the Finance, Risk and Compliance departments have a dedicated focus on regulations. For high-impact regulations, we take a multi-disciplined project approach in order to ensure timely implementation and the involvement of stakeholders. Where possible, we look for practical solutions to address proportionality.

Risk management

We have traditionally sought to achieve a solid profile, expressed in transparent risk levels coupled with a robust liquidity and capital position. The risks we run are set out in more detail 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 (see section on risk management from page 95).

In 2016, risk governance was further strengthened. We merged the risk management teams of Van Lanschot and Kempen to improve integrated risk management and create synergies. Overarching risk policies have been integrated and the risk committee structure has been simplified and tailored to the current managerial structure of the group. For credit risk management, we installed new teams close to the businesses to act as a prevention and early intervention layer in case of payment difficulties.

Risk appetite

Every year, we evaluate our risk appetite, which is then communicated in a risk appetite statement containing both qualitative and quantitative elements. The statement is prepared by the Statutory Board and is subject to the Supervisory Board's approval.

Targets and risk limits are more dynamic and may be adjusted from time to time. That said, we do not change the key principles that underlie our risk appetite and that create the firm 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 seriously harm our reputation;
- The 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 are sent to the Risk Committee every quarter. The following simplified version of the risk dashboard at year-end 2016 shows the scores and the risk appetite for each individual risk type. Risk-taking is in the nature of banks; low risks are not a means to an end: it may be appropriate for various reasons to accept a higher risk, either temporarily or for a prolonged period.

	Low	Medium	High
Strategic risk		□ ○	
Credit risk		□ ○	
Market risk	□ ○		
Liquidity risk	□ ○		
Interest rate risk	□	○	
Operational risk		□	○

○ Risk score □ Risk appetite

For more information on risk appetite and the management of the various risks, see Risk management in the financial statements.

Strategic risk

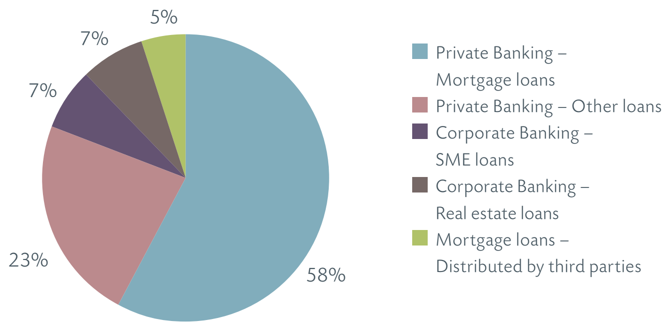
Strategic risk can be defined as the threat to Van Lanschot Kempen's results or continuity resulting from failure to respond adequately to changes in external factors or from incorrect strategic decisions. External factors include the actions of competitors, clients, potential market entrants and public authorities. We use a range of performance indicators – such as growth of assets under management, net result, efficiency ratio and FTE trends – in combination with a more qualitative assessment in order to monitor and control strategic risk. The magnitude and development of this risk type is discussed each quarter by the Executive Board and reported in our risk appetite report. Due to the challenging environment and the phase of strategic transformation that we are in, our strategic risk is currently in the 'medium' range. The SWOT analysis on page 11 shows how we assess our own position and the influence of external factors.

Business risk – a key component of strategic risk – is the risk of lower than expected profits or additional losses due to an inability to adapt fixed costs at the same pace as variable earnings. For Pillar II capital purposes, we use a model that is primarily based on the ratio between fixed and variable costs.

Credit risk

Credit risk is one of the most significant risk types to which a bank is exposed. Our loan portfolio is worth €9.6 billion. More than half of this consists of mortgage loans, primarily to high net-worth individuals.

Loan portfolio, excluding provision (100% = €9.8 billion)



Corporate Banking's corporate loan portfolio, made up of SME (small & medium enterprises) and real estate loans, is being wound down in a careful and coordinated manner, underpinned by improved profitability and client focus as key principles. Winding down this portfolio lowers our risk profile structurally.

Our loan portfolio and credit risk are concentrated in the Netherlands (97%). Lending in Belgium and Switzerland is limited and has a low risk profile.

We have a transparent loan portfolio with manageable risks. Credit quality further improved in 2016. The Dutch economy continued to recover, house prices kept rising and unemployement declined further. These effects fed through to Van Lanschot's loan portfolio with a slight lag. Loan losses decreased further in 2016 and are substantially lower than in previous years.

The risk of concentration in the overall loan portfolio is relatively limited, and eased further in 2016. The ten largest loans to individual counterparties other than financial institutions totalled €272 million at year-end 2016 (2015: €357 million). Approximately 83.4% of all borrowers held loans of less than €10 million at year-end 2016 (year-end 2015: 81.9%). Our policy is to actively reduce the highest limits in order to contain the concentration risk – and its impact on Van Lanschot's result – to the maximum possible extent.

A tighter acceptance process for new loans and disciplined credit management for existing clients ensure the quality of the loan portfolio. Our prevention team analyses client loan and income positions in an automated manner so as to identify potential difficulties at an early stage.

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

Responsible lending policy

Clients and other stakeholders have approached Van Lanschot in recent years with sustainability questions relating to our corporate loan portfolio. These mostly focused on how we prevent our corporate lending activities from having adverse environmental or social impacts. We responded by drawing up a comprehensive responsible lending policy in 2011. This policy, which was also applied in 2016, provides for periodic sustainability screening of all existing and new corporate loans. The number of potentially high-risk borrowers fell from 42 to 27 in 2016, in line with the winding down of the corporate loan portfolio. Van Lanschot is currently talking to these 27 borrowers about specific sustainability risks and how they might be mitigated. For more information on this policy and its results, see our CSR supplement.

A separate policy was formulated a few years ago for assessing the sustainability of financial institutions with which Van Lanschot has a banking relationship (corporate.vanlanschot.nl/responsible/core-banking-activities). This policy is intended to prevent client assets from finding their way – through interbank loans for instance – to institutions with weak or non-existent CSR policies. Van Lanschot challenges financial institutions that have not developed sufficiently visible policies (our engagement approach). One such institution was contacted in 2016 for additional information concerning its sustainability policy, after which we divested.

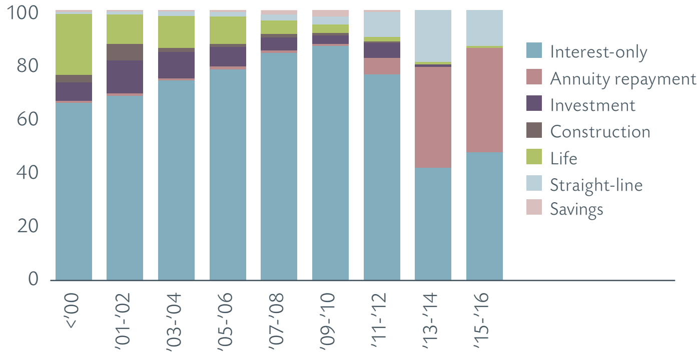
Mortgage loans

Over half of our loan portfolio consists of mortgages, primarily to high net-worth individuals. Our aim is to keep the size of our portfolio stable, so new business should offset prepayments and redemptions. This portfolio differs from that of other Dutch mortgage lenders, for instance, in that the average loan of approximately €450,000 is considerably higher, making our portfolio slightly more sensitive to a fall in underlying house prices.

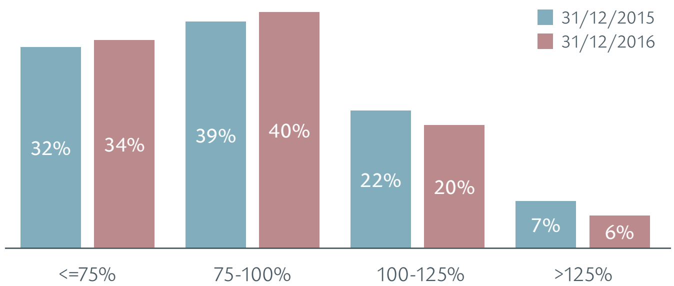
Mortgage loans – Distributed by third parties

In 2015, we started to provide mortgages through a network of intermediaries for reasons of liquidity management, branded as Hypotrust. The aim is to build a portfolio of regular Dutch mortgages to supplement our investment portfolio, enabling us to generate attractive returns on available liquidity. These mortgages are subject to rigorous acceptance criteria and the size of this portfolio amounted to €485 million by year-end 2016. We have set the maximum limit for this portfolio at €600 million, approximately 10% of the Van Lanschot mortgage portfolio.

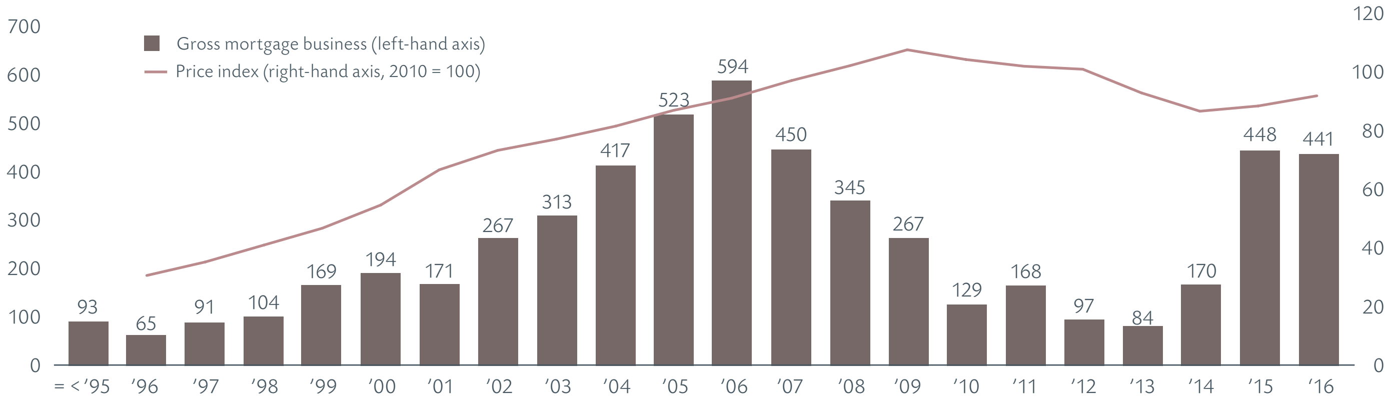
Mortgage loans: total portfolio by type (%)



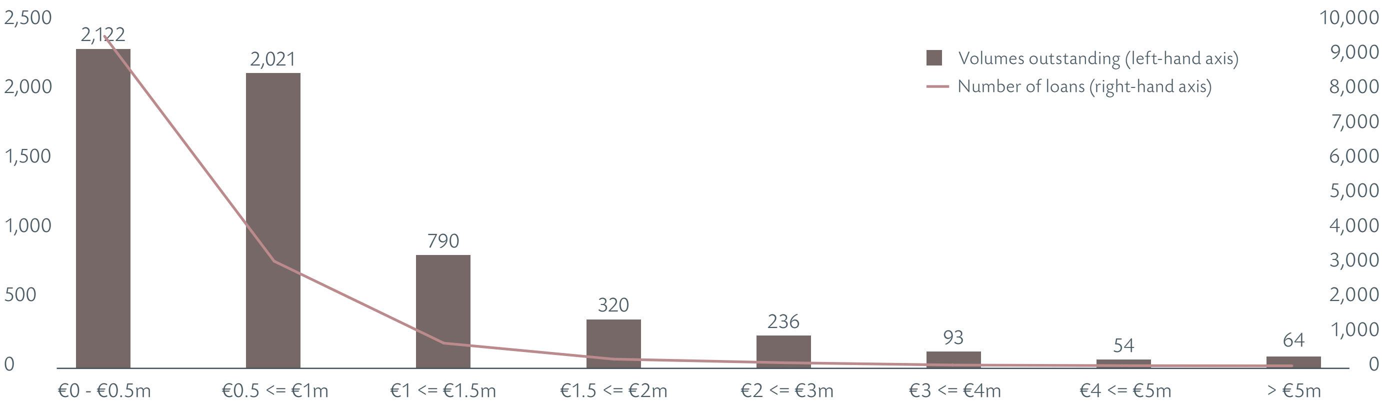
Mortgage loans: loan-to-value



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



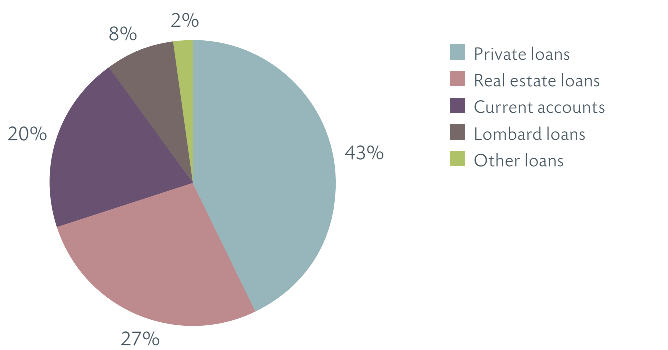
Mortgage loans: outstanding volumes (x € million) and number of loans by size



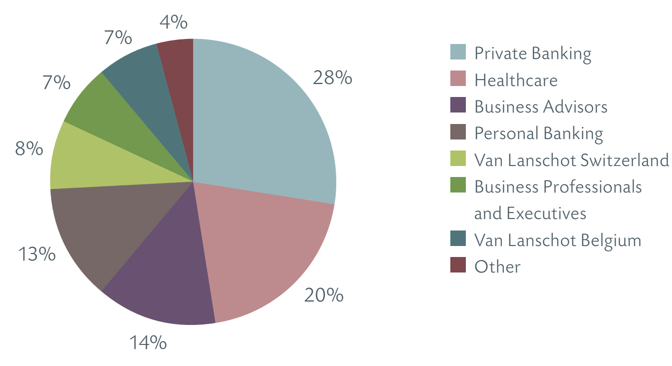
Other Private Banking loans

This part of the loan portfolio consists of loans to high net-worth individuals, in the shape of overdraft facilities or of funding for a second home, for instance. Commercial activities that fit into Private Banking's relationship model, such as funding investments for family businesses, business professionals and executives and healthcare professionals, also belong to this category. Our aim is to keep the size of this portfolio stable. The size of the average loan is approximately €225,000. Depending on the characteristics of a specific loan, an advanced internal ratings-based (A-IRB) approach or a foundation internal ratings-based (F-IRB) approach is used to determine the relevant risk weight.

Other Private Banking loans by type of loans
(€2.2 billion)



Other Private Banking loans by type of clients
(€2.2 billion)



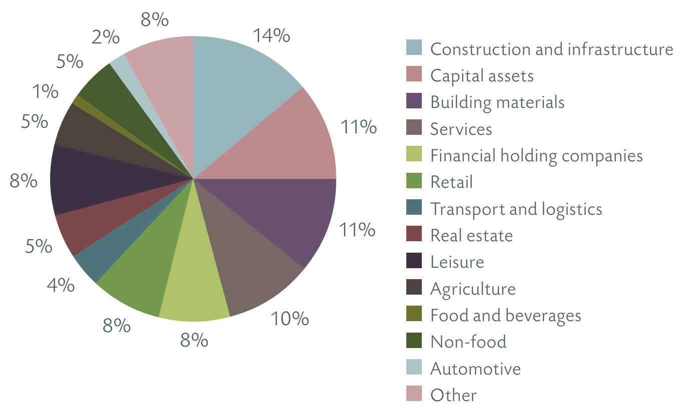
SME credit and real estate loans

In 2016, we continued to wind down our Corporate Banking loan portfolio, made up of SME credit and real estate loans, in line with our strategy. Since 2013, this portfolio has shrunk by more than half, thereby reducing risks significantly. Depending on the characteristics of a specific loan, an advanced internal ratings-based (A-IRB) approach or a foundation internal ratings-based (F-IRB) approach is used to determine the relevant risk weight.

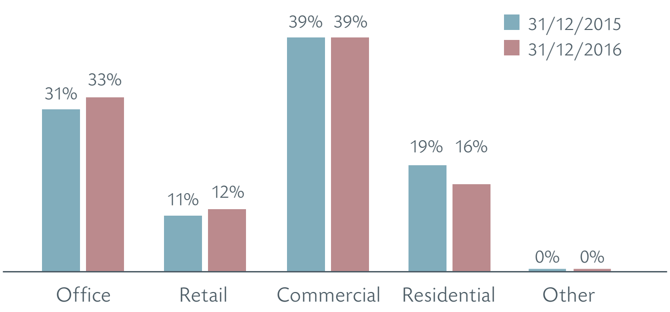
SME credit is well diversified, with no dominant sector. The average loan size amounted to €1.65 million at year-end (year-end 2015: €1.83 million).

Our portfolio of real estate loans is also highly diversified, as it is being wound down across the board and its breakdown has hardly changed as a result. Project development loans account for less than 1% of this portfolio. The average loan size of our real estate loans amounted to €1.79 million at year-end (year-end 2015: €2 million).

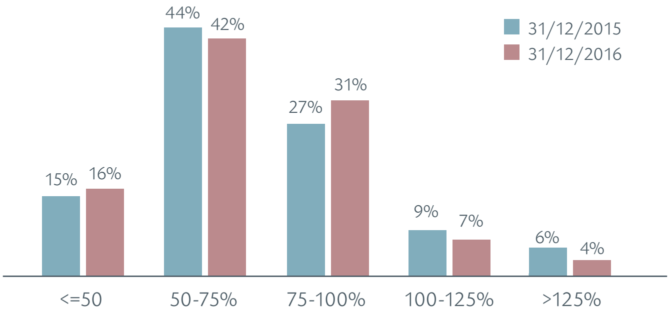
Corporate Banking: SME credit
(100% = €679 million)



Corporate Banking: real estate loans by collateral (100% = € 705 million)



Corporate Banking: real estate loan-to-value (100% = €705 million)



Average LTV ratios improved to 73% (year-end 2015: 74%). Many of our real estate loans are partly based on the quality of the borrower, rather than exclusively on the underlying real estate. 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 2016, 77% of our real estate loans generated a rental income sufficient to cover interest and principal payments, i.e. had a DSCR of over 1 (year-end 2015: 75%). Clients with a DSCR of less than 1 often have other income they can use to service their loan obligations.

Impaired loans

Impaired loans are loans for which a provision has been taken. At year-end 2016, impaired loans accounted for 5.1% of the loan portfolio (year-end 2015: 5.4%). A provision equal to 31% of these loans was taken (2015: 29%). As a result, specific provisions amounted to €155 million (€162 million including those incurred but not reported). In 2016 we realised a €6.9 million release, compared with a significant €51.0 million addition in 2015. Current provisions as well as expected losses have fallen significantly. The teams for preventive and intensive management are now contributing to the reduced inflow into the Restructuring & Recovery department.

Market risk

Van Lanschot Kempen is exposed to a limited degree of market risk through its clients' activities. The bank has no market risk exposure through trading on its own account.

At Merchant Banking, we perform equity and structured product transactions for clients and ensure that the market is liquid, which may result in temporary trading positions. The same applies at Private Banking and Corporate Banking with regard to transactions in interest-related products and foreign currency: temporary positions may arise from our efforts to facilitate our clients. We invest in our own investment funds to support Asset Management, with the aim of aligning our interests with those of our clients. The Risk Management department monitors risks on a daily or weekly basis, depending on the type of market risk.

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

Liquidity risk

Policy and developments

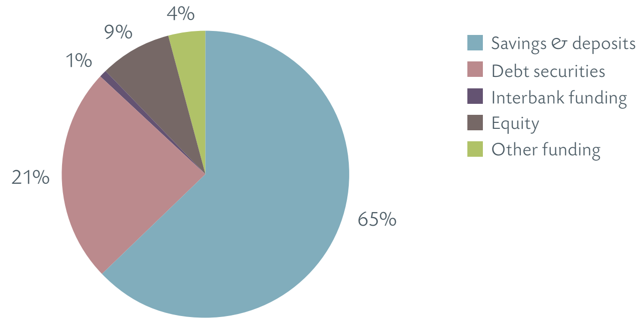
We take a cautious approach to liquidity risk and aim to hold solid liquidity buffers. In 2016 we further optimised our balance sheet, maintaining a robust liquidity buffer in terms of both size and composition that fits our risk profile and appetite. The total liquidity buffer at year-end 2016 amounted to €4.1 billion (2015: €4.1 billion) with a liquidity coverage ratio at 156.6% (2015: 139.5%).

The procedures, processes and reporting associated with liquidity management are combined in our internal liquidity adequacy assessment process (ILAAP), which is assessed by the regulator annually. Our 2016 ILAAP was rated as adequate in both qualitative and quantitative terms. We further refined our liquidity stress scenarios in 2016, with these being discussed by ALCO every month. The outcomes of the stress tests showed that Van Lanschot Kempen is structurally capable of absorbing acute and persistent liquidity stress.

Funding

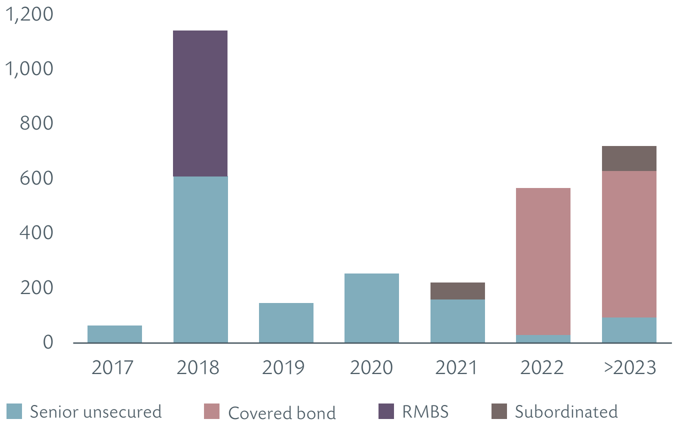
We aim to maintain a balanced funding mix, with adequate diversification in terms of sources, products and maturities. The funding ratio at year-end 2016 was 100.6% (year-end 2015: 94.3%). This means that the loan portfolio is well funded by client savings and deposits. In view of the rising cash levels resulting from our wealth management strategy, we are pursuing a well-considered policy on pricing, according to product and client type. Hence, we will carefully consider our capital market funding needs. In March 2016, we successfully issued another conditional pass-through covered bond with a size of €500 million and a maturity of seven years.

Funding mix (100% = €14.9 billion)



The redemption profile for wholesale funding in the years ahead is as follows:

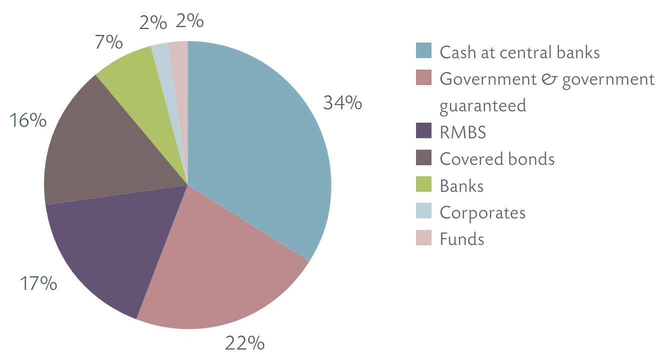
Redemption profile (x € million)



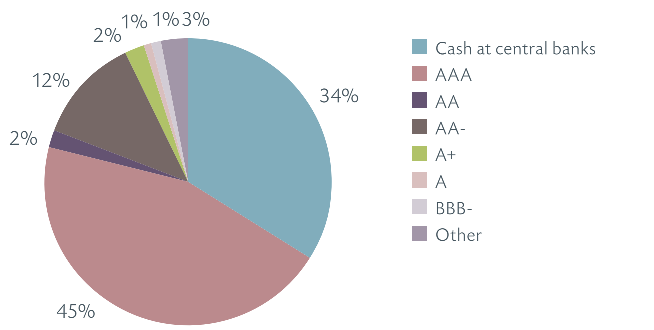
Investment portfolio

Our investment portfolio is maintained primarily for liquidity purposes within the framework of asset and liability management, and consists chiefly of liquid, low-risk instruments. It was worth €3.8 billion at year-end 2016, down from €4.1 billion at year-end 2015. The size and composition of the portfolio in 2016 was relatively stable, with only limited transactions. There are strict limits on types of instrument, counterparties, countries and ratings. Moreover, the liquidity coverage ratio (LCR) requirements are relevant boundaries for this portfolio. ALCO periodically reviews the mandate for the portfolio and the relevant limits.

Investment portfolio and liquidity by counterparty
(100% = €3.8 billion)



Investment portfolio and liquidity by rating
(100% = €3.8 billion)



We review our investment portfolio every year to ensure that it meets our environmental, social and governance criteria. The financial institutions in the portfolio are subject to our policy on corporate social responsibility for financial institutions as outlined above (see Responsible lending policy, page 50). The corporates in the portfolio are assessed for compliance with our policy on responsible investment (see page 37). To date, we have not encountered any sustainability issues in our investment portfolio.

For further information on our liquidity risk, see Section 7, Liquidity risk in the financial statements.

Interest rate risk

In 2016, a continuing decline in interest rates was seen across the board. Swap rates turned negative for maturities of more than five years and a wide range of bonds also returned negative yields. These interest rate movements translated into a further reduction in client rates for both loans and client deposits.

Client preference for long interest rate maturities for mortgages persisted, for newly agreed mortgages as well as for interest rate resets. By December 2016, approximately half of the mortgage portfolio consisted of loans with remaining fixed-rate terms of eight years or over. On the liability side of the balance sheet, client appetite for term deposits has diminished to almost zero, due to historically low rates. Maturing term deposits are mostly rolled over to sight deposits, in anticipation of rising future interest rates. From an interest rate risk perspective, the combination of mortgages with long interest rate maturities, funded to a large extent by floating rate sight deposits, poses new challenges as there is less room to adjust loan rates in the event of rising future funding costs. This risk was partly offset by the issue of a fixed-rate covered bond instrument (€500 million) with a maturity of seven years in March 2016.

Falling yields on new bonds in our relatively large investment portfolio, combined with lower rates on new and repricing loans, inevitably had a negative effect on net interest income. However, this has been mitigated to a large extent by lowering the rates paid on sight deposits. At the beginning of 2016, the psychologically important boundary of 1% was breached, and this was followed by a rapid fall in rates to a level of 0.20% by the end of 2016. If rates continue to fall, it is questionable to what extent a reduction in sight deposit rates could support net interest income. Client rates are approaching the 'natural floor' of zero per cent, limiting the room for additional rate reductions.

This scenario of further declines in market interest rates leading to lower client rates on loans, but with sight deposit rates bottoming at zero per cent, is one of the earnings-at-risk scenarios that we have newly defined for measuring interest rate risk for shorter horizons (< two years). For earnings at risk, we have set a limit at a maximum 10% net interest income loss in the first twelve months. All scenarios remain well within this boundary. Long-term interest rate risk is mainly addressed using the economic value approach, which looks at how movements in interest rates impact on the value of our assets and liabilities. The main metric used in the economic value calculation is duration analysis.

The duration of equity reflects how much its value will change as a result of movements in interest rates. During 2016 ALCO kept the duration of equity relatively low at a range of around four years. In keeping duration within this relatively tight range, ALCO took advantage of the improved functionalities of the interest rate risk management system that was deployed in January 2016. Improved forecasting capabilities allowed for hedging transactions in anticipation of interest rate events.

For more information on interest rate risk, see Section 6, Interest rate risk, in the risk management section of the financial statements.

Operational risk

Operational risks arise from inadequacies or shortcomings in internal processes, people and systems or from external events. To identify and manage operational risks, we have instituted a bank-wide operational risk framework. An essential element in this is the control framework that allows us to test the effectiveness of key control measures in our processes on a regular basis.

We operate our operational risk framework in accordance with the three lines of defence model. This means that the management teams at individual departments and units (the first line) are primarily responsible for managing their specific operational risks. Our Operational Risk Management department (the second line) supports management in this task by actively and independently identifying, measuring, monitoring and controlling operational risks. It also reports on operational risk to senior management on a regular basis. Finally, Group Audit (the third line) monitors whether the activities of the first and second line are effectively mitigating risks. We have also defined an operational risk appetite, which is actively managed. Moreover, we use insurance to cover certain operational risks.

Data management is essential to any bank and the effective protection of data is vital to the success of Van Lanschot Kempen. The rise of online services and cloud applications has led to an increasing dependence on IT systems, while at the same time the threat of cybercrime is growing. For these reasons, our operational risk framework focuses strongly on information security and business continuity. Another key development concerns change management. As we make progress with our strategic transformation, many change projects are running simultaneously. This has resulted in a temporary increase in our operational risk profile.

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

Compliance risk

Our Compliance department helps to ensure that our staff adhere at all times to legislation, internal regulations and our own code of conduct. Non-compliance with legislation may result in significant reputational damage and/or financial losses. The Compliance department plays a key role in safeguarding the integrity of our operations.

Both domestic and international laws continue to increase in volume and complexity. We need to constantly appraise whether our processes and procedures remain compliant with changing laws and regulations.

In 2016, our Compliance department again paid special attention to four issues: our duty of care towards our clients, client due diligence (CDD), privacy and MiFID II. As far as our duty of care is concerned, the department's activities focused mainly on new activities such as our Evi Pensioen pension product and our investment advisory services. Compliance is also involved in the acquisition of Staalbankiers' private banking clients, closely monitoring CDD and duty of care requirements. The need for correct, clear and non-misleading client communication was another focal area, while we have also improved client file processes and accessibility in the CDD arena.

The need to comply with privacy legislation (specifically Wet Bescherming Persoonsgegevens) is an ongoing concern of the Compliance department and has led – among other things – to the appointment of a Privacy Officer. At Van Lanschot Kempen, we do everything in our power to protect client privacy and this vital issue should again be a key focus in 2017, given many pertinent developments, including new privacy legislation.

The introduction of MiFID II, the implementation of which has been postponed to 3 January 2018, is likely to have a major impact on the financial industry, as well as on Van Lanschot Kempen. In 2016, we analysed its impact on business model, operations and systems in as much detail as possible, given that legislation is still in development. We closely monitor all MiFID-related developments and have a group-wide project structure in place to implement any necessary changes.

Van Lanschot has agreed to abide by the derivatives recovery framework to enable the efficient handling of the derivatives issue for SME clients in the Netherlands. Up until 2013, we sold interest rate derivatives to our SME clients as part of our corporate lending as an alternative to fixed-rate loans, observing due care. In terms of both clients and interest rate swaps, the numbers were relatively small and arrangements were typically customised, with only 'plain vanilla' interest rate swaps and caps sold that fitted in with our client lending. Our aim is to make a proposal to affected clients under the recovery framework as 2017 progresses.

There were no major incidents in 2016 resulting from failures to comply with legislation on our duty of care towards our clients, fraud, marketing communications, privacy or any other forms of liability for products or services.

Capital management

Over the course of 2016, we made further progress with our capital strategy. The Common Equity Tier I ratio (phase-in and including net profit retention) increased from 16.3% at year-end 2015 to 19.0% at year-end 2016. The fully loaded Common Equity Tier I ratio stood at 18.6% (2015: 15.4%) and the capital ratio at 20.9% (2015: 17.0%). As in previous years, the reduction in Corporate Banking's loan book exposures was the main contributor to the strong growth in solvency ratios, although in 2016 the ratios also reflected improvement in the underlying credit quality. With a Common Equity Tier I ratio of 19.0%, Van Lanschot Kempen is well ahead of its target range of 15-17%.

Due to the planned reduction in the loan book, we expect the solvency position to strengthen even further. With this excess capital position, Van Lanschot Kempen is entering the next phase of its strategy. Excess capital will be redistributed to shareholders of Van Lanschot NV within the regulatory boundaries that apply.

We pursue a solid capital position and also critically examine the composition of our capital position and funding mix. To this end, we closely track the latest market developments and new regulations. In November 2016, we successfully placed a €50 million Tier 2 capital instrument. This placement further diversifies the capital base and strengthens Van Lanschot Kempen's bail-in buffer, providing more flexibility in our capital strategy. Although the requirements have not been finalised, MREL and TLAC bail-in measures are expected to bring additional requirements. At this point in time, Van Lanschot Kempen almost complies with these expected requirements. In the future, resolution planning measures could increase MREL requirements; we expect more clarity on this in 2017.

Regulator De Nederlandsche Bank (DNB) periodically assesses banking entities through the Supervisory Review and Evaluation Process (SREP) and subsequently sets SREP requirements. For Van Lanschot Kempen, DNB requires a SREP minimum Common Equity Tier I ratio of 14.2%. This requirement aims to cover not only Pillar I risk types but our entire risk profile. Factoring in the changing nature of our balance sheet, DNB has also imposed a capital requirement in nominal terms. This nominal capital requirement is more dynamic and may deviate from the relative SREP requirement. At its current 19.0%, our phase-in Common Equity Tier I ratio well exceeds the SREP requirement at this point.

The Basel III leverage ratio stood at 6.9% at year-end 2016 (year-end 2015: 6.1%), which is high compared with other Dutch banks. The minimum leverage ratio required under Basel III is 3%, but it is not yet clear what the requirement will be for banks in the Netherlands. Our leverage ratio is substantially higher than the minimum, even if the requirement for Dutch banks were to be set at 4%. That said, the run-off of our corporate loan portfolio should contribute to a further gradual upturn in the leverage ratio.

Report of the Supervisory Board

This report contains an overview of the activities of the Supervisory Board and its committees in 2016. A description of the composition and operation of the Supervisory Board is set out in the notes on corporate governance (see page 61).

Supervision

Achievement of corporate targets

In 2016, Van Lanschot Kempen presented an update of its strategy to enhance its position as a focused specialist, independent wealth manager. For the main elements of the 2020 strategy update, please see pages 8-10. The Supervisory Board was closely involved in the formulation of this strategy update and supports the choices made. It has been kept informed regularly on the implementation of the strategy.

Van Lanschot NV's shareholder base was significantly broadened in June with the successful, fully marketed offering of the 30% shareholding held by Delta Lloyd in Van Lanschot NV. This broader shareholder base contributes to greater liquidity in the shares.

As a wealth manager committed to preserving and creating wealth for its clients, Van Lanschot Kempen's focus is on its core activities Private Banking, Evi, Asset Management and Merchant Banking. Private Banking's strategic focus is on technological developments that have a direct impact on its services. A good example in 2016 was the discretionary management app launched as part of the omnichannel service model for clients. The acquisition of Staalbankiers' private banking activities has enabled Private Banking to increase its assets under management and extend its product and service offering to a broader range of clients. Asset Management devoted considerable attention to realising effective cooperation between and integration of the activities in the UK and the Netherlands following the acquisition of MN UK, with the aim of achieving an optimum proposition and service in the field of fiduciary management in the United Kingdom. Merchant Banking faced difficult market conditions in the first six months of 2016. Results improved in the second half and pipeline transactions grew. Evi continued to invest in its expansion by introducing Evi4Kids, tailored pension solutions and targeted investments. We expect Evi to grow its client base consistently over the coming period. The winding-down of the bank's non-core activities is proceeding according to plan and expectations.

Van Lanschot Kempen continued to simplify its processes and governance model in 2016. A decision was taken to end Kempen's banking licence and to apply for a licence as an investment firm. This was implemented on 19 December 2016. Most of the staff departments of Van Lanschot and Kempen & Co were integrated during 2016.

Structure and functioning of internal risk management

Van Lanschot and Kempen's principal risks and the structure and functioning of their risk management and control systems are discussed in the Risk Committee. In 2016, the committee's chairman reported its conclusions and recommendations regularly to the Supervisory Board. The Board concluded that the risk management structure in 2016 was effective and that the risk management and control systems were functioning correctly. The risk appetite statement is subject to the Supervisory Board's annual approval. The statement for 2017 was approved at the Board's December meeting. The 2017-18 capital and funding plan was also discussed and approved.

Financial reporting

Financial reporting is discussed regularly at meetings of the Audit and Compliance Committee, which are also attended by the external auditors. After each meeting, the chairman of the committee reports on committee discussions to the Supervisory Board. All members of the Supervisory Board were invited to attend the meetings of the Audit and Compliance Committee at which the annual and half-year figures were discussed. The Supervisory Board approved the financial statements for 2016.

The Supervisory Board has decided to propose that the General meeting reappoint PricewaterhouseCoopers Accountants NV (PwC) as external auditors for another year.

Legal and regulatory compliance

The quarterly reports of the Compliance department were discussed by the Audit and Compliance Committee. These meetings were also attended by the Director of Compliance. During the meetings of the Supervisory Board there were regular updates on specific projects, such as client due diligence and interest rate derivatives. The Supervisory Board was also informed periodically about the ongoing implementation of new legislation and regulations such as MiFID II.

Relationship with shareholders

Van Lanschot NV's shareholder base was significantly broadened in June with the successful, fully marketed offering of the 30% shareholding held by Delta Lloyd in Van Lanschot NV. The Supervisory Board considers this broadening of the shareholder base a positive development and regards the strong interest and support of the new shareholders as a sign of confidence in Van Lanschot's updated strategy and prospects. The Supervisory Board regularly discussed Van Lanschot NV's relationship with its shareholders, with the General Meeting of Shareholders of Van Lanschot NV serving as an important opportunity for contact. Bilateral engagement with a number of major institutional shareholders and new shareholders also took place throughout the year. The most important topics discussed during these meetings were the general development of Van Lanschot NV and the opportunity to participate in Van Lanschot NV arising from the sale of Delta Lloyd's shareholding.

Relevant aspects of corporate responsibility

The Head of CSR informed the Supervisory Board in October on progress by Van Lanschot Kempen in the area of corporate social responsibility, and on the developments and results in terms of responsible and sustainable investment solutions.

Internal organisation

Composition of the Statutory Board

The composition of the Statutory Board did not change in 2016. From 2015 onwards the Statutory Board has, in principle, been taking its decisions during meetings of the Executive Board. The Executive Board consists of Karl Guha (Chairman), Constant Korthout, Richard Bruens, Paul Gerla, Arjan Huisman and Joof Verhees. Karl Guha's term of office expires in May 2017. The intention is to reappoint Karl Guha after notifying the Annual General Meeting of Shareholders of Van Lanschot NV in May 2017.

Composition of the Supervisory Board

Tom de Swaan resigned as a member of the Supervisory Board in February 2016. Due to his resignation, there is a vacancy in the Supervisory Board. The Supervisory Board has started a recruitment process to fill this vacancy and it is expected that a recommendation to the shareholder to appoint a new member of the Supervisory Board will be made in 2017.

Lex van Overmeire was appointed as a member of the Supervisory Board for a period of four years by the Extraordinary General Meeting of Shareholders on 30 January 2017. According to schedule, Jos Streppel's term of office will expire in May 2017. As this is his final term of office, he will not be available for reappointment. Lex van Overmeire will succeed Jos Streppel as chairman of the Audit and Compliance Committee after his resignation.

Jeanine Helthuis's first term of office will also expire in May 2017. She will be eligible for reappointment for a second term. The profile for the vacancy that will arise when her term expires includes the following criteria: profound knowledge of financial institutions and the products, services and markets in which Van Lanschot and Kempen are active; knowledge and affinity with staff participation; knowledge and experience of HR and IT; active in a permanent position; and preferably female. The Supervisory Board intends to recommend the reappointment of Jeanine Helthuis to the Annual General Meeting of Shareholders to be held on 18 May 2017.

Composition and reporting by committees

Composition

The Supervisory Board has appointed four committees from among its members. The table below shows the composition of these committees. Each committee advises the Supervisory Board and prepares the decision-making by the Board in its designated area of interest. The Supervisory Board remains fully responsible for all decisions.

Audit and Compliance Committee

The Audit and Compliance Committee met five times in 2016. These meetings were attended by a delegation from the Statutory Board. The external auditors and the respective directors of Group Audit, Compliance and Finance, Reporting & Control were also present at the meetings. The composition of the Audit and Compliance Committee remained the same in 2016.

The Audit and Compliance Committee performed a detailed assessment of the annual figures, half-year figures and the information used for the trading updates and the sale of Delta Lloyd's shareholding in Van Lanschot NV. The Committee considered significant financial items in relation to our financial statements and disclosures which are shown in the table on page 58.

Committee composition	Audit and Compliance Committee	Risk Committee	Selection and Appointment Committee	Remuneration Committee
Willy Duron	●	● (Chairman)	● (Chairman)	●
Jos Streppel	● (Chairman)	●	●	
Jeanine Helthuis	●		●	
Bernadette Langius		●		●
Godfried van Lanschot			●	● (Chairman)
Lex van Overmeire	●	●		

Key items for discussion	Audit and Compliance Committee review and conclusion
Impairments of loans and advances to the public and private sectors These impairments consist of two different components: – Impairments for individually identifiable impaired loans (individual items); and – Model-based impairments for incurred but not reported (IBNR) losses. Determining the appropriateness of the individual items and the IBNR losses involves elements of judgement and requires Van Lanschot management to make assumptions.	On the basis of periodically discussed management reports we challenged the completeness and accuracy of the impairments made. We discussed the assumptions made by management used for the collective impairment for IBNR losses. Based on our discussion and considering the acceptable range in the context of estimate uncertainty, we agree with the estimates applied by management in determining the impairments of loans and advances to the public and private sector. The disclosures relating to this item are set out in Note 8 to the financial statements.
Valuation of the deferred tax assets The deferred tax assets relate to the carry-forward losses of Van Lanschot in the Netherlands and Belgium. These losses can only be offset against fiscal profits and are restricted in the number of years they can be carried forward is restricted.	Given the significance of the deferred tax assets, the limited period to carry forward the losses and the dependency on fiscal profits needed to be in a position to recognise such losses, we gave special attention to management's plans to recover the tax assets. We challenged the forecasts containing taxable profits that can be used for compensation. We agree with management's assessment that forecasted profit levels, in conjunction with planned management actions, are sufficient to support the deferred tax assets. See Note 12 to the financial statements for the disclosures of the deferred tax assets and Tax assets and liabilities in the summary of significant accounting principles.
Provision for compensation of SME interest rate derivatives in accordance with the derivatives recovery framework The bank has committed itself to applying the derivatives recovery framework in compensating certain SME clients that have or had interest rate contracts with the bank. Applying the framework is complex and requires judgement.	We were informed in detail by management about the process that the bank has set up to ensure the compensation of clients that are within the scope of the framework. We have considered the assumptions underlying the provision formed for this compensation. Based on our insight and the acceptable range in the context of estimation uncertainty, we agree with the provision recorded by management. See Note 20 to the financial statements for the disclosures of these provisions and Provisions in the summary of significant accounting principles.
Implementation of IFRS 9 In 2014, the International Accounting Standards Board published the IFRS 9 standard replacing IAS 39. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 applies for annual periods beginning on or after 1 January 2018.	Management informed the Audit and Compliance Committee in depth on the progress of the preparations for implementing IFRS 9.

The committee discussed external auditors' reports and the management letter prior to their consideration by the full Supervisory Board. During these discussions, the committee took note of the key audit matters as reported by the auditors: impairment of loans and advances to the public and private sector, the valuation of deferred tax assets, fair value measurement of financial instruments and the provisioning for SME interest rate derivatives. In addition, the committee discussed risks associated with a changing organisation and the impact of these on the IT environment and controls.

The committee also considered the annual plan and reports from Group Audit, the external auditors' audit plan, and the annual plan and reports of the Compliance department. The committee was informed on the contacts with and reports of De Nederlandsche Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). The Audit and Compliance Committee also consulted with the external auditors without the members of the Executive Board being present.

The Audit and Compliance Committee discussed the quarterly reports of Group Audit and Compliance, as part of its evaluation of the quality and effectiveness of the bank's governance, risk management and internal control systems. Group Audit reports present the results of reviews of the risk and control framework, the implementation and functioning of IT systems, the management of the loan portfolio, and the impact of the strategy on the organisation. Quarterly reporting from Compliance covered themes such as client-centricity, investment advice and services, and client due diligence.

Risk Committee

The Risk Committee met three times in 2016. Its meetings were also attended by the CFO/CRO, the directors of the Group Risk Management and the director of Credit Risk and Special Credits.

The committee paid detailed attention to the credit risk, operational risk, market risk and interest rate risk to which the organisation is exposed.

During 2016 the Risk Committee gave special attention to the following topics:

Key items for discussion	Risk Committee review and conclusion
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 judgment 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 Levels 2 and 3 instruments is determined with the use of net present value models, option models or the net asset value of the underlying investment. In addition, for certain Level 3 instruments, the bank 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 the Levels 2 and 3 financial instruments, including the governance around model and assumption changes. 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 Levels 2 and 3 financial instruments.
Reliability and continuity of the IT environment The transition of IT systems is in full swing within Van Lanschot Kempen. Several new and innovative IT solutions have been implemented. At the same time, the bank still operates legacy systems that are of great importance to its operations.	We were informed on the progress made on the major IT projects both at the front-end and in the back-office. In addition, we discussed the potential risks of end-user computing (EUC) and the initiatives taken to reduce the number of EUC-applications.

The quarterly risk appetite reports were discussed by the Risk Committee. 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.

When discussing credit risk, the committee focused specifically on developments in the loan portfolio as a whole, and on trends and developments in the expected loss and loan loss provisions.

The following themes were discussed in the area of operational risk: ongoing implementation of the control framework; the loss database (including currency overhedging in a few client portfolios); and action tracking. Special attention was given to execution risk, data management risk, cyber risk and business continuity risk. Interest rate and market risk developments were discussed based on duration analyses, the development of value at risk, and stress tests.

At the committee's December 2016 meeting, the capital and funding plan for 2017-18 and the bank's risk appetite for 2017 were discussed. Both documents were submitted to the Supervisory Board with a positive recommendation. See corporate.vanlanschot.nl/en/governance ('Banking Code') for the principles on which Van Lanschot Kempen's risk appetite is based.

Selection and Appointment Committee

The Selection and Appointment Committee met once in 2016 to discuss the recruitment and selection process for new members of the Supervisory Board. Thereafter, progress on the selection of new members was discussed during Supervisory Board meetings.

Remuneration Committee

The Remuneration Committee met four times in 2016. The Committee discussed the performance appraisal of the members of the Executive Board in 2015 and their individual targets for 2016. The remuneration policy for Supervisory Board members was reviewed. This resulted in a proposal to adjust the remuneration of the Supervisory Board, which was approved by the Annual General Meeting of Van Lanschot NV in May 2016.

The variable remuneration policy for staff at Van Lanschot and Kempen was also reviewed. The 2015 remuneration report was discussed, as was the 2015 variable remuneration paid to staff of Van Lanschot and Kempen. The amounts available for variable remuneration of Van Lanschot and Kempen staff in 2016 were among the topics discussed at the December meeting.

For more information about the remuneration of the Statutory Board, see pages 66-67. Further details on remuneration can be found on pages 233-236 of the 2016 financial statements.

Assuring supervision quality

Evaluation of the Supervisory Board

The 2016 evaluation of the functioning of the Supervisory Board, its committees and individual members, was carried out using a questionnaire completed by each Board member. Findings were then discussed at the Supervisory Board meeting of 21 December 2016.

The conclusion was that the Supervisory Board is 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 III.3 of the Dutch Corporate Governance Code. As well as reviewing the execution of Van Lanschot Kempen's strategy based on the recent strategic review, in 2017 the Board will also focus specifically on strategy in a broader context. Attention will be paid to the progress made with regard to succession planning.

Education

The members of the Supervisory and Executive Boards took part in the continuing education programme in 2016. Topics covered were capital and funding, privacy, IT (IT governance including change management, cloud computing, data quality and cyber security) and MiFID II. The 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. In the event of a potential conflict of interest with regard to a particular topic, the Supervisory Board member concerned may not participate in discussions or decision-making on that topic. In 2016, there were no potential conflicts of interest for members of the Supervisory Board.

Meetings

The Supervisory Board met with the Executive Board 11 times in 2016. Regular items on the agenda of these meetings included strategy, developments at the various business lines, corporate governance, risk management, IT and operations, results and budget. The Board devoted special attention to the 2020 strategy update. In addition, it discussed the sale of the Delta Lloyd shareholding in Van Lanschot NV, the acquisition of Staalbankiers' private banking activities, the integration of the Van Lanschot and Kempen staff departments and the harmonisation of their employment conditions. In 2016, the Supervisory Board met without the Executive Board nine times. None of the members of the Supervisory Board missed any plenary meetings of the Supervisory Board.

The Supervisory Board received all 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 themes 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.

Contacts with the Works Council

In September, Willy Duron attended the Works Council's meeting with the Executive Board to discuss the general course of business at Van Lanschot Kempen. The consultations with the Works Council were constructive as usual. In addition, Jeanine Helthuis took an introductory meeting with the Works Council in May 2016 in view of the Council's changed composition.

Financial statements

The Supervisory Board has approved the financial statements as audited by PwC. The independent auditors' report can be found on page 239. We invite the Annual General Meeting to adopt the 2016 financial statements as submitted and to discharge the Statutory Board in respect of its conduct of the bank's affairs and the members of the Supervisory Board in respect of their supervision.

In conclusion

The Supervisory Board would like to thank the Executive Board and staff for the manner in which they have continued to give their best efforts under challenging external market conditions, and for the results achieved in 2016.

We would also like to express our appreciation for the open and constructive way in which the Executive Board and staff have worked to achieve integration of the staff departments of Van Lanschot and Kempen.

's-Hertogenbosch, the Netherlands, 30 March 2017

Supervisory Board

Willy Duron, *Chairman*
Jos Streppel, *Deputy Chairman*
Jeanine Helthuis
Bernadette Langius
Godfried van Lanschot
Lex van Overmeire

Corporate governance

F. van Lanschot Bankiers NV is a 100% subsidiary of Van Lanschot NV. The Supervisory Board and the Staturtory Board of F. van Lanschot Bankiers NV also serve as the Supervisory and Statutory Boards of Van Lanschot NV. The key elements of corporate governance at Van Lanschot NV are set out below. The Articles of Association and various other regulations and documents relating to corporate governance can be consulted at corporate.vanlanschot.nl/en/governance.

Corporate governance structure

The Statutory Board and the Supervisory Board are jointly responsible for the governance structure of Van Lanschot NV. Good corporate governance is vital if the goals we have set ourselves are to be achieved efficiently and effectively. It ensures that risks are managed adequately and that proper account is taken of the interests of all stakeholders, including our clients, shareholders and employees.

Van Lanschot 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 NV is a *structuurvennootschap*. Under Dutch corporate law this means it has a two-tier board structure. 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 NV's General Meeting.

Statutory Board

The Statutory Board is responsible for the management of Van Lanschot NV. Its duties include formulating and achieving the bank's mission, its strategy and related risk profile, its goals and the pattern of its results, while also including the social aspects of doing business that are relevant to the company. Van Lanschot NV holds all the shares in F. van Lanschot Bankiers NV (Van Lanschot). The Statutory Board of Van Lanschot NV is also the Statutory Board of Van Lanschot. The Supervisory Board notifies the General Meeting of Van Lanschot NV of any proposed appointment of a member of the Statutory Board. A member is appointed by the Supervisory Board for a maximum period of four years. The Supervisory Board may dismiss a member of the Statutory Board at any time, but only after consulting the General Meeting of Van Lanschot NV.

In strategic decisions the Statutory Board takes all material environmental and social aspects into account. Periodically, the Statutory Board determines the key performance indicators (KPIs) for corporate social responsibility (CSR) at Van Lanschot. Our website has more information on the way CSR is organised at Van Lanschot Kempen (corporate.vanlanschot.nl/responsible/policy).

Composition and performance of the Statutory Board

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 2016 and consisted of Karl Guha (Chairman), Constant Korthout, Richard Bruens and Arjan Huisman.

We aspire to a sufficient degree of diversity in the composition of the Statutory Board. Diversity includes a broad range of aspects such as gender, knowledge, experience, skills and personality. One of our diversity aims is to achieve a reasonable gender balance, with neither the proportion of women nor that of men falling below a minimum of 30%. While this goal is taken into account when drawing up the job description for vacancies on the Statutory Board, the principle is that the most suitable candidate for the vacancy will be appointed. On careful consideration of all relevant selection criteria, a woman has not yet been appointed to the Statutory Board.

The policy governing recruitment and selection of members of the Statutory and Supervisory Boards can be found on our website at corporate.vanlanschot.nl/management-supervision, under Policy on recruitment and selection Van Lanschot Kempen (in Dutch only).

The Supervisory Board discusses the performance of the Statutory Board as a body and that of its members individually, together with the conclusions reached, at least once a year without members of the Statutory Board being present.

The Supervisory Board sets the remuneration and the other conditions of employment for members of the Statutory Board, taking account of the remuneration policy as adopted by the General Meeting. No decisions were taken in 2016 to conclude transactions involving a conflict of interest on the part of members of the Statutory Board that were of material significance to Van Lanschot NV and/or the Board member in question.

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 NV is also the Supervisory Board of Van Lanschot.

The members of the Supervisory Board of Van Lanschot NV are appointed by the General Meeting, in accordance with the rules for the appointment of Supervisory Board members as set out in Article 23 of Van Lanschot NV's Articles of Association. Members of the Supervisory Board are appointed for a term of four years, following which they may be reappointed. A member of the Supervisory Board may serve for a total of twelve years, which is in line with best practice provision III.3.5 of the Dutch Corporate Governance Code. 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, in accordance with Article 161(a) of Book 2 of the Dutch Civil Code. Any such resolution results in the immediate dismissal of the members of the Supervisory Board.

The Supervisory Board of Van Lanschot NV was also the Supervisory Board of Kempen & Co. After Kempen's banking licence ended on 19 December 2016, Kempen's Articles of Association and the regulations governing the company were amended. As a result, Kempen's Supervisory Board ceased to exist and material decisions regarding Kempen now require the approval of Van Lanschot NV's Supervisory Board.

Composition and performance of the Supervisory Board and its committees

The Supervisory Board has at least three members and a maximum of nine. The actual number of members is determined by the Board itself and is currently set at six. Jos Streppel will step down at the end of the General Meeting to be held in May 2017. At that time he will have served for a total of twelve years as a member of the Supervisory Board. Lex van Overmeire was appointed as a member of the Supervisory Board on 30 January 2017. He will replace Jos Streppel as Chairman of the Audit and Compliance Committee on the day Jos Streppel steps down as a member of the Supervisory Board.

The Supervisory Board has drawn up a profile[1] for its size and composition, taking into account the nature of the business of Van Lanschot Kempen and its subsidiaries, and the required expertise and background of the members of the Supervisory Board. The profile also includes relevant diversity aspects.

The profile for the Supervisory Board states that a balanced distribution of seats should be sought, as far as possible, between male and female members of the Supervisory Board. The aim is to achieve a reasonable gender balance on the Board, with neither the proportion of women nor that of men falling below a minimum of 30%. Currently, two women and four men serve on the Supervisory Board, which means this aim has been met.

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 pages 57-59 of the report of the Supervisory Board.

The Supervisory Board appraises its own performance, that of its committees and that of individual members of the Supervisory Board, together with the conclusions reached, 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 can be found in the report of the Supervisory Board on pages 59-60.

1 The profile can be viewed at corporate.vanlanschot.nl/management-supervision.

2 The Banking Code can be downloaded from www.nvb.nl.

The remuneration of the members of the Supervisory Board is set by the General Meeting of Shareholders of Van Lanschot NV. For more information about remuneration, turn to page 67 of the Remuneration section.

Executive Board

An Executive Board was installed at Van Lanschot in 2015, comprising the members of the Statutory Board of Van Lanschot NV and the members of the Management Board of Kempen & Co (Kempen). As a result, the CEO, CFO/CRO, COO and those with responsibility for the three core activities of the bank have seats on the Executive Board. The Executive Board oversees the implementation of strategy and manages the four core activities, thus ensuring their efficiency. The members of the Van Lanschot NV Statutory Board have ultimate responsibility for the actions and decisions of the Executive Board.

The members of the Executive Board who are not members of the Statutory Board are appointed and can be suspended or dismissed by the Statutory Board subject to the approval of the Supervisory Board. The Supervisory Board is involved in the recruitment and selection of members of the Executive Board who are not members of the Statutory Board in the same way as in the recruitment and selection of members of the Statutory Board.

Dutch Banking Code

The updated Banking Code[2] came into effect on 1 January 2015, superseding the original Code which had been in force since 1 January 2010. The Banking Code 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 which hold a banking licence issued by De Nederlandsche Bank (DNB). It therefore applies to Van Lanschot, the subsidiary of Van Lanschot 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 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 NV.

Application of the Banking Code

Dutch banks report on their websites how they have applied the Banking Code in the past year. Where applicable, a bank explains why it has not (fully) applied a principle from the Code (comply or explain). Van Lanschot complies with the Banking Code.

It partly applies the principle that the total income of a member of the Statutory Board should, at the time when it is decided, be below the median level for comparable positions in the relevant markets both inside and outside the financial sector. When the remuneration policy for the Statutory Board was adopted by the General Meeting of Van Lanschot NV on 13 May 2015, the total remuneration of the Chairman of the Statutory Board was equal to the median level for comparable positions within the financial sector and below the median level for comparable positions outside the financial sector.

The total remuneration of the other members of the Statutory Board is below the median level for comparable positions both inside and outside the financial sector. In view of the fact that the members of the Statutory Board only receive fixed remuneration and that a relatively high proportion of their remuneration is paid in the form of shares placing greater emphasis on the long term, the Supervisory Board believes that it is fair not to apply this principle fully for the Chairman of the Statutory Board. The other principles of the Banking Code are applied by Van Lanschot in full.

An explanation (in Dutch) of how Van Lanschot Bankiers has applied the Banking Code in the past year is given on our website at corporate.vanlanschot.nl/en/governance.

Capital structure and shares

F. van Lanschot Bankiers' authorised share capital consists of 1,000,000 shares with a nominal value of €100 each. A total of 400,000 shares were in issue at 31 December 2016. The outstanding capital was unchanged compared to the figure at 31 December 2015.

Main features of Van Lanschot's management and control system

Van Lanschot's management and control system is designed to manage internal and external risks. This includes the management of financial reporting risks, so as 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 applies the three lines of defence model for the management of risk. The first line of defence in this model is the business responsible for day-to-day risk management. The second line of defence is provided by departments such as Group Risk Management and Compliance which oversee the functioning of the first line. Group Audit acts as the third line of defence, providing an independent opinion on the adequacy of the internal management and control system.

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.

In 2016 Van Lanschot has strengthened its risk culture by enhancing its three lines of defence model; responsibilities were more clearly assigned and the monitoring of the effectiveness of key controls (as part of the risk & control framework) was improved.

Van Lanschot is an organisation in transition; in 2016 the risk & control framework was kept attuned with these transitions in the organisation.

The effectiveness of the framework is evaluated yearly by Group Risk Management and Compliance, while Group Audit has also assessed its quality and effectiveness. The results of these evaluations featured in the respective quarterly reports of Group Risk Management, Compliance and Group Audit.

The financial statements include a more detailed explanation of risk management at Van Lanschot (see 'Risk management', beginning on page 95).

External auditors

At the Annual General Meeting of Shareholders of 13 May 2015, PwC were appointed as Van Lanschot's external auditors with effect from the 2016 financial year. PwC's audit plan and risk analysis were discussed in March 2016 at the meetings of the Statutory Board and the Audit and Compliance Committee.

PwC issued a 2016 management letter in December 2016, and a board report for 2016 in March 2017. The subjects set out in the management letter and the board report are in line with the notes included in this annual report with respect to risk management, in so far as these related to financial reporting risks.

The Statutory Board and the Audit and Compliance Committee evaluated the functioning of PwC in December 2016. A result of this evaluation is the proposal to the General Meeting to appoint PwC as external auditors for another year.

Financial reporting risk

The Statutory Board is responsible for the design and operation of an adequate system of internal control for Van Lanschot'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 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 Group Audit. 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 by the Supervisory Board;
- The Van Lanschot Accounting Manual, which sets out the principles with respect to financial accounting.

The Statutory Board states with reasonable assurance that the internal risk management and control systems for financial reporting have functioned at an adequate level and that Van Lanschot's financial reporting is free of material misstatement. The Statutory Board bases this statement on an analysis of the financial reporting risks and in-control statements provided by the management of the relevant departments. These were 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. Group Risk Management and Compliance evaluated these in-control statements.

The quarterly reports of Group Audit, setting out its main findings, were discussed in the Audit and Compliance Committee, which subsequently summarised its conclusions and shared these with the Supervisory Board.

Group Audit is responsible for carrying out IT and operational audits. It performed 72 audits in 2016. All of Group Audit's reports were submitted to the Statutory Board. Group Audit, Compliance and Group Risk Management ensure adequate follow-up and prioritisation. Supplementary control measures have been defined in the meantime, which ought to mitigate risk sufficiently.

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 arise from, among other matters, the management letter and the audit by the external auditors.

The key audit elements 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.

Investor relations policy

Our investor relations policy is designed to provide current and potential shareholders and bondholders, rating agencies and research analysts with accurate and timely information concerning developments within the 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 our annual and half-year results. No meetings are held with shareholders or analysts during this period. Van Lanschot also publishes its policies on investor relations and (bilateral) contacts with shareholders at corporate.vanlanschot.nl/investorrelationspolicy.

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

Investors and advisers with questions are welcome to contact the Investor Relations department by telephone on +31 20 354 45 90 or by email at investorrelations@vanlanschot.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 his knowledge:

– The 2016 financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of F. van Lanschot Bankiers NV and its consolidated entities; and
– The 2016 Report of the Statutory Board of F. van Lanschot Bankiers 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 2016 financial year, and describes the material risks that F. van Lanschot Bankiers NV faces.

's-Hertogenbosch, the Netherlands, 30 March 2017

Statutory Board

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

Remuneration

Introduction
Our people and our knowledge are our most important capital. We want our employees to offer our clients a high level of quality and service, so we pay considerable attention to training and development and offer our employees a competitive employment package.

Remuneration policy governance
The Statutory Board sets the remuneration policy for employees, based on the advice of the Human Resource Management (HRM), Finance, Reporting & Control, Group Risk Management and Compliance departments. These, together with Group Audit, also 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 our remuneration policy. The Supervisory Board approves variable pay policy, including its general principles, and oversees its implementation. Approval by the Supervisory Board is also required for our variable pay pools, any significant individual pay and individual variable pay 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.

Fixed pay
Employees' fixed pay reflects their relevant working experience and organisational responsibilities.

Variable pay policy for Van Lanschot Kempen employees
Van Lanschot Kempen has variable pay policies in place governing all employees of F. van Lanschot Bankiers (Van Lanschot) and Kempen & Co (Kempen), and based on the principle that outperformance is rewarded. It ought to be possible to reward employees who distinguish themselves through their performance. According to this principle, every employee can be considered for a variable pay award.

Based on operating results, the Statutory and Executive Boards determine whether variable pay will be awarded and what amount is available, taking into account factors including achievement of financial and non-financial performance criteria. The boards submit the proposed amount for the variable pay pool for the approval of the Supervisory Board, and any deviations also require Supervisory Board approval.

Once the amount available for variable pay at Van Lanschot and Kempen has been determined, the Statutory Board decides how this variable pay will be distributed at Van Lanschot, while Kempen's Management Board decides on its distribution at Kempen.

The average variable pay of all employees of Van Lanschot and Kempen who work (largely) in the Netherlands may not exceed 20% of their fixed pay. Variable pay of up to 100% of fixed pay may be granted on special grounds in individual situations. This only applies to a small number of employees.

Award
Variable pay to individual employees is awarded on the basis of individual performance, market competitiveness and special factors. An employee's personal performance is assessed on quantitative (i.e. financial) and qualitative (non-financial) performance criteria, with some departments applying only qualitative criteria. At least 50% of any variable remuneration is based on non-financial criteria.

Individual performance is measured based on the degree to which employees have achieved targets set at the beginning of the year. Performance criteria include nothing that might encourage irresponsible risk-taking.

Variable pay is only awarded if (i) Van Lanschot Kempen's financial position allows; (ii) it is justified by the performance of Van Lanschot Kempen, the relevant business unit and the individual employee; (iii) 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; (iv) the risks taken have been reassessed and no material risks have occurred that were not expected or factored in; (v) 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 profile.

Payment
Variable pay can be paid to employees entirely in cash up to a gross maximum of €50,000. If it exceeds this amount, 50% of the portion above the gross figure of €50,000 is paid immediately and unconditionally and the remaining 50% conditionally and on a deferred basis over a period of three years following the year in which it was awarded.

The Statutory Board may, with the approval of the Supervisory Board, claw back all or part of the:
- Conditional variable pay previously awarded to an employee (or former employee) if payment of the variable pay would be considered unfair or unreasonable ('malus'); and
- Variable pay previously paid to an employee (or former employee). This might occur, for instance, if payment was based on incorrect information about achievements or about the conditions on which the variable pay depended.
  If payment has taken place on the basis of such incorrect information, or has been made in conflict with the variable remuneration policy and/or applicable legislation and regulations, the Statutory Board will exercise its authority in this respect.

Long-term share plan

The 2015 long-term share plan (LTP) allows Van Lanschot Kempen to award variable remuneration to certain key employees, including identified staff. The plan is not open to members of the Statutory or Executive Boards. Offering variable remuneration in the form of depositary receipts for Class A Van Lanschot NV shares ('Van Lanschot shares'), the LTP is governed by our variable remuneration policy, except where the LTP rules depart from this. Under the LTP, 60% of the Van Lanschot shares are awarded immediately and unconditionally, while 40% are awarded conditionally over a period of three years starting in the year after the year of conditional award (the vesting period).

Remuneration policy for identified staff of Van Lanschot Kempen

Identified staff are employees whose duties have a material influence on the risk profile of the business. Strict additional rules apply to the variable remuneration of this group of employees.

The identified staff remuneration policy applies to all identified staff of Van Lanschot Kempen. Members of the Statutory and Executive Boards are not eligible for variable remuneration.

The principles of the variable remuneration policy for identified staff are the same as for the variable remuneration policy of Van Lanschot Kempen. The variable remuneration of identified staff is paid 50% in cash and 50% in Van Lanschot shares, while the variable pay of identified staff of Kempen Capital Management NV (KCM) is paid 50% in cash and 50% in a flexible mix of Van Lanschot shares and investments in funds managed by KCM. In all cases, 60% of both parts of the variable remuneration is awarded immediately and unconditionally, and 40% conditionally and deferred. Once it becomes unconditional, this deferred remuneration is then paid out over a period of three years following the year of award. Whether an award becomes unconditional depends on reassessment of a number of predetermined criteria. If this reassessment leads to a review of the deferred remuneration, a malus penalty system is applied. A lock-up period of one year applies to Van Lanschot shares that have become unconditional.

More information about our remuneration policy for identified staff can be found at corporate.vanlanschot.nl/remuneration policies.

Statutory Board remuneration policy

The remuneration policy for members of Van Lanschot's Statutory Board is adopted by the General Meeting of Van Lanschot NV following a proposal by the Supervisory Board. The policy is aimed at ensuring a balanced, sustainable and competitive remuneration package. When adopting the Statutory Board remuneration package, we consider pay ratios within the company and use a Hay Group analysis model.

We ended all variable remuneration for the Statutory Board in 2015. As partial compensation, a fixed remuneration component was awarded in the form of Van Lanschot shares with a lock-up period of three years.

The share ownership guidelines also stipulate that Van Lanschot shares held by Statutory Board members must be equivalent to the cash portion of two years' gross salary for as long as they remain in office. Statutory Board members will gradually meet this requirement over the years through the award of fixed remuneration in the form of Van Lanschot shares.

This remuneration policy will be reviewed in 2017 in the light of developments and circumstances at that time. The General Meeting of Van Lanschot NV granted permission to the Supervisory Board to adjust the fixed salary of Statutory Board members if the outcome of this evaluation shows this to be necessary.

Benchmarking

In 2014, Hay Group carried out a comparison of pay levels in the Dutch financial sector and Dutch industry in general (cross-industry benchmark), as well as in the European private banking market.

The total remuneration of the Chairman of the Statutory Board came out of this exercise as being equal to the median level for comparable positions within the financial sector and below the median level for comparable positions outside the financial sector. The total remuneration of the other members of the Statutory Board was below the median level for comparable positions both inside and outside the financial sector.

For information on the composition of the reference groups used for the market comparison of Statutory Board remuneration, please refer to corporate.vanlanschot.nl/remunerationpolicies. This information is an integral part of the remuneration section.

Statutory Board remuneration package

The following table shows the remuneration package for members of the Statutory Board. There are no early retirement schemes for Board members. Their severance pay is in line with current statutory and regulatory rules and amounts to one year's gross salary.

Members of the Statutory Board receive a fixed gross salary including holiday pay. Part of this salary is paid in cash in 12 equal monthly instalments. The remainder is paid as a single award in the form of Van Lanschot shares, with the proviso that Statutory Board members will receive the net equivalent in Van Lanschot shares and that Van Lanschot will pay the income tax due on their behalf (sell to cover). The salary of the Chairman of the Statutory Board amounts to €975,000 (comprising €750,000 in cash and €225,000 in the form of Van Lanschot shares).

Statutory Board remuneration package	Type of payment	Purpose/rationale
Fixed income	Cash	Reflects responsibilities, performance and market trends
Fixed income	Van Lanschot shares	Achievement of long-term strategy
Benefits	Payment towards pension and disability insurance, reimbursement of fixed expenses	Market competitiveness

The other members of the Statutory Board receive a salary of €625,000 (€425,000 in cash and €200,000 in Van Lanschot shares). A lock-up period of three years after transfer applies for Van Lanschot shares awarded as part of gross salary, or longer if needed to enable an individual member of the Statutory Board to comply with the share ownership guidelines. The number of Van Lanschot shares to be awarded as part of gross salary each year is determined on the basis of the weighted average price of the share over the first four trading days in January of the year to which the salary relates.

For more information on shares and options granted, see remuneration of the Statutory and Supervisory Boards on pages 233-236 of the 2016 financial statements.

Benefits

The members of the Statutory Board are responsible for their own pension provision, towards which they receive a payment. They also receive a payment for taking out disability insurance. These payments are calculated as a percentage of their fixed annual salary: 20% for the Chairman and 21% for the other members. The payment for disability insurance amounts to 2.45% of the fixed annual salary of the Chairman and 2.59% of the salary of the other Statutory Board members. Members receive a net payment to cover expenses amounting to €5,160 per person per year.

Supervisory Board remuneration policy

The remuneration policy of the Supervisory Board was reviewed and a proposal for a new policy was approved by the Annual General Meeting of Van Lanschot NV on 19 May 2016. The new policy became effective as of 1 January 2016. The following table summarises the remuneration and expenses paid to members of the Supervisory Board.

	Chairman	Deputy Chairman	Member
Supervisory Board membership fee	€75,000	€60,000	€50,000
Audit and Compliance Committee	€15,000		€10,000
Risk Committee	€12,000		€8,000
Remuneration Committee	€6,000		€4,000
Selection and Appointment Committee	€6,000		€4,000
Expenses	€2,500	€2,500	€2,500

Remuneration in 2016

Employees' variable remuneration

Variable remuneration totalling €13.8 million was paid to employees (including identified staff) of Van Lanschot Kempen.

Highest remuneration

One person employed by Van Lanschot received total annual remuneration of over €1 million in 2016.

Remuneration of the Statutory Board

The table below shows the remuneration and other payments received by members of the Statutory Board in 2016 and 2015.

Remuneration of the Supervisory Board

The amounts paid to the members of the Supervisory Board in 2016 and 2015 are shown in the following table. In addition, members receive annual expenses of €2,500.

Remuneration of Statutory Board (€)	2016							2015						
	Total fixed salary	Cash	Van Lanschot shares	Payment for pension	Payment for disability insurance	Expenses	Miscell-aneous	Total fixed salary	Cash	Van Lanschot shares	Payment for pension	Payment for disability insurance	Expenses	Miscell-aneous
Karl Guha	975,000	750,000	225,000	195,000	23,888	5,160	7,000	975,000	750,000	225,000	195,000	23,888	5,160	
Constant Korthout	625,000	425,000	200,000	131,250	16,188	5,160	7,000	625,000	425,000	200,000	131,250	16,188	5,160	
Richard Bruens	625,000	425,000	200,000	131,250	16,188	5,160		625,000	425,000	200,000	131,250	16,188	5,160	
Arjan Huisman	625,000	425,000	200,000	131,250	16,188	5,160		625,000	425,000	200,000	131,250	16,188	5,160	

Remuneration of Supervisory Board[1] (€)	2016			2015		
	Membership fee	Committee fees	Total	Membership fee	Committee fees	Total
Willy Duron (Chairman)[2]	75,000	32,000	**107,000**	45,000	17,500	**62,500**
Jos Streppel (Deputy Chairman)	60,000	27,000	**87,000**	50,000	20,500	**70,500**
Jeanine Helthuis	50,000	14,000	**64,000**	45,000	10,500	**55,500**
Bernadette Langius[3]	50,000	12,000	**62,000**	30,000	6,667	**36,667**
Godfried van Lanschot	50,000	10,000	**60,000**	45,000	13,500	**58,500**
Tom de Swaan[4]	7,500	667	**8,167**	60,000	6,000	**66,000**
Heleen Kersten[5]				18,750	3,125	**21,875**

1 Some figures have been rounded to the nearest thousand.

2 Willy Duron took over the chair from Tom de Swaan on 18 December 2015. Tom de Swaan was compensated in 2015 as Chairman of the Supervisory Board, and Willy Duron as a member of the Supervisory Board.

3 Bernadette Langius was appointed to the Supervisory Board on 13 May 2015.

4 Tom de Swaan stepped down from the Supervisory Board on 25 February 2016.

5 Heleen Kersten stepped down from the Supervisory Board on 13 May 2015.

Personal details of members of the Executive Board

Karl Guha
Chairman of the Statutory Board of Van Lanschot NV/F. van Lanschot Bankiers NV

Born
1964, male

Nationality
Dutch

Appointed
2 January 2013

Areas of responsibility
Evi, Corporate Banking, Company Secretariat/Legal, Strategy & Corporate Development, Human Resource Management, Communications, Compliance, Group Audit, Van Lanschot Belgium

Significant supervisory board memberships and board positions
Karl Guha fulfils a total of two board and supervisory roles.

Background
1989 – ABN AMRO: Positions in Structured Finance, Treasury, Capital Management, Investor Relations, Risk Management and Asset & Liability Management
2009 – 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

Constant Korthout
Member of the Statutory Board, CFO/CRO of Van Lanschot NV/F. van Lanschot Bankiers NV/CFO Kempen & Co NV

Born
1962, male

Nationality
Dutch

Appointed
27 October 2010

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

Significant supervisory board memberships and board positions
Deputy Chairman of the Supervisory Board of Franciscus Gasthuis & Vlietland. Constant Korthout fulfils a total of five board and supervisory roles.

Background
1985 – ABN AMRO: Management trainee, senior account manager corporate clients
1990 – KPMG Management Consultants
1992 – Robeco: Group Controller, CFO and member of the Executive Board of Weiss, Peck & Greer in New York, and Corporate Development director
2002 – Robeco: CFO, including Risk Management, Treasury and Corporate Development

Arjan Huisman
Member of the Statutory Board, Chief Operating Officer of Van Lanschot NV/F. van Lanschot Bankiers NV

Born
1971, male

Nationality
Dutch

Appointed
6 May 2010

Areas of responsibility
Group IT, Service Centres: Securities, Data Management, Procurement, Contract Management & Facilities

Significant supervisory board memberships and board positions
Member of the Supervisory Board of Van Lanschot Chabot Holding BV. Arjan Huisman fulfils a total of four board and supervisory roles.

Background
1995 – Various consulting positions within BCG Amsterdam and Boston offices, with a strong focus on the financial services practice
2004 – Partner, Managing Director and Head of BCG Prague office, responsible for client service and support of a number of financial services clients in Central and Eastern Europe in areas including strategy and operations
2008 – Partner and Managing Director of BCG Amsterdam office, responsible for advising a group of Dutch financial institutions on strategy and operations

Richard Bruens
Member of the Statutory Board of Van Lanschot NV/F. van Lanschot Bankiers NV

Born
1967, male

Nationality
Dutch

Appointed
15 May 2014

Areas of responsibility
Private Banking, Digital & Innovation, Van Lanschot Marketing, Corporate Social Responsibility, Van Lanschot Switzerland

Significant supervisory board memberships and board positions
Member of the Supervisory Board of Van Lanschot Chabot Holding BV. Richard Bruens fulfils a total of four board and supervisory roles.

Background
1991 – ABN AMRO: Various managerial positions in the Global Markets division, Managing Director of Investor Relations
2007 – Renaissance Capital: Member of Group Managing Board, responsible for strategy, investor relations and communications
2010 – ABN AMRO: Global Head Product & Private Wealth Management at ABN AMRO Private Banking International

Paul Gerla
Chairman of the Management Board of Kempen & Co NV

Born
1966, male

Nationality
Dutch

Appointed
1 January 2009,
Chairman since 9 March 2015

Areas of responsibility
Asset Management, Kempen Corporate & Legal Affairs, Kempen Communications & Marketing

Significant supervisory board memberships and board positions
Member of the Supervisory Board and Chairman of the Audit Committee of Spaarne Gasthuis in Haarlem, Member of the Board of Governors of Holland Festival. Paul Gerla fulfils a total of three board and supervisory roles.

Background
1988 – Shell: Shell Pension Fund, Finance Director at Shell Malaysia, Controller at Shell Exploration & Production Asia Pacific
2004 – Kempen Capital Management, Managing Director

Joof Verhees
Member of the Management Board of Kempen & Co NV

Born
1960, male

Nationality
Dutch

Appointed
1 January 2009

Areas of responsibility
Merchant Banking (Corporate Finance, Equity Capital Markets, Securities, Investments)

Significant supervisory board memberships and board positions
Joof Verhees fulfils one board and supervisory role.

Background
1982 – ING Bank
1990 – Paribas Capital Markets' London office, senior trader
1993 – ABN AMRO: Senior Vice President, Head of European Trading in London
1996 – Rabo Securities, Managing Director
2004 – Kempen Securities, Managing Director

Personal details of members of the Supervisory Board

The following are members of the Supervisory Boards of Van Lanschot NV, F. van Lanschot Bankiers NV and Kempen & Co NV.

From left to right: Jos Streppel, Godfried van Lanschot, Jeanine Helthuis, Willy Duron, Bernadette Langius and Lex van Overmeire.

Willy Duron

Chairman of the Supervisory Board

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

Born
1945, male

Nationality
Belgian

Appointed
10 May 2007; third term of office expires in 2019

Significant other supervisory board memberships and board positions at listed companies
Agfa-Gevaert, Tigenix

Significant other supervisory board memberships and board positions
Ethias, Windvision. Willy Duron fulfils a total of six board positions and supervisory positions.

Previous positions or offices held
Chairman of KBC Group

Jeanine Helthuis

Member of the Supervisory Board

Supervisory Board committees: Audit and Compliance, Selection and Appointment

Born
1962, female

Nationality
Dutch

Appointed
2 July 2013; first term of office expires in 2017

Principal position
Managing Director of PC Hooft Groep

Significant other supervisory board memberships and board positions
Prorail

Significant other positions or offices held
Member of the Advisory Council of Nintes. Jeanine Helthuis fulfils a total of seven board and supervisory positions.

Previous positions or offices held
Chair of the Board of Management of Monuta Holding/Monuta Verzekeringen, member of the Board of Directors of Fortis Bank Nederland

Jos Streppel

Deputy Chairman of the Supervisory Board

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

Born
1949, male

Nationality
Dutch

Appointed
11 May 2005; third term of office expires in 2017

Significant other supervisory board memberships and board positions at listed companies
RSA Insurance Group plc

Significant other supervisory board memberships and board positions
Stichting Arq., Gieskes Strijbis Fonds, LeasePlan (Chairman Supervisory Board)

Principal other positions or offices held
Council member at the Enterprise Section of the Amsterdam Court of Appeal, Chairman of the Advisory Council of the Royal Dutch Actuarial Association. Jos Streppel fulfils a total of six board and supervisory positions.

Previous positions or offices held
Member of the Executive Board of Aegon, Chairman of the Corporate Governance Code Monitoring Committee

Bernadette Langius

Member of the Supervisory Board

Supervisory Board committees: Risk, Remuneration

Born

1960, female

Nationality

Dutch

Appointed

13 May 2015; first term of office expires in 2019

Significant other supervisory board memberships and board positions

IBM Nederland, Plan Nederland, BDO Nederland, Ingenico ePayments Nederland. Bernadette Langius fulfils a total of six board and supervisory positions.

Previous positions or offices held

Member of the Executive Board of VU Amsterdam, ABN AMRO (including CEO of Commercial Banking NL and CEO of Private Banking NL)

Godfried van Lanschot

Member of the Supervisory Board

Supervisory Board committees: Remuneration (Chairman), Selection and Appointment

Born

1964, male

Nationality

Dutch

Appointed

10 May 2006; third term of office expires in 2018

Board positions and supervisory board memberships

Godfried van Lanschot fulfils a total of three board and supervisory positions.

Previous positions or offices held

ABN AMRO (various roles)

Lex van Overmeire

Member of the Supervisory Board

Supervisory Board committees: Audit and Compliance, Risk

Born

1956, male

Nationality

Dutch

Appointed

30 January 2017; first term of office expires in 2021

Significant other supervisory board memberships and board positions

Centrum indicatiestelling zorg (CIZ), Chairman of the Audit Advisory Committee. Lex van Overmeire fulfils a total of two board and supervisory positions.

Previous positions or offices held

Audit Partner EY Accountants LLP

2016 financial statements

Consolidated statement of financial position at 31 December 2016

Before profit appropriation (x €1,000)

		31/12/2016	31/12/2015
Assets			
Cash and cash equivalents and balances at central banks	(1)	1,585,473	881,024
Financial assets held for trading	(2)	16,913	6,863
Due from banks	(3)	188,748	200,073
Derivatives	(4)	307,320	333,411
Financial assets designated at fair value through profit or loss	(5)	336,238	712,578
Available-for-sale investments	(6)	1,680,036	2,159,141
Held-to-maturity investments	(7)	513,438	523,639
Loans and advances to the public and private sectors	(8)	9,624,048	10,504,423
Investments in associates using the equity method	(9)	75,559	56,299
Property and equipment	(10)	72,003	79,239
Goodwill and other intangible assets	(11)	194,453	175,122
Tax assets	(12)	41,687	51,698
Assets classified as held for sale	(13)	103,639	–
Other assets	(14)	137,856	148,265
Total assets		**14,877,411**	**15,831,775**
Equity and liabilities			
Financial liabilities from trading activities	(15)	5	418
Due to banks	(16)	128,696	698,125
Public and private sector liabilities	(17)	9,679,764	9,908,391
Derivatives	(4)	338,851	324,760
Financial liabilities designated at fair value through profit or loss	(18)	894,255	804,603
Issued debt securities	(19)	2,116,094	2,480,005
Provisions	(20)	34,047	23,668
Tax liabilities	(21)	7,073	4,911
Other liabilities	(22)	157,482	148,809
Subordinated loans	(23)	167,218	118,151
Total liabilities		**13,523,485**	**14,511,841**
Issued share capital		40,000	40,000
Share premium reserve		318,521	318,481
Other reserves		916,214	906,714
Undistributed profit attributable to shareholder		65,735	34,163
Equity attributable to shareholder		**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	(24)	**1,353,926**	**1,319,934**
Total equity and liabilities		**14,877,411**	**15,831,775**
Contingent liabilities	(25)	68,024	82,502
Irrevocable commitments	(26)	145,918	492,392
		213,943	**574,894**

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

Consolidated statement of income for 2016

(x €1,000)

		2016	2015
Income from operating activities			
Interest income		395,880	513,762
Interest expense		186,064	313,153
Net interest income	(27)	**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	(28)	**29,671**	**28,865**
Commission income		253,456	272,738
Commission expense		9,786	7,176
Net commission income	(29)	**243,670**	**265,562**
Result on financial transactions	(30)	**–3,938**	**23,342**
Other income	(31)	**45,180**	**42,762**
Total income from operating activities		**524,400**	**561,140**
Expenses			
Staff costs	(32)	247,364	233,657
Other administrative expenses	(33)	176,768	171,468
Staff costs and other administrative expenses		**424,132**	**405,125**
Depreciation and amortisation	(34)	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	(35)	**–2,115**	**61,937**
Result from sale of public and private sector loans and advances	(36)	–	22,403
Total expenses		**438,614**	**506,856**
Operating profit before tax		**85,785**	**54,284**
Income tax	(37)	15,986	11,530
Net result		**69,800**	**42,754**
Of which attributable to shareholder		65,735	34,163
Of which attributable to non-controlling interest in perpetual capital securities		–	943
Of which attributable to other non–controlling interests		4,065	7,648
Earnings per share (€)	(38)	164.34	85.41
Proposed dividend per share (€)		123.28	46.08

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

Consolidated statement of comprehensive income for 2016

(x €1,000)

		2016	2015
Net result (as per statement of income)		**69,800**	**42,754**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Other comprehensive income through revaluation reserve			
Revaluation of equity instruments		–1,029	–903
Revaluation of debt instruments		5,319	–2,417
Realised return on equity instruments		–922	–949
Realised return on debt instruments		–8,509	–15,491
Income tax effect		543	4,573
Total other comprehensive income through revaluation reserve	(24)	**–4,599**	**–15,187**
Other comprehensive income from value changes of derivatives (cash flow hedges)			
Increase in value of derivatives directly added to equity		3,717	–
Decrease in value of derivatives directly subtracted from equity		–	–1,681
Income tax effect		–929	420
Total other comprehensive income from value changes of derivatives (cash flow hedges)	(24)	**2,788**	**–1,261**
Other comprehensive income from currency translation differences			
Other comprehensive income from currency translation differences		318	2,912
Income tax effect		–	–
Total other comprehensive income from currency translation differences	(24)	**318**	**2,912**
Total other comprehensive income to be reclassified in subsequent periods to profit or loss		**–1,493**	**–13,536**
Other comprehensive income not to be reclassified in subsequent periods to profit or loss			
Remeasurement of defined benefit plans			
Remeasurement of defined benefit plans		–1,924	–1,112
Income tax effect		499	162
Total remeasurement of defined benefit plans	(24)	**–1,424**	**–950**
Total other comprehensive income not to be reclassified in subsequent periods to profit or loss		**–1,424**	**–950**
Total other comprehensive income		**–2,917**	**–14,486**
Total comprehensive income		**66,882**	**28,268**
Of which attributable to shareholder		62,817	19,677
Of which attributable to non-controlling interest in perpetual capital securities		–	943
Of which attributable to other non-controlling interests		4,065	7,648

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

Consolidated statement of changes in equity in 2016

Before profit appropriation (x €1,000)

	Share capital	Share premium reserve	Other reserves	Un-distributed profit	**Total equity attributable to share-holder**	Equity attributable to non-controlling interest in perpetual capital securities	Equity attributable to other non-controlling interests	**Total equity**
At 1 January	40,000	318,481	906,714	34,163	**1,299,398**	943	19,633	**1,319,934**
Net result (as per statement of income)	–	–	–	65,735	**65,735**	–	4,065	**69,800**
Total other comprehensive income	–	–	–2,917	–	**–2,917**	–	–	**–2,917**
Total comprehensive income	**–**	**–**	**–2,917**	**65,735**	**62,817**	**–**	**4,065**	**66,882**
Share plans	–	–	–2,813	–	**–2,813**	–	–	**–2,813**
To other reserves	–	–	15,730	–15,730	**–**	–	–	**–**
Share premium contribution	–	40	–	–	**40**	–	–	**40**
Dividends	–	–	–	–18,433	**–18,433**	–943	–5,845	**–25,221**
Other changes	–	–	–500	–	**–500**	–	–	**–500**
Acquisition of/change in other non-controlling interests	–	–	–	–	**–**	–	–4,398	**–4,398**
At 31 December	**40,000**	**318,521**	**916,214**	**65,735**	**1,340,470**	**–**	**13,456**	**1,353,926**

For additional information on the nature and composition of the share premium reserve and other reserves, see Note 24.

Consolidated statement of changes in equity in 2015

Before profit appropriation (x €1,000)

	Share capital	Share premium reserve	Other reserves	Un-distributed profit	**Total equity attributable to share-holder**	Equity attributable to non-controlling interest in perpetual capital securities	Equity attributable to other non-controlling interests	**Total equity**
At 1 January	40,000	247,396	819,194	99,001	**1,205,591**	28,360	29,884	**1,263,835**
Net result (as per statement of income)	–	–	–	34,163	**34,163**	943	7,648	**42,754**
Total other comprehensive income	–	–	–14,486	–	**–14,486**	–	–	**–14,486**
Total comprehensive income	**–**	**–**	**–14,486**	**34,163**	**19,677**	**943**	**7,648**	**28,268**
To other reserves	–	–	99,001	–99,001	**–**	–	–	**–**
Share premium contribution	–	71,085	–	–	**71,085**	–	–	**71,085**
Dividends	–	–	–	–	**–**	–1,110	–6,280	**–7,390**
Other changes	–	–	3,005	–	**3,005**	–27,250	–	**–24,245**
Acquisition of/change in other non-controlling interests	–	–	–	–	**–**	–	–11,619	**–11,619**
At 31 December	**40,000**	**318,481**	**906,714**	**34,163**	**1,299,368**	**943**	**19,633**	**1,319,934**

Redemption of perpetual capital securities is recognised under Other changes.

For additional information on the nature and composition of the share premium reserve and other reserves, see Note 24.

Consolidated statement of cash flows for 2016

(x €1,000)

		2016	2015
Cash flow from operating activities			
Operating profit before tax		85,785	54,284
Adjustments for			
– Depreciation and amortisation	(34)	16,598	18,480
– Costs of share plans		3,261	2,772
– Results on associates using the equity method		–11,543	–9,813
– Valuation results on financial assets designated at fair value through profit or loss		3,291	96,163
– Valuation results on financial liabilities designated at fair value through profit or loss		11,508	–2,581
– Valuation results on derivatives		–15,661	–24,771
– Impairments	(35)	–2,115	61,937
– Changes in provisions		16,335	1,212
Cash flow from operating activities		**107,460**	**197,683**
Net movement in operating assets and liabilities			
– Financial assets/liabilities held for trading		–10,463	–4,293
– Due from/due to banks		–581,114	90,637
– Loans and advances to public and private sectors/Public and private sector liabilities		560,418	316,176
– Derivatives		28,817	–27,885
– Withdrawals from restructuring provision and other provisions		–7,880	–1,192
– Other assets and liabilities		16,128	–39,495
– Income taxes paid		–3,515	–2,959
– Dividends received		3,606	10,460
Total net movement in operating assets and liabilities		**5,997**	**–290,903**
Net cash flow from operating activities		**113,456**	**–93,220**
Cash flow from investing activities			
Investments and acquisitions			
– Investments in debt instruments		–1,110,797	–4,361,571
– Investments in equity instruments		–11,104	–10,899
– Acquisitions (excluding acquired cash and cash equivalents)		–20,000	–2,000
– Investments in associates using the equity method		–15,856	–62
– Property and equipment		–10,303	–11,480
– Goodwill and other intangible assets		–1,864	–1,491
Divestments, redemptions and sales			
– Investments in debt instruments		1,983,081	4,631,131
– Investments in equity instruments		19,033	49,410
– Investments in associates using the equity method		528	722
– Property and equipment		3,295	4,418
– Goodwill and other intangible assets		1,854	–
Dividends received		7,325	3,485
Net cash flow from investing activities		**845,193**	**301,663**

The numbers in the statement of cash flows refer to the Notes to the consolidated statement of financial position and the Notes to the consolidated statement of income.

Consolidated statement of cash flows for 2016 (continued)

(x €1,000)

		2016	2015
Cash flow from financing activities			
Share premium contribution		40	71,085
Share plans		–5,963	–
Non-controlling interest in perpetual capital securities		–	–27,250
Change in other non–controlling interests		–4,186	–8,670
Receipts on issued subordinated loans		50,000	–
Redemption of subordinated loans		–114	–3,112
Receipts on issued debt securities		500,000	522,816
Redemption of debt securities		–869,914	–1,110,461
Receipts on financial liabilities designated at fair value through profit or loss		178,405	254,918
Redemption of financial liabilities designated at fair value through profit or loss		–100,261	–153,647
Dividends paid		–25,221	–23,756
Net cash flow from financing activities		**–277,211**	**–461,712**
Net change in cash and cash equivalents and balances at central banks	(1)	**681,438**	**–253,269**
Cash and cash equivalents and balances at central banks at 1 January		868,662	1,121,931
Cash and cash equivalents and balances at central banks at 31 December		1,550,100	868,662
Additional disclosure			
Interest received		417,890	523,493
Interest paid		201,044	370,149

The numbers in the statement of cash flows refer to the Notes to the Consolidated statement of financial position and the Notes to the consolidated statement of income.

Summary of significant accounting principles

General
F. van Lanschot Bankiers NV is an independent wealth manager specialising in the preservation and creation of wealth for its clients. F. van Lanschot Bankiers NV is a 100% subsidiary of Van Lanschot NV. The company has its registered office at Hooge Steenweg 29, 5211 JN 's-Hertogenbosch, the Netherlands. F. van Lanschot Bankiers NV is a public limited company incorporated under Dutch law and registered under number 16038212 at the Chamber of Commerce.

The consolidated financial statements of F. van Lanschot Bankiers NV at 31 December 2016 were prepared by the Statutory Board on 30 March 2017 and will be submitted to the General Meeting for adoption. The financial statements may (subject to the consent of the Supervisory Board) be amended by the Statutory Board after publication. The amended financial statements will be submitted to the General Meeting for adoption.

Basis of preparation
The consolidated financial statements of F. van Lanschot Bankiers NV (hereinafter Van Lanschot) 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. The assets and liabilities disclosed in the consolidated financial statements are measured in accordance with the accounting principles as set out below.

Continuity
The Statutory Board has examined the ability of Van Lanschot to continue its operations and concluded that we are able to do so in the foreseeable future. Moreover, the 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.

Functional and reporting currency
The consolidated financial statements are denominated in euros, the functional and reporting currency of Van Lanschot. 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 presentation

Segment information
The presentation of operating segments for the 2016 financial year has been changed to align with the way segment information is reported to the Executive Board (EB). The EB monitors interest margins, and for this reason the breakdown between interest income and interest expense is no longer presented. In 2016, management decided to make a clear distinction between directly influenced own costs and indirect costs, which is now made transparent in segment information. As announced in the strategy update of April 2016, our online wealth manager Evi is seen as a separate segment. The comparative figures have been adjusted accordingly.

Changes in accounting policies

Offsetting current account balances
The IFRS Interpretations Committee issued an agenda decision in April 2016 on when and whether entities are able to offset financial instruments in accordance with IAS 32. We have decided to discontinue offsetting current account balances from the second quarter of 2016, as we are unable to prove our intention to settle the entire period-end balances at the reporting date. We settled balances but not at period-end. Comparative figures at 31 December 2015 have been adjusted accordingly. Loans and advances to the public and private sectors and Public and private sector liabilities are both thus increased by €336.1 million, with Total assets and Total liabilities increased by the same amount. At 31 December 2016, the impact of the discontinuation of offsetting current account balances was an increase of €348.8 million in Loans and advances to the public and private sectors and Public and private sector liabilities. Total assets and Total liabilities increased by the same amount.

This change in accounting policies has no impact on either Total equity or on profit or loss. No other changes in accounting policies were made compared to the prior accounting period.

Changes to Part 9, Book 2 of the Dutch Civil Code have been incorporated in these financial statements, where applicable.

Changes in published IFRS standards and interpretations
The IFRS standards listed below became effective from 1 January 2016 and have been applied to our financial statements for 2016. Application of these standards had no material impact on our equity or result. Application of the amended standards generally entails amendment or expansion of notes.

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates
The amendments concern issues that have arisen when applying the exemption from preparing consolidated financial statements for investment entities. The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. The amendments also clarify that only subsidiaries that are themselves not investment entities and that provide ancillary services to the parent's investment activities should be consolidated. Other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 mean that where an investor applies the equity method, it may continue to use the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

IFRS 11 Joint Arrangements
The amendments to IFRS 11 require the acquirer of an interest in a joint operation to apply the disclosure requirements as set out in IFRS 3 Business Combinations. The changes also make clear that remeasurement need not be carried out when the interest in an existing joint operation is increased, provided control is still shared.

IAS 1 Presentation of Financial Statements
The amendments clarify the present requirements in relation to the order of presentation of aspects relating to materiality, aggregation and flexibility in the notes to the financial statements. The amendments also clarify the requirements when additional subtotals are presented in the statement of financial position (balance sheet), statement of income (profit and loss) and statement of comprehensive income.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

IAS 27 Equity Method in Separate Financial Statements
The amendments permit entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Annual Improvements to 2012-2014 Cycle
Changes to standards concern:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (changes in methods of disposal)
Assets (or disposal groups) are generally disposed of either through sale or by distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5.

IFRS 7 Financial Instruments: Disclosures (servicing contracts)
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether disclosure is required.

IFRS 7 Financial Instruments: Disclosures (applicability of the amendments to IFRS 7 to condensed interim financial statements)
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

IAS 19 Employee Benefits (discount rate: regional market issue)
The amendment clarifies that market depth of high-quality corporate bonds should be assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

IAS 34 Interim Financial Reporting: Disclosure of information 'elsewhere in the interim financial report'
The amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report, for example in the report of the executive board or the section on risk management.

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 must be applied to financial statements for periods beginning on or after 1 January 2016. We have not applied these standards in the 2016 financial statements. Unless stated otherwise, standards are applied as soon as they become effective and have been endorsed by the EU.

IFRS 2 Classification and Measurement of Share-based Payment Transactions
The amendments to IFRS 2 focus on the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and the accounting when the classification of a share-based payment transaction changes from cash-settled to equity-settled. We will assess the potential effect of the amendments on our consolidated financial statements in 2017. The amendments are effective for annual periods beginning on or after 1 January 2018 without restating prior periods, but retrospective application is permitted. The amendments are not yet endorsed by the EU; early adoption is permitted after EU endorsement.

IFRS 9 Financial Instruments
The IASB published a final version of IFRS 9 Financial Instruments in July 2014, incorporating all phases of the financial instruments project and replacing IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 applies for annual periods beginning on or after 1 January 2018. Retrospective application is required, but comparative figures are not mandatory. Early application of earlier versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of first application is before 1 February 2015. The EU has endorsed this standard. We intend to apply the new standard with effect from the required effective date.

We began an IFRS 9 project in 2015, in which the Group Risk Management department is working closely with the Finance, Reporting & Control department. A steering committee and technical board have been established. The steering committee consists of senior management from Group Risk Management, Service Centre Data Management, Restructuring & Recovery Department and Finance, Reporting & Control. The technical board has an advisory role to the steering committee and consists of senior Van Lanschot specialists and consultants. Finance, Reporting & Control is responsible for the new requirements for classification and measurement, hedge accounting and the accounting policies for impairment. Group Risk Management and the Restructuring & Recovery Department are responsible for the new impairment models. Service Centre Data Management is leading on implementation of the designed changes into the operational systems. Significant legal entities within Van Lanschot Kempen are engaged but are not themselves responsible for the implementation activities.

Classification and measurement of financial instruments
Within the Classification and Measurement work stream, the accounting policies, the business model test and the solely payment of principal and interest (SPPI) test are designed and approved by the steering committee. A high-level impact assessment has been prepared on the statement of financial position at 31 October 2015 in order to determine the financial effects due to the accounting change from IAS 39 to IFRS 9.

Based on the business model assessments and the SPPI test, we do not expect significant adjustments in the measurement of financial instruments. Loans and advances to the public and private sectors that are classified as loans and receivables, and debt securities that are classified as held-to-maturity investments under IAS 39, will be measured at amortised cost under IFRS 9. Debt securities that are classified as available-for-sale investments under IAS 39 will be measured at fair value through Other comprehensive income under IFRS 9. Financial assets designated at fair value through profit or loss will continue to be measured at fair value through profit or loss, either because this is required under IFRS 9 or because this designation will continue. All equity securities will continue to be measured at fair value; a significant majority will have fair value movements shown in profit or loss, while a minority will have fair value movements recognised in Other comprehensive income. The equity securities for which fair value movements will be shown in Other comprehensive income are business facilitation and other similar investments where we hold the investments for reasons other than to gain profit. For the financial liabilities designated at fair value through profit or loss, gains or losses relating to changes in Van Lanschot's own credit risk will be included in Other comprehensive income.

Hedge accounting

The new standard on hedge accounting is expected to have a minor impact on Van Lanschot Kempen. IFRS 9 provides the option of continuing to apply IAS 39 for hedge accounting. We intend to make use of this option.

Impairments

Under IFRS 9, the new impairment requirements are based on an expected credit loss model rather than the incurred credit loss model used under IAS 39. For financial assets where there is no significant deterioration in credit quality since initial recognition, a provision is recognised based on a 12-month expected credit loss (Stage 1). When a significant increase in credit risk has occurred on an individual or collective basis, a provision is recognised based on a lifetime expected credit loss (Stages 2 and 3). The difference between Stages 2 and 3 is the recognition of interest revenue. Under Stage 2 interest revenue is calculated on the gross carrying amount, while under Stage 3 interest revenue is calculated on the amortised cost (gross carrying amount less loss allowance).

Stages 1 and 2

In 2016 the Modelling work stream focused on the design and development of the impairment models and process adaptations. These models need to be implemented by mid-2017 as we intend to perform a parallel run during the second half of 2017 to gain a better understanding of the potential effects of the new standard. We are looking to quantify the potential impact of IFRS 9 once it is practicable to provide reliable estimates, which should be no later than in the 2017 annual report. Until the majority of the models have been developed, implemented and tested, and rules for stage determination have been defined, we will not have a reliable quantification of the potential impact on our financial statements.

An expert panel will be established to govern the setting of forward-looking economic assumptions used in the process. The governance over the impairment process is the responsibility of the Finance, Reporting & Control functions, Group Risk Management and the Restructuring & Recovery department.

Stage 3

For the Stage 3 impairment model the discounted cash flow calculations will continue to apply for credit-impaired exposures. Impairment losses will be measured as stated in Section 2.3.2 Impaired loans, to ensure that all IFRS 9 requirements are met, except for two changes: the period over which the loss allowance is measured will be adjusted to the 'lifetime' of the exposure, and the interest rate at which the cash flows will be discounted will be changed to the 'effective interest rate'.

The policy on the write-off of loans and advances included in Section 2.3.2 Impaired loans is expected to remain unchanged. In the case of forbearance exposure, we consider the exposure as defaulted. Under IFRS 9 this approach will not change, and all forbearance exposures for which the probation period has not yet started will be considered Stage 3 exposures. For these exposures, a credit-impaired provision is calculated.

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates

The amendments address an acknowledged inconsistency between the requirements of IFRS 10 and IAS 28 in the treatment of the sale or contribution of assets between an investor and its associate entity or joint venture. The main consequence of the change is that, where a transaction involves an operational activity, the full profit or loss is disclosed, regardless of whether it has been placed within a subsidiary. A partial profit or loss is recognised if the transaction involves assets that do not constitute an operational activity, even where those assets have been placed within a subsidiary. The IASB has postponed this amendment indefinitely.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was published in May 2014 and in April 2016 amendments were issued to address guidance on implementation. IFRS 15 introduces a new five-step application model for revenue from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. IFRS 15 applies to all entities and replaces all existing revenue standards. The standard may have an impact on the results, and we are assessing the impact of applying IFRS 15 on the consolidated financial statements. The standard is effective for annual periods beginning on or after 1 January 2018 and must be applied retrospectively; a full retrospective or modified retrospective approach should be chosen by the entity. The standard was endorsed by the EU in September 2016. Early adoption is permitted after EU endorsement and must be disclosed.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and will result in almost all leases being recognised on the balance sheet, similar to the accounting for finance leases under IAS 17. Leases with a lease term of 12 months or less and low-value leases are exempted. The standard may have an impact on our balance sheet by way of the long-term operating lease commitments; an assessment will be made in coming years. The standard is effective for annual periods beginning on or after 1 January 2019 and must be applied retrospectively; a full retrospective or modified retrospective approach should be chosen by the entity.

The standard is not yet endorsed by the EU; early adoption is permitted after this endorsement but not before application by the entity of IFRS 15 Revenue from Contracts with Customers.

IAS 7 Disclosure Initiative

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in the debt position of the entity. Changes in liabilities arising from financing activities have to include both changes arising from cash flows and non-cash changes. Application of the amendments will result in us making additional disclosures. The amendment is effective for annual periods beginning on or after 1 January 2017. Comparative information is not required for prior periods on initial application. The amendments are not yet endorsed by the EU; early adoption is permitted after EU endorsement.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which deferred tax assets can be recovered, and also give guidance on determination of future taxable profits. We will assess the potential effect of the amendments on our consolidated financial statements in 2017. The amendments are effective for annual periods beginning on or after 1 January 2017 and must be applied retrospectively; early adoption is permitted and must be disclosed. The amendments are not yet endorsed by the EU; early adoption is permitted after EU endorsement.

Significant accounting judgements and estimates

In the process of applying the accounting policies, we use estimates and assumptions 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 available-for-sale investments, loans and advances to the public and private sectors, investments in associates using the equity method, property and equipment, goodwill, intangible assets and assets acquired through foreclosures. They also relate to the determination of the fair value of financial instruments, deferred tax positions, share-based payments, employee benefits and provisions.

Determination of fair value

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 the Risk management section, under 9, Fair value.

Impairments

All assets are assessed at least annually to determine whether there are objective indicators of impairment. Objective indicators may arise in the event of significantly changed market circumstances regarding aspects such as share prices, exchange rates or interest rates.

If unrecoverable financial assets generate cash flows after having been written off, these cash flows are taken directly to the statement of income. Impairments are determined on the basis of the difference between the carrying amount and the recoverable amount. Impairments are taken directly to the statement of income under Impairments.

Impairments of loans and advances to the public and private sectors

In determining the presence of impairments, a distinction is made between items for which there are objective indicators of impairment and items for which there are no such objective indicators.

Objective indicators of impairment are substantial financial problems occurring at clients, failure to make repayments of interest or capital, and the likelihood of bankruptcy or other financial restructuring of clients.

For all items where there is an objective indicator of impairment, an estimate is made of the future cash flows, which are discounted on the basis of the discounted cash flow method. Assumptions used are the estimate of the liquidation or other value of the collateral, estimate of payments still to be received, estimate of the timing of these payments, and the discount rate. Since this is a loss event, and IFRS does not permit future loss events to be taken into account, probability does not play a role in the measurement of individual impairments, other than in the expectations regarding cash flows.

Loans for which there is no objective indication of impairment are included in the collective assessment 'incurred but not reported' (IBNR). Value decreases which had occurred at the reporting date but of which we were not yet aware due to an information time lag are estimated on the basis of the product of exposure at default (EAD) x probability of default (PD) x loss given default (LGD) x loss identification period (LIP).

If an asset becomes permanently irrecoverable, the provision previously taken is written off and charged against the relevant line item.

Impairments of investments in equity instruments

An investment in equity instruments is considered to be impaired if its carrying amount permanently exceeds the recoverable amount, i.e. it is below cost significantly or for a prolonged period. In the case of available-for-sale investments, any equity revaluation is first deducted. An increase in value occurring after an impairment is treated as a (new) revaluation and recognised in equity.

Impairments of investments in debt instruments

An investment in debt instruments is tested for impairment if there is objective evidence of financial problems at the counterparty, the collapse of a market or other indications. In the case of available-for-sale investments, any equity revaluation is first deducted. If during the subsequent period the amount of the impairment of an available-for-sale debt instrument decreases, and the decrease can objectively be attributed to an event occurring after the write-off, the previously recorded impairment is reversed through profit or loss.

Impairments of non-financial assets

The recoverable amount of non-financial assets is the higher of the fair value of an 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. Goodwill is tested for impairment annually.

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.

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 20, Provisions.

Basis of consolidation

Subsidiaries

The consolidated financial statements of Van Lanschot comprise the financial statements of Van Lanschot and its subsidiaries. These are prepared at 31 December 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 exercises decisive control. Van Lanschot 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 and the entity. Among other things, Van Lanschot takes into account existing and potential voting rights. A right is a material right if its holder is able to exercise that right in practice.

Van Lanschot 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 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 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 decisive control over an entity. When acquiring non-controlling interests, Van Lanschot in principle includes only protective rights in the contractual agreement. These are rights of approval which enable Van Lanschot 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 acquires control, and are consolidated until the date that such control ceases.

Van Lanschot consolidates interests in investment funds if it has power over the investment fund and is exposed to or has rights to variable income stemming from its involvement and is able to use its power over the investment fund to influence the variable income. The assessment of control is based on the actual relationship between Van Lanschot and the investment fund. Van Lanschot 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, 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 Van Lanschot's interest in the fair value of the 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 the 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.

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. 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. Translation differences relating to the sale of available-for-sale investments are treated as an inherent part of the realised/unrealised gains and losses and recognised under Income from securities and associates.

Classification as debt or equity
Financial instruments or their individual components are classified as debt or equity in accordance with the economic reality for Van Lanschot as the issuing party. An equity instrument is any contract that incorporates a residual interest in the assets of an entity after deducting all its liabilities.

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 classified as available for sale, held to maturity or held for trading, which are settled according to standard market conventions, are recognised on the transaction date, i.e. the date on which Van Lanschot undertakes to purchase or sell the asset concerned. Loans and advances are recognised on the settlement date, i.e. the date on which Van Lanschot receives or transfers the asset.

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

If Van Lanschot has transferred its rights to the cash flows from an asset, but has not transferred substantially all the risks and rewards of the asset and has not transferred control, the asset is recognised as long as Van Lanschot has 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 line item concerned (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.

Securitisation
Van Lanschot has placed parts of its loan portfolio in special purpose entities (SPEs). As a result of these transactions, the beneficial ownership of these receivables has been transferred to the individual entities. If Van Lanschot has effective control over an SPE, it is consolidated. Van Lanschot has 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 accounting principles followed by Van Lanschot 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.

Van Lanschot has entered into securitisation transactions in which not all notes are held by Van Lanschot. These entail a partial transfer of financial assets. For more details, see the Risk management section, under 7, Liquidity risk.

Van Lanschot has no other assets meeting the criteria of 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.

At the inception of a hedge transaction, we formally designate and document the hedge relationship, the financial risk management objective and our policy 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, both upon inception and during the term of the hedge, may expect 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. Movements in the value of the hedging instrument are taken to the statement of income.

A hedge relationship ends if a 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.

Van Lanschot applies 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 more hedging instruments. Available-for-sale debt securities are hedged for interest rate risk in a micro fair value hedge.

Macro fair value hedges

Van Lanschot applies 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

Embedded derivatives are treated as separate derivatives when their economic characteristics are not closely related to those of the financial host contract. The embedded derivative is measured separately if the financial contract itself is not recognised at fair value with the value changes through profit or loss. An example of a closely related embedded derivative is an interest rate option in a mortgage determining the upper or lower limit of the interest rate. An example of an embedded derivative that is not closely related is where interest payment and redemption are linked to a share index.

A determination is carried out in advance as to whether an embedded derivative is closely related.

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 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 2.11, 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 DNB arising from the minimum reserve requirement is also included in this item.

Financial assets held for trading
Financial assets held for trading are transactions for our own account whereby the aim is to actively sell these instruments in the short term. Financial assets held for trading consist of the trading portfolio of both equity instruments and debt instruments. The financial assets held for trading 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 acquired by Van Lanschot 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 designated at fair value through profit or loss
These assets comprise investments 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 assets being valued or income and expense being recognised under different accounting policies;
- The performance of the relevant financial assets is evaluated on the basis of their fair values, in accordance with a documented risk management or investment strategy. Reporting to management takes place on the basis of fair value;
- 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.

Interest earned on these assets is recognised as interest income. All other realised and unrealised gains and losses on remeasuring these financial instruments at fair value are recognised under Result on financial transactions.

Available-for-sale investments
Investments included in this line item have been classified by management as transactions held indefinitely and are carried as available for sale. This line item comprises investments in both equity instruments and debt instruments. These investments are initially measured for any changes occurring in the fair value of the investment after its acquisition. Unrealised gains and losses resulting from changes in the fair value of investments classified as available for sale are recognised on a net basis in equity.

On realisation of available-for-sale equity instruments, the accrued revaluation reserve is released to the statement of income under the line item Income from securities and associates. When calculating the transaction result, cost is determined using the average cost method.

Interest earned on these assets is recognised as interest income. Dividends are recognised under Income from securities and associates.

Available-for-sale investments may be sold as a result of liquidity control or changes in interest rates, exchange rates or share prices. Discounts or premiums on interest-bearing available-for-sale investments are amortised based on the effective interest rate and recognised in profit or loss. If the investments are sold or impairment losses occur, the adjustments to fair value are recognised in profit or loss.

We assess on a quarterly basis whether impairment losses have occurred. The fair value of an investment in an equity instrument being below cost significantly or for a prolonged period is an objective indication of impairment, and this is determined by the Impairment Committee on the basis of the policy adopted.

We treat unrealised losses on debt instruments in the investment portfolio due to interest rate fluctuations as temporary decreases in value. We aim to retain these investments in debt instruments for a term considered long enough to offset these unrealised losses, and expect to receive the full principal if they are held to maturity.

In the first year of investment, shareholdings are recognised at fair value and are adjusted where applicable for any changes in this value occurring after acquisition. The market value of shareholdings is based on reports prepared by the fund manager. This value is adjusted where applicable for carried interest arrangements and annual fund charges.

All purchases and sales of available-for-sale investments transacted according to standard market conventions are recognised on the transaction date. All other purchases and sales are recognised on the date of settlement.

Held-to-maturity investments

Investments for which the date of maturity and cash flows are known are classified as held-to-maturity investments in so far as management has both the intention and the ability to hold them until maturity. Management determines the appropriate classification for its investments on their transaction dates.

Held-to-maturity investments are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, after impairment. Interest earned on held-to-maturity investments is recognised as Interest income. All transactions in held-to-maturity investments are recognised on the settlement date.

If there are objective indications that an impairment has occurred, the impairment is determined as the difference between the carrying value of the investment and the present value of estimated future cash flows (with the exception of future loan losses that have not yet occurred) calculated at the original effective interest rate of the investment.

The impairment is recognised in the income statement. If the amount of the impairment reduces in a subsequent period and the reduction can be objectively related to an event that occurred after the impairment was applied, the earlier impairment is reversed. The amount of the reversal is recognised in the statement of income in so far as the carrying value of the asset does not exceed its amortised cost on the reversal date.

Loans and advances to the public and private sectors

Loans and advances to the public and private sectors are recognised at amortised cost using the effective interest 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 Van Lanschot has 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.

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. If the recoverable amount is lower than the carrying amount, an impairment is recognised.

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 20% discount for poor liquidity and minority shareholding. Where applicable, EBIT and EBITDA are adjusted for one-off items.

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 (WACC) 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 20% 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 data of 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 object 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.

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 cost 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 cost 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

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 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.

Cash flow estimates are based on the long-term plan, the 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.

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 when they relate to the same tax authority, the same type of tax, it is permitted under law to offset these deferrals and 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.

Tax assets 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 to be utilised. 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 classified as held for sale

The line item Assets classified as held for sale includes a group of assets whose carrying amounts will principally be recovered through a sale transaction. These assets are measured at amortised cost less accumulated impairments. The group of assets 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 stated at historical cost.

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. Financial liabilities held for trading are stated at fair value, with movements in value being 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 designated at fair value through profit or loss
Financial liabilities designated 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;
- The performance of the financial liabilities concerned is assessed on the basis of their fair value, in accordance with a documented risk management or investment strategy. Reporting to management takes place on the basis of fair value;
- 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.

Van Lanschot’s own credit risk is taken into account in the valuation.

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 by Van Lanschot of its own debt securities is set off 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. Our main pension provider for defined contribution plans is Stichting Pensioenfonds F. van Lanschot. The starting point in determining the contribution is to maintain a balanced development of the pension costs over time.

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.

The pension obligation is calculated with reference to the expected return on plan assets.

Differences between the expected and actual return on plan assets and actuarial gains and losses 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.

Provision for employee discounts
We have arrangements in place under which employees are granted discounts on mortgage interest rates, for example. The discount is calculated on an actuarial basis for the period during which the employee is inactive (retired) and is recognised in the statement of financial position as a provision.

Restructuring provision
A provision for restructuring is recognised only if the criteria for disclosure of a provision 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.

Provision for the interest rate derivatives recovery framework
A provision for the interest rate derivatives recovery framework is recognised. We have agreed to abide by the Netherlands’ general recovery framework for interest rate derivatives clients, implying that we will offer courtesy payments.

Other provisions
This item includes all other provisions.

Other liabilities
Other liabilities are recognised at historical cost.

Subordinated loans
Subordinated loans are initially recognised at fair value excluding transaction costs. After initial recognition, they are carried at amortised cost. Purchases by Van Lanschot of its own subordinated loans are set off 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.

Equity
Equity instruments issued by non-controlling interest in perpetual capital securities included in equity are recognised at cost.

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 liabilities
Contingent liabilities are carried at the contract value and relate in particular to guarantees and irrevocable letters of credit.

Irrevocable commitments
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 in so far as it is likely that the economic benefits will flow to Van Lanschot 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 is 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.

Prolonged or significant decreases in the value of equity instruments forming part of the available-for-sale investments are recognised in the statement of income as impairments.

Gains or losses on the sale of available-for-sale investments in equity instruments and debt instruments are recognised under Gains/losses on sale of available-for-sale investments in equity instruments (Income from securities and associates) and Realised gains/losses on available-for-sale debt instruments (Result on financial transactions).

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 the income as part of our operating activities.

Net commission income
This item comprises the income, other than income similar to interest, earned on banking 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. securities commission) 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 designated at fair value through profit and loss comprises unrealised value differences and interest expenses on financial liabilities designated at fair value through profit and 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 payment
Employees may be eligible to receive remuneration in the form of share-based payments. The cost of equity instrument-settled transactions of Van Lanschot NV with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined based on the share price on the grant date. The cost of equity instrument-settled transactions of Van Lanschot 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).

The equity-settled arrangements are accompanied by an arrangement in which Van Lanschot will withhold a specified portion of the awards to be delivered upon vesting in order to settle the employee's tax obligation. This portion of an award is accounted for as a cash-settled share award, whereby the services received from employees are measured at fair value and recognised as an expense over the vesting period with recognition of a corresponding liability. The fair value of the liability is remeasured at each reporting date and at the date of settlement with changes in fair value recognised in the consolidated statement of income.

Share-based payment: Management Investment Plan
The Management Investment Plan entails an equity instrument-settled transaction. If, at the moment that the share-based payment is made, the fair market value per depositary receipt exceeds the issue price, the costs relating to this higher fair market value are treated as expenses during the vesting period, with a corresponding adjustment to equity. The total sum to be taken into consideration is determined on the basis of the fair value of the depositary receipts as established on the date on which they are granted.

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.

Lease
Lease contracts, including operating sale and leaseback agreements, under which the risks and benefits of ownership of the assets are substantially retained by the lessor, are classified as operating lease contracts. We have entered into operating lease contracts as lessee. Operating lease payments (less any discounts granted by the lessor) are charged to the statement of income on a straight-line basis over the term of the lease. In the case of sale and leaseback, if the selling price of the asset falls below its fair value, the difference between the carrying amount and the selling price is recognised through profit or loss unless the difference between the fair value and the selling price is offset through future non-standard lease instalments.

Lease contracts, including financial sale and leaseback agreements, under which the risks and benefits of ownership of the assets are substantially transferred to Van Lanschot, are classified as financial lease contracts. We have entered into financial sale and leaseback contracts as lessee. Financial lease contracts are capitalised on the effective date of the lease contract at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The discount rate used in calculating the present value of the minimum lease payments is the implicit interest rate of the lease contract.

The leased object is recognised under Property and equipment. Depreciation is applied using the same method as for wholly owned tangible assets. The lease obligation is recognised under Other liabilities. The interest component of the finance costs is charged to the statement of income over the term of the lease.

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 board 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 and capital management

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 the bank are controlled and conform with its risk appetite and with 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 an in-depth description of the capital requirements under Pillar I and II of the Basel framework. Finally, it discusses the individual risk types to which Van Lanschot is exposed, as well as how these risks are managed.

1.1 Risk appetite

Solid capital and liquidity ratios are essential prerequisites for a successful proposition to our clients, and this is reflected in our risk appetite statement. We aim to have a simple and transparent balance sheet. Lending activities occur mainly in the private banking segment and the corporate loan portfolio is being wound down.

We have a robust risk appetite framework in place. Each year, the Executive Board prepares the risk appetite statement, which translates the risk appetite into strategic limits. The risk appetite statement is then submitted to the Supervisory Board for review and approval. In addition, the Supervisory Board reviews the development of the risk profile twice a year. Risk appetite reports serve as important discussion documents for these reviews.

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;
- The 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 and capital management

The purpose of the 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 the 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); Compliance, Group 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. Group Audit forms the third line of defence and is responsible for performing independent audits on the risk framework. The set-up creates a clear, balanced and appropriate division of tasks, powers and responsibilities, and ensures independent and effective execution of the risk management function.

Group Risk Management stands at the core of capital management. The purpose of capital management is to ensure Van Lanschot's capital buffers are commensurate to the level of risks it is exposed to. 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 and capital management

Supervision § 1.2.1	Supervisory Board – Risk Committee – Audit and Compliance Committee						
Risk and capital management § 1.2.2	Statutory Board – Credit Risk Policy Committee – Asset & Liability Committee – Compliance & Operational Risk Committee – Credit Committee – Crisis Management Team/Business Continuity Committee – IT Security – Impairment Committee – Product Board						
Implementation and review § 1.2.3	Group Risk Management	Finance, Reporting & Control	Compliance	Group Audit			
Execution § 1.2.4	Private Banking	Evi	Asset Management	Merchant Banking	Treasury	Restructuring & Recovery	Corporate Banking

1.2.1 Supervision

The Supervisory Board oversees the risks and capital requirements in relation to the bank'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 bank's business activities, as well as the risk management framework. The Committee also informs decision-making by the Supervisory Board on matters regarding risk.

The Audit and Compliance Committee was created to advise the Supervisory Board on financial reporting, internal and external audits, compliance and matters regarding duty of care.

1.2.2 Risk and capital management

The Statutory Board is responsible for formulating and executing the strategy of the bank. This includes the capital and funding plan, which is based on a number of risk and capital policies. The Statutory Board also bears responsibility for ensuring the proper functioning of the processes that safeguard the bank'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 bank. The decisions of the Statutory Board are taken during meetings of the Executive Board. In order to ensure the various risk types are managed properly, the Statutory Board has set up the following risk committees:

Credit Risk Policy Committee

This committee sets and adjusts the bank's overall credit risk policy and translates this into acceptance and management policies, bearing in mind the strategic objectives of the group 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 Group Risk Management, Private Banking, Corporate Banking and Restructuring & Recovery. 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 rates 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 regarding 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 Executive Board;
- The Executive Board member responsible for Private Banking;
- Representatives of Treasury, Group 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 the compliance and operational risk management policies. The committee assesses the bank's compliance and operational risks, and ensures remedial actions are taken if required. The committee also challenges and approves the annual plans of the Operational Risk Management and Compliance departments. It meets on a quarterly basis and is chaired by the CFRO.

Other risk-related committees are:

- The Credit Committee, which has the highest authority within Van Lanschot to approve loans;
- The Crisis Management Team, Business Continuity Committee and IT Security, which are responsible for managing information security risk and (operational) continuity risks;
- The Impairment Committee, which determines impairments and provisions;

1 The banking book comprises all assets that are not held for trading purposes under the regulatory definition.

- The Product Board, which is responsible for the introduction of new products and the periodic review of existing products.

1.2.3 Implementation and review of risk and capital management policies

The risk management structures of Van Lanschot and Kempen were integrated at the beginning of 2016 and the governance structure is partly integrated. In areas where two committees still exist, the intention is to merge these committees as soon as practicable.

As at year-end 2016, the implementation and monitoring of the risk and capital policies is carried out by the following departments:
- Group Risk Management;
- Finance, Reporting & Control;
- Compliance.

In addition, Group Audit periodically reviews policies.

Group Risk Management is a newly created department which was formed by the merger of the Risk Management departments of Kempen and Van Lanschot and Financial Risk Management. Its responsibilities include:
- 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 business risks;
- Business continuity management;
- Information security;
- The risk appetite process;
- Preparing, developing and maintaining policy documents;
- Preparing ICAAP and ILAAP reports;
- 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 Group 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 internal and external laws and regulations that apply to the Statutory Board, senior management and employees. Compliance operates independently and its director reports directly to the Chairman of the Executive Board. In addition, Compliance reports periodically to the Supervisory Board's Audit and Compliance Committee.

Group Audit reviews the design and effectiveness of the risk organisation and the execution of the risk and capital management policy. The department reports to the Statutory Board. The applicable policies form the starting point for the independent review by Group Audit. Processes, infrastructure, organisation and systems are audited based on these policies in order to determine whether the organisation adequately executes its risk and capital management policies.

1.2.4 Execution of risk and capital management policies

The commercial departments 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 the Asset & Liability Committee.

1.3 External and internal 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 I stipulates capital requirements for credit, market and operational risk.
- Pillar II 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 I. The Supervisory Review and Evaluation Process (SREP) is also part of Pillar II.
- Pillar III sets out requirements for disclosure of information about the institution's risk profile to external stakeholders.

We incorporate our Pillar III report in our financial statements, which are published once a year. The remuneration policy is explained in the remuneration section and in the Pillar III remuneration disclosure.

1.3.1 Pillar I capital requirements

Banks are required to hold sufficient amounts of capital to allow them to withstand the risks they face.

The Capital Requirements Regulation (CRR) sets out requirements for calculating the minimum amount of capital needed to cover credit, market, operational, CVA, FX and counterparty risk, as stated in CRR Article 92.3. Pillar I allows for the use of several methods for calculating capital requirements, with varying degrees of complexity and risk sensitivity. Within certain boundaries, banks are free to choose which approaches to use.

As of January 2016, the combined buffer requirements are mandatory, of which the capital conservation buffer and the countercyclical capital buffer are applicable for Van Lanschot. Both buffers will be phased in over time. During 2016, the capital conservation buffer was 0.625% while the countercyclical capital buffer was negligible.

Table 1.3.1.A Capital ratios (%)	External requirement	31/12/2016	31/12/2015
Total capital ratio	8.625	20.9	17.0
Tier I ratio	6.625	19.0	16.3
Common Equity Tier I ratio (phase-in)	5.125	19.0	16.3
Leverage ratio (phase-in)	3.0	7.1	6.4

Van Lanschot's loan portfolio broadly consists of a retail portfolio (comprising mainly mortgages and SME loans) and a non-retail portfolio mainly comprising customised financing solutions. Van Lanschot uses A-IRB, F-IRB and SA approaches to calculate capital requirements for credit risk. Table 1.3.1.B shows the minimum capital requirements for the Pillar I risk types.

Market and settlement risks result from trading positions on behalf of clients as well as from trading activities that are conducted for balance sheet management purposes. The solvency requirement for operational risk is based on average turnover over the past three years. The capital requirement for CVA is intended to cover the risk of deteriorations in the creditworthiness of counterparties in over-the-counter derivatives transactions.

Table 1.3.1.B Minimum external capital adequacy requirements (Pillar I)	31/12/2016	%	31/12/2015	%
Total	**449,812**	**100**	**514,458**	**100**
Credit risk	361,182	80	427,516	83
Market risk and settlement risk	13,061	3	5,942	1
Operational risk	69,916	16	72,438	14
CVA risk	5,653	1	8,562	2

Table 1.3.1.C Capital requirements for main types of credit risk exposure	31/12/2016	%	31/12/2015	%
Total	**361,182**	**100**	**427,516**	**100**
Receivables from corporates	165,964	46	233,067	55
Retail receivables	106,997	30	111,182	26
Other	88,221	24	83,267	19

1.3.2 Pillar II capital requirements

The purpose of Pillar II is to ensure that banks implement internal risk management processes that allow them to effectively manage the risks they are exposed to, and to assess the amount of capital required to withstand those risks. This process is called the internal capital adequacy assessment process (ICAAP). On an annual basis, we formalise the process and the associated capital requirements in an ICAAP document.
This document, along with all information obtained by the competent authorities, acts as the basis for the supervisory review and evaluation process (SREP), which is conducted annually by DNB.

In principle, the internal capital adequacy requirements are based on the capital requirements under Pillar I, plus an additional amount for risks not covered under Pillar I, such as:
- Concentration risk in the loan portfolio;
- Interest rate risk;
- Business risk.

The models and methods applied are tailored to the business areas of Van Lanschot, its complexity and size. They consist of both qualitative and quantitative aspects. Diversification effects between risk categories are not taken into account. Stress tests are carried out on a regular basis to determine whether our internal capital is adequate.

Table 1.3.2 shows the internal capital adequacy requirement by type of risk.

Table 1.3.2. Internal capital adequacy requirements	31/12/2016	%	31/12/2015	%
Total	**683,703**	**100**	**811,240**	**100**
Credit risk	361,182	53	427,516	53
Market risk and settlement risk	13,061	2	5,942	1
Operational risk	69,916	10	72,438	9
CVA risk	5,653	1	8,562	1
Concentration risk	66,100	10	90,255	11
Interest rate risk	122,300	18	147,900	18
Business risk	45,491	7	58,627	7

1.4 Available risk capital

We discuss our current and future solvency levels each month in ALCO. If required, ALCO can take adjustive measures. A capital and funding plan is prepared on an annual basis, which sets out the strategic and tactical principles as well as projections of anticipated solvency levels. This plan also forms part of the ICAAP process.

Common Equity Tier 1 increased by €25 million in 2016, from €1,046 million to €1,071 million. Following the entry into force of CRR, a number of transitional arrangements apply to the capital calculation.

The leverage ratio is a non-risk-sensitive measure, which divides capital by the sum of on- and off-balance sheet items. Based on the Basel III phase-in capital definition, Van Lanschot has a leverage ratio of 7.1% (2015: 6.4%). The amount of capital in the numerator is €1,071 million (2015: €1,046 million) and the denominator is €15.1 billion (2015: €16.3 billion). Of this total, €14.9 billion (2015: €16.0 billion) comprises items recognised in the statement of financial position.

Table 1.4.B provides a breakdown of regulatory capital under Basel III. It also shows the relationship between regulatory capital and equity as presented in the consolidated financial statements.

The prudential filters relate to cash flow hedge reserves amounting to €10.9 million (2015: €13.7 million), own credit risk in respect of debt instruments designated at fair value through profit and loss totalling €17.7 million (2015: €16.7 million) and prudent valuation at €1.7 million negative (2015: €2.0 million negative).

Goodwill included in own funds excludes goodwill that pertains to non-strategic equity investments amounting to €9.7 million (2015: €9.0 million).

Table 1.4.A Capital adequacy requirements and available capital	31/12/2016	31/12/2015
Minimum capital required	**449,812**	**514,458**
Credit risk	361,182	427,516
Market risk and settlement risk	13,061	5,942
Operational risk	69,916	72,438
CVA risk	5,653	8,562
Qualifying capital	**1,175,403**	**1,095,248**
Of which Common Equity Tier I	1,070,516	1,045,877
Of which Tier I capital	1,070,516	1,045,877
Of which Tier II capital	104,887	49,371
Capital ratios		
Total capital ratio	20.9%	17.0%
Tier I ratio	19.0%	16.3%
Common Equity Tier I ratio (phase-in)	19.0%	16.3%
Leverage ratio (phase-in)	7.1%	6.4%

Table 1.4.B Qualifying capital	31/12/2016	31/12/2015
Share capital	40,000	40,000
Share premium reserve	318,521	318,481
General reserve	890,318	880,560
Provisional profit distribution for solvency purposes	16,686	15,730
Other non-controlling interests	9,404	5,300
Actuarial results on defined benefit pension plan	–16,625	–15,201
Revaluation reserve	12,149	9,939
Cash flow hedge reserve	–10,883	–13,670
Other reserves	33,156	30,178
Prudential filters	26,857	28,387
Other filters	3,738	4,984
Deductions		
Goodwill and other intangible assets	–179,051	–162,547
Deferred tax assets	–16,956	–17,219
IRB shortfall	–56,799	–79,045
Common Equity Tier I	**1,070,516**	**1,045,877**
Other non-controlling interests	3,135	1,828
Deductions		
IRB shortfall	–3,135	–1,828
Tier I capital	**1,070,516**	**1,045,877**
Subordinated loans	119,870	81,594
Other non-controlling interests	–	2,437
Deductions		
IRB shortfall	–14,983	–34,660
Tier II capital	**104,887**	**49,371**
Qualifying capital	**1,175,403**	**1,095,248**
Reconciliation of qualifying capital with consolidated equity		
Expected dividend payable for the current year	49,048	18,433
Result attributable to non-controlling interest in perpetual capital securities	–	943
Result attributable to other non-controlling interests	4,065	7,648
Goodwill and other intangible assets	179,051	162,547
Deferred tax assets	16,956	17,219
Subordinated loans	–119,870	–81,594
Other non-controlling interests	9,391	11,986
Cash flow hedge reserve	–10,883	–13,670
Unrealised gains and losses at fair value	–17,670	–14,717
Deduction for IRB shortfall	74,917	115,533
Revaluation reserves not forming part of qualifying capital	8,100	14,908
Other equity elements not forming part of equity	–14,581	–14,550
Total consolidated equity	**1,353,926**	**1,319,934**

1.5 Individual risks
The following sections detail the individual risk types to which we are exposed and for which we allocate capital. It therefore covers a combination of Pillar I and Pillar II capital requirements. The risk types covered are:
- Credit risk (Section 2);
- Market risk (Section 3);
- Operational risk (Section 4);
- Business risk (Section 5);
- Interest rate risk (Section 6);
- Liquidity risk (Section 7);
- Compliance risk (Section 8);
- Financial reporting risk (Section 9).

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 primarily revolve around 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 the 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;
- 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 the associated credit risks.

Counterparty 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.

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 the 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.

Van Lanschot offers mortgages via a third party under a white label. From a risk management perspective, the credit and outsourcing risk are of particular relevance here.

A service level agreement (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 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, gross domestic product (for countries) and country of origin. Limits can also be adjusted and withdrawn on a daily basis.

2.1.2 Credit management
A high-quality loan portfolio requires strict credit management. Credit management is carried out at both individual loan and portfolio levels. 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 takes 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 Restructuring & Recovery department or a combination of these measures. See Section 2.3 for more information.

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 Policy 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 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 Restructuring & Recovery department draws up an impairment proposal. On the basis of this proposal, the Impairment Committee determines the impairment.

2.2 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 investment portfolios. 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 Van Lanschot. Corporate Banking loans are secured by real estate, receivables, and stocks & inventories.

New loan requests are assessed to determine if they are in line with our strategy. We adopt a conservative approach when it comes to granting loans. The Corporate Banking loan portfolio is being purposely run down.

2.2.1 Breakdown of loan portfolio – by entity

The credit risk concentration mainly lies with Van Lanschot. Kempen and our foreign subsidiaries grant few loans. The limits depend entirely on the collateral provided and may change on a daily basis.

Table 2.2.1 Breakdown of loan portfolio by entity (excluding impairments)	31/12/2016		31/12/2015	
	Limit	Utilisation	Limit	Utilisation
Total	**9,849,369**	**9,786,094**	**11,109,360**	**10,684,693**
Van Lanschot	9,423,275	9,413,158	10,678,333	10,327,226
Kempen	206,932	206,932	194,506	194,506
Van Lanschot other	219,163	166,004	236,521	162,961

2.2.2 Breakdown of loan portfolio – by sector

Table 2.2.2.A Loans and advances to the public and private sectors by sector at 31/12/2016

	% of total loans	Total loans including impair-ments	Limit	Neither past due nor impaired loans	Past due loans	Impaired loans	Impair-ments	%	Non-performing loans
Total		**9,624,048**		**9,273,829**	**12,538**	**499,728**	**162,047**	**31.0***	**537,442**
Companies and institutions									
Real estate	7	679,080	690,839	619,315	297	59,467	7,024	11.8	53,912
Healthcare	2	211,618	186,656	185,286	–	26,333	7,767	29.5	26,333
Financial holding companies	2	169,152	190,598	136,738	–	32,414	2,722	8.4	32,706
Services	4	358,198	353,153	322,454	–	35,743	16,089	45.0	35,807
Retail	2	205,178	195,434	191,365	–	13,813	3,887	28.1	18,253
Capital assets	1	120,369	114,929	101,796	46	18,527	4,720	25.5	18,556
Other	7	705,768	632,537	606,507	297	98,964	21,473	21.7	114,138
Total companies and institutions	**25**	**2,449,363**	**2,364,145**	**2,163,461**	**640**	**285,262**	**63,681**	**22.3**	**299,706**
Private individuals									
Mortgage loans	64	6,235,581	6,282,866	6,148,478	6,093	81,011	47,084	58.1	101,705
Real estate	3	256,796	261,025	241,550	–	15,246	4,724	31.0	19,788
Other	9	844,354	941,333	720,340	5,805	118,209	39,515	33.4	116,243
Total private individuals	**75**	**7,336,731**	**7,485,224**	**7,110,368**	**11,898**	**214,466**	**91,323**	**42.6**	**237,736**
Impairments		162,047				155,004	7,043		

In 2016, we decided to discontinue offsetting current account balances; for more information, see 'Changes in accounting policies'. Consequently, clients with established credit lines now show higher utilisations at group level, as the associated liabilities are no longer netted. These clients now have their limits set at group level, which results in a lower limit relative to utilisation. Comparative figures have been adjusted accordingly.

* This percentage is determined by comparing the specific provisions against the impaired loans. The IBNR provision is left out of consideration.

Table 2.2.2.B Private Banking loans and advances by sector at 31/12/2016

	% of total loans	Total loans including impair–ments	Limit	Neither past due nor impaired loans	Past due loans	Impaired loans	Impair–ments	%	Non–performing loans
Total		**8,288,763**		**8,137,880**	**12,244**	**251,968**	**113,330**	**43.0***	**265,220**
Companies and institutions									
Real estate	2	207,553	211,052	201,477	297	5,779	1,408	24.4	–
Healthcare	2	200,309	173,574	173,976	–	26,333	7,767	29.5	26,333
Financial holding companies	1	111,174	129,956	106,794	–	4,380	1,456	33.3	4,204
Services	3	291,459	288,135	272,975	–	18,484	6,721	36.4	18,521
Retail	2	149,384	152,707	144,192	–	5,192	2,640	50.8	6,762
Capital assets	1	43,318	36,742	41,291	46	1,980	985	49.7	1,980
Other	4	336,127	352,515	328,756	3	7,369	4,019	54.5	12,342
Total companies and institutions	**16**	**1,339,324**	**1,344,680**	**1,269,460**	**346**	**69,517**	**24,995**	**36.0**	**70,142**
Private individuals									
Mortgage loans	74	6,202,401	6,249,033	6,116,337	6,093	79,972	46,329	57.9	95,510
Real estate	1	56,091	57,113	56,091	–	–	–	–	–
Other	10	804,277	902,579	695,993	5,805	102,479	37,144	36.2	99,567
Total private individuals	**84**	**7,062,769**	**7,208,726**	**6,868,420**	**11,898**	**182,451**	**83,473**	**45.8**	**195,078**
Impairments		113,330				108,468	4,862		

Table 2.2.2.C Corporate Banking loans and advances by sector at 31/12/2016

	% of total loans	Total loans including impair–ments	Limit	Neither past due nor impaired loans	Past due loans	Impaired loans	Impair–ments	%	Non–performing loans
Total		**1,335,285**		**1,135,948**	**294**	**247,759**	**48,717**	**18.8***	**272,222**
Companies and institutions									
Real estate	34	471,527	479,787	417,838	–	53,689	5,616	10.5	53,912
Healthcare	1	11,310	13,081	11,310	–	–	–	–	–
Financial holding companies	4	57,978	60,642	29,944	–	28,034	1,265	4.5	28,502
Services	5	66,738	65,018	49,479	–	17,259	9,368	54.3	17,286
Retail	4	55,794	42,727	47,173	–	8,621	1,247	14.5	11,491
Capital assets	6	77,051	78,187	60,504	–	16,547	3,735	22.6	16,576
Other	27	369,640	280,022	277,751	294	91,595	17,454	19.1	101,796
Total companies and institutions	**80**	**1,110,039**	**1,019,464**	**894,001**	**294**	**215,745**	**38,685**	**17.9**	**229,563**
Private individuals									
Mortgage loans	2	33,180	33,833	32,141	–	1,039	755	72.7	6,195
Real estate	15	200,705	203,911	185,459	–	15,246	4,724	31.0	19,788
Other	3	40,077	38,754	24,347	–	15,730	2,371	15.2	16,675
Total private individuals	**20**	**273,962**	**276,498**	**241,947**	**–**	**32,015**	**7,850**	**24.5**	**42,658**
Impairments		48,717				46,536	2,181		

* This percentage is determined by comparing the specific provisions against the impaired loans. The IBNR provision is left out of consideration.

Table 2.2.2.D Loans and advances to the public and private sectors by sector at 31/12/2015

	% of total loans	Total loans including impair-ments	Limit	Neither past due nor impaired loans	Past due loans	Impaired loans	Impair-ments	%	Non-performing loans
Total		**10,504,423**		**10,094,180**	**15,307**	**575,206**	**180,270**	**28.8***	**647,939**
Companies and institutions									
Real estate	8	893,711	909,594	819,247	–	74,464	6,627	8.9	76,113
Healthcare	2	212,727	216,499	201,728	–	10,999	7,073	64.3	12,806
Financial holding companies	2	220,181	276,359	187,800	–	32,381	2,094	6.5	32,809
Services	4	418,030	413,844	383,293	381	34,356	15,895	46.3	38,139
Retail	2	221,879	242,854	203,824	–	18,055	5,157	28.6	18,057
Capital assets	2	188,770	178,976	173,350	–	15,420	1,599	10.4	15,420
Other	8	849,273	849,511	749,925	30	99,318	26,990	27.2	122,655
Total companies and institutions	**28**	**3,004,571**	**3,087,637**	**2,719,167**	**411**	**284,993**	**65,435**	**23.0**	**315,999**
Private individuals									
Mortgage loans	59	6,352,612	6,396,701	6,210,212	12,889	129,511	54,242	41.9	163,585
Real estate	4	408,585	413,122	369,063	–	39,522	5,501	13.9	43,998
Other	9	918,925	1,211,900	795,738	2,007	121,180	40,539	33.5	124,357
Total private individuals	**72**	**7,680,122**	**8,021,723**	**7,375,013**	**14,896**	**290,213**	**100,282**	**34.6**	**331,940**
Impairments		180,270				165,717	14,553		

Table 2.2.2.E Private Banking loans and advances by sector at 31/12/2015

	% of total loans	Total loans including impair-ments	Limit	Neither past due nor impaired loans	Past due loans	Impaired loans	Impair-ments	%	Non-performing loans
Total		**8,562,028**		**8,386,991**	**15,307**	**284,605**	**124,875**	**41.0***	**320,460**
Companies and institutions									
Real estate	3	223,552	228,557	212,327	–	11,225	1,657	14.8	11,230
Healthcare	2	202,590	202,080	191,591	–	10,999	7,073	64.3	11,969
Financial holding companies	2	145,421	199,899	140,736	–	4,685	1,296	27.7	4,686
Services	3	291,761	304,159	279,750	381	11,630	5,389	46.3	12,608
Retail	2	171,607	192,157	162,565	–	9,042	3,257	36.0	9,043
Capital assets	1	44,506	49,093	41,767	–	2,739	487	17.8	2,739
Other	4	372,109	415,344	366,697	30	5,382	4,697	87.3	7,299
Total companies and institutions	**17**	**1,451,546**	**1,591,289**	**1,395,433**	**411**	**55,702**	**23,856**	**42.8**	**59,574**
Private individuals									
Mortgage loans	73	6,312,110	6,355,605	6,173,676	12,889	125,545	53,347	42.5	158,502
Real estate	1	53,747	54,282	53,747	–	–	–	–	–
Other	10	869,500	1,163,603	764,135	2,007	103,358	39,377	38.1	102,384
Total private individuals	**83**	**7,235,357**	**7,573,490**	**6,991,558**	**14,896**	**228,903**	**92,724**	**40.5**	**260,886**
Impairments		124,875				116,580	8,295		

* This percentage is determined by comparing the specific provisions against the impaired loans. The IBNR provision is left out of consideration.

Table 2.2.2.F Corporate Banking loans and advances by sector at 31/12/2015

	% of total loans	Total loans including impair-ments	Limit	Neither past due nor impaired loans	Past due loans	Impaired loans	Impair-ments	%	Non-performing loans
Total		**1,942,395**		**1,707,189**	**–**	**290,601**	**55,395**	**16.9***	**327,479**
Companies and institutions									
Real estate	34	670,159	681,037	606,920	–	63,239	4,970	7.9	64,883
Healthcare	1	10,137	14,419	10,137	–	–	–	–	837
Financial holding companies	4	74,760	76,460	47,064	–	27,696	798	2.9	28,123
Services	6	126,269	109,685	103,543	–	22,726	10,506	46.2	25,531
Retail	3	50,272	50,697	41,259	–	9,013	1,900	21.1	9,014
Capital assets	7	144,264	129,883	131,583	–	12,681	1,112	8.8	12,681
Other	24	477,164	434,167	383,228	–	93,936	22,293	23.7	115,356
Total companies and institutions	**78**	**1,553,025**	**1,496,348**	**1,323,734**	**–**	**229,291**	**41,579**	**18.1**	**256,425**
Private individuals									
Mortgage loans	2	40,502	41,096	36,536	–	3,966	895	22.6	5,083
Real estate	18	354,838	358,840	315,316	–	39,522	5,501	13.9	43,998
Other	2	49,425	48,297	31,603	–	17,822	1,162	6.5	21,973
Total private individuals	**22**	**444,765**	**448,233**	**383,455**	**–**	**61,310**	**7,558**	**12.3**	**71,054**
Impairments		55,395				49,137	6,258		

Tables 2.2.2.A till 2.2.2.F give the outstanding loan balances, including impairments. Together, these comprise the total amount of loans and advances to the public and private sectors. The impairments are split into specific and incurred but not reported (IBNR) provisions. The specific provisions are included in the above tables under Impairments in the Impaired loans column, while IBNR provisions are reported in the Impairments column. The IBNR figure is calculated as the expected loss multiplied by the loss identification period (LIP) in months. For Private Banking and Corporate Banking (excluding commercial real estate loans) the LIPs were 4.0 and 5.1 months respectively at year-end 2016. The LIP for commercial real estate loans was 3.7 months.

All loans for which the interest and/or redemptions are not paid in time are past due (see Section 2.3.1, Past due loans). In the event of a potential or actual default by a client on its obligations to the bank, an impairment is taken. The loan or loans in question are then designated as impaired loans (see Section 2.3.2, Impaired loans).

Non-performing loans are classified as:
- Loans with a significant limit overrun for a period of more than 90 days;
- Loans for which provisions have been taken;
- Loans with a probability of default of 1; or
- Forborne loans for which the two-year probation period has not finished.

2.2.3 Breakdown of loan portfolio – companies and institutions

In tables 2.2.3.A till 2.2.3.C, the portfolio of loans to companies and institutions (business loans) is presented in more detail to enhance transparency. The sectors and sub-sectors are based on Statistics Netherlands' general industrial classification of economic activity. Private Banking's portfolio of loans to companies and institutions decreased by 8% to €1.3 billion, primarily due to the decrease in the (sub-)sectors financial holding companies (€34 million) and other (€36 million). Corporate Banking's portfolio to companies and institutional loans contracted by 29% to €1.1 billion, primarily due to the decrease in the (sub-)sectors real estate (€199 million), other (€108 million), capital assets (€67 million) and services (€60 million).

* This percentage is determined by comparing the specific provisions against the impaired loans. The IBNR provision is left out of consideration.

Table 2.2.3.A Companies and institutional loan portfolio	31/12/2016 Balance outstanding	%	31/12/2015 Balance outstanding	%
Total	**2,449,363**	**100**	**3,004,571**	**100**
Real estate	**679,080**	**28**	**893,711**	**30**
Renting of real estate	502,593	20	683,544	23
Investment funds	49,173	2	25,873	1
Other, incl. real estate	127,314	5	184,293	6
Healthcare	**211,618**	**9**	**212,727**	**7**
Medical and dental practice activities	180,602	7	163,371	5
Other, incl. paramedical practitioners and other human health activities without accommodation, and residential nursing care	31,016	1	49,357	2
Financial holding companies	**169,152**	**7**	**220,181**	**7**
Investment funds	70,948	3	112,198	4
Participation companies and investment funds	39,455	2	53,468	2
Financial holdings	26,141	1	15,319	1
Other, incl. insurance agents, trust offices, leasing companies, risk analysts and advisers	32,608	1	39,196	1
Services	**358,198**	**15**	**418,030**	**14**
Management of real estate	56,049	2	52,257	2
Accounting, tax consultancy, administration	47,470	2	63,199	2
Financial experts	26,762	1	23,839	1
Legal advisory	24,794	1	25,685	1
Management and business consultancy	33,089	1	23,962	1
Intermediation in and management of real estate	19,445	1	30,162	1
Other, incl. credit reporting and collection agencies, other specialist services, print houses, employment placement	150,589	6	198,926	7
Retail	**205,178**	**8**	**221,879**	**7**
Retail sale in stores, incl. pharmacies and veterinary activities	140,480	6	157,193	5
Retail sale in stores, including fashion, accessories and building materials	47,759	2	43,248	1
Other, incl. business education and training	16,939	1	21,438	1
Capital assets	**120,369**	**5**	**188,770**	**6**
Manufacture of fabricated metal products and manufacture of general-purpose machinery	43,318	2	44,506	1
Wholesale of agricultural machinery, electronic and telecommunications equipment	35,972	1	81,457	3
Other, incl. renting and leasing of other machinery and equipment and of other goods, production of electrical distribution and control equipment, treatment and coating of metal	41,079	2	62,808	2
Other	**705,767**	**29**	**849,273**	**28**
Wholesale and commission trade of motor vehicle parts and accessories (not tyres)	55,396	2	85,055	3
General civil construction	41,824	2	47,174	2
Wholesale of wood, sanitary equipment and other construction materials	24,958	1	13,168	0
Agriculture and forestry incl. growing of plants for ornamental purposes	19,305	1	19,507	1
Investment institutions and financial services	14,931	1	74,357	2
Buying and selling of own real estate	13,381	1	15,399	1
Software consultancy, research and development in technology	12,118	0	15,627	1
Other, incl. industry, construction, recreation and catering, culture and entertainment, business services, engineering design and advisory, catering and food processing	523,854	21	578,986	19

Table 2.2.3.B Private Banking companies and institutional loan portfolio	31/12/2016		31/12/2015	
	Balance outstanding	%	Balance outstanding	%
Total	**1,339,324**	**100**	**1,451,546**	**100**
Real estate	**207,553**	**16**	**223,552**	**15**
Renting of real estate	75,795	5	103,857	8
Investment funds	49,173	4	25,873	2
Other, incl. real estate	82,585	6	93,822	6
Healthcare	**200,309**	**15**	**202,590**	**14**
Medical and dental practice activities	180,602	13	163,371	11
Other, incl. paramedical practitioners and other human health activities without accommodation, and residential nursing care	19,707	1	39,220	3
Financial holding companies	**111,174**	**8**	**145,421**	**10**
Investment funds	70,948	5	112,198	8
Financial holdings	26,141	2	15,319	1
Other, incl. insurance agents and trust offices	14,084	1	17,904	1
Services	**291,459**	**22**	**291,761**	**20**
Management of real estate	56,049	4	52,257	4
Accounting, tax consultancy, administration	32,391	2	39,565	3
Financial experts	26,762	2	23,839	2
Legal advisory	24,794	2	25,685	2
Management and business consultancy	33,089	2	23,962	2
Other, incl. employment placement	118,375	9	126,453	9
Retail	**149,384**	**11**	**171,607**	**12**
Retail sale in stores, incl. pharmacies and veterinary activities	140,480	10	157,193	11
Other, incl. business education and training	8,904	1	14,414	1
Capital assets	**43,318**	**3**	**44,506**	**3**
Manufacture of fabricated metal products and manufacture of general-purpose machinery	43,318	3	44,506	3
Other	**336,127**	**25**	**372,109**	**26**
Wholesale of wood, sanitary equipment and other construction materials	24,958	2	13,168	1
Agriculture and forestry incl. growing of plants for ornamental purposes	19,305	1	19,507	1
Investment institutions and financial services	14,931	1	74,357	5
Buying and selling of own real estate	13,381	1	15,399	1
Other, incl. industry, construction, recreation and catering, culture and entertainment	263,552	20	249,678	17

Table 2.2.3.C Corporate Banking companies and institutional loan portfolio	31/12/2016		31/12/2015	
	Balance outstanding	%	Balance outstanding	%
Total	**1,110,039**	**100**	**1,553,025**	**100**
Real estate	**471,527**	**42**	**670,159**	**43**
Renting of real estate	426,798	39	579,687	36
Other, incl. real estate	44,729	4	90,471	6
Healthcare	**11,310**	**1**	**10,137**	**1**
Financial holding companies	**57,978**	**5**	**74,760**	**5**
Participation companies and investment funds	39,455	4	53,468	3
Other, incl. leasing companies, risk analysts and advisers	18,523	2	21,292	1
Services	**66,738**	**6**	**126,269**	**8**
Intermediation in and management of real estate	19,445	2	30,162	2
Accounting, tax consultancy, administration	15,080	1	23,634	2
Other, incl. credit reporting and collection agencies, other specialist services, print houses	32,214	3	72,472	5
Retail	**55,794**	**5**	**50,272**	**3**
Retail sale in stores, including fashion, accessories and building materials	47,759	4	43,248	3
Other, incl. business education and training	8,035	1	7,024	0
Capital assets	**77,051**	**7**	**144,264**	**9**
Wholesale of agricultural machinery, electronic and telecommunications equipment	35,972	3	81,457	5
Other, incl. renting and leasing of other machinery and equipment and of other goods, production of electrical distribution and control equipment, treatment and coating of metal	41,079	4	62,808	4
Other	**369,640**	**33**	**477,164**	**31**
Wholesale and commission trade of motor vehicle parts and accessories (not tyres)	55,396	5	85,055	5
General civil construction	41,824	4	47,174	3
Software consultancy, research and development in technology	12,118	1	15,627	1
Other, incl. business services, engineering design and advisory, catering and food processing	260,302	23	329,308	21

2.3 Increased credit risk

Increased credit risk occurs if clients fail to meet their payment obligations for a period of at least 30 days. If the review, payment arrears or external signals point to an increased risk of discontinuity, the Restructuring & Recovery department is involved in the credit management process. An assessment is made of the probability of discontinuity. If there are indications of an increased risk of discontinuity, the client is placed under the supervision of the Restructuring & Recovery department. In the event of objective indicators of impairment, the Restructuring & Recovery department draws up an impairment proposal based on the outstanding liability, available collateral and expected cash flows. The Impairment Committee reviews this proposal and ultimately determines the impairment four times a year, in line with our policy.

The primary goal of the Restructuring & Recovery department is to migrate a client back to accounts with regular status (i.e. not under the supervision of Restructuring & Recovery) by reducing the credit risk. The aim is to do this in accordance with the loan agreements made with the client, but forbearance measures are applied if necessary. More information on forborne exposures may be found in Section 2.3.3.

2.3.1 Past due loans

We define a receivable as a past due loan if the limit has been exceeded by at least €5,000 for more than 30 days. The Overdraft Monitoring Desk monitors past due loans and supports the branch network in reducing the amount past due (see Table 2.3.1).

Table 2.3.1 Age analysis of past due accounts (excluding impaired loans)	31/12/2016		31/12/2015	
	Balance outstanding	Overdrawn amount	Balance outstanding	Overdrawn amount
Total	**12,538**	**1,032**	**15,307**	**6,660**
30-60 days	3,964	552	8,629	4,262
61-90 days	1,889	100	1,735	58
>90 days	6,685	380	4,943	2,340

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 Restructuring & Recovery department will supervise the client.

In general, collateral can be used for all current and future amounts owed by a debtor. In addition to mortgage collateral and guarantees provided by governments and credit institutions, commercial real estate, receivables, stocks & inventories may serve as collateral. The majority of collateral is not directly linked to a specific financing arrangement.

2.3.2 Impaired loans

Individual items

When determining whether a loan is impaired, all clients with arrears of more than 90 days are assessed individually and included under specific provisions. If an impairment trigger is hit in combination with a loss event, a provision is taken. The Restructuring & Recovery account manager will draw up the impairment proposal. This proposal is based on the outstanding liability, available collateral and expected cash flows. The expected future cash flows are discounted according to the DCF method. Assumptions are made about the (liquidation/recovery) value of the collateral, the estimate of payments to be received, the estimate of the timing of these payments, and the discount rate. We write off loans immediately if there is sufficient certainty about the loss.

The total amount of impaired loans with a limit overrun of at least €5,000 for a period of more than 30 days amounted to €179 million at year-end 2016 (2015: €256 million). The total release of provisions in 2016 was a release of 11 basis points of the average risk-weighted assets (RWA) during 2016 (2015: an addition of 74 basis points).

Incurred but not reported (IBNR)

All loans for which an individual provision has not been formed are included in the IBNR provisions. IBNR provisions cover value reductions resulting from loss events which may have occurred at the reporting date but of which the bank is not yet aware due to an information time lag. The IBNR provision for a portfolio is calculated as the one-year expected loss (EL) multiplied by the loss identification period (LIP) denoted as a fraction of years. The expected loss for the respective portfolio is calculated as the sum of the individual expected losses for each non-defaulted loan, which equals the product of the probability of default (PD), exposure at default (EAD), and loss given default (LGD). The LIP is also determined for each portfolio as the weighted average of the outstanding amount of realised LIP. Realised LIP is defined as the number of months (from 0 to a maximum of 12) between the date that the bank became aware of the loss and determined a specific provision and the date of the actual loss event at the client. The LIP for each portfolio is calculated using historical information going back one year.

Table 2.3.2.A Movements in impairments in 2016	Specific	IBNR	Total
At 1 January	165,717	14,553	180,270
Loans written off	–11,149	–	–11,149
Additions to or release of provision	649	–7,510	–6,861
Interest charged	1,826	–	1,826
Sale of mortgage portfolio	–2,038	–	–2,038
At 31 December	**155,004**	**7,043**	**162,047**
As a percentage of RWA			2.87

Due to the reduction of our loan portfolio, improved credit quality and intensive preventive & credit management a lower provision for IBNR is required of €7.0 million (year-end 2015: €14.6 million) and a release was recognised of €7.5 million.

Table 2.3.2.B Movements in impairments in 2015	Specific	IBNR	Total
At 1 January	314,421	9,557	323,978
Loans written off	–66,740	–	–66,740
Additions to or release of provision	46,008	4,996	51,004
Interest charged	5,501	–	5,501
Sale of real estate loans portfolio	–133,473	–	–133,473
At 31 December	**165,717**	**14,553**	**180,270**
As a percentage of RWA			2.80

Table 2.3.2.C Impairments charged to profit or loss	2016	2015
Impairments charged to profit or loss	–6,862	51,004
As a percentage of RWA	–0.11	0.74

Table 2.3.2.D Specific provisions by entity	31/12/2016		31/12/2015	
	Impaired	Provision	Impaired	Provision
Total	**499,728**	**155,004**	**575,206**	**165,717**
Van Lanschot Bankiers	496,398	151,997	572,488	162,999
Kempen	2,515	2,515	2,718	2,718
Van Lanschot other	815	491	–	–

2.3.3 Forborne exposures

A loan is regarded as forborne if the borrower is unable to meet its contractual obligations vis-à-vis 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 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 Restructuring & Recovery department carries out intensive credit management. Before any new arrangements are agreed, a detailed analysis is made of the client, the 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.

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 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 this period. After expiry of the two-year probation period, no payments by the borrower may be in arrears for more than 30 days.

The recording and monitoring of loans which are subject to forbearance is carried out by the Restructuring & Recovery department. Each quarter, and where appropriate more frequently for specific loans, an individual assessment is carried out of forborne exposures 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.

Up to 2015 forborne exposures were shown at client group level. The registration of forborne exposures was changed in 2016 from client group level to facility level. This led to a decrease in forborne exposures of €122 million.

Furthermore, in 2016 we decided to discontinue offsetting current account balances (see 'Changes in accounting policies'). The comparative figures at 31 December 2015 have been adjusted accordingly.

Tables 2.3.3.A through 2.3.3.G show the total volume of forborne exposures. We apply several types of forbearance measures (see Table 2.3.3.C). Following the decision to apply such a measure, a loan remains under the supervision of the Restructuring & Recovery department until the forbearance situation has ended.

Table 2.3.3.A Forborne exposures by sector 31/12/2016

	% of total loans	Total loans including impair-ments	Limit	Neither past due nor impaired loans	Past due loans	Impaired loans	Impairments	%
Total		**116,558**		**9,274**	**519**	**173,248**	**66,484**	**38.4**
Companies and institutions								
Real estate	9	16,721	16,568	–	–	16,721	1,402	8.4
Healthcare	2	3,807	3,633	–	–	3,807	1,959	51.4
Financial holding companies	6	10,732	9,475	–	–	10,732	2,462	22.9
Services	9	16,386	11,909	241	–	16,145	9,779	60.6
Retail	4	7,324	7,335	2,970	–	4,354	2,475	56.8
Capital assets	2	3,264	2,622	2	–	3,262	1,346	41.3
Other	33	61,205	53,667	4,686	294	56,225	10,078	17.9
Total companies and institutions	**65**	**119,438**	**105,208**	**7,898**	**294**	**111,246**	**29,500**	**26.5**
Private individuals								
Mortgage loans	4	7,389	7,389	1,339	–	6,050	1,612	26.6
Real estate	6	10,226	10,224	–	–	10,226	3,072	30.0
Other	25	45,988	15,232	36	225	45,726	32,300	70.6
Total private individuals	**35**	**63,603**	**32,844**	**1,375**	**225**	**62,002**	**36,984**	**59.6**
Impairments		66,484				66,484		

Table 2.3.3.B Forborne exposures by sector 31/12/2015

	% of total loans	Total loans including impair-ments	Limit	Neither past due nor impaired loans	Past due loans	Impaired loans	Impairments	%
Total		**155,359**		**18,978**	**8**	**201,742**	**65,369**	**32.4**
Companies and institutions								
Real estate	18	39,108	39,417	–	–	39,108	3,501	9.0
Healthcare	2	3,865	3,763	–	–	3,865	1,640	42.4
Financial holding companies	3	6,567	6,785	–	–	6,567	780	11.9
Services	9	19,452	15,272	6,082	–	13,370	7,174	53.7
Retail	4	9,480	9,653	4,100	–	5,380	2,881	53.6
Capital assets	1	3,095	1,902	–	–	3,095	821	26.5
Other	25	55,976	33,123	4,654	–	51,322	14,205	27.7
Total companies and institutions	**62**	**137,543**	**109,915**	**14,836**	**–**	**122,707**	**31,002**	**25.3**
Private individuals								
Mortgage loans	8	17,433	18,473	2,303	–	15,130	4,226	27.9
Real estate	10	21,388	20,151	1,806	–	19,582	1,254	6.4
Other	20	44,364	16,197	33	8	44,323	28,887	65.2
Total private individuals	**38**	**83,185**	**54,821**	**4,142**	**8**	**79,035**	**34,367**	**43.5**
Impairments		65,369				65,369		

Table 2.3.3.C Types of forborne exposure	31/12/2016	31/12/2015
Total	**116,558**	**155,359**
Repayments/reviews temporarily reduced/suspended	80,998	113,138
Provision of (temporary) additional funding (emergency loan)	15,018	18,045
Temporary reduction in interest rate or loan is made interest-free	14,897	12,866
Conditional and/or partial forgiveness of the loan	5,646	11,311

Table 2.3.3.D Movements in forborne exposures	2016	2015
At 1 January	155,359	354,376
New forborne exposures	38,442	103,034
Additions and repayments	–68,765	–93,261
Assets no longer designated as forborne exposures	–8,940	–30,978
Sale of real estate loans portfolio	–	–135,660
Impairments	6,542	32,152
Discontinued offsetting of current account balances	–	47,579
Transition from client group level to loan facility level	–	–121,882
Reclassification of assets classified as held for sale	–6,080	–
At 31 December	**116,558**	**155,359**

Tables 2.3.3.E and 2.3.3.F 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 2.3.3.E Forborne exposures by collateral at 31/12/2016

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Total primary collateral	Secondary collateral and unsecured loans
Total	**116,558**	**22,351**	**33,308**	**42,520**	**98,179**	**35,064**
Mortgage loans	5,665	22,351	–	–	22,351	–
Current accounts	56,334	–	–	42,520	42,520	13,814
Loans	50,864	–	33,308	–	33,308	17,556
Subordinated loans	3,694	–	–	–	–	3,694

Table 2.3.3.F Forborne exposures by collateral at 31/12/2015

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Total primary collateral	Secondary collateral and unsecured loans
Total	**155,359**	**52,855**	**59,965**	**46,073**	**158,893**	**36,172**
Mortgage loans	13,149	52,855	–	–	52,855	–
Current accounts	57,491	–	–	46,073	46,073	11,418
Loans	81,959	–	59,965	–	59,965	21,994
Subordinated loans	2,760	–	–	–	–	2,760

The geographical breakdown in Table 2.3.3.G is based on client locations.

Table 2.3.3.G Forborne exposures by geographical area	31/12/2016	31/12/2015
Total	**116,558**	**155,359**
Netherlands	109,955	142,378
Belgium	986	6,611
Other	5,617	6,370

2.4 Credit risk models

We have developed internal models for measuring and monitoring credit risk for the majority of the loan portfolio. These internal models are also used to determine the required capital that has to be set aside for absorbing unexpected credit losses. As such, 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: the standardised approach (SA), the foundation internal ratings-based (F-IRB) approach, and the advanced internal ratings-based (A-IRB) approach.

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 F-IRB, banks are allowed to use internal estimates of the probability of default (PD) in determining the required capital. The credit conversion factors for determining the exposure at default (EAD) and the loss given default (LGD) are prescribed. 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 F-IRB and SA.

Van Lanschot received approval from DNB to report a large proportion of its loan portfolios using internal ratings-based (IRB) methods. As mentioned above, part of the portfolio is capitalised under the A-IRB and F-IRB method. More specifically, the retail and non-retail exposures are capitalised under A-IRB and F-IRB, respectively.

Retail portfolio

The retail portfolio comprises four sub-portfolios with the following exposures:

- Mortgage exposures;
- Qualifying revolving retail exposures up to €40,000;
- Other retail exposures up to €2,000,000;
- Small and medium-sized enterprises (SMEs) with total exposures up to €1,000,000.

The PD models are 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. The estimation of the EAD is based on the limit and credit utilisation.

Non-retail portfolio

The non-retail portfolio comprises four sub-portfolios with the following exposures:

- Commercial real estate exposures;
- Exposures to holding companies that are clients with non-controlling interests and shareholdings;
- Exposures to corporate clients;
- Exposures exceeding €2,000,000 (excluding residential mortgages) to natural persons.

For each of these sub-portfolios an internal PD model has been developed that uses behavioural and other client characteristics to estimate the PD.

IRB equity portfolio

The IRB equity portfolio includes Van Lanschot's own positions in equities in the investment portfolio, subordinated receivables, non-controlling interests and shareholdings which appear on the company statement of financial position of Van Lanschot Bankiers. 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 which cannot be 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 (i.e. excluding retail, non-retail and equity) is calculated on the basis of the standardised approach.

2.4.1 Model governance framework IRB models

The model governance framework for IRB models is part of the over-arching Credit Governance Manual. It describes the model development and approval process, which is based on the model life-cycle, and defines the roles and responsibilities of the relevant stakeholders. The model life-cycle includes six stages:

1. Risk definition;
2. Data management;
3. Model development and redevelopment;
4. Model implementation;
5. Model monitoring;
6. Model validation.

In 2015, this framework was updated and approved by senior management.

Model monitoring and validation are important stages of the model life-cycle. The main aim of the model monitoring and validation process is to reduce model risk, which can be caused by inadequate models or incorrect use of models. The process is implemented to monitor the model performance on an ongoing basis and to identify any potential deterioration in performance which may signal that a specific model may not be performing as intended. The model validation process validates the accuracy and consistency of ratings systems, processes, and the estimation of the relevant credit risk parameters; compares model outcomes against other relevant external sources and alternative model approaches; and reviews the model specification, the use of models and regulatory compliance. Both stages can trigger a model recalibration or (re)development.

The stakeholders involved in the model monitoring and validation processes are the model owner, independent model validation, Group Audit and senior management. The model owner monitors the model performance and reports to senior risk management each quarter. Once a year the model owner also reports to Group Audit, which reviews the credit risk parameters against the background of the observed model performance and any actions undertaken to resolve any observed deterioration in the model performance. Periodically, independent model validation performs a validation of the models in use and/or an initial validation of significant model changes. Model validation reports its findings to senior management.

2.5 Quality of loan portfolio

As described in Section 2.4 the loan portfolio is divided into retail and non-retail loans. Different approaches are used for retail and non-retail loans to determine the risk profile of the portfolio.

Retail portfolio

The quality of the retail portfolio (see description in Section 2.4) is determined using statistical segmentation models. These models place retail loans in risk categories based on specific characteristics and statistical models. The loan portfolio is shown by risk categories at year-end in Table 2.5.A.1.

Non-retail portfolio

We use internally developed rating models to assess non-retail loans granted in the Netherlands. A client's rating is a decisive factor in the assessment and pricing of customised loans. The rating is also used to enhance insight into the loan portfolio and to monitor its quality.
We have developed a rating scale for the rating models. The highest possible rating is class T, followed by classes A to F. Combinations of letters with numbers allow for further differentiation. The same rating scale is applied to all clients in each particular model segment. The loan portfolio is shown by rating at year-end in Table 2.5.A.2.

Table 2.5.A.1 Customised loans: breakdown of risk categories of balance outstanding (%)

Description	PD weighting %	31/12/2016	31/12/2015
		100	**100**
Top class	0.03	–	–
Strong	0.04 – 0.09	1	1
Good	0.10 – 0.55	64	61
Adequate	0.64 – 1.85	20	21
Weak	2.23 – 11.87	13	14
Very weak	32.86	0	0
Default	100	2	3

Table 2.5.A.1 Customised loans: breakdown of internal ratings of balance outstanding (%)

Internal rating	Description	PD weighting %	31/12/2016	31/12/2015
Total			**100**	**100**
T	Top class	0.03	–	–
A1–A3	Strong	0.04 – 0.09	–	1
B1-B3	Good	0.17 – 0.55	18	15
C1-C3	Adequate	0.84 – 1.85	44	31
D1-D3	Weak	2.97 – 11.87	23	38
E	Very weak	32.86	1	2
F1-F3	Default	100	14	13

The customised portfolio amounts to €2.0 billion (2015: €3.0 billion). The spread across the ratings is in line with economic trends.

Virtually the entire customised portfolio was assigned a rating. Tables 2.5.B and 2.5.C provide insight into the underlying collateral of the loan portfolio.

Table 2.5.B Loans and advances to the public and private sectors by collateral at 31/12/2016

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Guarantees	Total primary collateral	Secondary collateral and unsecured loans
Total	**9,624,048**	**5,629,857**	**880,531**	**850,124**	**284,173**	**7,644,683**	**1,979,364**
Mortgage loans	6,283,228	5,629,857	–	–	–	5,629,857	653,372
Current accounts	1,100,740	–	–	585,691	–	585,691	515,049
Loans	1,955,391	–	880,531	–	284,173	1,164,703	790,687
Securities-backed loans and settlement receivables	272,991	–	–	264,433	–	264,433	8,558
Subordinated loans	11,698	–	–	–	–	–	11,698

Table 2.5.C Loans and advances to the public and private sectors by collateral at 31/12/2015

	Balance outstanding	Mortgage collateral	Commercial real estate	Financial collateral	Guarantees	Total primary collateral	Secondary collateral and unsecured loans
Total	**10,504,423**	**5,610,781**	**1,233,397**	**801,894**	**165,924**	**7,811,996**	**2,692,427**
Mortgage loans	6,389,152	5,610,781	–	–	–	5,610,781	778,371
Current accounts	1,349,988	–	–	659,965	–	659,965	690,023
Loans	2,506,805	–	1,233,397	–	165,924	1,399,321	1,107,484
Securities-backed loans and settlement receivables	243,751	–	–	141,929	–	141,929	101,822
Subordinated loans	14,727	–	–	–	–	–	14,727

We adopt a cautious approach towards granting unsecured loans. 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 2.5.B and 2.5.C 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.

2.6 Concentration within the loan portfolio

About 80% of Van Lanschot's loan portfolio consists of loans to private clients. The credit risk in this portfolio is limited. We aim for a diversified loan portfolio and have actively sought to reduce the concentration on individual counterparties. In 2016 this led to a 53% reduction in the total volume of the ten highest limits compared with 2015. Reflecting our risk appetite, we have set limits for concentrations in individual sectors.

2.6.1 Commercial real estate

Van Lanschot has a significant, but declining, exposure to commercial real estate. The bank has consistently applied conservative lending criteria in this segment. In 2013 we took the decision to gradually run down the commercial real estate financing activities of the corporate bank.

Table 2.6.1 Commercial real estate: breakdown of ratings of balance outstanding (%)

Internal rating	Description	PD weighting %	31/12/2016	31/12/2015
Total			**100**	**100**
A1–A3	Strong	0.04 – 0.09	–	–
B1-B3	Good	0.17 – 0.55	22	19
C1-C3	Adequate	0.84 – 1.85	50	50
D1-D3	Weak	2.97 – 11.87	20	22
E	Very weak	32.86	–	–
F1-F3	Default	100	8	9

Van Lanschot's commercial real estate portfolio comprises €0.7 billion in real estate loans to corporate clients (2015: €0.9 billion) and €0.3 billion in real estate loans to private clients (2015: €0.4 billion). This decline in exposure is in line with Van Lanschot's run-off strategy for its corporate portfolio of real estate. The majority of the decline was realised as result of regular amortisation and refinancing.

At year-end 2016, the bank had impaired real estate loans totalling €75 million (2015: €114 million). A provision of approximately €12 million (16%) was taken for these loans (2015: €12 million and 11%).

The LTV of the real estate loan portfolio is 71% (2015: 72%).

2.6.2 Individual loan concentrations

The ten largest loans to individual counterparties other than financial institutions totalled €272 million at year-end 2016, compared with a total loan portfolio of €9.8 billion (2015: €357 million; total loan portfolio €10.7 billion).

2.6.3 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 2.6.3 Loans and advances to the public and private sectors by geographical area	31/12/2016	31/12/2015
Total	**9,624,048**	**10,504,423**
Netherlands	9,030,834	9,628,159
Belgium	225,781	404,494
Other	367,434	471,771

2.7 Additional information under Basel regulations: credit risk

Credit risk breaks down into four different types of exposure: on- and off-balance sheet items, repo transactions and derivatives transactions. Tables 2.7.A and 2.7.B show the gross and the net exposure, risk weighting and capital adequacy requirements by type of exposure. The average risk weighting for each type of exposure is calculated by dividing the risk weighting by the net exposure.

Under Basel II, RWA was calculated for a number of items (including intangible assets and assets arising from pension schemes). Under the new CRD IV directive, these items will ultimately have to be recognised as a deduction from equity. To prevent banks being immediately confronted with substantial extra deductions, the directive allows phasing-in of a number of these items. This means that between 2014 and 2018, an increasing share of these deductions will be charged to equity. At the same time, the RWA will be calculated for a proportion of these items that are not yet deducted from equity.

Table 2.7.A Breakdown of credit risk by type of exposure at 31/12/2016

	Gross exposure	Net exposure	Average risk weighting	Risk weighting	Capital adequacy requirement
Total	**16,103,072**	**15,662,400**	**29%**	**4,514,771**	**361,182**
On-balance sheet items	14,599,331	14,368,117	28%	4,042,104	323,368
Off-balance sheet items	1,102,546	893,087	34%	300,309	24,025
Repo transactions	–	–	0%	–	–
Derivatives transactions	401,195	401,195	43%	172,357	13,789

Table 2.7.B Breakdown of credit risk by type of exposure at 31/12/2015

	Gross exposure	Net exposure	Average risk weighting	Risk weighting	Capital adequacy requirement
Total	**17,551,788**	**16,593,617**	**32%**	**5,343,952**	**427,516**
On-balance sheet items	14,561,908	15,350,317	31%	4,760,313	380,825
Off-balance sheet items	1,364,899	832,085	47%	389,164	31,133
Repo transactions	213,758	–	0%	–	–
Derivatives transactions	411,223	411,215	47%	194,475	15,558

Off-balance sheet items comprise contingent liabilities, revocable and irrevocable commitments. The Notes to the consolidated statement of financial position refer only to Contingent liabilities (Note 25) and Irrevocable commitments (Note 26).

Table 2.7.C Capital adequacy requirement by exposure class at 31/12/2016	Gross exposure	Net exposure	Average risk weighting	Risk weighting	Capital adequacy requirement
Total	**16,103,072**	**15,662,400**	**29%**	**4,514,771**	**361,182**
SA exposure classes					
Central governments and central banks	1,874,843	2,159,016	1%	19,485	1,559
Regional governments and local authorities	60,650	60,167	0%	203	16
International organisations	39,669	39,669	0%	–	–
Multilateral development banks	50,678	50,678	0%	–	–
Financial companies and financial institutions	1,203,271	956,414	36%	341,918	27,353
Units in collective investment schemes	28,864	28,864	100%	28,864	2,309
Corporates	505,444	293,083	97%	284,169	22,734
Private individuals and medium-sized enterprises	484,261	312,339	43%	133,124	10,650
Secured on real estate	523,065	523,065	35%	183,022	14,642
Past due items	64,202	35,636	104%	37,144	2,972
Items with a higher risk	37,166	37,141	150%	55,712	4,457
Covered bonds	619,420	619,420	13%	78,126	6,250
Other risk-weighted assets	438,442	438,441	80%	351,048	28,084
Total SA	**5,929,975**	**5,553,932**	**27%**	**1,512,817**	**121,026**
F-IRB exposure classes					
Corporates	2,622,546	2,542,336	70%	1,790,383	143,231
Equities	45,910	45,910	308%	141,390	11,311
Securitisation positions	658,604	658,604	7%	48,868	3,909
Total F-IRB	**3,327,059**	**3,246,849**	**61%**	**1,980,641**	**158,451**
A-IRB exposure classes					
Retail	6,846,038	6,861,618	15%	1,021,313	81,705
Total A-IRB	**6,846,038**	**6,861,618**	**15%**	**1,021,313**	**81,705**

Table 2.7.D Capital adequacy requirement by exposure class at 31/12/2015

	Gross exposure	Net exposure	Average risk weighting	Risk weighting	Capital adequacy requirement
Total	**17,551,788**	**16,593,617**	**32%**	**5,343,952**	**427,516**
SA exposure classes					
Central governments and central banks	2,092,466	2,258,390	0%	6,427	514
Regional governments and local authorities	57,865	57,865	0%	–	–
International organisations	25,091	25,091	0%	–	–
Multilateral development banks	50,463	50,463	0%	–	–
Financial companies and financial institutions	1,191,808	825,163	35%	285,567	22,845
Units in collective investment schemes	18,880	18,880	100%	18,880	1,510
Corporates	513,628	216,078	98%	211,923	16,954
Private individuals and medium-sized enterprises	484,605	183,451	75%	138,294	11,063
Secured on real estate	415,856	415,856	35%	145,484	11,639
Past due items	48,829	26,513	103%	27,226	2,178
Items with a higher risk	48,452	48,028	150%	72,041	5,763
Covered bonds	700,942	700,942	12%	83,128	6,650
Other risk-weighted assets	441,625	441,567	81%	355,514	28,442
Total SA	**6,090,510**	**5,268,287**	**26%**	**1,344,484**	**107,558**
F-IRB exposure classes					
Corporates	3,424,259	3,329,996	81%	2,701,407	216,113
Equities	51,478	51,478	257%	132,195	10,576
Securitisation positions	806,848	806,848	7%	59,868	4,789
Total F-IRB	**4,282,585**	**4,188,322**	**69%**	**2,893,470**	**231,478**
A-IRB exposure classes					
Retail	7,178,693	7,137,008	15%	1,105,998	88,480
Total A-IRB	**7,178,693**	**7,137,008**	**15%**	**1,105,998**	**88,480**

If receivables have been guaranteed by third parties (such as governments or central banks), the gross exposure is included in the original exposure class, while the net exposure is included in the exposure class of the party furnishing the guarantee (such as Receivables from central governments and central banks). This is the reason that the net exposure is higher than the gross exposure in this exposure class. See the glossary for more information about the Basel exposure classes.

Risk weighting of SA exposure classes based on credit assessments by rating agencies

We use Fitch Ratings' assessments. The rating and exposure class determine the weighting of a certain SA exposure (see Tables 2.7.E and 2.7.F).

A receivable from a financial institution is classified based on the rating in one of six credit quality steps. Non-current receivables from financial institutions with an AA rating are assigned a weighting of 20% (credit quality step 1). An A rating corresponds to credit quality step 2 and a 50% weighting. A C rating corresponds to credit quality step 6 and a 150% weighting. Credit quality step 3 is applied to unrated exposures.

Table 2.7.E Credit quality step by relevant exposure class (%)

	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
Central government and central banks	0	20	50	100	100	150
Regional government and local authorities	20	50	100	100	100	150
Financial companies and financial institutions	20	50	50	100	100	150
Current receivables from corporate and financial companies	20	20	20	50	50	150
Corporates	20	50	100	100	150	150

Table 2.7.F Fitch Ratings by credit quality step

	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
	AAA	A+	BBB+	BB+	B+	CCC
	AA+	A	BBB	BB	B	CC
	AA	A-	BBB-	BB-	B-	C
	AA-	F-2	F-3			D
	F-1					

Table 2.7.G SA exposures by risk weighting	31/12/2016		31/12/2015	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Total	**5,929,975**	**5,553,932**	**6,090,510**	**5,268,287**
0%	2,115,414	2,339,587	2,446,512	2,482,403
10%	457,579	457,579	570,604	570,604
20%	853,730	608,889	917,847	540,141
35%	523,065	523,065	415,856	415,856
50%	511,530	509,030	469,088	409,088
75%	484,261	312,339	343,076	186,297
100%	935,788	695,491	877,525	614,444
150%	40,814	40,157	50,002	49,454
250%	7,794	7,794	–	–

Breakdown of IRB corporate exposures by probability of default classes

Corporate receivables are divided into default classes in the IRB models (see Tables 2.7.H and 2.7.I).

Table 2.7.H Probability of default classes IRB corporates at 31/12/2016

	Average LGD weighting of exposure	Average PD weighting of exposure	Net exposure	Risk weighting	Capital adequacy requirement
Total			**2,542,336**	**1,790,383**	**143,231**
1	0.00%	0.00%	–	–	–
2	44.50%	0.09%	10,655	2,801	224
3	44.88%	0.17%	50,300	17,884	1,431
4	36.96%	0.33%	164,584	73,005	5,840
5	36.39%	0.55%	251,463	136,973	10,958
6	35.49%	0.84%	267,271	167,762	13,421
7	42.13%	1.23%	279,882	238,270	19,062
8	38.11%	1.85%	463,646	398,915	31,913
9	32.55%	2.97%	221,698	185,158	14,813
10	36.64%	5.43%	286,441	309,650	24,772
11	36.90%	11.87%	86,405	129,701	10,376
12	24.10%	32.86%	101,862	130,263	10,421
13	35.89%	100.00%	358,130	–	–

Table 2.7.I Probability of default classes IRB corporates at 31/12/2015

	Average LGD weighting of exposure	Average PD weighting of exposure	Net exposure	Risk weighting	Capital adequacy requirement
Total			**3,329,996**	**2,701,407**	**216,113**
1	0.00%	0.00%	–	–	–
2	44.94%	0.09%	10,906	2,884	231
3	44.78%	0.17%	69,688	25,160	2,013
4	40.41%	0.33%	161,315	78,025	6,242
5	39.99%	0.55%	320,822	196,344	15,708
6	41.93%	0.84%	291,449	214,053	17,124
7	41.53%	1.23%	392,393	337,033	26,963
8	39.28%	1.85%	523,064	469,056	37,524
9	37.84%	2.97%	392,911	381,422	30,514
10	34.38%	5.43%	482,028	523,507	41,880
11	36.99%	11.87%	182,573	275,751	22,060
12	27.16%	32.86%	135,090	198,172	15,854
13	37.88%	100.00%	367,757	–	–

Table 2.7.J IRB equities simple risk weighting method at 31/12/2016

	Gross exposure	Net exposure	Risk weighting	Capital adequacy requirement
Total	**45,910**	**45,910**	**141,390**	**11,311**
190% Positions in unlisted equities	10,667	10,667	20,267	1,621
290% Positions in listed equities	–	–	–	–
370% All other positions in equities	27,513	27,513	101,798	8,144
250% Equity positions >10% in financial companies	7,730	7,730	19,325	1,546

Table 2.7.K IRB equities simple risk weighting method at 31/12/2015

	Gross exposure	Net exposure	Risk weighting	Capital adequacy requirement
Total	**51,478**	**51,478**	**132,195**	**10,576**
190% Positions in unlisted equities	19,299	19,299	36,668	2,933
290% Positions in listed equities	19,696	19,696	57,119	4,570
370% All other positions in equities	6,000	6,000	22,200	1,776
250% Equity positions >10% in financial companies	6,483	6,483	16,208	1,297

Table 2.7.L IRB securitisations at 31/12/2016

		Gross exposure	Net exposure	Risk weighting	Capital adequacy requirement
Total	**Category**	**658,604**	**658,604**	**48,868**	**3,909**
7 - 10%	A (most senior)	658,604	658,604	48,868	3,909

Table 2.7.M IRB securitisations at 31/12/2015

		Gross exposure	Net exposure	Risk weighting	Capital adequacy requirement
Total	**Category**	**806,848**	**806,848**	**59,868**	**4,789**
7 - 10%	A (most senior)	806,848	806,848	59,868	4,789

Breakdown of IRB retail exposures by probability of default classes

Retail receivables are divided into default classes in the IRB models (see Tables 2.7.N and 2.7.O).

Table 2.7.N Probability of default classes IRB retail at 31/12/2016

	Average LGD weighting of exposure	Average PD weighting of exposure	Net exposure	Risk weighting	Capital adequacy requirement
Total			**6,861,618**	**1,021,313**	**81,705**
1	33.50%	0.04%	62,166	2,946	236
2	13.24%	0.12%	4,402,976	173,617	13,889
3	12.66%	2.87%	1,513,731	445,397	35,632
4	33.76%	0.75%	438,033	136,361	10,909
5	36.60%	2.23%	118,468	59,289	4,743
6	31.12%	5.13%	204,931	98,984	7,919
7	23.03%	100.00%	121,314	104,718	8,377

Table 2.7.O Probability of default classes IRB retail 31/12/2015

	Average LGD weighting of exposure	Average PD weighting of exposure	Net exposure	Risk weighting	Capital adequacy requirement
Total			**7,137,008**	**1,105,998**	**88,480**
1	33.50%	0.04%	59,805	2,834	227
2	13.67%	0.13%	4,395,064	180,930	14,474
3	13.04%	2.86%	1,684,646	506,386	40,512
4	33.79%	0.75%	463,423	142,606	11,408
5	36.60%	2.23%	111,936	54,065	4,325
6	31.27%	5.14%	241,208	116,611	9,329
7	22.02%	100.00%	180,926	102,566	8,205

Maximum credit risk

Tables 2.7.P and 2.7.Q provide insight into the maximum credit risk to which we are exposed at the reporting date. The assumptions used to prepare this breakdown are the exposures designated as credit risk under Basel III. In order to provide an insight into the maximum credit risk, exposures are classified in these tables by on- and off-balance sheet items, as well as repo transactions. There are a number of reasons for the differences between the balances as recognised on the face of the statement of financial position and the balances disclosed in the Gross exposure column. The greatest differences relate to the classification of the loan loss provision and the deviating consolidated base for regulatory purposes. Goodwill, intangible assets from acquisitions and certain investments in financial institutions are deductible from qualifying capital and thus do not form part of the gross exposure according to the definition in Basel III. In addition, financial receivables from trading activities are classified as market risk.

Table 2.7.P Maximum credit risk at 31/12/2016

	Gross exposure	Net exposure	Average risk weighting	Risk weighting	Capital adequacy requirement
Total	**16,103,072**	**15,662,340**	**29%**	**4,514,771**	**361,182**
Assets					
Cash and cash equivalents and balances at central banks	1,585,339	1,554,695	4%	60,267	4,821
Financial assets held for trading	–	–	0%	–	–
Due from banks	188,235	171,061	16%	28,135	2,251
Derivatives	401,195	401,195	43%	172,357	13,789
Financial assets designated at fair value through profit or loss	336,238	336,238	46%	153,391	12,271
Available-for-sale investments	1,680,036	1,680,036	16%	268,006	21,440
Held-to-maturity investments	513,438	513,438	13%	67,210	5,377
Loans and advances to the public and private sectors	9,869,049	9,690,544	33%	3,157,676	252,614
Investments in associates using the equity method	74,798	74,798	115%	86,314	6,905
Property and equipment	57,178	57,178	100%	57,178	4,574
Goodwill and other intangible assets	–	–	0%	–	–
Tax assets	41,135	39,549	53%	20,937	1,675
Assets classified as held for sale	103,639	100,331	69%	69,399	5,552
Other assets	150,248	150,247	49%	73,593	5,887
Total assets	**15,000,526**	**14,769,312**	**29%**	**4,214,462**	**337,157**
Off-balance sheet items	1,102,546	893,087	34%	300,309	24,025
Repo transactions	–	–	0%	–	–
	1,102,546	**893,087**	**34%**	**300,309**	**24,025**

Table 2.7.Q Maximum credit risk at 31/12/2015

	Gross exposure	Net exposure	Average risk weighting	Risk weighting	Capital adequacy requirement
Total	**17,551,788**	**16,593,617**	**32%**	**5,343,952**	**427,516**
Assets					
Cash and cash equivalents and balances at central banks	881,019	849,652	6%	54,457	4,357
Financial assets held for trading	–	–	0%	–	–
Due from banks	200,073	118,821	17%	19,705	1,576
Derivatives	411,223	411,215	47%	194,475	15,558
Financial assets designated at fair value through profit or loss	712,578	712,578	26%	188,129	15,050
Available-for-sale investments	2,159,141	2,159,141	8%	167,859	13,429
Held-to-maturity investments	523,639	523,639	13%	68,315	5,465
Loans and advances to the public and private sectors	10,766,888	10,669,147	38%	4,019,095	321,529
Investments in associates using the equity method	55,840	55,840	117%	65,563	5,245
Property and equipment	63,067	63,067	100%	63,067	5,045
Goodwill and other intangible assets	–	–	0%	–	–
Tax assets	51,398	50,000	13%	6,427	514
Other assets	148,265	148,432	73%	107,696	8,615
Total assets	**15,973,131**	**15,761,532**	**31%**	**4,954,788**	**396,383**
Off-balance sheet items	1,364,899	832,085	47%	389,164	31,133
Repo transactions	213,758	–	0%	–	–
	1,578,657	**832,085**	**47%**	**389,164**	**31,133**

2.8 Additional information under Basel regulations: counterparty credit risk

Counterparty credit risk is the risk that a transaction will default before final settlement of the cash flows relating to the transaction. Counterparty credit risk exists for both parties to the contract and plays a role in over-the-counter derivatives and repo transactions. The method we apply is based on valuation at replacement cost.

Table 2.8.A Counterparty credit risk relating to derivative contracts	31/12/2016	31/12/2015
Gross replacement cost of derivative contracts (only items with a replacement cost greater than nil)	147,788	202,346
Settlement of derivative contracts	–53,091	–44,347
Add-ons for derivative contracts arising from potential future credit risk	306,498	253,216
Net credit equivalent of derivative contracts	**401,195**	**411,215**

Table 2.8.B Net credit exposure by type of derivative contract	31/12/2016	31/12/2015
Total	**401,195**	**411,215**
Interest rate contracts	146,285	192,609
Foreign exchange contracts	25,718	31,976
Equity derivative contracts	229,192	186,630

The value of the potential credit exposure is determined on the basis of the total of the theoretical principals or the underlying values of derivative contracts, irrespective of whether the current replacement value is positive or negative. Depending on the type of derivative, the theoretical principals or underlying values are multiplied by a percentage ranging from 0% for interest rate contracts with a term to maturity of one year or less to 15% for commodities contracts with a term to maturity of more than five years.

Methods for calculating risk-weighted assets of securitisation positions

The types of securitisation positions at Van Lanschot are shown in Table 2.8.C. The calculation of risk-weighted assets for debt securities relating to Van Lanschot's own securitisation transactions is based on the underlying mortgage loans. In the case of investor positions in securitisations, the risk weighting is determined by an external rating agency assessment.

Table 2.8.C Types of securitisation	31/12/2016		31/12/2015	
	Risk weighting	Capital adequacy requirement	Risk weighting	Capital adequacy requirement
Total	**48,868**	**3,909**	**59,868**	**4,789**
Other investor positions	48,868	3,909	59,868	4,789

Guarantees, financial collateral and other forms of collateral by exposure class (credit risk)

The collateral provided for each exposure class in accordance with CRR is shown in Table 2.8.D.

Table 2.8.D Collateral by exposure class	31/12/2016			31/12/2015		
	Guarantees	Financial collateral	Other collateral	Guarantees	Financial collateral	Other collateral
Total	**284,173**	**888,211**	**114,870**	**165,924**	**1,210,575**	**132,380**
SA exposure classes						
Financial companies and financial institutions	141,933	103,816	–	82,198	355,154	–
Corporates	60,887	60,783	–	–	123,240	–
Private individuals and medium-sized enterprises	81,353	37,732	–	83,726	6,676	–
Past due items	–	409	–	–	47	–
Other risk-weighted assets	–	1	–	–	59	–
Total SA	**284,173**	**202,741**	**–**	**165,924**	**485,176**	**–**
IRB exposure classes						
Retail	–	247,335	89	–	276,185	580
Corporates	–	438,135	114,781	–	449,214	131,800
Total IRB	–	**685,470**	**114,870**	**–**	**725,399**	**132,380**

Guarantees are government-guaranteed bonds, guarantees within the framework of the National Mortgage Guarantee Scheme, guaranteed credits and other credit-replacement guarantees.

Financial collateral

Table 2.8.E provides a breakdown of financial collateral that has been provided, in so far as this is relevant for CRR.

Table 2.8.E Financial collateral	31/12/2016			31/12/2015		
	SA	IRB	Total	SA	IRB	Total
Total	**202,741**	**685,470**	**888,211**	**485,176**	**725,399**	**1,210,575**
Cash	47,334	545,524	592,858	280,090	616,925	897,015
Securities collateral	155,407	139,946	295,353	205,086	108,474	313,560

Cash consists of current account balances available for set-off. Securities collateral comprises the categories Due from banks and Loans and advances to the public and private sectors.

Settlement risk
The bank is 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 2016, financial transactions to a total of €155 million (2015: €179 million) had to be reported in the context of settlement risk.

CVA risk
Under the Capital Requirements Directive (CRD), account must also be taken of the risk-weighted assets in relation to credit value 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 CVA. In contrast to a number of capital deductions, no phase-in applies for CVA. The risk-weighting assets in relation to CVA are shown in Table 1.3.2 under the internal capital adequacy requirements per type of risk.

2.9 Credit quality

2.9.1 Credit quality investments
Our investments can be broken down into two categories:
- Debt instruments;
- Equity instruments.

Debt instruments
The investments in debt instruments have a low risk profile and high creditworthiness, and are mainly held for liquidity purposes. Each investment must therefore be highly liquid and eligible for use as collateral. The investments have been placed in three portfolios: designated at fair value through profit and loss, available for sale, and held to maturity (see Notes 5 to 7). Decisions concerning the limit framework for these investments are proposed to ALCO by Treasury, under the advice of Group Risk Management. Individual new investments in debt instruments have to be approved by Group Risk Management or the CFRO. Debt instruments issued by sovereigns, supranationals and agencies (SSAs) may be bought by Treasury without the prior approval of Group Risk Management or the CFRO.

Equity instruments
Direct investments can take the form of shares and shareholdings and must be approved in advance by the Statutory Board.

We have classified 13% of our investments as financial assets designated at fair value through profit and loss, 67% as available-for-sale investments and 20% as investments held to maturity.

Investments in government-guaranteed debt instruments are predominantly government bonds issued by the Netherlands, Belgium and the EU.

At 31 December 2016, Van Lanschot had no investments in countries of the European periphery. At 31 December 2015, we had an exposure of €155.0 million to Italian government bonds and of €316.2 million to Spanish government bonds. The total nominal value of these bond positions amounted to €400.0 million.

Table 2.9.1.A Investments by type	31/12/2016	%	31/12/2015	%
Total	**2,529,712**	**100**	**3,395,358**	**100**
Debt instruments				
Government paper and government-guaranteed paper	827,308	33	1,511,295	45
Covered bonds	618,448	24	700,402	21
Asset-backed securities	666,251	26	806,848	24
Other debt instruments	318,967	13	271,356	8
Total debt instruments	**2,430,974**	**96**	**3,289,901**	**97**
Equity instruments				
Equity instruments	98,738	4	105,457	3
Total equity instruments	**98,738**	**4**	**105,457**	**3**

Table 2.9.1.B Investments in debt instruments by external rating (latest Fitch ratings as known to Van Lanschot)	31/12/2016	%	31/12/2015	%
Total	**2,430,974**	**100**	**3,289,901**	**100**
AAA	1,736,901	71	2,182,520	66
AA	70,804	3	401,303	12
A	575,682	24	189,357	6
Other	47,587	2	516,721	16

2.9.2 Credit quality by class

The table below provides information on the credit quality of financial assets that are neither past due nor impaired. See the Credit Risk section for information about the credit quality of loans and advances to the public and private sectors and the investment portfolio. Amounts under Other comprise counterparties without an external credit rating or that have a rating lower than A.

Table 2.9.2.A Credit quality by class at 31/12/2016

	Central banks	AAA	AA	A	Other	Total
Cash and cash equivalents and balances at central banks	1,331,412	4,606	58,209	156,492	34,754	**1,585,473**
Financial assets held for trading	–	–	–	–	16,913	**16,913**
Due from banks	–	60,623	24,529	88,265	15,331	**188,748**
Derivatives	–	–	–	214,368	92,952	**307,320**
Assets classified as held for sale	–	–	–	–	103,639	**103,639**

Table 2.9.2.B Credit quality by class at 31/12/2015

	Central banks	AAA	AA	A	Other	Total
Cash and cash equivalents and balances at central banks	764,265	7,556	28,701	58,073	22,429	**881,024**
Financial assets held for trading	–	–	–	–	6,863	**6,863**
Due from banks	–	49,644	8,894	83,061	58,474	**200,073**
Derivatives	–	–	24,277	199,649	109,484	**333,410**
Assets classified as held for sale	–	–	–	–	–	**–**

2.10 Encumbered and unencumbered assets

Certain items in the statement of financial position are classified as encumbered. Tables 2.10.A and 2.10.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 Courtine, Lunet and Covered Bond entities to which Van Lanschot has 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 Van Lanschot and which appear on the ECB eligible list of marketable assets but are not classified as encumbered at the reporting date.

Not eligible as collateral:

- All other cash and cash equivalents and balances at central banks;
- All other receivables from banks;
- Debt and equity instruments which do not appear on the ECB eligible list of marketable assets;
- Securitised mortgage loans and advances underlying debt instruments which are held by Van Lanschot and which do not appear on the ECB eligible list of marketable assets;
- All other loans and advances.

Table 2.10.A Encumbered and unencumbered assets	Encumbered assets		Unencumbered assets		31/12/2016
	Pledged as collateral	Other	Eligible as collateral	Not eligible as collateral	Total
Total	**2,127,356**	**45,691**	**2,553,921**	**9,201,014**	**13,927,982**
Cash and cash equivalents and balances at central banks	–	17,698	–	1,567,775	**1,585,473**
Due from banks	87,428	27,993	–	73,327	**188,748**
Financial assets designated at fair value through profit or loss	–	–	212,710	123,528	**336,238**
Available-for-sale investments	19,222	–	1,564,480	96,334	**1,680,036**
Held-to-maturity investments	148,895	–	364,543	–	**513,438**
Loans and advances to the public and private sectors	1,871,810	–	412,188	7,340,050	**9,624,048**

Table 2.10.B Encumbered and unencumbered assets	Encumbered assets		Unencumbered assets		31/12/2015
	Pledged as collateral	Other	Eligible as collateral	Not eligible as collateral	Total
Total	**2,162,304**	**46,556**	**2,778,152**	**9,993,866**	**14,980,878**
Cash and cash equivalents and balances at central banks	–	19,252	–	861,772	**881,024**
Due from banks	101,075	27,304	–	71,694	**200,073**
Financial assets designated at fair value through profit or loss	48,211	–	291,944	372,423	**712,578**
Available-for-sale investments	249,096	–	1,870,012	40,033	**2,159,141**
Held-to-maturity investments	33,182	–	490,457	–	**523,639**
Loans and advances to the public and private sectors	1,730,740	–	125,739	8,647,944	**10,504,423**

2.11 Netting of financial assets and liabilities

Table 2.11.A and 2.11.B show the netting of financial assets and liabilities. The right to net derivatives is laid down in a master netting agreement. For information about the netting criteria, please see 'Summary of significant accounting principles'.

In 2016, we decided to discontinue offsetting current account balances; for more information, see 'Changes in accounting policies'. Due to this change, current account balances are not included in Tables 2.11.A and 2.11.B.

Table 2.11.A Netting of financial assets and liabilities 31/12/2016	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)	409,386	102,066	307,320	21,754	285,566
Derivatives (liabilities)	440,917	102,066	338,851	21,754	317,097

Table 2.11.B Netting of financial assets and liabilities 31/12/2015	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)	700,020	366,609	333,411	66,137	267,274
Derivatives (liabilities)	691,369	366,609	324,760	66,137	258,623

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. Furthermore, there are variables not directly observable in the market, such as volatility and correlations. The market risk to which we are exposed is very limited. It can be divided into two components: the market risk to which Van Lanschot itself is exposed in respect of the necessary market maintenance and services to clients, and the market risk stemming from trading activities in institutional securities; this latter risk is concentrated at Kempen. Methods used by Van Lanschot to calculate and mitigate market risks include parametric value at risk (VaR), base point value (BPV) and stress testing.

3.1 Kempen market risk: trading activities in securities

The trading activities in securities, mainly comprising equities and equity derivatives, are concentrated at Kempen. A governance structure has been created in order to facilitate effective risk management. The risks are managed using VaR limits as well as gross and net limits. Daily stress tests provide information on 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% probability interval 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 are expressed in 'the Greeks' (Delta, Gamma, Vega, Rho, etc.) and are separately monitored on a daily basis or more frequently if necessary. The VaR and other relevant risk parameters for trading activities are reported to senior management on a daily basis.

Table 3.1 VaR of Kempen trading activities	2016		2015	
	Derivatives-related	Share-related	Derivatives-related	Share-related
VaR at 31 December	208	134	195	84
Highest VaR	460	320	296	283
Lowest VaR	70	51	78	4
Average VaR	199	138	182	159

3.2 Van Lanschot market risk: treasury

Van Lanschot is also exposed to market risk through its treasury activities, comprising the investment of the management book, and through limited foreign exchange exposure, comprising client transactions and own positions. Investment of the liquidity and cash portfolios (i.e. the liquidity portfolio discussed in Section 7) is not classified as market risk; these positions have on average longer holding periods and there is no trading intent. Interest rate risk stemming from the management of the liquidity and cash portfolios and the use of interest rate derivatives is discussed separately in Section 6, Interest rate risk.

The market risk of the investment portfolio is limited, at a maximum of €6.9 million.

Table 3.2 Interest rate risk of treasury trading activities (total gross BPV x €1,000)	2016	2015
BPV at 31 December	12	31
Highest BPV	25	33
Lowest BPV	11	11
Average BPV	14	18

3.3 Market risk: currency-related instruments

Van Lanschot's financial position and cash flows are affected to a limited extent by exchange rate fluctuations. The majority of transactions and positions in the statement of financial position are denominated in euros. The exchange rate risk is managed within the required limits and with the proper authorisation structure. The foreign exchange positions are shown in Table 3.3.B. The foreign exchange positions include all cash, forward and option positions of the entities belonging to the consolidated base (translated into thousands of euros).

Table 3.3.A Exchange rate risk of treasury trading activities (total gross nominal foreign exchange position translated to € x 1,000)	2016	2015
At 31 December	2,663	564
Highest position	5,749	13,459
Lowest position	331	433
Average position	1,320	5,352

Table 3.3.B Foreign exchange positions	31/12/2016	31/12/2015
Total	**5,384**	**–2,073**
Norwegian krone	3,910	97
Pound sterling	1,684	–1,490
Swedish krona	524	95
Hong Kong dollar	115	14
Danish krone	21	–1,310
US dollar	–1,159	302
Other	289	219

The capital adequacy requirement for exchange rate risk was €0.5 million at year-end 2016 (2015: €3.5 million). The capital adequacy requirement for foreign exchange risks amounts to 8% of the net open positions in each currency.

3.4 Market risk: interest rate and share-related instruments

Van Lanschot uses 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 held for trading (see Table 3.4).

Weighting and requirements

Van Lanschot uses the standardised approach for all types of market risk. The market risk of interest rate derivatives is included under Market risk: interest rate-related instruments; the market risk of share-related derivatives is included under Market risk: share-related instruments; and the market risk of currency derivatives is included under Market risk: currency-related instruments.

Table 3.4 Market risk	31/12/2016		31/12/2015	
	Risk weighting	Capital adequacy requirement	Risk weighting	Capital adequacy requirement
Total	**163,262**	**13,061**	**74,271**	**5,942**
Market risk: interest-related instruments	106,419	8,514	15,849	1,268
Market risk: share-related instruments	50,207	4,017	14,387	1,151
Market risk: currency-related instruments	6,636	531	44,035	3,523

4. Operational risk

Operational risks are potential losses that result from inadequate or defective internal processes and systems, inadequate or incorrect human actions, external events and fraud. Within Van Lanschot, operational incidents are classified using the incident types as set out in the Basel framework; see Table 4.A.

We have created a broad framework for evaluating, monitoring and managing operational risks. This also includes risks regarding information security and business continuity. The framework incorporates the following processes:

- Risk identification and classification via risk self-assessments and security assessments;
- Risk measurement using a central incidents database and critical risk indicators (early warnings), which highlight trends and/or provide prospective information about operational risks;
- Risk mitigation, acceptance and monitoring through action tracking (follow-up of outstanding actions and audit findings);
- Risk monitoring through setting up and maintaining a control framework and a test cycle to determine the effectiveness of the key controls;
- Risk controls via periodic meetings with risk owners, by monitoring the status quo against the risk appetite, via crisis management and business continuity management;
- Risk controls regarding information processing, in order to safeguard confidentiality, integrity and availability of data. In this area, both internal information security and cyber security are important.

In order to protect the organisation against major financial 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. In 2016 a cyber risk policy was added to the insurance coverage. This policy provides liability and damage cover for cyber risk events.

As far as possible, responsibility for managing operational risks is delegated to the line management of operating and commercial departments (the first line of defence). A range of programmes and tools support the bank's management in their roles as process owners within their own divisions. Key instruments are the risk self-assessments, root cause analyses, security assessments, action tracking, key control testing, critical risk indicators, scenario analyses and the central incidents database mentioned earlier.

Risk self-assessment is a tool that allows line managers to systematically identify and assess risks so that steps can be taken to limit any unacceptable risks. Risk self-assessments are carried out periodically in order to reassess and update the existing operational risk framework.

Action tracking is used to monitor identified risks and to track the progress made in the delivery of remedial actions taken, based on findings by internal audit, external regulators, incidents, complaints and other relevant events.

Scenario analyses are used to increase insight into our (prospective) operational risk profile and thus improve existing risk controls. The results of these analyses also serve as a means to provide insight into the adequacy of the Pillar I capital requirement vis-à-vis the operational risk profile.

These instruments and tools help to give a comprehensive overview of the risks, both at departmental level and for the group as a whole. This makes the relevant operational risks transparent, enabling appropriate mitigation actions to be taken.

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 analyses are carried out as part of the business continuity management process in order to gain insight into critical processes and the resources that are 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 therefore has universal scope within the bank; it comprises policy, standards and procedures aimed at safeguarding the 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 our clients. The procedures are tested on a regular basis. Tests concerning fallback and crisis governance were carried out this year.

The incidents database allows the systematic recording and analysis of losses resulting from operational risks. The database 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 225 incidents entailing a loss of more than €1,000 were logged in the database in 2016 (2015: 300 incidents); see Table 4.A.

Table 4.A Basel risk event categories, number of incidents	2016	2015
Total	**225**	**300**
Internal fraud	–	–
External fraud (mainly bank card skimming)	47	42
Employment practices and workplace safety	2	–
Product liability and duty of care	20	25
Damage to physical assets	1	1
Information security and systems failures	–	2
Execution, delivery and process management (especially execution of transactions)	155	230

Table 4.B Basel segments - operational risk		31/12/2016		31/12/2015	
	Beta coefficient	Average income	Capital adequacy requirement	Average income	Capital adequacy requirement
Total		**516,304**	**69,916**	**528,098**	**72,438**
Corporate finance	18%	65,574	11,803	57,307	10,315
Trading and sales	18%	27,529	4,955	49,326	8,879
Retail brokerage	12%	116,304	13,956	113,590	13,631
Commercial banking	15%	56,865	8,530	60,500	9,075
Retail banking	12%	155,454	18,654	152,095	18,252
Payment and settlement	18%	11,130	2,003	13,163	2,369
Agency services	15%	–	–	2,108	316
Asset management	12%	83,448	10,014	80,009	9,601

Under Pillar I, a solvency requirement for operational risk is calculated for the total income from operating activities. The risk weighting for operational risk is based on the average income of the Basel segments over the past three years. We apply the standardised approach (SA), which applies fixed betas to each business segment. The beta coefficient ranges from 12% to 18%.

5. Business risk

Business 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. We allocate capital for business risk under Pillar II using the volatility of turnover, corrected for variable costs. The first step is to identify what share of the total turnover generates business risk (i.e. net interest income and net commission income). The volatility of the turnover is calculated using a 12-month rolling average of the net interest income and net commission income. Using a rolling average limits the impact of income volatility on the capital requirement.

6. Interest rate risk

Interest rate risk is a bank's exposure to adverse interest rate movements. When interest rates change, the present value and timing of future cash flows also change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet instruments, and hence its economic value. Changes in interest rates also affect a bank's earnings by altering interest-sensitive income and expenses, affecting its net interest income. Interest rate risk consists of:

- Repricing risk, which is related to timing differences in the maturity and repricing of assets and liabilities. The impact of repricing risk (or gap risk), which depends on the extent to which rate shifts occur in a parallel way along the yield curve;
- Yield curve risk, which arises from changes in the slope and shape of the yield curve (non-parallel shifts);
- Optionality risk, which relates to embedded options in client products, for instance the right to partly prepay mortgages before maturity or the right to withdraw deposits at any time;
- Basis risk, which occurs when a hedging instrument reprices under slightly different conditions than the corresponding balance sheet item (for instance, a floating rate mortgage that reprices based on one-month Euribor versus a swap that reprices based on three-month Euribor).

We pursue a prudent interest rate risk policy which takes into account both short-term and long-term interest rate risk. The short-term interest rate risk is addressed mainly from an income perspective (earnings-at-risk). This involves an analysis of the interest income under a range of interest rate scenarios. In 2016, the earnings-at-risk scenarios were recalibrated, taking into account the current low interest rate environment, as well as other factors. In addition, the horizon of the earnings-at-risk scenarios was extended to two years. According to the earnings-at-risk analysis, the most adverse scenarios are:

- Increased competition for client savings, resulting in higher rates reimbursed on client deposits. In this scenario, market interest rates remain constant.
- Further falls in market interest rates, with Van Lanschot being unable to reduce deposit rates below zero percent. In this scenario, zero percent is assumed to be perceived by clients as a 'natural' floor in rates. Below zero percent, clients could be inclined to transfer their deposits to competing banks or even withdraw deposits in cash.

During 2016, the outcomes of the earnings-at-risk scenarios remained within limits.

The long-term interest rate risk is addressed by using the economic value approach, which looks at how movements in interest rates impact the value of the bank's assets and liabilities. The main tool used in the economic value calculation is duration analysis. The duration of the bank's equity indicates the net impact of parallel interest rate changes on its economic value. During 2016, duration of equity was controlled by ALCO within a bandwidth of 3.2 to 4.7 years. Due to the low interest rate environment, customers' appetite for loans (particularly mortgages) with long-term fixed interest rates remained strong.

The resulting upward effect on duration was mitigated by engaging in interest rate swaps. The implementation of a new IT system for managing interest rate risk in the banking book (IRRBB) resulted in significant improvements with respect to the control of IRRBB exposure on a forward-looking basis.

The duration of four years at year-end 2016 implies the value of equity would fall by 3.9% (€58.9 million) if there were a parallel rise of 100 basis points in interest rates. In the event of a parallel fall in interest rates of 100 basis points, the value of equity would rise by 4.1% (€62.3 million). At year-end 2015, this sensitivity was €82 million. The calculation of the economic value of equity is based on discounting future cash flows. Whereas previously we discounted all cash flows based on a risk-free rate (represented by the swap curve), in the fourth quarter of 2016 the impact of product-specific spreads was included in the discounting method. This has resulted in a lower economic value of equity, and thus in a lower absolute impact of interest rate changes.

Table 6.A Sensitivity analysis of equity	31/12/2016	31/12/2015
Duration (in years)	4.0	4.4
Present value of equity (x €1 million)	1,520	1,856

Parallel yield curve shift scenarios have virtually no impact on the result on financial transactions, because all investments designated at fair value through profit or loss are hedged using derivatives (see Note 4, Derivatives). Hedge accounting is also used for other derivatives where changes in their market value impact on the result on financial transactions.

We hold a Pillar II capital buffer for interest rate risk. This capital requirement is determined by looking at the negative impact on the market value of equity in a number of historically extreme adverse interest rate scenarios. The impact on the market value of equity is determined by multiplying the extreme interest rate movements per bucket by the key rate duration. The capital requirement is equal to the sum of the movements in net present value per bucket. By the end of 2016, the capital held for interest rate risk in the banking book amounted to €122 million. This includes €44 million held for model risk.

In managing interest rate risk, we use models to determine the interest rate risk of savings and payment products, mortgages and cash loans, taking into account contractual and client-related aspects. Derivatives contracts are recognised at face value, because changes in interest rates relate to the face value, not the market value which forms the valuation basis for these contracts. Tables 6.B and 6.C show Van Lanschot's sensitivity to interest rate movements based on the contractual interest rate maturities of the respective line items. Savings and current accounts do not have fixed terms. Therefore, the balances of non-maturing instruments are mapped to the variable category. Asset & Liability Management (ALM) estimates the interest rate for typical maturities of non-maturing instruments by means of so-called replicating portfolio models. These behavioural models are recalibrated periodically.

Table 6.B Interest rate maturity schedule at 31/12/2016

	Variable	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	No interest rate maturity	Total
Assets							
Cash and cash equivalents and balances at central banks	1,585,473	–	–	–	–	–	**1,585,473**
Financial assets held for trading	–	–	–	–	–	16,913	**16,913**
Due from banks	36,427	116,311	25,000	–	–	11,010	**188,748**
Derivatives	–	2,406,182	694,934	968,241	322,741	3,775	**4,395,873**
Financial assets designated at fair value through profit or loss	–	7,100	20,000	104,500	107,000	97,638	**336,238**
Available-for-sale investments	–	774,557	108,000	434,300	306,000	57,179	**1,680,036**
Held-to-maturity investments	–	–	–	275,000	200,000	38,438	**513,438**
Loans and advances to the public and private sectors	1,424,422	1,788,528	1,056,701	2,798,035	2,449,052	107,311	**9,624,049**
Investments in associates using the equity method	–	–	–	–	–	75,559	**75,559**
Assets classified as held for sale	–	19,261	64,763	15,459	4,156	–	**103,639**
Other assets	–	96,155	37,575	39,910	–	272,359	**445,999**
Total assets	**3,046,322**	**5,208,094**	**2,006,973**	**4,635,445**	**3,388,949**	**680,182**	**18,965,965**
Liabilities							
Financial liabilities from trading activities	–	–	–	–	–	5	**5**
Due to banks	72,016	56,680	–	–	–	–	**128,696**
Public and private sector liabilities	8,989,531	79,183	113,326	288,634	209,090	–	**9,679,764**
Derivatives	–	627,803	1,829,950	650,224	238,605	2,135	**3,348,717**
Financial liabilities designated at fair value through profit or loss	–	500	29,245	641,288	277,199	–53,977	**894,255**
Issued debt securities	–	1,085,874	1,012,500	14,664	–	3,056	**2,116,094**
Other liabilities	–	65,367	93,854	5,334	–	34,047	**198,602**
Subordinated loans	–	17,217	150,000	–	–	1	**167,218**
Total liabilities	**9,061,547**	**1,932,624**	**3,228,875**	**1,600,144**	**724,894**	**–14,733**	**16,533,351**
Gap	**–6,015,225**	**3,275,470**	**–1,221,902**	**3,035,301**	**2,664,055**	**694,915**	**2,432,614**

Table 6.C Interest rate maturity schedule at 31/12/2015

	Variable	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	No interest rate maturity	Total
Assets							
Cash and cash equivalents and balances at central banks	881,024	–	–	–	–	–	**881,024**
Financial assets held for trading	–	–	–	–	–	6,863	**6,863**
Due from banks	39,484	149,564	63	–	–	10,962	**200,073**
Derivatives	–	1,098,395	1,943,525	1,400,237	543,580	2,697	**4,988,434**
Financial assets designated at fair value through profit or loss	–	291,501	73,791	109,500	204,000	33,786	**712,578**
Available-for-sale investments	–	914,432	150,000	299,000	698,000	97,709	**2,159,141**
Held-to-maturity investments	–	–	–	170,000	305,000	48,639	**523,639**
Loans and advances to the public and private sectors	1,597,893	2,241,003	642,661	2,137,831	3,786,129	98,906	**10,504,423**
Investments in associates using the equity method	–	–	–	–	–	56,299	**56,299**
Other assets	–	104,114	31,475	49,782	–	268,953	**454,324**
Total assets	**2,518,401**	**4,799,009**	**2,841,515**	**4,166,350**	**5,536,709**	**624,814**	**20,486,798**
Liabilities							
Financial liabilities from trading activities	–	–	–	–	–	418	**418**
Due to banks	270,991	427,134	–	–	–	–	**698,125**
Public and private sector liabilities	8,738,046	347,455	262,888	272,585	282,462	4,955	**9,908,391**
Derivatives	–	322,756	1,756,880	768,406	419,855	2,135	**3,270,032**
Financial liabilities designated at fair value through profit or loss	–	4,320	23,073	639,045	138,165	–	**804,603**
Issued debt securities	–	647,350	1,242,919	63,923	528,761	–2,948	**2,480,005**
Other liabilities	–	74,306	76,114	3,300	–	23,668	**177,388**
Subordinated loans	–	16,904	–	–	100,000	1,247	**118,151**
Total liabilities	**9,009,037**	**1,840,225**	**3,361,874**	**1,747,259**	**1,469,243**	**29,475**	**17,457,113**
Gap	**–6,490,636**	**2,958,784**	**–520,359**	**2,419,091**	**4,067,466**	**595,339**	**3,029,685**

7. Liquidity risk

The main objective of our liquidity risk management is to ensure that the bank is able to maintain or generate sufficient cash resources to meet its payment obligations in full as they come due, on acceptable terms. As materialising liquidity risk could theoretically jeopardise a bank's continuity, our tolerance for liquidity risk is classified as low. 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 policy for measuring, managing and controlling liquidity risk within Van Lanschot is set out in the liquidity risk policy document, which is updated annually.

The main source of liquidity risk that we are exposed to relates to the share of client deposits in our funding base. Although the client deposits have proven to be relatively price-inelastic and sticky over time, the withdrawable character 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 becoming less substantial for Van Lanschot. This is mainly due to the run-off of the Corporate Banking loan book, which reduces the reliance on funding sources other than client deposits. We consider client deposits a natural and stable funding source.

In order 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, capital and funding planning and contingency funding planning.

On an annual basis, targets and limits for liquidity risk are revised 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, the liquidity buffer and stress test results, 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 on a daily basis, jointly with in- and outflows in the client deposit base. Finally, we annually outline our capital and funding planning for a two to five-year horizon, both under regular circumstances in the capital and funding plan, and under potential future stress or emergency situations in the contingency funding 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 the resilience of the bank to a variety of adverse liquidity events – Van Lanschot-specific events, system-wide events, and a combination of these two.

Table 7 Funding ratio (%)	31/12/2016	31/12/2015
Funding ratio	100.6	94.3

In 2016 we decided to discontinue offsetting current account balances; for more information see ‘Changes in accounting policies’. Due to this change the comparative figures of the funding ratio have been adjusted from 94.1 to 94.3.

7.1 List of maturities

Tables 7.1.A and 7.1.B show the assets and liabilities based on their remaining contractual terms to maturity at the reporting date.

The aggregate amounts reconcile with the values disclosed in the consolidated statement of financial position. They may differ in some respects from other breakdowns, since the amounts shown in these tables are based on undiscounted cash flows, related to the principal amounts as well as to all future interest payments. Items that do not generate a cash flow, such as discounting, cost amortisation, changes in the value of derivatives, own risk margins, etc. are presented in a separate column in order to make clear the reconciliation with the statement of financial position.

Table 7.1.A List of maturities at 31/12/2016	With-drawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	**Subtotal**	No cash flow	**Total**
Assets								
Cash and cash equivalents and balances at central banks	1,585,473	–	–	–	–	**1,585,473**	–	**1,585,473**
Financial assets held for trading	–	16,913	–	–	–	**16,913**	–	**16,913**
Due from banks	36,427	88,318	25,000	24,743	14,260	**188,748**	–	**188,748**
Derivatives	–	27,262	40,039	164,757	68,371	**300,429**	6,891	**307,320**
Financial assets designated at fair value through profit or loss	–	7,100	20,000	104,500	107,000	**238,600**	97,638	**336,238**
Available-for-sale investments	–	53,557	220,574	980,136	368,589	**1,622,856**	57,180	**1,680,036**
Held-to-maturity investments	–	–	–	275,000	200,000	**475,000**	38,438	**513,438**
Loans and advances to the public and private sectors	1,407,429	20,467	55,324	164,047	7,869,470	**9,516,737**	107,311	**9,624,048**
Investments in associates using the equity method	–	–	–	75,559	–	**75,559**	–	**75,559**
Assets classified as held for sale	–	19,261	64,763	15,459	4,156	**103,639**	–	**103,639**
Other assets	–	96,155	37,575	39,910	–	**173,640**	272,359	**445,999**
Total assets	**3,029,329**	**329,033**	**463,276**	**1,844,111**	**8,631,846**	**14,297,595**	**579,817**	**14,877,411**
Total assets excluding derivatives	**3,029,329**	**301,771**	**423,237**	**1,679,354**	**8,563,475**	**13,997,166**	**572,926**	**14,570,092**
Liabilities								
Financial liabilities from trading activities	–	5	–	–	–	**5**	–	**5**
Due to banks	72,016	56,680	–	–	–	**128,696**	–	**128,696**
Public and private sector liabilities	9,091,514	67,075	77,002	288,634	155,539	**9,679,764**	–	**9,679,764**
Derivatives	–	24,375	44,389	137,178	126,532	**332,474**	6,377	**338,851**
Financial liabilities designated at fair value through profit or loss	–	14,077	36,284	719,238	124,656	**894,255**	–	**894,255**
Issued debt securities	–	19,023	2,550	1,078,965	1,016,619	**2,117,157**	–1,063	**2,116,094**
Other liabilities	–	65,367	93,854	5,334	–	**164,555**	34,047	**198,602**
Subordinated loans	–	–	–	–	167,217	**167,217**	1	**167,218**
Total liabilities	**9,163,530**	**246,602**	**254,079**	**2,229,349**	**1,590,563**	**13,484,123**	**39,362**	**13,523,485**
Total liabilities excluding derivatives	**9,163,530**	**222,227**	**209,690**	**2,092,171**	**1,464,031**	**13,151,649**	**32,985**	**13,184,634**
On-balance gap	**–6,134,201**	**82,431**	**209,197**	**–385,238**	**7,041,283**	**813,472**	**540,455**	**1,353,927**
Receivables arising from future interest flows	–	15,268	81,184	307,076	4,605,008	**5,008,536**	–	**5,008,536**
Liabilities arising from future interest flows	–	14,261	55,603	202,575	122,943	**395,382**	–	**395,382**
On-balance gap including future interest flows	**–6,134,201**	**83,438**	**234,778**	**–280,737**	**11,523,348**	**5,426,626**	**540,455**	**5,967,081**

Table 7.1.B List of maturities at 31/12/2015	With-drawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	**Subtotal**	No cash flow	**Total**
Assets								
Cash and cash equivalents and balances at central banks	881,024	–	–	–	–	**881,024**	–	**881,024**
Financial assets held for trading	–	6,863	–	–	–	**6,863**	–	**6,863**
Due from banks	39,485	149,563	63	–	10,962	**200,073**	–	**200,073**
Derivatives	–	38,961	76,722	123,999	85,728	**325,410**	8,001	**333,411**
Financial assets designated at fair value through profit or loss	–	291,501	73,791	109,500	204,000	**678,792**	33,786	**712,578**
Available-for-sale investments	–	82,472	289,604	968,356	721,000	**2,061,432**	97,709	**2,159,141**
Held-to-maturity investments	–	–	–	170,000	305,000	**475,000**	48,639	**523,639**
Loans and advances to the public and private sectors	1,597,906	50,165	138,601	411,534	8,207,311	**10,405,517**	98,906	**10,504,423**
Investments in associates using the equity method	–	–	–	56,299	–	**56,299**	–	**56,299**
Other assets	–	104,114	31,475	49,782	–	**185,371**	268,953	**454,324**
Total assets	**2,518,415**	**723,639**	**610,256**	**1,889,470**	**9,534,001**	**15,275,781**	**555,994**	**15,831,775**
Total assets excluding derivatives	**2,518,415**	**684,678**	**533,534**	**1,765,471**	**9,448,273**	**14,950,371**	**547,993**	**15,498,364**
Liabilities								
Financial liabilities from trading activities	–	418	–	–	–	**418**	–	**418**
Due to banks	51,847	296,278	350,000	–	–	**698,125**	–	**698,125**
Public and private sector liabilities	8,845,243	333,864	222,113	272,585	229,631	**9,903,436**	4,955	**9,908,391**
Derivatives	–	29,121	46,287	112,529	128,528	**316,465**	8,295	**324,760**
Financial liabilities designated at fair value through profit or loss	–	3,836	22,945	645,389	132,433	**804,603**	–	**804,603**
Issued debt securities	–	3,629	730,419	1,207,644	541,261	**2,482,953**	–2,948	**2,480,005**
Other liabilities	–	74,306	76,114	3,300	–	**153,720**	23,668	**177,388**
Subordinated loans	–	–	–	–	116,904	**116,904**	1,247	**118,151**
Total liabilities	**8,897,090**	**741,452**	**1,447,878**	**2,241,447**	**1,148,757**	**14,476,624**	**35,217**	**14,511,841**
Total liabilities excluding derivatives	**8,897,090**	**712,331**	**1,401,591**	**2,128,918**	**1,020,229**	**14,160,159**	**26,922**	**14,187,081**
On-balance gap	**–6,378,675**	**–17,813**	**–837,622**	**–351,977**	**8,385,244**	**799,157**	**520,777**	**1,319,934**
Receivables arising from future interest flows	–	50,005	109,678	439,880	5,182,554	**5,782,117**	–	**5,782,117**
Liabilities arising from future interest flows	–	19,344	97,914	274,156	144,865	**536,279**	–	**536,279**
On-balance gap including future interest flows	**–6,378,675**	**12,848**	**–825,858**	**–186,253**	**13,422,933**	**6,044,995**	**520,777**	**6,565,772**

Future interest flows are based on the economic term of the line items and the interest rates prevailing at the reporting date. Major differences can be seen in the gaps because the assets comprise many long-term mortgage loans, while the liabilities comprise many short-term deposits. 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.

Tables 7.1.C and 7.1.D show the contingent items based on their remaining contractual terms to maturity at the reporting date.

For each transaction guaranteed by Van Lanschot, 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 Van Lanschot first has the right to withdraw the commitment.

Table 7.1.C List of maturities of contingent items at 31/12/2016

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Total	**12,241**	**84,542**	**7,377**	**14,074**	**95,708**	**213,942**
Guarantees	747	3,236	7,135	7,603	49,053	**67,774**
Other contingent liabilities	–	–	–	250	–	**250**
Unused credit facilities	11,494	66,848	242	2,075	46,655	**127,314**
Sale and repurchase agreements	–	–	–	–	–	**–**
Other irrevocable commitments	–	14,458	–	4,146	–	**18,604**

Table 7.1.D List of maturities of contingent items at 31/12/2015

	Withdrawable on demand	< 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Total	**1,205**	**399,840**	**13,897**	**21,239**	**138,713**	**574,894**
Guarantees	926	3,287	10,089	14,247	53,703	**82,252**
Other contingent liabilities	–	–	–	250	–	**250**
Unused credit facilities	279	165,765	738	2,118	85,010	**253,910**
Sale and repurchase agreements	–	221,341	–	–	–	**221,341**
Other irrevocable commitments	–	9,447	3,070	4,624	–	**17,141**

7.2 List of maturities

Tables 7.2.A and 7.2.B show a breakdown of the assets and liabilities based on their expected term to maturity of up to 12 months or longer than 12 months at the reporting date.

Table 7.2.A List of maturities at 31/12/2016

	≤12 months	> 12 months	Subtotal	No cash flow	Total
Assets					
Cash and cash equivalents and balances at central banks	1,585,473	–	**1,585,473**	–	**1,585,473**
Financial assets held for trading	16,913	–	**16,913**	–	**16,913**
Due from banks	149,745	39,003	**188,748**	–	**188,748**
Derivatives	67,301	233,128	**300,429**	6,891	**307,320**
Financial assets designated at fair value through profit or loss	27,100	211,500	**238,600**	97,638	**336,238**
Available-for-sale investments	274,131	1,348,725	**1,622,856**	57,180	**1,680,036**
Held-to-maturity investments	–	475,000	**475,000**	38,438	**513,438**
Loans and advances to the public and private sectors	1,483,220	8,033,517	**9,516,737**	107,311	**9,624,048**
Investments in associates using the equity method	–	75,559	**75,559**	–	**75,559**
Assets classified as held for sale	84,024	19,615	**103,639**	–	**103,639**
Other assets	133,730	39,910	**173,640**	272,359	**445,999**
Total assets	**3,821,638**	**10,475,957**	**14,297,595**	**579,817**	**14,877,411**
Liabilities					
Financial liabilities from trading activities	5	-	**5**	-	**5**
Due to banks	128,696	–	**128,696**	–	**128,696**
Public and private sector liabilities	9,235,591	444,173	**9,679,764**	–	**9,679,764**
Derivatives	68,764	263,710	**332,474**	6,377	**338,851**
Financial liabilities designated at fair value through profit or loss	50,361	843,894	**894,255**	–	**894,255**
Issued debt securities	21,573	2,095,584	**2,117,157**	–1,063	**2,116,094**
Other liabilities	159,221	5,334	**164,555**	34,047	**198,602**
Subordinated loans	–	167,217	**167,217**	1	**167,218**
Total liabilities	**9,664,211**	**3,819,912**	**13,484,123**	**39,362**	**13,523,485**

Table 7.2.B List of maturities at 31/12/2015

	≤12 months	> 12 months	Subtotal	No cash flow	Total
Assets					
Cash and cash equivalents and balances at central banks	881,024	–	**881,024**	–	**881,024**
Financial assets held for trading	6,863	–	**6,863**	–	**6,863**
Due from banks	189,111	10,962	**200,073**	–	**200,073**
Derivatives	115,683	209,727	**325,410**	8,001	**333,411**
Financial assets designated at fair value through profit or loss	365,292	313,500	**678,792**	33,786	**712,578**
Available-for-sale investments	372,076	1,689,356	**2,061,432**	97,709	**2,159,141**
Held-to-maturity investments	–	475,000	**475,000**	48,639	**523,639**
Loans and advances to the public and private sectors	1,786,672	8,618,845	**10,405,517**	98,906	**10,504,423**
Investments in associates using the equity method	–	56,299	**56,299**	–	**56,299**
Other assets	135,589	49,782	**185,371**	268,953	**454,324**
Total assets	**3,852,310**	**11,423,471**	**15,275,781**	**555,994**	**15,831,775**
Liabilities					
Financial liabilities from trading activities	418	–	**418**	–	**418**
Due to banks	698,125	–	**698,125**	–	**698,125**
Public and private sector liabilities	9,401,220	502,216	**9,903,436**	4,955	**9,908,391**
Derivatives	75,408	241,057	**316,465**	8,295	**324,760**
Financial liabilities designated at fair value through profit or loss	26,781	777,822	**804,603**	–	**804,603**
Issued debt securities	734,048	1,748,905	**2,482,953**	–2,948	**2,480,005**
Other liabilities	150,420	3,300	**153,720**	23,668	**177,388**
Subordinated loans	–	116,904	**116,904**	1,247	**118,151**
Total liabilities	**11,086,420**	**3,390,204**	**14,476,624**	**35,217**	**14,511,841**

8. Compliance risk

Van Lanschot and its subsidiaries fulfil a role as service providers to the public, a role that we can only play to the full if we enjoy the trust of every stakeholder. Our integrity and that of our employees forms the basis for that trust. The Compliance department provides a strong safeguard by ensuring that integrity is embedded in our operations, while the statutory and regulatory rules provide the framework. Within that framework, we have translated the main rules and regulations into requirements for processes and procedures. To enable these requirements to be met, Compliance organises regular training and awareness-raising sessions for staff, monitors compliance with the statutory and regulatory rules, and proposes improvements where necessary. Failure to comply with the statutory and regulatory rules can lead to significant reputational or financial damage. The Compliance department, which reports directly to the Chairman of the Statutory Board, is responsible for ensuring that the bank's Board, senior management and employees comply with regulations and legislation.

9. 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 & 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 functioning of the internal control system by Group Audit, which are discussed with the Executive Board, 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 this by the Audit and Compliance Committee and by the Supervisory Board;
- The Van Lanschot Accounting Manual, which sets out the principles we pursue with respect to financial accounting.

The Statutory Board states with reasonable assurance that the internal risk management and control systems for financial reporting are performed at an adequate level and that our financial reporting is free of material misstatement. 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 & control framework, the risks reported on a quarterly basis, the follow-up of these risks, and the incidents reported. Group Risk Management and Compliance have evaluated these statements.

10. Fair value

10.1 Financial assets designated at fair value through profit and loss

A portion of the financial instruments are measured at fair value in the statement of financial position. Tables 10.1.A and 10.1.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 input 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. Based on estimates, we select a number of methods and 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.

An assumption is made that the face value (less estimated adjustments) is a reasonable approximation of the fair value of trade receivables and liabilities.

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 10.1.A Financial instruments at fair value at 31/12/2016

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading				
Shares, listed	15,298	1,582	–	**16,880**
Shares, unlisted	–	–	33	**33**
	15,298	**1,582**	**33**	**16,913**
Derivatives				
Interest rate derivatives	–	616	–	**616**
Currency derivatives	169	–	–	**169**
Equity derivatives	–	3,159	–	**3,159**
Client option positions	18,893	–	–	**18,893**
Derivatives: fair value hedge accounting	–	63,887	442	**64,329**
Derivatives: portfolio fair value hedge accounting	–	2,238	–	**2,238**
Derivatives: cash flow hedge accounting	–	238	–	**238**
Economic hedges	–	34,306	–	**34,306**
Structured product derivatives	–	179,728	3,643	**183,371**
	19,062	**284,172**	**4,085**	**307,320**
Financial assets designated at fair value through profit or loss				
Debt instruments: government paper and government-guaranteed paper	14,198	–	–	**14,198**
Debt instruments: covered bonds	246,338	–	–	**246,338**
Shares, listed	30,839	19,537	–	**50,377**
Shares, unlisted	–	20,015	5,311	**25,326**
	291,375	**39,552**	**5,311**	**336,238**
Available-for-sale investments				
Debt instruments: government paper and government-guaranteed paper	483,802	–	–	**483,802**
Debt instruments: banks and financial institutions, listed	104,322	–	–	**104,322**
Debt instruments: covered bonds	372,110	–	–	**372,110**
Debt instruments: asset-backed securities	666,251	–	–	**666,251**
Debt instruments: companies, listed	14,128	–	–	**14,128**
Debt instruments: company cumprefs (shareholdings)	–	–	16,387	**16,387**
Shares, unlisted	–	–	11,296	**11,296**
Shareholdings	–	–	11,740	**11,740**
	1,640,613	**–**	**39,423**	**1,680,036**
Total assets	**1,966,349**	**325,307**	**48,852**	**2,340,507**

Table 10.1.A Financial instruments at fair value at 31/12/2016 (continued)	Level 1	Level 2	Level 3	Total
Liabilities				
Financial liabilities from trading activities				
Shares, unlisted	–	–	5	**5**
	–	–	**5**	**5**
Derivatives				
Interest rate derivatives	–	2,866	–	**2,866**
Currency derivatives	159	–	–	**159**
Client option positions	19,855	–	–	**19,855**
Derivatives: fair value hedge accounting	–	69,300	976	**70,276**
Derivatives: portfolio fair value hedge accounting	–	25,038	–	**25,038**
Derivatives: cash flow hedge accounting	–	15,521	–	**15,521**
Economic hedges	–	62,252	–	**62,252**
Structured product derivatives	–	142,617	266	**142,883**
	20,015	**317,594**	**1,242**	**338,851**
Financial liabilities designated at fair value through profit or loss				
Unstructured debt instruments	–	253,096	–	**253,096**
Structured debt instruments	–	608,335	32,825	**641,160**
	–	**861,431**	**32,825**	**894,255**
Total liabilities	**20,015**	**1,179,025**	**34,072**	**1,233,111**

Table 10.1.B Financial instruments at fair value at 31/12/2015

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading				
Shares, listed	5,206	1,137	–	**6,343**
Shares, unlisted	–	–	520	**520**
	5,206	**1,137**	**520**	**6,863**
Derivatives				
Interest rate derivatives	–	700	–	**700**
Equity derivatives	–	1,996	–	**1,996**
Client option positions	26,124	–	–	**26,124**
Derivatives: fair value hedge accounting	–	61,530	512	**62,042**
Derivatives: portfolio fair value hedge accounting	–	2,832	–	**2,832**
Derivatives: cash flow hedge accounting	–	80	–	**80**
Economic hedges	–	85,230	–	**85,230**
Structured product derivatives	–	145,028	9,379	**154,407**
	26,124	**297,396**	**9,891**	**333,411**
Financial assets designated at fair value through profit or loss				
Debt instruments: government paper and government-guaranteed paper	124,206	–	–	**124,206**
Debt instruments: covered bonds	509,470	–	–	**509,470**
Debt instruments: companies, listed	4,690	–	–	**4,690**
Shares, listed	20,879	19,463	–	**40,342**
Shares, unlisted	–	19,714	14,156	**33,870**
	659,245	**39,177**	**14,156**	**712,578**
Available-for-sale investments				
Debt instruments: government paper and government-guaranteed paper	1,050,019	–	–	**1,050,019**
Debt instruments: banks and financial institutions, listed	71,309	–	–	**71,309**
Debt instruments: covered bonds	190,932	–	–	**190,932**
Debt instruments: asset-backed securities	806,848	–	–	**806,848**
Debt instruments: company cumprefs (shareholdings)	–	–	8,788	**8,788**
Shares, unlisted	–	–	17,376	**17,376**
Shareholdings	–	–	13,869	**13,869**
	2,119,108	**–**	**40,033**	**2,159,141**
Total assets	**2,809,683**	**337,710**	**64,600**	**3,211,993**

Table 10.1.B Financial instruments at fair value at 31/12/2015 (continued)

	Level 1	Level 2	Level 3	Total
Liabilities				
Financial liabilities from trading activities				
Shares, listed	88	–	–	**88**
Shares, unlisted	–	–	330	**330**
	88	**–**	**330**	**418**
Derivatives				
Interest rate derivatives	–	2,135	–	**2,135**
Equity derivatives	–	–	–	**–**
Client option positions	24,859	–	–	**24,859**
Derivatives: fair value hedge accounting	–	60,246	405	**60,651**
Derivatives: portfolio fair value hedge accounting	–	586	–	**586**
Derivatives: cash flow hedge accounting	–	19,174	–	**19,174**
Economic hedges	–	96,985	–	**96,985**
Structured product derivatives	–	116,504	3,866	**120,370**
	24,859	**295,630**	**4,271**	**324,760**
Financial liabilities designated at fair value through profit or loss				
Unstructured debt instruments	–	247,709	–	**247,709**
Structured debt instruments	–	483,174	73,720	**556,894**
	–	**730,883**	**73,720**	**804,603**
Total liabilities	**24,947**	**1,026,513**	**78,321**	**1,129,781**

Transfers of financial assets or liabilities between levels

We have developed a policy document for the fair value hierarchy. The policy document 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 set threshold values. In 2016 we have further refined the policy document: the unobservable input variables are assessed on their significance at each reporting date.

During 2016, the valuation technique remained unchanged, with unobservable 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 designated at fair value through profit or loss have been transferred from Level 2 to Level 3 and vice versa. The Derivative receivables and payables and Financial liabilities designated at fair value through profit or loss were transferred to Level 2 as a result of the input variables' correlation and volatility; the shorter remaining term to maturity of the financial instruments concerned meant that these input variables qualified as non-significant, justifying a transfer to Level 2.

The size of the transfer from Level 2 to Level 3 was €0.3 million for Derivative receivables and €8.9 million for Financial liabilities designated at fair value through profit or loss. The size of the transfer from Level 3 to Level 2 was €5.3 million for Derivative receivables, €3.0 million for Derivative payables and €27.7 million for Financial liabilities designated at fair value through profit or loss.

Breakdown of movements in financial assets and liabilities classified under Level 3

Tables 10.1.C and 10.1.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 10.1.C.1 Breakdown of movements in financial assets classified as Level 3 in 2016

	At 1 January	To statement of income	To equity*	Purchases	Sales	Transfers	At 31 December
Financial assets held for trading							
Shares, unlisted	520	13	–	33	–533	–	**33**
Derivatives							
Derivatives: fair value hedge accounting	512	–70	–	–	–	–	**442**
Structured product derivatives	9,379	–798	–	18	–	–4,956	**3,643**
Financial assets designated at fair value through profit or loss							
Shares, unlisted	14,156	–779	–	–	–8,066	–	**5,311**
Available-for-sale investments							
Debt instruments: company cumprefs (shareholdings)	8,788	810	–	10,493	–3,704	–	**16,387**
Shares, unlisted	17,376	6,009	–7,507	–	–4,582	–	**11,296**
Shareholdings	13,869	–16	588	326	–3,027	–	**11,740**
Total financial assets Level 3	**64,600**	**5,169**	**– 6,919**	**10,870**	**–19,912**	**–4,956**	**48,852**

Table 10.1.C.2 Breakdown of movements in financial liabilities classified as Level 3 in 2016

	At 1 January	To statement of income	To equity*	Issues	Settlements	Transfers	At 31 December
Financial liabilities from trading activities							
Shares, unlisted	330	–	–	–	–325	–	**5**
Derivatives							
Derivatives: fair value hedge accounting	405	571	–	–	–	–	**976**
Structured product derivatives	3,866	–573	–	–	–	–3,027	**266**
Financial liabilities designated at fair value through profit or loss							
Structured debt instruments	73,720	459	–	–	–22,483	–18,871	**32,825**
Total financial liabilities Level 3	**78,321**	**457**	**–**	**–**	**–22,808**	**–21,898**	**34,072**
Total	**–13,721**	**4,712**	**–6,919**	**10,870**	**2,896**	**16,942**	**14,780**

* The changes in value recognised in equity are included in the statement of comprehensive income as Revaluation of equity instruments and Revaluation of debt instruments.

Table 10.1.D.1 Breakdown of movements in financial assets classified as Level 3 in 2015

	At 1 January	To statement of income	To equity*	Purchases	Sales	Transfers	At 31 December
Financial assets held for trading							
Shares, unlisted	219	4	–	297	–	–	**520**
Derivatives							
Derivatives: fair value hedge accounting	–	–	–	–	–	512	**512**
Structured product derivatives	8,519	4,117	–	–	–	–3,257	**9,379**
Financial assets designated at fair value through profit or loss							
Shares, unlisted	14,081	310	–	61	–296	–	**14,156**
Available-for-sale investments							
Debt instruments: company cumprefs (shareholdings)	29,220	1,502	444	–	–22,378	–	**8,788**
Shares, unlisted	9,320	–	4,061	29	–	3,966	**17,376**
Shareholdings	23,785	–235	–5,246	693	–5,128	–	**13,869**
Total financial assets Level 3	**85,144**	**5,698**	**– 741**	**1,080**	**–27,802**	**1,221**	**64,600**

Table 10.1.D.2 Breakdown of movements in financial liabilities classified as Level 3 in 2015

	At 1 January	To statement of income	To equity*	Issues	Settlements	Transfers	At 31 December
Financial liabilities from trading activities							
Shares, unlisted	–	–	–	330	–	–	**330**
Derivatives							
Derivatives: fair value hedge accounting	–	–	–	405	–	–	**405**
Structured product derivatives	1,092	3,018	–	–	–	–244	**3,866**
Financial liabilities designated at fair value through profit or loss							
Structured debt instruments	113,698	821	–	45,497	–11,000	–75,296	**73,720**
Total financial liabilities Level 3	**114,790**	**3,839**	**–**	**46,232**	**–11,000**	**–75,540**	**78,321**
Total	**–29,646**	**1,859**	**–741**	**–45,152**	**–16,802**	**76,761**	**–13,721**

* The changes in value recognised in equity are included in the statement of comprehensive income as Revaluation of equity instruments and Revaluation of debt instruments.

Table 10.1.E Fair value changes recognised in profit or loss of financial instruments classified as Level 3

	2016			2015		
	Realised	Unrealised	**Total**	Realised	Unrealised	**Total**
Net interest income	1,128	–	**1,128**	1,782	–	**1,782**
Income from securities and associates	6,022	–779	**5,243**	4	310	**314**
Result on financial transactions	–	–1,325	**–1,325**	–	278	**278**
Impairments	–	–334	**–334**	–	–515	**–515**
Total	**7,150**	**–2,438**	**4,712**	**1,786**	**73**	**1,859**

Table 10.1.F Notes on fair value determination using observable market inputs (Level 2)

	Fair value		Valuation method	Significance of observable market inputs
Assets	**31/12/2016**	**31/12/2015**		
Financial assets held for trading				
Shares, listed	1,582	1,137	– Option model and discounted cash flow	– Asset price – Interest rate – Dividend yield – Volatility
Derivatives				
Interest rate derivatives				
– Interest rate swaps	616	700	– Discounted cash flow model	– Interest rate
Equity derivatives				
– Inflation-linked swaps	3,159	1,996	– Discounted cash flow model – Option model	– Underlying value – Interest rate – Dividend yield – Volatility – Correlation – FX rates
Derivatives: fair value hedge accounting				
– Interest rate swaps	39,830	33,417	– Discounted cash flow model	– Interest rate
– Inflation-linked swaps	24,057	28,113	– Discounted cash flow model	– Interest rate – Inflation curve – Consumer price index – Seasonality
Derivatives: portfolio fair value hedge accounting				
– Interest rate swaps	2,238	2,832	– Discounted cash flow model	– Interest rate
Derivatives: cash flow hedge accounting				
– Inflation-linked swaps	238	80	– Discounted cash flow model	– Interest rate
Economic hedges				
– Interest rate swaps	32,271	85,230	– Discounted cash flow model	– Interest rate
– Swaption	2,035	–	– Discounted cash flow model	– Interest rate – Volatility

Table 10.1.F Notes on fair value determination using observable market inputs (Level 2) (continued)

	Fair value		Valuation method	Significance of observable market inputs
	31/12/2016	31/12/2015		
Structured product derivatives				
– Options	117,089	91,844	– Option model	– Underlying value – Interest rate – Dividend yield – Volatility – FX rates
– Interest rate swaps	16,328	20,981	– Discounted cash flow model	– Interest rate
– Credit-linked swaps	650	384	– Discounted cash flow model – Option model	– CDS spread – Interest rate – Recovery rate
– Equity swaps	45,661	31,819	– Discounted cash flow model – Option model	– Underlying value – Interest rate – Dividend yield – Volatility – Correlation – FX rates
Financial assets designated at fair value through profit or loss				
Shares, listed	19,537	19,463	– Net asset value	– Most recently known (closing) price of the underlying assets
Shares, unlisted	20,015	19,714	– Net asset value	– Most recently published net asset value – Market value which on measurement date equals market price – Fair value reflecting generally accepted standards
Total assets	**325,306**	**337,710**		

Table 10.1.F Notes on fair value determination using observable market inputs (Level 2) (continued)

	Fair value		Valuation method	Significance of observable market inputs
	31/12/2016	31/12/2015		
Liabilities				
Derivatives				
Interest rate derivatives				
– Interest rate swaps	–	542	– Discounted cash flow model	– Interest rate
– FX options	2,866	1,593	– Option model	– Interest rate – Underlying value – Dividend yield – Volatility – FX rates
Derivatives: fair value hedge accounting				
– Interest rate swaps	69,285	60,246	– Discounted cash flow model	– Interest rate
– Inflation-linked swaps	15	–	– Discounted cash flow model	– Interest rate – Inflation curve – Consumer price index
Derivatives: portfolio fair value hedge accounting				
– Interest rate swaps	25,038	586	– Discounted cash flow model	– Interest rate
Derivatives cash flow hedge accounting				
– Inflation-linked swaps	15,521	19,174	– Discounted cash flow model	– Interest rate – Inflation curve – Consumer price index
Economic hedges				
– Interest rate swaps	62,252	72,708	– Discounted cash flow model	– Interest rate
– Cross-currency swaps	–	24,277	– Discounted cash flow model	– Interest rate – FX rates
Structured product derivatives				
– Options	111,782	94,707	– Option model	– Underlying value – Interest rate – Dividend yield – Correlation – Volatility – FX rates
– Interest rate swaps	19,769	8,631	– Discounted cash flow model	– Interest rate
– Credit–linked swaps	186	1,255	– Discounted cash flow model – Option model	– CDS spread – Interest rate – Recovery rate
– Equity swaps	10,880	11,911	– Discounted cash flow model – Option model	– Underlying value – Interest rate – Dividend yield – Volatility – Correlation – FX rates
Financial liabilities designated at fair value through profit or loss				
Unstructured debt instruments	253,096	247,709	– Discounted cash flow model	– Interest rate
Structured debt instruments	608,335	483,174	– Discounted cash flow model – Option model	– Underlying value – Interest rate – Dividend yield – Volatility – Correlation – FX rates
Total liabilities	**1,179,025**	**1,026,513**		

Table 10.1.G Notes on fair value determination using unobservable market inputs (Level 3)

	Fair value		Valuation method	Significance of unobservable market inputs
Assets	**31/12/2016**	**31/12/2015**		
Financial assets held for trading				
Shares, unlisted	– 33	190 330	– Option model – Net asset value	– n/a – Net asset value – Face value
Derivatives				
Derivatives: fair value hedge accounting				
– Inflation-linked swaps*	442	512	– Discounted cash flow model	– Seasonality
Structured product derivatives				
– Options*	449	5,752	– Option model	– Correlation – Volatility
– Equity swaps*	3,194	3,627	– Discounted cash flow model – Option model	– Volatility – Correlation
Financial assets designated at fair value through profit or loss				
Shares, unlisted	5,311	14,156	– Net asset value	– Most recent published net asset values of the underlying assets
Available- for-sale investments				
Debt instruments: company cumprefs (shareholdings)*	16,387	8,788	– Discounted cash flow model	– Interest rate – Discount rate
Shares, unlisted	11,296	17,376	– Net asset value	– Most recent published net asset values of the underlying assets
Shareholdings	6,711	9,011	– Net asset value	– Net asset value – Market value
	1,131	1,592	– Net asset value	– Multiple analyses of comparable companies less a discount of 25% for illiquidity and company size based on IPEV guidelines – Most recently known share price
	3,898	3,266	– Net asset value	– EBITA – Issue or transfer price – Market price on final trading day – Face value less provisions
Total assets	**48,852**	**64,600**		

* Please refer to Tables 10.1.H and 10.1.I for the range and sensitivity of these financial instruments.
No range or sensitivity information is available for the other financial instruments.

Table 10.1.G Notes on fair value determination using unobservable market inputs (Level 3) (continued)

	Fair value		Valuation method	Significance of unobservable market inputs
	31/12/2016	31/12/2015		
Liabilities				
Financial liabilities from trading activities				
Shares, unlisted	5	330	– Net asset value	– Net asset value – Face value
Derivatives				
Derivatives: fair value hedge accounting				
– Inflation-linked swaps*	976	405	– Discounted cash flow model	– Seasonality
Structured product derivatives				
– Credit-linked swaps	27	146	– Discounted cash flow model – Option model	– n/a – n/a
– Options	164	1,437	– Option model	– n/a
– Equity swaps	75	2,283	– Discounted cash flow model – Option model	– n/a
Financial liabilities designated at fair value through profit or loss				
Structured debt instruments*	32,825	73,720	– Discounted cash flow model – Option model	– Volatility – Correlation
Total liabilities	**34,072**	**78,321**		

* Please refer to Tables 10.1.H and 10.1.I for the range and sensitivity of these financial instruments. No range or sensitivity information is available for the other financial instruments.

Table 10.1.H Notes on range and sensitivity of unobservable market inputs (Level 3) at 31/12/2016

	Significant unobservable market inputs	Range (weighted average)	Sensitivity
Assets			
Derivatives			
Derivatives: fair value hedge accounting			
– Inflation-linked swaps	– Seasonality	–13% - 11% (1%)	n/a*
Structured product derivatives			
– Options	– Correlation	–17% - 19% (1%)	Total impact €0.1 million
– Equity swaps	– Correlation – Volatility	–19% - 22% (1%) 23% - 25% (25%)	Total impact –€0.1 million Total impact €0.1 million
Available-for-sale investments			
Debt instruments: company cumprefs (shareholdings)	– Interest rates – Discount rates	–6.5% - 12% (1%) –6.5% - 12% (1%)	Change of 1% - change of €0.2 million Change of 1% - change of €0.2 million
Liabilities			
Derivatives			
Derivatives: fair value hedge accounting			
– Inflation-linked swaps	– Seasonality	–13% - 11% (1%)	n/a*
Financial liabilities designated at fair value through profit or loss			
Structured debt instruments	– Correlation	–17% - 19% (1%)	Total impact €0.1 million

* Sensitivity is not applicable for inflation-linked swaps as seasonality is the market input.
The total year impact amounts to nil, as it is a distribution purely by period.

Table 10.1.I Notes on range and sensitivity of unobservable market inputs (Level 3) at 31/12/2015

	Significant unobservable market inputs	Range (weighted average)	Sensitivity
Assets			
Derivatives			
Derivatives: fair value hedge accounting			
– Inflation-linked swaps	– Seasonality	–7% - 6% (1%)	n/a*
Structured product derivatives			
– Options	– Correlation – Volatility	–17% - 22% (3%) 13% - 24% (20%)	Total impact €0.1 million Total impact €1.2 million
– Equity swaps	– Volatility	18% - 24% (21%)	Total impact €0.2 million
Available-for-sale investments			
Debt instruments: company cumprefs (shareholdings)	– Interest rates – Discount rates	–6.5% - 12% (1%) –6.5% - 12% (1%)	Change of 1% - change of €0.1 million Change of 1% - change of €0.1 million
Liabilities			
Derivatives			
Derivatives: fair value hedge accounting			
– Inflation-linked swaps	– Seasonality	–7% - 6% (1%)	n/a*
Structured products derivatives			
– Options – Equity swaps	– Volatility – Volatility – Correlation	18% - 24% (21%) –18% - 25% (3%) 18% - 24% (21%)	Total impact €0.4 million Total impact €0.1 million Total impact €0.3 million
Financial liabilities designated at fair value through profit or loss			
Structured debt instruments	– Correlation – Volatility	–20% - 26% (3%) 13% - 24% (19%)	Total impact €0.1 million Total impact €0.6 million

* Sensitivity is not applicable for inflation-linked swaps as seasonality is the market input.
The total year impact amounts to nil, as it is a distribution purely by period.

10.2 Financial instruments not recognised at fair value

Table 10.2 shows the nominal and fair value of financial instruments not recognised at fair value, with the exception of financial instruments where the nominal value is a reasonable approximation of the fair value.

The value of financial instruments not recognised at fair value 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 10.2 are estimated on the basis of the present value or other estimation or valuation methods.

Table 10.2 Financial instruments not recognised at fair value

	2016		2015				
	Fair value	Carrying amount	Fair value	Carrying amount	Level	Valuation method	Significant observable and unobservable market inputs
Assets							
Due from banks	189,459	188,748	200,094	200,073	2	Discounted cash flows using applicable money market rates	Interest rate and discount rate
Held-to-maturity investments	556,464	513,438	557,396	523,639	1	Quoted prices in active markets	–
Loans and advances to the public and private sectors	9,943,350	9,624,048	11,039,054	10,504,423	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
Liabilities							
Due to banks	128,698	128,696	698,209	698,125	2	Discounted cash flows using applicable money market rates for liabilities	Interest rate and discount rate
Public and private sector liabilities	9,778,807	9,679,764	10,052,917	9,908,391	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	2,146,318	2,116,094	2,522,843	2,480,005	2	Discounted cash flows using applicable money market rates for debt instruments with a comparable term to maturity	Interest rate and discount rate
Subordinated loans	181,169	167,218	146,131	118,151	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

(x €1,000)

1. Cash and cash equivalents and balances at central banks	31/12/2016	31/12/2015
Total	**1,585,473**	**881,024**
Cash	190	167
Balances at central banks	1,313,714	745,013
Statutory reserve deposits at central banks	17,698	19,252
Amounts due from banks	153,871	116,592
Highly liquid investments	100,000	–

Statutory reserve deposits comprise balances at central banks within the scope of the minimum reserves requirement. These balances cannot be used by Van Lanschot in its day-to-day operations.

Reconciliation with consolidated statement of cash flows	2016	2015	Movements
Cash and cash equivalents	1,585,473	881,024	704,449
Due from banks, available on demand	36,427	39,485	–3,058
Due to banks, available on demand	–71,799	–51,847	–19,952
Due from/to banks available on demand, net	–35,372	–12,362	–23,010
Total	**1,550,100**	**868,662**	**681,438**

2. Financial assets held for trading	31/12/2016	31/12/2015
Total	**16,913**	**6,863**
Equity instruments		
Shares, listed	16,880	6,343
Shares, unlisted	33	520
Total equity instruments	**16,913**	**6,863**

3. Due from banks	31/12/2016	31/12/2015
Total	**188,748**	**200,073**
Deposits	141,311	149,626
Receivables arising from unsettled securities transactions	36,427	39,485
Loans and advances	11,010	10,962

Deposits include deposits to a total of €87.4 million (2015: €118.2 million) which serve as collateral for liabilities arising from derivatives transactions.

In 2016 and 2015, the provision for the deposit guarantee scheme included under Loans and advances is nil.

4. Derivatives

At 31 December 2016	Asset	Liability	Contract amount
Total	**307,320**	**338,851**	**7,825,988**
Derivatives used for trading purposes			
Interest rate derivatives	616	2,866	1,300
Currency derivatives	169	159	14,458
Equity derivatives	3,159	–	233,300
Client option positions	18,893	19,855	18,893
Total derivatives used for trading purposes	**22,838**	**22,880**	**267,951**
Derivatives used for hedge accounting purposes			
Derivatives: fair value hedge accounting	64,329	70,276	2,255,720
Derivatives: portfolio fair value hedge accounting	2,238	25,038	950,000
Derivatives: cash flow hedge accounting	238	15,521	100,000
Total derivatives used for hedge accounting purposes	**66,805**	**110,835**	**3,305,720**
Other derivatives			
Economic hedges	34,306	62,252	1,255,027
Structured product derivatives	183,371	142,883	2,997,291
Total other derivatives	**217,677**	**205,135**	**4,252,317**

At 31 December 2015	Asset	Liability	Contract amount
Total	**333,411**	**324,760**	**8,250,126**
Derivatives used for trading purposes			
Interest rate derivatives	700	2,135	2,500
Currency derivatives	–	–	–
Equity derivatives	1,996	–	91,816
Client option positions	26,124	24,859	26,124
Total derivatives used for trading purposes	**28,820**	**26,994**	**120,440**
Derivatives used for hedge accounting purposes			
Derivatives: fair value hedge accounting	62,042	60,651	2,730,035
Derivatives: portfolio fair value hedge accounting	2,832	586	605,000
Derivatives: cash flow hedge accounting	80	19,174	100,000
Total derivatives used for hedge accounting purposes	**64,954**	**80,411**	**3,435,035**
Other derivatives			
Economic hedges	85,230	96,985	1,955,495
Structured product derivatives	154,407	120,370	2,739,156
Total other derivatives	**239,637**	**217,355**	**4,694,651**

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 type of currency derivates is used:
– Currency options.

The following types of equity derivatives are used:
– 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	31/12/2016		31/12/2015	
	Fair value	Ineffective	Fair value	Ineffective
Total	**–44,030**	**931**	**–15,457**	**2,077**
Fair value hedge accounting model	–5,948	1,239	1,391	2,086
Portfolio fair value hedge accounting model	–22,800	–308	2,246	–
Cash flow hedge accounting model	–15,282	–	–19,094	–9

The total ineffectiveness of fair value hedges at year-end 2016 was €0.9 million (2015: €2.1 million), comprising €44.2 million in negative value changes in hedging instruments (2015: €10.3 million negative) and positive changes in the value of the hedged items of €45.1 million (2015: €12.4 million).

Hedged items in cash flow hedge accounting by term at 31/12/2016	Within 1 year	1 to 3 years	3 to 5 years	5 years and longer
Total	**–**	**–**	**–**	**10,883**
Cash inflow	–	–	–	–
Cash outflow	–	–	–	–10,883

Hedged items in cash flow hedge accounting by term at 31/12/2015	Within 1 year	1 to 3 years	3 to 5 years	5 years and longer
Total	**–**	**–**	**–**	**13,670**
Cash inflow	–	–	–	–
Cash outflow	–	–	–	–13,670

5. Financial assets designated at fair value through profit or loss	31/12/2016	31/12/2015
Total	**336,238**	**712,578**
Debt instruments		
Government paper and government-guaranteed paper	14,198	124,206
Covered bonds	246,338	509,470
Companies, listed	–	4,690
Total debt instruments	**260,536**	**638,366**
Equity instruments		
Shares, listed	50,377	40,342
Shares, unlisted	25,325	33,870
Total equity instruments	**75,702**	**74,212**

Movements in financial assets designated at fair value through profit or loss	2016	2015
At 1 January	712,578	1,309,524
Purchases	461,527	2,934,999
Sales	–165,952	–945,508
Redemptions	–673,921	–2,640,310
Value changes	2,006	12,005
Other movements	–	938
Reclassification of financial assets held for trading	–	40,930
At 31 December	**336,238**	**712,578**

Marked-to-market portfolio
Surplus liquidity is invested in government bonds, covered bonds and asset-backed securities. These investments are held in a separate portfolio and are stated at fair value. The investments are accordingly carried at fair value, with value changes through profit or loss.

Shares: fund investments
Van Lanschot has interests in companies specifically founded in order to make investments. These are investment funds in which we hold a non-controlling interest and the investments in these funds are managed and valued on the basis of fair value. All information provided to us by the investment funds is based on fair value, thus meeting the condition for applying the fair value option. These investments are designated and valued as financial assets at fair value through profit or loss.

6. Available-for-sale investments	31/12/2016		31/12/2015	
	Fair value	Face value	Fair value	Face value
Total	**1,680,036**	**1,642,986**	**2,159,141**	**2,033,107**
Debt instruments				
Government paper and government-guaranteed paper	483,802	477,500	1,050,019	963,000
Banks and financial institutions, listed	104,322	102,000	71,309	71,000
Covered bonds	372,110	368,144	190,932	188,000
Asset-backed securities	666,251	661,303	806,848	799,398
Companies, listed	14,128	13,909	–	–
Company cumprefs (shareholdings)	16,387	20,130	8,788	11,709
Total debt instruments	**1,657,000**	**1,642,986**	**2,127,896**	**2,033,107**
Equity instruments				
Shares, listed	–		–	
Shares, unlisted	11,296		17,376	
Shareholdings	11,740		13,869	
Total equity instruments	**23,036**		**31,245**	

Movements in available-for-sale investments	2016	2015
At 1 January	2,159,141	1,952,731
Purchases	656,791	1,426,311
Sales	–1,023,493	–893,564
Redemptions	–136,262	–306,717
Share premium (discount) of debt instruments	–13,409	–10,899
Value changes	36,474	–9,988
Impairments	–334	–515
Other movements	1,128	1,782
At 31 December	**1,680,036**	**2,159,141**

7. Held-to-maturity investments	31/12/2016		31/12/2015	
	Carrying amount	Face value	Carrying amount	Face value
Total	**513,438**	**475,000**	**523,639**	**475,000**
Debt instruments				
Government paper and government-guaranteed paper	329,308	300,000	337,070	300,000
Banks and financial institutions, listed	184,130	175,000	186,569	175,000
Total debt instruments	**513,438**	**475,000**	**523,639**	**475,000**

Movements in held-to-maturity investments	2016	2015
At 1 January	523,639	533,708
Share premium (discount) of debt instruments	–10,201	–10,069
At 31 December	**513,438**	**523,639**

8. Loans and advances to the public and private sectors	31/12/2016	31/12/2015
Total	**9,624,048**	**10,504,423**
Mortgage loans	6,235,581	6,352,611
Loans	2,057,255	2,623,418
Current accounts	1,100,740	1,349,988
Securities-backed loans and settlement receivables	272,991	243,751
Subordinated loans	11,698	14,727
Value adjustments fair value hedge accounting	107,829	100,198
Impairments	–162,047	–180,270

Impairments	31/12/2016	31/12/2015
Total	**–162,047**	**–180,270**
Mortgage loans	–60,183	–63,657
Loans	–101,864	–116,613

We acquired nil financial or non-financial assets during the year through the seizure of collateral held as security (2015: 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 private and public sectors.

9. Investments in associates using the equity method	31/12/2016		31/12/2015	
	Associates, equity method	Van Lanschot's share	Associates, equity method	Van Lanschot's share
Total	**196,933**	**75,559**	**162,648**	**56,299**
Current assets	246,040	82,332	216,763	66,713
Non-current assets	256,627	87,533	197,086	60,169
Current liabilities	–138,014	–47,074	–118,517	–38,136
Non-current liabilities	–167,720	–58,858	–132,684	–38,922
Goodwill		16,494		11,463
Impairments		–8,032		–7,949
Other		3,163		2,961

All associates valued using the equity method are unlisted investments; see 'Disclosure of interests in other entities'.

Movements in investments in associates using the equity method	2016	2015
At 1 January	56,299	50,679
Acquisitions and contributions	15,856	62
Sales and repayments	–528	–
Income from associates	11,543	9,813
Impairments	–510	–3,419
Dividend received	–7,325	–3,485
Other movements	225	2,649
At 31 December	**75,559**	**56,299**

10. Property and equipment	31/12/2016	31/12/2015
Total	**72,003**	**79,239**
Buildings	47,239	54,026
IT, operating system software and communications equipment	5,837	7,067
Other assets	17,866	17,946
Work in progress	1,061	200

The carrying amount of buildings not in use amounted to €3.9 million at year-end 2016 (2015: €4.6 million).

In 2014 we sold a building and entered into a lease contract for this location with a term of ten years and an extension option of five years. Van Lanschot retains the economic risk, and this building is therefore recognised in this section. The carrying amount of the building is €1.7 million and the total amount of the minimum future lease payments is €2.1 million. The present value of minimum future lease payments is €1.7 million, of which €0.2 million falls within one year, €0.9 million between one and five years and €0.6 million after five years.

Work in progress mainly relates to building maintenance projects.

No restrictive rights apply to property and equipment.

Movements in property and equipment 2016	Buildings	IT, operating system software and communications equipment	Other assets	Work in progress	Total
At 1 January	54,026	7,067	17,946	200	**79,239**
Consolidation of subsidiaries	122	409	26	–	**557**
Capital expenditure	2,725	2,266	4,403	6,132	**15,526**
Disposals	–2,924	–268	–103	–	**–3,295**
Capitalisation of investments	–	–	–	–5,271	**–5,271**
Depreciation	–3,034	–3,226	–4,420	–	**–10,680**
Impairments	–3,686	–	–	–	**–3,686**
Other	10	–411	14	–	**–387**
At 31 December	**47,239**	**5,837**	**17,866**	**1,061**	**72,003**
Historical cost	110,048	59,350	62,001	1,061	**232,460**
Accumulated depreciation and impairments	–62,809	–53,513	–44,135	–	**–160,457**
Net carrying amount at 31 December	**47,239**	**5,837**	**17,866**	**1,061**	**72,003**

Movements in property and equipment 2015	Buildings	IT, operating system software and communications equipment	Other assets	Work in progress	Total
At 1 January	58,166	7,297	10,642	287	**76,392**
Consolidation of subsidiaries	2,945	–	6,819	–	**9,764**
Capital expenditure	3,125	3,176	5,026	2,687	**14,014**
Disposals	–4,186	–	2	–234	**–4,418**
Capitalisation of investments	–	–	–	–2,540	**–2,540**
Depreciation	–3,534	–3,409	–4,088	–	**–11,031**
Impairments	–2,948	–	–	–	**–2,948**
Other	458	3	– 455	–	**6**
At 31 December	**54,026**	**7,067**	**17,946**	**200**	**79,239**
Historical cost	118,602	59,208	61,685	200	**239,695**
Accumulated depreciation and impairments	–64,576	–52,141	–43,739	–	**–160,456**
Net carrying amount at 31 December	**54,026**	**7,067**	**17,946**	**200**	**79,239**

11. Goodwill and other intangible assets	31/12/2016	31/12/2015
Total	**194,453**	**175,122**
Goodwill	155,747	155,117
Other intangible assets	38,706	20,005

In 2016 group companies were acquired; see ‘Business combinations’ for more information.

Movements in goodwill and other intangible assets in 2016	Goodwill	Client base	Third-party distribution channels	Brand names	Application software	Total
At 1 January	155,117	6,616	1,225	8,431	3,733	**175,122**
Additions	2,484	20,000	–	–	4,185	**26,669**
Disposals	–1,854	–	–	–	–	**–1,854**
Amortisation	–	–1,967	–408	–767	–2,776	**–5,918**
Other	–	–	–	–	434	**434**
At 31 December	**155,747**	**24,649**	**817**	**7,664**	**5,576**	**194,453**
Historical cost	155,747	77,384	4,899	15,330	71,533	**324,893**
Accumulated amortisation and impairments	–	–52,735	–4,082	–7,666	–65,957	**–130,440**
Net carrying amount at 31 December	**155,747**	**24,649**	**817**	**7,664**	**5,576**	**194,453**

The accumulated impairments on goodwill amounted to €73.4 million at 31 December 2016 (2015: €73.4 million) and have been deducted from the historical cost. The addition of €20 million to the client base is due to the acquisition of Staalbankiers; see ‘Business combinations in 2016’.

Movements in goodwill and other intangible assets in 2015	Goodwill	Client base	Third-party distribution channels	Brand names	Application software	Total
At 1 January	128,551	5,607	1,634	9,196	8,483	**153,471**
Additions	1,457	2,500	–	–	34	**3,991**
Amortisation	–	–1,491	–409	–765	–4,784	**–7,449**
Other	25,109	–	–	–	–	**25,109**
At 31 December	**155,117**	**6,616**	**1,225**	**8,431**	**3,733**	**175,122**
Historical cost	155,117	57,384	4,899	15,330	66,821	**299,551**
Accumulated amortisation and impairments	–	–50,768	–3,674	–6,899	–63,088	**–124,429**
Net carrying amount at 31 December	**155,117**	**6,616**	**1,225**	**8,431**	**3,733**	**175,122**

The movement in the line item Other in 2015 is due to the enlargement of the basis of consolidation of a non-strategic investment.

In 2016 we performed impairment tests on the goodwill arising from acquisitions in earlier years. This goodwill was allocated to cash-generating units (CGUs). The impairment tests did not result in a goodwill impairment.

The recoverable amount of the CGUs 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 for each CGU are based on the current year and on the financial estimates used by management to set objectives. Van Lanschot’s growth target has been set at the long-term market growth rate of 1.0% for the period after the explicit projections per CGU. Management has compared the main assumptions against market forecasts and expectations.

Cash flow estimates are based on the long-term plan, the strategic plans and potential future trends. Events and factors that could have a significant impact on the 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. The cash flows are discounted using a discount rate for each CGU which reflects the risk-free interest rate, supplemented with a surcharge for the market risk exposure of each 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.

The impairment test performed in 2016 did not lead to an impairment of the capitalised goodwill in the CGU Non-strategic investments; nor did the impairment test for the CGUs Asset Management and Merchant Banking lead to an impairment. The model uses a baseline scenario.
A sensitivity analysis was also performed, which focused particular attention on a decrease in net profit, a change in the pay-out ratio and a further increase in the cost of equity. This analysis demonstrates that a deterioration in the variables applied has not led to an impairment in the CGUs Asset Management and Merchant Banking.

An annual test is carried out for indications of impairment of other intangible assets with an indefinite useful life. For the line item Client bases, movements in the number of clients are assessed. For Third-party distribution channels, an assessment is carried out to determine whether the relationships with these parties still exist. The useful life tests carried out in 2016 provided no indication of a need for further examination, nor of impairments.

CGU (%)	Discount rate before tax		Discount rate after tax	
	2016	2015	2016	2015
Asset Management	12.7	13.5	9.9	10.5
Merchant Banking	9.7	11.7	7.5	9.1
Non-strategic investments	11.9 - 13.5	14.6	9.4 - 10.4	11.0

Allocation of goodwill to CGUs (based on segments)	31/12/2016	31/12/2015
Total	**155,747**	**155,117**
Asset Management	49,292	49,292
Merchant Banking	76,293	76,293
Non-strategic investments	30,162	29,532

Expected amortisation of intangible assets	2017	2018	2019	2020	2021	2022-2026
Expected amortisation of intangible assets	7,777	7,244	4,635	3,870	3,788	11,392

12. Tax assets	31/12/2016	31/12/2015
Total	**41,687**	**51,698**
Current tax assets	1,777	1,916
Deferred tax assets	39,910	49,782

Movements in deferred tax assets in 2016	Employee benefits	Property and equipment	Derivatives	Loss available for set-off	Commission	Other	Total
At 1 January	3,458	795	–	43,356	70	2,103	**49,782**
Withdrawals through profit or loss	–	3,790	–	–20,057	–	–1,099	**–17,366**
Additions through profit or loss	297	–2,137	–	5,007	10	–	**3,177**
Total through profit or loss	**297**	**1,653**	**–**	**–15,050**	**10**	**–1,099**	**–14,189**
Directly from/to equity	507	–	–929	–	–	–	**–423**
Movement from deferred tax liabilities	–	–	4,557	–	–	–	**4,557**
Extension consolidation group	–	–	–	184	–	–	**184**
At 31 December	**4,262**	**2,448**	**3,628**	**28,489**	**79**	**1,004**	**39,910**

Movements in deferred tax assets in 2015	Employee benefits	Property and equipment	Derivatives	Loss available for set-off	Commission	Other	Total
At 1 January	3,409	871	–	54,189	176	1,186	**59,831**
Withdrawals through profit or loss	–110	–76	–	–11,836	–106	–	**–12,128**
Additions through profit or loss	–	–	–	1,003	–	917	**1,920**
Total through profit or loss	**–110**	**–76**	**–**	**–10,833**	**–106**	**917**	**–10,208**
Directly from/to equity	159	–	–	–	–	–	**159**
At 31 December	**3,458**	**795**	**–**	**43,356**	**70**	**2,103**	**49,782**

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. See Note 37, Income tax, for more information.

Tax losses to be offset Financial year	Amount	Final year for offsetting
2009	32,470	2018
2010	–	2019
2011	–	2020
2012	63,376	2021
2013	1,192	2022
2014	201	2023
2015	5,664	Indefinite*
2016	6,115	Indefinite*

These items have an expiry date between 2018 and 2025. A proportion of the losses can be offset without a time limit.

Unrecognised losses	31/12/2016	31/12/2015
Unrecognised losses	22,523	10,951

* Most of the losses recorded in 2015 and 2016 arise from the permanent establishment in Belgium. As Belgium does not apply a time limit for offsetting losses, they can be carried forward indefinitely.

13. Assets classified as held for sale

In December 2016, Van Lanschot agreed to sell mortgages issued by the Belgian branch. The settlement of this sale is subject to the approval of the National Bank of Belgium (NBB). The settlement will be effective within one year. The carrying amount of the assets classified as held for sale amount to €103.6 million. The face value of these loans amounts to €105.7 million. Loan loss provisions are taken into account in the amount presented.

14. Other assets	31/12/2016	31/12/2015
Total	**137,856**	**148,265**
Interest receivable	24,624	46,633
Transitory items	57,229	45,073
Assets acquired through foreclosures	5,903	14,592
Inventories	3,698	4,005
Other	46,402	37,962

Assets acquired through foreclosures relate to property. We aim to convert to cash as soon as practicable.

15. Financial liabilities from trading activities	31/12/2016	31/12/2015
Total	**5**	**418**
Equity instruments		
Shares, listed	–	88
Shares, unlisted	5	330
Total equity instruments	**5**	**418**

16. Due to banks	31/12/2016	31/12/2015
Total	**128,696**	**698,125**
Special loans, ECB	–	350,000
Deposits	56,680	77,134
Repo transactions	–	219,047
Payables arising from unsettled securities transactions	63,197	47,329
Loans and advances drawn	8,820	4,615

17. Public and private sector liabilities	31/12/2016	31/12/2015
Total	**9,679,764**	**9,908,391**
Savings	4,375,686	4,356,513
Deposits	293,798	753,943
Other client assets	5,003,226	4,793,064
Value adjustments fair value hedge accounting	7,055	4,871

18. Financial liabilities designated at fair value through profit or loss	31/12/2016	31/12/2015
Total	**894,255**	**804,603**
Unstructured debt instruments	253,096	247,709
Structured debt instruments	641,160	556,894

We have issued debt instruments which are managed on the basis of fair value. 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.

Van Lanschot's own credit risk in the reporting year came down by €0.9 million (2015: up €0.9 million), reflecting an increase of €3.2 million on the back of the improvement in Van Lanschot´s own credit quality, a reduction of €2.2 million for the passage of time and a reduction of €1.9 million 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 totalled €17.7 million (2015: €18.6 million).

We have to pay the fair value on the maturity date.

19. Issued debt securities	31/12/2016	31/12/2015
Total	**2,116,094**	**2,480,005**
Bond loans and notes	509,505	1,261,729
Covered bonds	994,636	497,257
Notes as part of securitisation transactions	537,182	643,257
Floating-rate notes	48,972	58,602
Medium-term notes	12,500	12,500
Value adjustments fair value hedge accounting	13,299	6,660

Issued debt securities comprise debt instruments and other negotiable debt securities issued with rates of interest that are either fixed or variable, in so far as not subordinated. €23 million of the debt securities become payable on demand in 2017 (2016: €731 million), with this total breaking down as follows:

- Instruments with contractual maturity dates in 2017: €23 million (2016: €731 million);
- Instruments subject to a trigger with optional maturity dates in 2017: nil (2016: nil);
- Securitised transactions with call dates in 2017: nil (2016: nil).

Issued debt securities decreased by €364 million relative to 2015 following the redemption of a €228 million senior unsecured bond in the first half of 2016 and a €500 million senior unsecured bond in the second half of 2016.

At the end of March 2016 we issued a €500 million seven-year conditional pass-through covered bond with a 0.375% coupon. The bonds are rated AAA by both S&P and Fitch rating agencies. The Van Lanschot Conditional Pass-through Covered Bond Programme is Dutch law-based and backed by a pool of Dutch residential mortgage loans. It is registered with DNB.

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 31/12/2016	Face value	Value adjustments fair value hedge accounting	Premium/discount	Carrying amount
Total	**2,113,038**	**13,299**	**–10,243**	**2,116,094**
Bond loans and notes	514,664	5,876	–5,159	515,381
Covered bonds	1,000,000	7,423	–5,364	1,002,059
Notes as part of securitisation transactions	537,182	–	–	537,182
Floating-rate notes	48,692	–	280	48,972
Medium-term notes	12,500	–	–	12,500

Face value versus carrying amount of issued debt securities at 31/12/2015	Face value	Value adjustments fair value hedge accounting	Premium/discount	Carrying amount
Total	**2,482,953**	**6,660**	**–9,608**	**2,480,005**
Bond loans and notes	1,268,542	12,333	–6,813	1,274,062
Covered bond	500,000	–5,673	–2,743	491,584
Notes as part of securitisation transactions	643,721	–	–464	643,257
Floating-rate notes	58,190	–	412	58,602
Medium-term notes	12,500	–	–	12,500

20. Provisions	31/12/2016	31/12/2015
Total	**34,047**	**23,668**
Provisions for pensions	12,303	10,401
Provision for employee discounts	4,100	3,249
Provisions for long-service benefits	2,317	2,063
Provision for restructuring	630	–
Provision for interest rate derivatives recovery framework	8,853	1,713
Other provisions	5,844	6,242

The provision for the interest rate derivatives recovery framework increased by €8.0 million as a result of ex-gratia payments under the recovery framework for interest rate derivatives sold to SMEs. In 2016 an amount of €0.9 million was used, mainly for advisory fees. Settlement of ex-gratia payments is expected in 2017.

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.

Up until 31 December 2016, employees received a bonus to mark long-service anniversaries of 10, 20, 30 and 40 years. From 1 January 2017, the long-service benefits scheme has changed and employees will receive a bonus on reaching 25 and 40 years of service. These benefits are calculated on an actuarial basis and recognised in the statement of financial position as a provision. Benefit payments are made when they are due.

The following defined benefit schemes were valued for the purpose of the 2016 annual figures:

- Van Lanschot employees are eligible for discounted mortgage interest rates. Entitlement to this discount continues beyond retirement from active service.
- 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 Tegen-verzekering). 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 defined benefit plan in the consolidated financial statements.
- The long-service benefits depend on the number of years of service.
- Kempen operates an average salary scheme under which 1.875% of the pensionable salary – salary less state pension offset, with an annual ceiling of €40,000 – is accrued for each year of service and which is based on a retirement age of 67. The surviving dependants' pension is insured on a risk basis.
- The pension plan 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.

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.

Only within the 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 the company.

The obligations are calculated using the projected unit credit method.

Obligations/assets included in the statement of financial position by scheme at 31/12/2016	Pensions	Early retirement	Employee discounts	Long-service benefits
Defined benefit obligations	199,811	18	4,100	2,317
Fair value of plan assets	187,526	–	–	–
Surplus/deficit	–12,285	–18	–4,100	–2,317
Obligation at year-end	–12,285	–18	–4,100	–2,317

Obligations/assets included in the statement of financial position by scheme at 31/12/2015	Pensions	Early retirement	Employee discounts	Long-service benefits
Defined benefit obligations	167,276	155	3,249	2,063
Fair value of plan assets	157,030	–	–	–
Surplus/deficit	–10,246	–155	–3,249	–2,063
Obligation at year-end	–10,246	–155	–3,249	–2,063

Movements in defined benefit obligations for pension scheme	2016	2015
Defined benefit obligations at 1 January	167,276	168,771
Current service costs	3,869	3,507
Interest costs	4,617	3,895
Members' contributions	460	388
Financial assumptions	13,484	–5,627
Gross benefits	–1,491	–1,506
Transfers	9,133	–1,235
Changed assumptions	2,464	–917
Defined benefit obligations at 31 December	**199,811**	**167,276**

At 31 December 2016, the weighted average duration of the defined benefit obligation was 23.7 years (2015: 25.1 years).

Movements in defined benefit obligations for early retirement scheme	2016	2015
Defined benefit obligations at 1 January	155	164
Current service costs	–42	–9
Discontinuation	–95	–
Defined benefit obligations at 31 December	**18**	**155**

Movements in defined benefit obligations for employee discounts scheme	2016	2015
Defined benefit obligations at 1 January	3,249	3,734
Current service costs	231	238
Interest costs	65	55
Financial assumptions	134	–640
Gross benefits	–274	–138
Change in accounting estimate	695	–
Defined benefit obligations at 31 December	**4,100**	**3,249**

Movements in defined benefit obligations for long-service benefits scheme	2016	2015
Defined benefit obligations at 1 January	2,063	3,556
Current service costs	327	305
Interest costs	22	68
Financial assumptions	252	–206
Gross benefits	–347	–180
Changed assumptions	–	–1,480
Defined benefit obligations at 31 December	**2,317**	**2,063**

Movements in fair value of pension plan assets	2016	2015
Fair value at 1 January	157,030	160,993
Expected return on plan assets	4,441	3,744
Financial assumptions	16,734	–8,377
Employer's contribution	4,144	3,225
Gross benefits	–1,305	–1,320
Transfers	6,481	–1,235
Fair value at 31 December	**187,526**	**157,030**
Actual return on plan assets	21,175	–4,633

Current service costs of pension scheme included in statement of income	2016	2015
Current service costs	3,869	3,507
Net interest income	4,617	3,895
Expected return on plan assets	–4,441	–3,744
Net costs	**4,045**	**3,658**

Current service costs of early retirement scheme included in statement of income	2016	2015
Current service costs	–42	–
Discontinuation, restruction of benefits	–95	–
Net costs	**–137**	**–**

Current service costs of employee discount scheme included in statement of income	2016	2015
Current service costs	231	238
Net interest income	65	55
Change in accounting estimate	695	–
Net costs	**991**	**293**

Current service costs of long-service benefits included in statement of income	2016	2015
Current service costs	327	305
Net interest income	22	68
Financial assumptions	252	–206
Discontinuation, restriction of benefits	–	–1,480
Net costs	**601**	**–1,313**

Plan assets funding obligations, by investment category	31/12/2016		31/12/2015	
	Fair value	%	Fair value	%
Total	**187,526**	**100**	**157,030**	**100**
Fixed income	121,416	65	109,986	70
Equities	37,195	20	31,323	20
Mixed funds	1,741	1	1,463	1
Real estate	6,515	3	5,299	3
Cash and cash instruments	–758	0	–704	0
Other	21,417	11	9,663	6

At each reporting date, an asset/liability matching study is performed 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	2016	2015
Actuarial interest rate pension	0.65% – 1.9%	2.8%
Actuarial interest rate employee discounts	1.0%	1.9%
Actuarial interest rate long-service benefits	1.0%	1.9%
Expected return on investments	0.65% – 1.9%	2.8%
Price inflation	2.0%	2.0%
General salary increase	1.25%	1.25% – 2.0%
Retirement age	64 – 67 years	65 – 67 years

The mortality rate is based on publicly available mortality tables for the specific countries. For the calculations at 31 December 2016 the following mortality tables are used:

- Kempen: the mortality tables as published by the Dutch Association of Actuaries (Prognosetafel 2016).
- 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 reduction of ten basis points in the actuarial interest rate will lead to an increase of 2.5% in the pension obligations and a rise of 3.7% in the current service costs in the statement of income.

For Belgian branch, a reduction of 50 basis points in the actuarial interest rate will lead to an increase of 7.6% in the pension obligations and a rise of 50 basis points in the actuarial interest rate will lead to a decrease of 7.0% 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 10.3% in the pension obligations and a rise of 50 basis points in the actuarial interest rate will lead to a decrease of 8.8% in the pension obligations.

History of movements in pension scheme gains and losses	2016	2015	2014	2013	2012
Defined benefit obligations	199,811	167,276	168,771	821,043	855,156
Fair value of plan assets	187,526	157,030	160,993	805,272	810,450
Surplus/deficit	**–12,285**	**–10,246**	**–7,778**	**–15,771**	**–44,706**
Actuarial gains/losses on obligations	13,484	–5,627	–267,278	72,751	–138,316
Actuarial gains/losses on investments	16,734	–8,377	140,542	–5,064	52,010

Expected contributions for 2017	Pension obligations	Employee discounts	Long-service benefits scheme
Total	**4,125**	**183**	**167**
Expected employer's contributions	3,430	183	167
Expected employees' contributions	695	–	–

Provision for restructuring	2016	2015
At 1 January	–	1,849
Withdrawals	–	–160
Additions	630	–
Other changes	–	–1,689
At 31 December	**630**	**–**

The provision for restructuring is expected to be used 2017.

Other provisions	2016	2015
At 1 January	6,242	3,761
Withdrawals related to acquisitions/consolidation base	–	233
Withdrawals	–4,880	–894
Release	–2,683	–
Reclassification	529	–
Additions	6,632	3,133
Other changes	4	9
At 31 December	**5,844**	**6,242**

An amount of €2.7 million has a maturity of one year or longer.

21. Tax liabilities	31/12/2016	31/12/2015
Total	**7,073**	**4,911**
Current tax liabilities	1,739	1,611
Deferred tax liabilities	5,334	3,300

Movements in deferred tax liabilities 2016	Property and equipment	Intangible assets	Derivatives	Investment portfolio	Employee benefits	Other	Total
At 1 January	1,185	3,532	–4,557	2,744	–	396	**3,300**
Withdrawals through profit or loss	–2,180	–711	–	–	–	–396	**–3,287**
Additions through profit or loss	1,307	–	–	–	–	–	**1,307**
Total through profit or loss	**–873**	**–711**	**–**	**–**	**–**	**–396**	**–1,980**
Directly from/to equity	–	–	–	–543	–	–	**–543**
Movement to deferred tax assets	–	–	4,557	–	–	–	**4,557**
At 31 December	**312**	**2,821**	**–**	**2,201**	**–**	**–**	**5,334**

Movements in deferred tax liabilities 2015	Property and equipment	Intangible assets	Derivatives	Investment portfolio	Employee benefits	Other	Total
At 1 January	1,988	4,714	−4,136	7,317	103	109	**10,095**
Withdrawals through profit or loss	−803	−1,182	–	–	−103	287	**−1,801**
Total through profit or loss	**−803**	**−1,182**	**–**	**–**	**−103**	**287**	**−1,801**
Directly from/to equity	–	–	−421	−4,573	–	–	**−4,994**
At 31 December	**1,185**	**3,532**	**−4,557**	**2,744**	**–**	**396**	**3,300**

See Note 37, Income tax, for more information.

22. Other liabilities	31/12/2016	31/12/2015
Total	**157,482**	**148,809**
Interest payable	32,343	47,324
Other accruals and deferred income	58,671	45,058
Other	66,467	56,427

Other liabilities comprise income received to be credited to future periods and amounts payable such as accrued interest, payables, suspense accounts and unsettled items.

23. Subordinated loans	31/12/2016	31/12/2015
Total	**167,218**	**118,151**
Certificates of indebtedness	100,000	100,000
Other subordinated loans	66,790	16,904
Value adjustments fair value hedge accounting	428	1,247

In October 2016 we privately placed a €50 million subordinated bond. It has a tenor of 10 years and carries a fixed 3.396% coupon up to the call date in October 2021. The transaction qualifies as Tier II capital and strengthens our total capital ratio.

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 31/12/2016	Amortised cost	Value adjustments fair value hedge accounting	Carrying amount
Total	**166,790**	**428**	**167,218**
5.446% subordinated bond loan 08/33	25,000	–	25,000
5.395% subordinated bond loan 08/38	25,000	–	25,000
5.344% subordinated bond loan 08/43	50,000	–	50,000
3.396% subordinated bond loan 16/26	50,000	−668	49,332
Other subordinated loans	16,790	1,096	17,886

The average coupon on the other subordinated loans in 2016 was 4.07% (2015: 6.08%).

Amortised cost versus carrying amount subordinated loans at 31/12/2015	Amortised cost	Value adjustments fair value hedge accounting	Carrying amount
Total	**116,904**	**1,247**	**118,151**
5.137% subordinated bond loan 08/33	25,000	–	25,000
5.086% subordinated bond loan 08/38	25,000	–	25,000
5.035% subordinated bond loan 08/43	50,000	–	50,000
Other subordinated loans	16,904	1,247	18,151

24. Equity	31/12/2016		31/12/2015	
Total		**1,353,926**		**1,319,934**
Equity attributable to shareholder				
Issued share capital		40,000		40,000
Share premium reserve		318,521		318,481
Revaluation reserve	20,249		24,847	
Actuarial results on defined benefit schemes	–16,625		–15,201	
Currency translation reserve	2,257		1,939	
Cash flow hedge reserve	–10,883		–13,670	
Retained earnings	921,216		908,799	
Other reserves		916,214		906,714
Undistributed profit (attributable to shareholder)		65,735		34,163
Total equity attributable to shareholder		**1,340,470**		**1,299,358**
Non-controlling interest in perpetual capital securities				
Undistributed profit (attributable to non-controlling interest in perpetual securities)		–		943
Total equity attributable to non-controlling interest in perpetual securities		**–**		**943**
Equity attributable to other non-controlling interests				
Other non-controlling interests		9,391		11,985
Undistributed profit attributable to other non-controlling interests		4,065		7,648
Total equity attributable to non-controlling interests		**13,456**		**19,633**

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 2015 and 31 December 2016 there were 400,000 shares in issue.

Conditional and unconditional share and option plans Exercise period up to and including	2016 Number	2016 Average exercise price in €	2015 Number	2015 Average exercise price in €
2016	–	–	1,449	40.15
2017	4,042	51.04	4,062	51.04
2018	6,679	73.53	7,559	73.53
Unconditional options	**10,721**	**65.05**	**13,070**	**62.84**
Conditional shares	**467,556**	**n/a**	**509,382**	**n/a**

No option rights have been granted since 2008. By the end of 2016, board members held a total of 129,311 depositary receipts for shares in Van Lanschot NV. Unconditional awards are linked to performance and employment contract. For more information about shares and options schemes for staff and the Statutory Board, see page 66.

Movements in reserves in 2016	Revaluation reserve of available-for-sale investments: Equity instruments	Revaluation reserve of available-for-sale investments: Debt instruments	Actuarial results on defined benefit schemes	Currency translation reserve	Cash flow hedge reserve	Retained earnings	Total
At 1 January	15,467	9,380	–15,201	1,939	–13,670	908,799	**906,714**
Net changes in fair value	–1,029	3,838	–	–	2,788	–	**5,597**
Realised gains/losses through profit or loss	–922	–6,486	–	–	–	–	**–7,408**
Profit appropriation	–	–	–	–	–	15,730	**15,730**
Share plans	–	–	–	–	–	–2,813	**–2,813**
Actuarial results	–	–	–1,424	–	–	–	**–1,424**
Other changes	–	–	–	318	–	–501	**–183**
At 31 December	**13,516**	**6,732**	**–16,625**	**2,257**	**–10,883**	**921,216**	**921,216**
Tax effects	–	543	499	–	–929	–	**113**

In 2016, the dividend for 2015 was set at €46.08 per share.

Movements in reserves in 2015	Revaluation reserve of available-for-sale investments		Actuarial results on defined benefit schemes	Currency translation reserve	Cash flow hedge reserve	Retained earnings	Total
	Equity instruments	Debt instruments					
At 1 January	17,311	22,723	–14,251	–973	–12,409	806,793	**819,194**
Net changes in fair value	–903	–2,859	–	–	–1,261	–	**–5,023**
Realised gains/losses through profit or loss	–941	–10,484	–	–	–	–	**–11,425**
Profit appropriation	–	–	–	–	–	99,001	**99,001**
Actuarial results	–	–	–950	–	–	–	**–950**
Other changes	–	–	–	2,912	–	3,005	**5,917**
At 31 December	**15,467**	**9,380**	**–15,201**	**1,939**	**–13,670**	**908,799**	**906,714**
Tax effects	8	4,565	162	–	420	–	**5,155**

In 2015, no dividend for 2014 was made payable.

Nature and purpose of other reserves

Share premium reserve: Covers amounts paid to Van Lanschot by the shareholder above the nominal value of purchased shares.

Revaluation reserve: Covers movements in the fair value of available-for-sale investments and associates.

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.

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.

25. Contingent liabilities	31/12/2016	31/12/2015
Total	**68,024**	**82,502**
Guarantees, etc.	67,774	82,252
Other	250	250

For several group companies, guarantees of €182.1 million (2015: €192.2 million) have been issued. It is impossible to predict whether, when and how much of these contingent liabilities will be claimed.

26. Irrevocable commitments	31/12/2016	31/12/2015
Total	**145,918**	**492,392**
Unused credit facilities	127,314	253,910
Sale and repurchase commitments	–	221,341
Other	18,604	17,141

Notes to the consolidated statement of income

(x €1,000)

27. Net interest income	2016	2015
Total interest income	**395,880**	**513,762**
Interest income on cash equivalents	85	19
Interest income on banks and private sector	295,071	319,549
Interest income on held-to-maturity investments	7,049	7,168
Other interest income	2,717	2,692
Interest income on items not recognised at fair value	**304,922**	**329,428**
Interest income on available-for-sale investments	10,992	14,849
Interest income on financial assets at fair value through profit or loss	7,431	17,348
Interest income on derivatives	72,536	152,137
Total interest expense	**186,064**	**313,153**
Interest expense on banks and private sector	49,346	85,771
Interest expense on issued debt securities	41,203	57,072
Interest expense on subordinated loans	5,821	6,549
Other interest expense	438	227
Interest expense on items not recognised at fair value	**96,808**	**149,619**
Interest expense on balances at central banks	2,729	1,160
Interest expense on derivatives	86,526	162,374
Net interest income	**209,817**	**200,609**

The interest result on loans subject to impairment was €19.5 million (2015: €16.5 million).

In 2016 interest result was €9.2 million higher than in 2015. The increase was the net outcome of lower interest income on the Corporate Banking loan portfolio and the mortgage portfolio. These factors were offset by lower interest expense on savings and deposits due to lower volumes and interest rates.

28. Income from securities and associates	2016	2015
Total	**29,671**	**28,865**
Income from associates using the equity method	11,646	11,813
Dividends and fees	3,606	10,460
Movements in value of investments at fair value through profit or loss	4,934	4,938
Realised result of available-for-sale equity investments	6,931	933
Other gains on sales	2,554	721

Under Income from associates using the equity method, Van Lanschot recognises its share in the results of associates at €11.5 million (2015: €9.8 million) and results from sales of associates of €0.1 million (2015: €2.0 million).

29. Net commission income	2016	2015
Total	**243,670**	**265,562**
Securities commissions	29,029	37,451
Management commissions	171,432	170,302
Cash transactions and funds transfer commissions	9,888	10,582
Corporate Finance and Equity Capital Markets commissions	25,611	40,337
Other commissions	7,710	6,890

Compared with 2015, commission income was down by €21.9 million. The decrease was primarily due to lower Corporate Finance commissions and reduced securities commissions at Merchant Banking in challenging capital market conditions in 2016.

30. Result on financial transactions	2016	2015
Total	**–3,938**	**23,342**
Gains/losses on securities trading	–2,986	792
Gains/losses on currency trading	6,907	12,300
Unrealised gains/losses on derivatives under hedge accounting	–7,055	1,684
Realised and unrealised gains/losses on trading derivatives	4,612	6,326
Realised gains on available-for-sale debt instruments	8,509	15,491
Gains/losses on economic hedges – hedge accounting not applied	10,125	–10,849
Gains/losses on financial assets designated at fair value through profit or loss	–24,050	–2,402

Compared with 2015, result on financial transactions was down by €27.3 million, €7.0 million of which was due to lower gains from government bonds sold in the available-for-sale investment portfolio. Higher gains on economic hedges and the loss on financial assets designated at fair value through profit or loss together reflect the revaluation result caused by changes in capital market yields in the marked-to-market portfolio and a number of derivatives positions.

31. Other income	2016	2015
Total	**45,180**	**42,762**
Net sales	97,496	95,211
Cost of sales	–52,317	–52,449

Other income comprises net sales and gross margin from non-strategic investments arising from debt conversion. In certain cases, where a company has not been able to repay a corporate loan from Van Lanschot, the loan has been converted into a shareholding, thus giving the company concerned time to recover. We aim to sell any shares in non-strategic investments in due course.

32. Staff costs	2016	2015
Total	**247,364**	**233,657**
Salaries and wages	185,175	177,775
Pension costs for defined contribution schemes	19,056	18,773
Pension costs for defined benefit schemes	3,864	3,339
Other social security costs	20,441	20,318
Share-based payments for variable remuneration	4,770	4,780
Other staff costs	14,058	8,672

In 2016 share-based payments in Van Lanschot NV shares added €3.2 million to equity (2015: €2.7 million). Of the total expenses arising from share-based payments, €0.8 million is disclosed under Salaries and wages (2015: €0.6 million). The part of expenses regarding conditionally granted share-based payments which will be used to pay income tax on behalf of participants is recognised under Other liabilities. An amount of €2.6 million is reclassified from equity to other liabilities (2015: nil). Pension costs for defined contribution schemes include €0.7 million (2015: €0.7 million) for the members of the Statutory Board.

Since the participants in the Kempen Management Investment Plan pay the fair value of the equity instruments, no expenses related to this are included in staff costs.

The average number of staff in 2016 was 2,260 (2015: 2,282), or 2,051 in full-time equivalents (2015: 2,034), as shown below:

Average FTEs	2016	2015
Total	**2,051**	**2,034**
Netherlands	1,846	1,849
Belgium	147	138
Other	58	47

Unconditional options Van Lanschot NV granted to staff and members of the Statutory Board	2016		2015	
	Number of options	Weighted-average exercise price in €	Number of options	Weighted-average exercise price in €
At 1 January	13,070	62.84	13,070	62.84
Expired and forfeited options	–2,349	40.15	–	–
At 31 December	**10,721**	**65.67**	**13,070**	**62.84**

Unconditional options can be exercised twice a year in the open period after the release of the interim and full-year figures. No option rights were exercised in 2015 and 2016.

Conditional depositary receipts for shares of Van Lanschot NV granted to staff (excluding Statutory Board)	2016	2015
At 1 January	509,382	430,671
Granted	84,219	173,085
Vested	–64,381	–47,722
Forfeited rights	–61,664	–46,652
At 31 December	**467,556**	**509,382**

Conditional depositary receipts for shares of Van Lanschot NV are granted to staff both under the variable compensation plan and the long-term share plan.

Long-term share plan

The long-term share plan (LTP) 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 NV shares. For the LTP 2011-2014, 50% of the Van Lanschot NV shares were awarded conditionally over a period of three years and 50% over a period of five years starting in the year after the year of conditional award (the vesting period). As from LTP 2015, 60% of the Van Lanschot NV shares are awarded immediately and unconditionally, while 40% are awarded conditionally over a period of three years starting in the year after the year of conditional award (the vesting period).

Conditional depositary receipts for shares will vest if:

(i) Van Lanschot'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 in the three or five-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 within this period, their rights will be forfeited, except in limited circumstances judged on an individual basis.

The conditionally awarded depositary receipts will be paid partly in cash (around 50%), which will be used to pay income tax.

The fair value is determined based on the volume-weighted day price for depositary receipts for Class A ordinary shares of Van Lanschot NV on the second trading day after release of Van Lanschot NV's annual figures. Depositary receipts in shares Van Lanschot NV granted in 2016 had a fair value of €14.72 (2015: €18.85).

In 2016, 9,858 conditional depositary receipts for shares of Van Lanschot NV were granted to a number of senior managers other than members of the Statutory Board (2015: 44,421).

Share-based payments Kempen Management Investment Plan (MIP)

Under the terms of the Kempen MIP, selected Kempen staff invest indirectly via depositary receipts in Kempen shares and Kempen's profit-sharing certificates. Kempen issued these to Kempen Management Investeringsplan Coöperatief US (Coöperatie MIP), a cooperative with two members, Stichting Administratiekantoor Kempen Management Investeringsplan (Stichting MIP) and F. van Lanschot Bankiers NV, with Stichting MIP holding virtually all membership rights. Stichting MIP issues depositary receipts to selected staff, who pay their issue price and receive the indirect right of beneficial ownership of the underlying Kempen shares and profit-sharing certificates. Any dividends Kempen pays on the ordinary shares owned by Coöperatie MIP and profit-sharing rights on the profit-sharing certificates are distributed to Coöperatie MIP, which in turn distributes the profits to its members: Stichting MIP and Van Lanschot. Stichting MIP will subsequently pay out its share of the profits to the individual staff members, pro rata their holding of depository receipts; for more information, see 'Disclosure of interests in other entities'.

Individual staff finance the issue price entirely from their own means and are not financially supported by Van Lanschot or Kempen in any way.

33. Other administrative expenses	2016	2015
Total	**176,768**	**171,468**
Accommodation expenses	23,059	23,430
Marketing and communication	12,841	13,207
Office expenses	7,634	9,801
IT expenses	57,419	71,076
External auditors' fees	2,447	2,686
Consultancy fees	15,277	12,757
Travel and hotel fees	13,171	13,437
Information providers' fees	11,685	10,246
Payment charges	4,020	3,732
Other administrative expenses	29,215	11,096

Consultancy fees relate to advisory services (business consultancy, tax) and the implementation and maintenance of software and hardware.

IT expenses fell by €13.8 million in 2016, mainly due to lower IT running costs thanks to efficiency improvements. Other administrative expenses exceeded the year-earlier figure by €18.1 million, chiefly due to €6.8 million in additions to the provision for the interest rate derivatives recovery framework and €2.5 million in other provisions. Contributions to the Single Resolution Fund, Deposit Guarantee Scheme and Bankentaks Belgium also increased by a total of €7.5 million compared to 2015.

Fees charged by the external independent auditors (and their network of offices) can be broken down as follows:

Fees charged by external independent auditors	2016	2015
Total	**2,447**	**2,686**
Financial statements audit fee	1,420	1,736
Fee for other audit services	146	309
Financial statements audit fee for funds managed by Kempen	437	361
Other fees	444	280

Other fees include an amount of €0.3 million (2015: €0.1 million) related to fees charged by other accounting firms in 2016, one of these being our former accounting firm.

34. Depreciation and amortisation	2016	2015
Total	**16,597**	**17,391**
Buildings	3,034	3,534
IT, operating system software and communications equipment	3,226	3,409
Application software	2,776	4,784
Intangible assets arising from acquisitions	3,142	2,665
Results on disposals of property and equipment	–1	–1,089
Other depreciation and amortisation	4,420	4,088

35. Impairments	2016	2015
Total	**–2,115**	**61,937**
Loans and advances to the public and private sectors	–6,862	51,004
Available-for-sale investments	334	515
Investments in associates using the equity method	510	3,419
Property and equipment	3,686	2,948
Goodwill and intangible assets	–	–
Assets acquired through foreclosures	216	4,051

Impairments on Loans and advances to the public and private sectors fell by €57.9 million in 2016 compared with the previous year, due on the one hand to a reduced need for loan provisioning and on the other to an improvement in the quality of loans for which a provision had already been formed, thus releasing part of the provision. The 2015 sale of non-performing real estate loans also reduced the need to take provisions.

Available-for-sale investments comprise the impairments that arise when the fair values of investments move below cost significantly or for a prolonged period, in keeping with relevant policies.

Investments in associates using the equity method includes impairments on investments whose realisable values are below their carrying amounts.

Property and equipment includes impairments on office buildings whose estimated realisable values are below their carrying amounts.

Assets acquired through foreclosures includes required impairments on foreclosed assets whose recoverable values have fallen below their carrying amounts.

36. Result from sale of public and private sector loans and advances

Van Lanschot sold a portfolio of non-performing real estate loans to a subsidiary of Cerberus Capital Management LP in 2015. The proceeds of this sale amounted to €23.2 million negative. In 2015 an amount of € 22.4 million negative relating to these loans was taken to the Result from sale of public and private sector loans and advances, and € 0.8 million negative relating to interest rate swaps associated with the portfolio was taken to the Result on financial transactions.

37. Income tax	2016	2015
Operating profit before tax from continuing operations	85,785	54,284
Profit before tax from discontinued operations	–	–
Total gross result	**85,785**	**54,284**
Prevailing tax rate in the Netherlands	25%	25%
Expected tax	21,446	13,571
Increase/decrease in tax payable due to:		
Tax-free income from securities and associates	–6,600	–6,399
Taxed release of tax reserves	–	1,222
Non-deductible impairments	–	–
Non-deductible costs	2,148	1,831
Non-deductible losses	336	1,833
Adjustments to taxes for prior financial years	60	312
Impact of foreign rate tax differences	–945	–487
Other changes	–460	–353
	–5,461	**–2,041**
Total tax	**15,986**	**11,530**

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 may be caused particularly by the equity holding exemption, unused losses and non-deductible costs.

Key income tax components		2016	2015
Total		**15,986**	**11,530**
Standard tax		4.662	3,298
Income/expense from foreign tax rate differences		–945	–487
Income/expense from changes in deferred tax assets	(12)	14,189	10,208
Income/expense from deferred tax liabilities	(21)	–1,980	–1,801
Income/expense from prior-year adjustments		60	312

The breakdown of deferred assets and liabilities is as follows:

Deferred tax assets	2016	2015
Total	**14,189**	**10,208**
Employee benefits	–297	110
Commissions	–10	106
Property and equipment	–1,653	76
Tax-loss carry-forwards	15,050	10,833
Other	1,099	–917

Deferred tax liabilities	2016	2015
Total	**–1,980**	**–1,801**
Property and equipment	–873	–803
Intangible assets	–711	–1,182
Employee benefits	–	–103
Other	–396	287

38. Earnings per share	2016	2015
Net result	69,800	42,754
Non-controlling interest in perpetual capital securities	–	–943
Other non-controlling interests	–4,065	–7,648
Net result attributable to shareholder	**65,735**	**34,163**
Weighted average number of shares in issue	400,000	400,000
Earnings per share (€)	164.34	85.41
Proposed dividend per share (€)	123.28	46.08

To calculate earnings per share, the number of shares consists solely of the weighted average number of shares in issue.

Business combinations in 2016

Staalbankiers

On 8 August 2016 Van Lanschot, Achmea and Staalbankiers reached an agreement on the acquisition by Van Lanschot of Staalbankiers' private banking activities. This bolt-on acquisition is in line with Van Lanschot Kempen's strategy and enables us to expand our assets under management. Executed in one step, the acquisition, took the form of an asset/liability transaction involving the private banking client relationships and including €1.7 billion in assets under management (AuM), around €300 million in savings and a limited number of securities-based loans, giving Van Lanschot Kempen decisive control over these activities. Van Lanschot completed this transaction on 15 December 2016. The aim is to finalise the integration of Staalbankiers' private banking activities in the first half of 2017.

The acquisition price was made up of an initial acquisition price of €16 million, which was paid on 15 December 2016. The final price may be higher or lower depending on the AuM amount that will actually transfer to Van Lanschot (a maximum of €4 million higher or lower). The fair value of the total acquisition, at €20 million, can be fully attributed to the client base and is disclosed in Van Lanschot's statement of financial position under Other intangible assets.

After completion, Staalbankiers' private banking activities contributed €0.5 million to Van Lanschot's 2016 income and €0.3 million to its expenses. The net result of the Staalbankiers' private banking acquisition is €0.2 million and is disclosed in Van Lanschot Kempen's operating segment Private Banking.

Allshare BV

On 1 July 2016 Van Lanschot Kempen agreed to acquire 93.02% of the shares and voting rights in Allshare. The company has its registered office at Hoofddorp. The transaction was completed on 21 July 2016. Allshare is an IT company that provides back-office solutions for financial institutions. We acquired the majority interest for a purchase price of €1 plus an earnout arrangement whereby we commit to pay the seller in the event of a future sale of the shares by Van Lanschot Kempen. On acquisition, the earnout arrangement is valued at nil. Pre-existing relationships are settled in Van Lanschot's consolidated financial statement, with Van Lanschot determining €3.4 million of prepaid licences as pre-existing relationships. We have also offered €2.0 million in cash in two tranches, of which €1.0 million was provided prior to the acquisition. Since 1 July 2016, the income and expenses of Allshare have been attributed to Van Lanschot Kempen. Allshare remains an external, independent party and the aim is to dispose of the shares in due course.

The allocation of the acquisition price to the fair value of the acquired assets (inclusive of any identifiable intangible assets), liabilities and contingent liabilities at the acquisition date is set out in the table below. The non-controlling interest is recognised at nil.

In 2016 Allshare contributed €0.6 million to Van Lanschot's revenue and a loss of €1.3 million to Van Lanschot's result from the date of acquisition.

Allshare	Fair value of acquisition	Carrying amount of acquisition
Cash and cash equivalents	537	537
Property and equipment	557	557
Intangible assets	2,907	3,204
Deferred tax assets	184	375
Other assets	1,184	1,428
Total identifiable assets	**5,369**	**6,101**
Other liabilities	3,898	4,231
Total identifiable liabilities	**3,898**	**4,231**
Total net assets	**1,471**	**1,870**
Goodwill	1,898	
Offset against prepaid licences	3,369	
Acquisition price less attributable costs	**–0**	
Cash and cash equivalents acquired	–537	
Net payment	**537**	

Consolidated statement of financial position by category at 31 December 2016

(x € 1,000)

	Held for trading	At fair value through profit or loss	Available-for-sale	Financial assets or liabilities at amortised cost	Derivatives for hedge accounting	Total
Assets						
Cash and cash equivalents and balances at central banks	–	–	–	1,585,473	–	**1,585,473**
Financial assets held for trading	16,913	–	–	–	–	**16,913**
Due from banks	–	–	–	188,748	–	**188,748**
Derivatives	22,838	217,677	–	–	66,805	**307,320**
Financial assets designated at fair value through profit or loss	–	336,238	–	–	–	**336,238**
Available-for-sale investments	–	–	1,680,036	–	–	**1,680,036**
Held-to-maturity investments	–	–	–	513,438	–	**513,438**
Loans and advances to the public and private sectors	–	–	–	9,624,048	–	**9,624,048**
Investments in associates using the equity method	–	–	75,559	–	–	**75,559**
Tax assets	–	–	–	41,687	–	**41,687**
Assets classified as held for sale	–	–	–	103,639	–	**103,639**
Other assets	–	–	–	137,856	–	**137,856**
Total financial assets	**39,751**	**553,915**	**1,755,595**	**12,194,888**	**66,805**	14,610,955
Non-financial assets						266,456
Total assets						14,877,411
Liabilities						
Financial liabilities from trading activities	5	–	–	–	–	**5**
Due to banks	–	–	–	128,696	–	**128,696**
Public and private sector liabilities	–	–	–	9,679,764	–	**9,679,764**
Derivatives	22,880	205,135	–	–	110,835	**338,851**
Financial liabilities designated at fair value through profit or loss	–	894,255	–	–	–	**894,255**
Issued debt securities	–	–	–	2,116,094	–	**2,116,094**
Provisions	–	–	–	34,047	–	**34,047**
Tax liabilities	–	–	–	7,073	–	**7,073**
Other liabilities	–	–	–	157,482	–	**157,482**
Subordinated loans	–	–	–	167,218	–	**167,218**
Total financial liabilities	**22,885**	**1,099,391**	–	**12,290,374**	**110,835**	13,523,485
Non-financial liabilities						1,353,926
Total liabilities						14,877,411

Consolidated statement of financial position by category at 31 December 2015

(x € 1,000)

	Held for trading	At fair value through profit or loss	Available-for-sale	Financial assets or liabilities at amortised cost	Derivatives for hedge accounting	Total
Assets						
Cash and cash equivalents and balances at central banks	–	–	–	881,024	–	**881,024**
Financial assets held for trading	6,863	–	–	–	–	**6,863**
Due from banks	–	–	–	200,073	–	**200,073**
Derivatives	28,820	239,637	–	–	64,954	**333,411**
Financial assets designated at fair value through profit or loss	–	712,578	–	–	–	**712,578**
Available-for-sale investments	–	–	2,159,141	–	–	**2,159,141**
Held-to-maturity investments	–	–	–	523,639	–	**523,639**
Loans and advances to the public and private sectors	–	–	–	10,504,423	–	**10,504,423**
Investments in associates using the equity method	–	–	56,299	–	–	**56,299**
Tax assets	–	–	–	51,698	–	**51,698**
Other assets	–	–	–	148,265	–	**148,265**
Total financial assets	**35,683**	**952,215**	**2,215,440**	**12,309,122**	**64,954**	**15,577,414**
Non-financial assets						**254,361**
Total assets						**15,831,775**
Liabilities						
Financial liabilities from trading activities	418	–	–	–	–	**418**
Due to banks	–	–	–	698,125	–	**698,125**
Public and private sector liabilities	–	–	–	9,908,391	–	**9,908,391**
Derivatives	26,994	217,355	–	–	80,411	**324,760**
Financial liabilities designated at fair value through profit or loss	–	804,603	–	–	–	**804,603**
Issued debt securities	–	–	–	2,480,005	–	**2,480,005**
Provisions	–	–	–	23,668	–	**23,668**
Tax liabilities	–	–	–	4,911	–	**4,911**
Other liabilities	–	–	–	148,809	–	**148,809**
Subordinated loans	–	–	–	118,151	–	**118,151**
Total financial liabilities	**27,412**	**1,021,958**	–	**13,382,060**	**80,411**	**14,511,841**
Non-financial liabilities						**1,319,934**
Total liabilities						**15,831,775**

Related parties

The Executive Board comprises our key management personnel and is responsible for implementing our strategy and managing our four core activities. The Board is made up of the Chairman of the Van Lanschot Statutory Board, the Van Lanschot CFO/CRO, the Van Lanschot COO and the members of the management team with responsibility for our core activities Private Banking, Asset Management and Merchant Banking. The Executive Board was formed in early 2015.

Remuneration of Executive Board	2016	2015**
Total	**5,493**	**5,479**
Fixed salary	4,100	4,100
Fixed payment for pension contribution*	955	955
Deferred variable pay for previous years, cash	144	144
Deferred variable pay for previous years, shares	280	280
Severance pay	–	–
Miscellaneous	14	–

* This payment is a contribution for pension and disability insurance and, together with the fixed salary, forms part of the total periodic remuneration.

** Ieko Sevinga resigned as a member of the Statutory Board on 13 November 2014; his employment contract ended on 13 May 2015. In 2015 he received a fixed salary of €156,845 plus a fixed payment for pension and disability insurance of €36,692, as well as an amount of €33,995 which is recognised in the statement of income as deferred variable pay for previous years in shares.

For transactions with key management personnel, see Remuneration of the Statutory and Supervisory Boards.

Affiliates	2016		2015	
	Income	Expenses	Income	Expenses
Stichting Pensioenfonds F. van Lanschot	1,175	–	1,372	–

Parties with significant influence in Van Lanschot

On the basis of regulatory guidelines, management has decided that entities with a shareholding of at least 5% in Van Lanschot are parties with significant influence in Van Lanschot.

At year-end 2016 and 2015, there were no income, charges or amounts payable or receivable to/from parties with significant influence in Van Lanschot.

Loans to parties with significant influence in Van Lanschot were granted at market conditions, and collateral was provided. Van Lanschot did not grant any guarantees in 2016 or 2015, and neither were impairments recognised for receivables.

For transactions in associates, see 'Disclosures of interest in other entities'.

Disclosure of interests in other entities

Key judgements and assumptions

Van Lanschot relies 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 has control, but excludes the names of relatively minor subsidiaries and entities.

Subsidiaries (%)	2016	2015
F. van Lanschot Bankiers (Schweiz) AG	100	100
Kempen & Co NV	96	95
Van Lanschot Participaties BV	100	100
Quion 17 BV	100	100
AIO II BV	72	71
Allshare BV	97	–

No restrictions apply between Van Lanschot and its subsidiaries.

Consolidated structured entities controlled by Van Lanschot

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 is exposed to substantially all of the risk of the structured entity and thereby controls it. We consolidate the following structured entities:

- Courtine RMBS 2013-I BV
- Lunet RMBS 2013-I BV
- Van Lanschot Conditional Pass-Through Covered Bond Company BV

Courtine RMBS 2013-I BV

On 1 August 2013 we finalised the Courtine RMBS 2013-I transaction, involving Dutch home mortgages to an amount of €862.6 million. Repayments totalling €96.4 million were received in 2016. The facility for topping up the pool with mortgages was ended in 2016. The credit risk was not transferred and Van Lanschot purchased the debt instruments itself. Senior Class A1 and A2 notes are eligible for use as collateral with DNB. The transaction therefore supports the bank's liquidity management and our role in the structure is that of pool servicer. The way the structure is set up, Van Lanschot does not have access to all liquidities of the Courtine RMBS 2013-I entity. At year-end 2016, the liquidity to which Van Lanschot had no access amounted to €13.9 million (2015: €14.5 million). Van Lanschot is also not able to sell the securitised loans to third parties. The structure does not impose any other restrictions on Van Lanschot.

Courtine RMBS 2013-I BV	Fitch Ratings	Standard & Poors	Original principal	Date of securitisation	Principal at 31/12/2016	First call option date	Contractual maturity date	Spread
Total			**862,600**		**754,710**			
Senior Class A1	AAA	AAA	175,000	1/8/2013	75,710	26/9/2018	26/9/2050	1.15%
Senior Class A2	AAA	AAA	370,000	1/8/2013	370,000	26/9/2018	26/9/2050	2.15%
Mezzanine Class B	AAA	AA	81,500	1/8/2013	81,500	26/9/2018	26/9/2050	0.00%
Mezzanine Class C			112,000	1/8/2013	112,000	26/9/2018	26/9/2050	0.00%
Junior Class D			115,500	1/8/2013	115,500	26/9/2018	26/9/2050	0.00%
Subordinated Class E			8,600	1/8/2013	–	26/9/2018	26/9/2050	0.00%

Lunet RMBS 2013-I BV

On 7 November 2013 Van Lanschot finalised the Lunet RMBS 2013-I transaction, involving Dutch home mortgages to an amount of €1.1 billion. The credit risk was not transferred. Virtually all senior Class A1 and A2 notes were placed with a wide group of institutional investors. The sale of these notes resulted in a further diversification of the funding. Our role in the structure is that of pool servicer. The way the structure is set up, Van Lanschot does not have access to all liquidities of the Lunet RMBS 2013-I entity. At year-end 2016, the liquidity to which Van Lanschot had no access amounted to €10.9 million (2015: €11.7 million).

Van Lanschot is also not able to sell the securitised loans to third parties. The structure does not impose any other restrictions on Van Lanschot. The Senior Class A1 and Senior Class A2 notes of the Lunet RMBS 2013-I-transaction were placed externally. The face value of these notes was €537 million at year-end 2016 (2015: €644 million), and their fair value was €545 million (2015: €657 million). The net position is equal to the difference between the fair value of the notes and the mortgages.

Lunet RMBS 2013-I BV	Fitch Ratings	Standard & Poors	Original principal	Date of securitisation	Principal at 31/12/2016	First call option date	Contractual maturity date	Spread
Total			**1,085,800**		**750,615**			
Senior Class A1			244,000	7/11/2013	–	27/12/2018	27/12/2045	0.50%
Senior Class A2	AAA	AAA	639,600	7/11/2013	559,215	27/12/2018	27/12/2045	1.08%
Mezzanine Class B	AAA	AA	49,400	7/11/2013	49,400	27/12/2018	27/12/2045	0.00%
Mezzanine Class C			71,000	7/11/2013	71,000	27/12/2018	27/12/2045	0.00%
Junior Class D			71,000	7/11/2013	71,000	27/12/2018	27/12/2045	0.00%
Subordinated Class E			10,800	7/11/2013	–	27/12/2018	27/12/2045	0.00%

Courtine and Lunet transactions are all traditional securitisations. A characteristic of a traditional securitisation is that the beneficial title to the securitised receivables is transferred to an entity for securitisation purposes, which subsequently issues securities. The securities issued create a payment obligation for the securitisation entities rather than for Van Lanschot.

Conditional pass-through covered bond programme (CPTCB)

Van Lanschot established a CPTCB programme in March 2015, allowing the bank to issue covered bonds as the issuing institution. Investors have a dual right of redress: initially against Van Lanschot, and, in the event of the bank's failure, against a pool of cover assets. We effected the first external issue under this funding programme in April 2015. The bond loan, totalling €500 million with a term to maturity of seven years and a coupon of 0.275%, was placed with institutional investors. We effected the second external issue under this funding programme in March 2016. This bond loan, totalling €500 million with a term to maturity of seven years and a coupon of 0.375%, was placed with institutional investors.

The tables below show the total amounts of the mortgage loans involved in each securitisation transaction. Loans for which the interest and/or capital repayments are not paid on time are classed as past due. Securitised loans are classed as impaired if a provision has been taken for the loan in question because the client is probably or actually unable to meet all or part of its obligations vis-à-vis the bank.

Securitised loans at 31/12/2016	Fair value	Carrying amount	Neither past due nor impaired loans	Past due loans	Impaired loans	Impairments
Total	**2,858,676**	**2,736,368**	**2,724,626**	**2,300**	**9,442**	**1,163**
Courtine RMBS 2013-I BV	751,992	719,783	713,201	1,100	5,482	1,089
Lunet RMBS 2013-I BV	770,374	737,378	733,418	–	3,960	74
Covered Bond Programme 2015	1,336,310	1,279,207	1,278,007	1,200	–	–

Securitised loans at 31/12/2015	Fair value	Carrying amount	Neither past due nor impaired loans	Past due loans	Impaired loans	Impairments
Total	**2,519,679**	**2,330,420**	**2,308,855**	**2,940**	**18,625**	**2,441**
Courtine RMBS 2013-I BV	907,713	839,533	824,765	2,940	11,828	2,320
Lunet RMBS 2013-I BV	917,887	848,942	842,145	–	6,797	121
Covered Bond Programme 2015	694,079	641,945	641,945	–	–	–

Van Lanschot provides no financial or other support to the securitisation entities, and has no intention of providing support.

Movements in non-controlling interest in perpetual capital securities	2016			2015		
	Non-controlling interest in perpetual capital securities	Undistributed profit attributable to non-controlling interest in perpetual capital securities	**Total**	Non-controlling interest in perpetual capital securities	Undistributed profit attributable to non-controlling interest in perpetual capital securities	**Total**
At 1 January	–	943	**943**	27,250	1,110	**28,360**
Repayments	–	–	**–**	–27,250	–	**–27,250**
Dividend	–	–943	**–943**	–	–1,110	**–1,110**
Result for the reporting period	–	–	**–**	–	943	**943**
At 31 December	**–**	**–**	**–**	**–**	**943**	**943**

Non-controlling interest in perpetual capital securities

In December 2015 Van Lanschot fully redeemed the perpetual capital securities it had issued on 14 December 2005. In October 2014 Van Lanschot fully redeemed the perpetual capital securities it had issued on 29 October 2004.

Other 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 subsidiaries is provided below.

Other non-controlling interests	31/12/2016	31/12/2015
Total	**13,456**	**19,633**
Kempen MIP	13,613	21,255
Consolidated investment funds	11	258
Consolidated shareholdings	–169	–1,880

Van Lanschot's minority interests are recognised under Other non-controlling interests as part of equity.

Movements in other non-controlling interests	2016			2015		
	Other non-controlling interests	Undistributed profit attributable to other non-controlling interests	**Total**	Other non-controlling interest	Undistributed profit attributable to other non-controlling interests	**Total**
At 1 January	11,985	7,648	**19,633**	21,287	8,597	**29,884**
Profit appropriation	2,045	–2,045	–	2,317	–2,317	–
Dividend	–243	–5,602	**–5,845**	–	–6,280	**–6,280**
Result for the reporting period	–	4,065	**4,065**	–	7,648	**7,648**
Change in basis of consolidation	–	–	–	–12,277	–	**–12,277**
Other changes	–4,397	–	**–4,397**	658	–	**658**
At 31 December	**9,391**	**4,065**	**13,456**	**11,985**	**7,648**	**19,633**

Kempen Management Investment Plan (MIP)

Before the Kempen Management Investment Plan (MIP) was implemented in 2010, all Kempen shares were held by F. van Lanschot Bankiers NV. These shares were all converted into Class A ordinary shares following the implementation of the Kempen MIP. At the same time, within the scope of this implementation, Kempen issued 1,658,671 new Class B ordinary shares to Coöperatie MIP in exchange for a total purchase price of €15.0 million.

In 2013, the MIP's structure changed, with Class A ordinary shares converted to ordinary shares and Class B shares to ordinary shares and profit-sharing certificates.

Coöperatie MIP has two members, Stichting MIP and F. van Lanschot Bankiers NV, which hold the membership rights issued by Coöperatie MIP, with Van Lanschot's membership being legally required. Stichting MIP issued depositary receipts for its membership right in Coöperatie MIP to selected Kempen employees who accepted the offer to invest in the MIP. The total purchase price of the ordinary shares amounted to €15.0 million.

At 31 December 2016, there were 15,000 depositary receipts in issue, i.e. 100% of the total available underlying depositary receipts under the Kempen MIP.

Coöperatie MIP has granted Van Lanschot a call option to acquire the outstanding shares and profit-sharing certificates in MIP held by Coöperatie MIP. This call option may be exercised at any time during a three-month period starting on 1 January of every fifth year following the implementation of the MIP, the first of these starting on 1 January 2016. Van Lanschot has the right to exercise the call option in the event of undesired outcomes with regard to the Management Investment Plan or other unexpected circumstances. Therefore, the execution of the call option is designated as a contingent settlement alternative. As a deferred settlement alternative at 31 December 2016 is considered unlikely, the MIP is treated as a share-based payment transaction settled in equity instruments. Van Lanschot has decided not to exercise the call option in the MIP in 2016, but to continue the MIP with a few adjustments to the return profile and governance structure. The first period in which Van Lanschot can exercise its call option will be from January to March 2021.

Kempen MIP	31/12/2016	31/12/2015
Number of depositary receipts issued	12,946	15,000
Legally required contribution by Van Lanschot (€)	100	100

Financial information for Kempen MIP	31/12/2016	31/12/2015
Total assets	15,779	21,260
Total liabilities	–	–
Equity attributable to shareholders	2,166	5
Equity attributable to other non-controlling interests	13,613	21,255
Total income from operating activities	779	5,602
Total expenses	–	–
Taxes	–	–
Net income	779	5,602
Of which attributable to shareholders	107	–
Of which attributable to other non-controlling interests	672	5,602

Consolidated investments

We consolidate three investments in which non-controlling minority interests of third parties are included. These non-controlling interests of third parties in consolidated investments include minority stakes in AIO II BV of Breda, the Netherlands (28.40%), in Holowell Holding BV of Tholen, the Netherlands (9.77%), and in Allshare BV of Hoofddorp, the Netherlands (2.95%).

The table below provides aggregated information on consolidated investments.

Financial information consolidated investments	31/12/2016	31/12/2015
Total assets	38,867	44,141
Total liabilities	52,956	53,305
Equity attributable to shareholders	–13,921	–7,284
Equity attributable to other non-controlling interests	–169	–1,880
Total income from operating activities	44,039	39,420
Total expenses	35,496	30,918
Taxes	1,871	2,244
Net income	6,672	6,257
Of which attributable to shareholders	3,272	4,552
Of which attributable to other non-controlling interests	3,400	1,705

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 20% to 49%. These investments are classified as investments in associates using the equity method. The table below shows the largest investments in associates.

Name	Activities	Head office	Interest
Gerco Brandpreventie BV	Gerco is the Dutch market leader in the field of fire compartmentation of buildings.	Schoonhoven	42.50%
GreensGlobal BV (Adomex)	Adomex is a global importer of cut foliage, serving wholesalers, flower exporters, cash & carries, bouquet companies and florists throughout Europe.	Uithoorn	45.00%
Marfo Food Group Holding BV	Marfo creates and prepares fresh frozen meals for airlines, hospitals, care homes, detention centres and remote locations.	Lelystad	37.00%
MFG Investments BV (Market Food Group)	Market Food Group is a leading Dutch company in the artisan bread and pastry segment, with a range of strong brand franchises including Bakkerij 't Stoepje and Le Perron.	Bunschoten-Spakenburg	45.00%
Movares Group BV	Movares provides engineering and consultancy services in the fields of mobility, infrastructure, spatial planning and transport systems.	Utrecht	29.63%
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	30.36%
ORMIT Holding BV	ORMIT specialises in talent and leadership development, helping large companies find, develop and retain talent; operates in Belgium and the Netherlands.	De Bilt	30.50%
Ploeger Oxbo Group BV	Ploeger Oxbo develops, manufactures and sells a wide range of specialist harvesting equipment to customers across the world.	Roosendaal	21.02%
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	20.80%
Software Huis Holland BV (Kraan Bouw Computing)	Kraan Bouwcomputing provides a wide range of software products for the construction and real estate sectors.	Rotterdam	49.00%
Techxs Value Added IT Distribution BV (TechAccess)	TechAccess is a value-added IT distributor of hardware and software in networking, wireless, security and storage/servers.	Son & Breugel	38.45%
Tecnotion Holding 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%
Trophy Assets Holding BV	Trophy leads the European market for design, manufacture and assembly of sports prizes and related products, and owns a range of production plants and warehouses in Asia and Europe.	Rijen	43.00%
Van Lanschot Chabot	Van Lanschot Chabot is an independent insurance adviser and intermediary.	's-Hertogenbosch	49.00%

Aggregated financial information of associates for which Van Lanschot applies the equity method	31/12/2016		31/12/2015	
	Associates, equity method	Attributable to Van Lanschot	Associates, equity method	Attributable to Van Lanschot
Total	**196,933**	**75,559**	**162,648**	**56,299**
Current assets	246,040	82,332	216,763	66,713
Non-current assets	256,627	87,533	197,086	60,169
Current liabilities	–138,014	–47,074	–118,517	–38,136
Non-current liabilities	–167,720	–58,858	–132,684	–38,922
Goodwill		16,494		11,463
Impairments		–8,032		– 7,949
Other		3,164		2,961
Other financial information				
Dividend received		7,325		3,485
Income from operational activities		21,300		14,600
Share of net income		11,543		9,800
Cumulative revaluations		3,040		2,800
Comprehensive income		–		–

The table Transactions with associates using the equity method shows the income and expenses reported by Van Lanschot 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	31/12/2016	31/12/2015
Income	90	79
Expenses	–	90
Amounts receivable	2,700	2,124
Amounts payable	2,576	3,273
Guarantees	183	180

Loans granted to entities in which Van Lanschot exercises significant influence but does not have decisive control are granted on market terms and secured on collateral provided. No impairments were applied to the receivables in either 2016 or 2015.

Van Lanschot Participaties

Investments using the equity method are managed by Van Lanschot Participaties, with the exception of our stake in Van Lanschot Chabot. Van Lanschot Participaties acquires non-controlling interests in medium-sized unlisted companies in the Netherlands. 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 number of stakes resulting from debt conversions and consolidated in the Van Lanschot 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 and associaties	Impairments	Total
Direct investment	Investment in associates using the equity method	67,122	–	10,115	–510	**9,605**
Shareholdings	Available-for-sale investments	16,387	1,265	–	–334	**930**
Subordinated loans	Available-for-sale investments	5,373	322	–	–	**322**
Fund investment	Available-for-sale investments	8,550	–	2,914	–	**2,914**
Total			**1,587**	**13,030**	**–845**	**13,771**

Joint ventures in which Van Lanschot is a partner

Van Lanschot has no joint ventures.

Non-consolidated structured entities

Asset-backed securities (RMBS) are classified as available-for-sale investments. These RMBS investments are structured entities. We do not consolidate these structured entities because Van Lanschot is not exposed to substantially all of the risk of the structured entity. The table below shows Van Lanschot'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 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 €662.7 million at 31 December 2016 (2015: €811.8 million).

Van Lanschot provides no financial or other support to non-consolidated structured entities, and has no intention of providing such support.

Non-consolidated structured entities 2016	Interest income	Comprehensive income	Total income	Investments
Total	**5,036**	**674**	**5,710**	**666,251**
Asset-backed securities	5,036	674	5,710	666,251

Non-consolidated structured entities 2015	Interest income	Comprehensive income	Total income	Investments
Total	**9,217**	**–3,923**	**5,294**	**806,848**
Asset-backed securities	9,217	–3,923	5,294	806,848

Commitments

Lease and rental agreements

We have included the following operating lease payments in the statement of income under Other administrative expenses.

Lease and rental agreements	2016	2015
Total	**18,442**	**16,156**
Minimum lease payments	5,563	4,766
Rent	12,879	11,390

We expect to include the following minimum payments for contractually agreed lease and rental agreements over the next few years.

Future payments for lease and rental agreements	31/12/2016	31/12/2015
Total	**87,657**	**90,049**
Within 1 year	14,748	15,649
1 to 5 years	39,938	35,928
More than 5 years	32,970	38,472

Commitments (x € million)	31/12/2016	31/12/2015
Rent		
Rent for buildings (including service fees and rent for any parking spaces)	79.3	81.4
Future lease payments		
Car lease costs	8.4	7.8
Computer lease costs	–	0.8

The remaining terms of the lease and rental agreements range between 1 month and 12 years.

Other commitments

IT contracts

In 2016 Van Lanschot entered into three IT contracts for hiring services and capacity, licensing, implementation and maintenance of our online platform services, reporting and treasury systems. Our future contractual payment commitments for these amount to €7.3 million, as shown below.

Future payments for IT contracts	
Total	**7,310**
Within 1 year	3,219
1 to 5 years	3,710
More than 5 years	381

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 six operating segments, while intrasegment transactions are conducted on an arm's length basis. In 2016 management decided to report Evi as a separate segment, due to its substantial growth and growth potential. The impact of this decision on the comparative segment figures is a movement from Private Banking to Evi.

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 & executives, healthcare professionals and associations and charitable societies.

Evi
Evi, Van Lanschot's online investments and savings platform, targets people just entering the wealth management market and Private Banking clients preferring an online service in the Netherlands and Belgium.

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.

Corporate Banking
A team of experts within Corporate Banking is engaged in managing and winding down the real estate and SME loan portfolios not linked to Private Banking clients.

Other activities
These comprise activities in the fields of interest rate, market and liquidity risk management, as well as the activities of Van Lanschot Participaties and consolidated investments.

Operating segments in 2016 (x € 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**
Profit 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**
Result from sale of private and public sector loans and advances	–	–	–	–	–	–	–
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 in 2015 (x € 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**
Profit 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 private and public 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%**

Our revenues are primarily derived from the Netherlands, which accounts for over 89% of group revenue. No other geographical segment provides the group with more than 6% of total revenue. The tables below give additional information on the geographical spread of income from operations.

Geographical segments in 2016 (x € million)	Netherlands	Belgium	Other	Total
Statement of income				
Total income from operating activities	**465.7**	**29.2**	**29.5**	**524.4**
Of which income from other segments	–5.1	3.7	1.4	–
Statement of financial position				
Due from banks	39.0	–	–	**39.0**
Investments in associates using the equity method	75.6	–	–	**75.6**
Total non-current assets*	**114.6**	–	–	**114.6**

Geographical segments in 2015 (x € million)	Netherlands	Belgium	Other	Total
Statement of income				
Total income from operating activities	**510.4**	**29.4**	**21.3**	**561.1**
Of which income from other segments	–3.1	2.4	0.7	–
Statement of financial position				
Due from banks	11.0	–	–	**11.0**
Investments in associates using the equity method	56.3	–	–	**56.3**
Total non-current assets*	**67.3**	–	–	**67.3**

* Other than financial instruments, deferred tax assets, post-employment assets and rights arising under insurance contracts.

Country by country reporting on a consolidated basis at 31 December 2016							
Country	Name of main subsidiary	Nature of activities	Average number of staff, in FTEs	Total income from operating activities, (x € million)	Operating result before tax (x € million)	Income tax (x € million)	Government subsidies (x € million)
Total			**205**	**58.7**	**–3.5**	**–2.0**	**–**
Belgium	F. van Lanschot Bankiers NV branch	International private banking	147	29.2	–5.8	–2.4	–
Switzerland	F. van Lanschot Bankiers (Schweiz) AG	International private banking	22	10.2	1.1	0.2	–
United Kingdom	Kempen & Co NV branch	Asset management	22	12.1	0.2	–	–
United Kingdom (Scotland)	Kempen Capital Management (UK) Ltd	Asset management	9	4.6	0.9	0.2	–
United States	Kempen & Co USA Inc.	Securities trading and research distribution	5	2.6	0.1	–	–

Country by country reporting on a consolidated basis at 31 December 2015							
Country	Name of main subsidiaries	Nature of activities	Average number of staff, in FTEs	Total income from operating activities, (x € million)	Operating result before tax (x € million)	Income tax (x € million)	Government subsidies (x € million)
Total			**185**	**50.7**	**–6.1**	**–1.2**	**–**
Belgium	F. van Lanschot Bankiers NV branch	International private banking	138	29.4	–7.3	–1.8	–
Switzerland	F. van Lanschot Bankiers (Schweiz) AG	International private banking	23	10.3	0.5	–	–
United Kingdom	Kempen & Co NV branch	Asset management	7	2.5	0.1	–	–
United Kingdom (Scotland)	Kempen Capital Management (UK) Ltd	Asset management	10	5.0	0.7	0.2	–
United States	Kempen & Co USA Inc.	Securities trading and research distribution	7	2.8	0.2	0.1	–
Luxembourg	Vakan NV	Other	–	0.7	–0.3	0.3	–

Company statement of financial position at 31 December 2016

Before profit appropriation (x €1,000)

		31/12/2016	31/12/2015
Assets			
Cash and cash equivalents and balances at central banks	(1)	1,535,645	819,547
Government paper eligible for central bank refinancing	(2)	827,308	1,387,089
Due from banks	(3)	257,711	398,430
Loans and advances to the public and private sectors	(4)	8,193,213	8,605,138
Debt instruments	(5)	2,555,687	2,965,338
Equity instruments	(6)	33,236	39,501
Investments in group companies	(7)	446,550	422,851
Investments in associates	(8)	7,677	6,482
Goodwill and other intangible assets	(9)	159,328	143,178
Property and equipment	(10)	53,532	59,463
Other assets	(11)	92,039	133,349
Derivatives (receivables)	(12)	134,943	184,327
Accrued assets		101,337	70,844
Total assets		**14,398,206**	**15,235,537**
Liabilities			
Due to banks	(13)	407,715	951,198
Public and private sector liabilities	(14)	9,583,996	9,835,077
Issued debt securities	(15)	2,495,468	2,669,055
Other liabilities	(16)	74,317	44,098
Derivatives (liabilities)	(12)	157,760	190,021
Accrued liabilities		135,823	107,157
Provisions	(17)	35,439	20,479
Subordinated loans	(18)	167,218	118,151
Total liabilities		**13,057,736**	**13,935,236**
Issued share capital		40,000	40,000
Share premium reserve		318,521	318,481
Revaluation reserve		20,249	24,847
Statutory reserves		35,413	30,231
Other reserves		860,553	851,636
Undistributed profit attributable to shareholder		65,735	34,163
Equity attributable to shareholder		**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**
Total equity	(19)	**1,340,470**	**1,300,301**
Total equity and liabilities		**14,398,206**	**15,235,537**
Contingent liabilities	(20)	246,343	274,335
Irrevocable commitments	(21)	161,689	443,688
		408,032	**718,023**

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

Company statement of income for 2016

(x €1,000)

		2016	2015
Income from operating activities			
Interest income		360,246	425,769
Interest expense		162,192	233,983
Net interest income	(23)	**198,054**	**191,786**
Income from associates using the equity method		1,196	991
Other income from securities and associates		41,293	58,134
Income from securities and associates	(24)	**42,489**	**59,125**
Commission income		105,787	110,754
Commission expense		3,172	3,454
Net commission income	(25)	**102,615**	**107,300**
Result on financial transactions	(26)	**3,344**	**17,581**
Total income from operating activities		**346,502**	**375,792**
Expenses			
Staff costs	(27)	141,029	136,579
Other administrative expenses	(28)	123,605	122,408
Staff costs and other administrative expenses		**264,634**	**258,987**
Depreciation and amortisation	(29)	10,816	13,490
Operating expenses		**275,450**	**272,477**
Addition to loan loss provision		–6,452	47,818
Other impairments		3,686	2,937
Impairments	(30)	**–2,766**	**50,755**
Result from sale of public and private sector loans and advances	(31)	–	22,403
Total expenses		**272,684**	**345,635**
Operating profit before tax		**73,818**	**30,157**
Income tax	(32)	8,083	–4,949
Net result		**65,735**	**35,106**
Of which attributable to shareholder		65,735	34,163
Of which attributable to non-controlling interest in perpetual capital securities		–	943

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

Company statement of changes in equity at 31 December 2016

Before profit appropriation (x €1,000)

	Share capital	Share premium reserve	Revaluation reserve	Statutory reserves	Other reserves	Undistributed profit	**Total equity attributable to shareholder**
At 1 January	40,000	318,481	24,847	30,231	851,636	34,163	**1,299,358**
Net profit (statement of income)	–	–	–	–	–	65,735	**65,735**
Total other comprehensive income	–	–	–4,599	318	1,363	–	**–2,917**
Total comprehensive income	**–**	**–**	**–4,599**	**318**	**1,363**	**65,735**	62,817
Share premium payment	–	40	–	–	–	–	**40**
Contribution share plans	–	–	–	–	–2,813	–	**–2,813**
To other reserves	–	–	–	–	15,730	–15,730	**–**
To statutory reserves	–	–	–	4,864	–4,864	–	**–**
Dividends	–	–	–	–	–	–18,433	**–18,433**
Other changes	–	–	–	–	–500	–	**–500**
At 31 December	**40,000**	**318,521**	**20,249**	**35,413**	**860,553**	**65,735**	1,340,470

Company statement of changes in equity at 31 December 2015

Before profit appropriation (x €1,000)

	Share capital	Share premium reserve	Revaluation reserve	Statutory reserves	Other reserves	Undistributed profit	**Total equity attributable to shareholder**
At 1 January	40,000	247,396	40,034	21,101	758,059	99,001	**1,205,591**
Net profit (statement of income)	–	–	–	–	–	34,163	**34,163**
Total other comprehensive income	–	–	– 15,187	2,912	– 2,211	–	**– 14,486**
Total comprehensive income	**–**	**–**	**– 15,187**	**2,912**	**– 2,211**	**34,163**	19,677
Share premium payment	–	71,085	–	–	–	–	**71,085**
Contribution share plans	–	–	–	–	2,743	–	**2,743**
To other reserves	–	–	–	–	99,001	– 99,001	**–**
To statutory reserves	–	–	–	8,104	– 8,104	–	**–**
Dividends	–	–	–	–	–	–	**–**
Other changes	–	–	–	– 1,886	2,148	–	**262**
At 31 December	**40,000**	**318,481**	**24,847**	**30,231**	**851,636**	**34,163**	1,299,358

Company financial statements: basis of preparation

The company financial statements of F. van Lanschot Bankiers NV 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 observe the same accounting principles in the company financial statements (including the accounting principles for the presentation of financial instruments as equity or liabilities) that apply to the consolidated financial statements. 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, Van Lanschot'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

(x €1,000)

1. Cash and cash equivalents and balances at central banks	31/12/2016	31/12/2015
Total	**1,535,645**	**819,547**
Cash	–	94
Balances at central banks	1,290,151	717,033
Statutory reserve deposits at central banks	16,467	17,659
Amounts due from banks	129,027	84,761
Highly liquid investments	100,000	–

Mandatory reserve deposits comprise balances withdrawable from central banks as part of required minimum reserves and these are not available for use for Van Lanschot's daily business operations.

2. Government paper eligible for central bank refinancing	31/12/2016		31/12/2015	
	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Total	**827,308**	**837,008**	**1,387,089**	**1,404,040**
Held to maturity	329,308	348,951	337,070	348,952
Other government paper at fair value	498,000	488,057	1,050,019	1,055,088

Movements in government paper eligible for central bank refinancing	2016	2015
At 1 January	1,387,089	2,093,552
Purchases	391,629	3,091,393
Sales	–751,141	–1,568,696
Redemptions	–207,520	–2,227,000
Amortisation of premiums/discounts on debt instruments	–16,493	–13,139
Value changes to equity	–7,801	–7,730
Value changes to profit and loss	31,545	18,709
At 31 December	**827,308**	**1,387,089**

In 2016 and 2015, we held no government paper eligible for central bank refinancing with original maturities of less than two years. The nominal value of government paper eligible for central bank refinancing amounted to €0.8 billion in 2016 (2015: €1.3 billion), while cumulative revaluation worked out at €9.4 million (2015: €5 million). Accumulated depreciation and impairments stood at nil (2015: nil). €37.1 million of government paper eligible for central bank refinancing is repayable on demand in 2017 (2016: €155.0 million).

In 2016 and 2015 we did not put up any government paper as collateral with De Nederlandsche Bank.

Repo transactions have seen us put up as collateral to a group company government paper eligible for refinancing, with a carrying amount of €11 million (2015: €237 million to banking counterparties). The carrying amount of instruments serving as collateral to financial institutions for clearing purposes amounted to €32 million (2015: €25 million). We do not therefore have free access to these debt instruments. These debt instruments subject to repurchase (repos) continue to be included in the statement of financial position and have been agreed on the usual conditions pertaining to standard purchase transactions carrying repurchase obligations.

3. Due from banks	31/12/2016	31/12/2015
Total	**257,711**	**398,430**
Payable on demand	1,317	65,041
Other receivables	256,394	333,389

The line item Due from banks comprises deposits to the value of €75.9 million (2015: €101.1 million) serving as collateral for obligations arising from derivatives transactions.

Receivables from group companies accounts for €143.6 million of this item (2015: €276.2 million).

4. Loans and advances to the public and private sectors	31/12/2016	31/12/2015
Total	**8,193,213**	**8,605,138**
Mortgage loans	2,973,065	3,540,089
Loans	3,951,826	3,650,355
Current accounts	1,285,549	1,473,281
Securities-backed loans and settlement receivables	97,791	67,895
Subordinated receivables	6,000	6,000
Value adjustment fair value hedge accounting	40,028	44,550
Impairments	–161,046	–177,032

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.

Receivables from group companies account for €2,091.6 million of this item (2015: €1,167.9 million).

5. Debt instruments	31/12/2016		31/12/2015	
	Carrying amount	Purchase price	Carrying amount	Purchase price
Total	**2,555,687**	**2,541,902**	**2,965,338**	**2,943,596**
Held to maturity	184,130	190,763	186,569	190,763
Other debt instruments at fair value	1,403,149	1,382,465	1,707,455	1,681,519
Other debt instruments at amortised cost	968,408	968,673	1,071,314	1,071,314

Movements in debt instruments	2016	2015
At 1 January	2,965,338	4,510,569
Purchases	705,092	1,322,783
Sales	–414,615	–195,460
Redemptions	–703,937	–2,653,215
Amortisation of premiums/discounts on debt instruments	–7,117	–7,830
Value changes to equity	10,271	–1,160
Value changes to profit and loss	654	–10,349
At 31 December	**2,555,687**	**2,965,338**

The cumulative revaluation amounted to €8.0 million in 2016 (2015: €4.4 million). Accumulated depreciation and impairments was nil (2015: nil). The nominal value of these debt instruments amounted to €2.5 billion in 2016 (2015: €2.9 billion). €266.4 million will be available on demand in 2017 (2016: €475.2 million). Receivables from group companies account for €968.4 million of this item (2015: €1,071.3 million).

The carrying amount of instruments serving as collateral to De Nederlandsche Bank, i.e. notes under securitisation transactions, amounted to €75 million (2015: €469 million). The carrying amount of instruments serving as collateral for refinancing transactions (repo's) to a group company, amounted to €32 million (2015: nil). The carrying amount of instruments serving as collateral to financial institutions for clearing purposes amounted to €75 million (2015: €68 million). We do not therefore have free access to these debt instruments.

6. Equity instruments	31/12/2016		31/12/2015	
	Fair value	Purchase price	Fair value	Purchase price
Total	**33,236**	**36,952**	**39,501**	**42,080**
Listed shares	30	25	273	270
Unlisted shares	33,206	36,927	39,228	41,810

Movements in equity instruments	2016	2015
At 1 January	39,501	51,992
Purchases	36	10,039
Sales	–5,162	–26,845
Value changes to equity	–7,566	4,004
Value changes to profit and loss	6,427	411
Impairments	–	–100
At 31 December	**33,236**	**39,501**

The cumulative revaluation of equity instruments worked out at €7.0 million in 2016 (2015: €8.6 million). Cumulative impairments came to €0.1 million (2015: €0.1 million).

We purchased 99.97% of these shares (2015: 98.5%), with the intention to hold them for an undefined period.

7. Investments in group companies	31/12/2016	31/12/2015
Total	**446,550**	**422,851**
Subsidiaries - credit institutions	20,030	92,915
Other subsidiaries	426,520	329,936

Investments in group companies are measured in accordance with the equity method of accounting, with the share in the profit of these interests recognised under Share of profit/(loss) in the company statement of income.

A decision was taken to end Kempen's banking licence and to apply for a licence as an investment firm. This was implemented on 19 December 2016 and has resulted in group company Kempen moving from Subsidiaries - credit institutions to Other subsidiaries.

Movements in investments in group companies	2016	2015
At 1 January	422,851	407,550
Purchases	17,534	–
Sales	–	–9,610
Share premium payment	85,000	–
Liquidation	–69	–
Share of profit/(loss)	33,322	68,115
Revaluations	–1,862	–2,472
Dividend received	–38,034	–40,744
Other changes	–72,192	12
At 31 December	**446,550**	**422,851**

Cumulative revaluations of investments in group companies amounted to €6.5 million in 2016 (2015: €6.8 million). Accumulated impairments stood at nil (2015: nil).

Name	Head office	Interest
F.van Lanschot Bankiers (Schweiz) AG	Zürich	100%
Kempen & Co NV	Amsterdam	96%
Van Lanschot Participaties BV	Amsterdam	100%
Van Lanschot Invest NV	Antwerpen	100%
BV Beheer- en Beleggingsmaatschappij Orthenstraat	's-Hertogenbosch	100%
NNE BV	's-Hertogenbosch	100%
BV Foton, Maatschappij tot beheer van industrie- en handelsondernemingen	's-Hertogenbosch	100%
BV Beleggingsmaatschappij De Gevulde Trom	's-Hertogenbosch	100%
Lesalanda BV	Amsterdam	100%
Beheers en Beleggings Compagnie Silva Ducis BV	's-Hertogenbosch	100%
Van Lanschot Mezzaninefonds 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%
F. van Lanschot International Trust Company BV	's-Hertogenbosch	100%

Entities in which F. van Lanschot Bankiers NV exercises control:
- Courtine RMBS 2013-I BV
- Lunet RMBS 2013-I BV
- Van Lanschot Conditional Pass-Through Covered Bond Company BV

All investments in group companies are unlisted holdings.

F. van Lanschot Bankiers NV has issued undertakings pursuant to Article 403, Book 2 of the Dutch Civil Code to Kempen & Co NV.

8. Investments in associates	31/12/2016	31/12/2015
Total	**7,677**	**6,482**
Investments in associates	7,677	6,482

Investments in associates are measured in accordance with the equity method of accounting, 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	2016	2015
At 1 January	6,482	5,782
Share of profit/(loss)	1,196	991
Dividends received	–	–291
Other changes	–1	–
At 31 December	**7,677**	**6,482**

Cumulative revaluations of the investments in associates was nil in 2016 (2015: nil). Accumulated depreciation and impairments also stood at nil (2015: nil).

Name	Head office	Interest
Van Lanschot Chabot	's-Hertogenbosch	49%

Van Lanschot Chabot is an unlisted interest.

9. Goodwill and other intangible assets	31/12/2016	31/12/2015
Total	**159,328**	**143,178**
Goodwill	125,584	125,584
Brands	7,665	8,431
Other intangible assets	26,079	9,163

The goodwill shown above represents goodwill arising from acquisitions. For the impairment test, this goodwill is allocated to the relevant cash-generating units. Additional information is included in Note 11 to the consolidated financial statements.

Movements in goodwill and other intangible assets in 2016	Goodwill	Brands	Other intangible assets	Total
At 1 January	125,584	8,431	9,163	**143,178**
Additions	–	–	20,749	**20,749**
Amortisation	–	–767	–4,267	**–5,034**
Other	–	–	436	**436**
At 31 December	**125,584**	**7,664**	**26,080**	**159,328**
Historical cost	125,584	15,330	147,879	**288,793**
Accumulated depreciation and impairments	–	–7,666	–121,800	**–129,466**
Net carrying amount at 31 December	**125,584**	**7,664**	**26,080**	**159,328**

Movements in goodwill and other intangible assets in 2015	Goodwill	Brands	Other intangible assets	Total
At 1 January	125,584	9,196	15,724	**150,504**
Additions	–	–	34	**34**
Amortisation	–	–766	–6,594	**–7,360**
Other	–	1	–1	**–**
At 31 December	**125,584**	**8,431**	**9,163**	**143,178**
Historical cost	125,584	15,330	126,603	**267,517**
Accumulated depreciation and impairments	–	–6,899	–117,440	**–124,339**
Net carrying amount at 31 December	**125,584**	**8,431**	**9,163**	**143,178**

10. Property and equipment	31/12/2016	31/12/2015
Total	**53,532**	**59,463**
Buildings	43,013	48,109
Other property and equipment	9,458	11,154
Work in progress	1,061	200

Movements in property and equipment 2016	Buildings	Other property and equipment	Work in progress	Total
At 1 January	48,109	11,154	200	**59,463**
Capital expenditure	2,648	2,176	6,132	**10,956**
Disposals	–1,301	–61	–	**–1,362**
Capitalisation of investments	–	–	–5,271	**–5,271**
Depreciation	–2,767	–3,377	–	**–6,144**
Impairments	–3,686	–	–	**–3,686**
Other	10	–434	–	**–424**
At 31 December	**43,013**	**9,458**	**1,061**	**53,532**
Historical cost	101,604	57,909	1,061	**160,574**
Accumulated depreciation and impairments	–58,591	–48,451	–	**–107,042**
Net carrying amount at 31 December	**43,013**	**9,458**	**1,061**	**53,532**

Movements in property and equipment 2015	Buildings	Other property and equipment	Work in progress	Total
At 1 January	54,727	11,995	287	**67,009**
Capital expenditure	3,123	3,232	2,453	**8,808**
Disposals	–4,186	–	–	**–4,186**
Capitalisation of investments	–	–	–2,540	**–2,540**
Depreciation	–3,068	–3,636	–	**–6,704**
Impairments	–2,948	–	–	**–2,948**
Other	461	–437	–	**24**
At 31 December	**48,109**	**11,154**	**200**	**59,463**
Historical cost	106,740	56,516	200	**163,456**
Accumulated depreciation and impairments	–58,631	–45,362	–	**–103,993**
Net carrying amount at 31 December	**48,109**	**11,154**	**200**	**59,463**

Buildings break down into real estate in own use (€39.1 million; 2015: €43.5 million) and real estate not in own use (€3.9 million; 2015: €4.6 million). Our policy is to sell over time any real estate no longer in own use.

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

This item relates to current tax assets (2016: €1.2 million, 2015: €1.5 million), deferred tax assets (2016: €40.9 million, 2015: €48.8 million) and amounts receivable such as debtors, suspense accounts and intercompany assets.

12. Derivatives

At 31 December 2016	Assets	Liabiliies	Contract amount
Total	**134,943**	**157,760**	**5,410,136**
Derivatives used for trading purposes	23,631	22,721	257,582
Derivatives used for hedge accounting purposes	36,535	52,830	2,935,000
Other derivatives	74,777	82,209	2,217,555

At 31 December 2015	Assets	Liabiliies	Contract amount
Total	**184,327**	**190,021**	**6,004,093**
Derivatives used for trading purposes	28,820	28,259	120,440
Derivatives used for hedge accounting purposes	31,676	34,245	3,030,000
Other derivatives	123,831	127,517	2,853,653

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.

13. Due to banks	31/12/2016	31/12/2015
Total	**407,715**	**951,198**
Liabilities withdrawable on demand	367,746	255,309
Repo transactions	–	238,711
Other liabilities	39,969	457,178

In 2016, there were no liabilities in the form of special loans issued by the European Central Bank (ECB, 2015: €350.0 million). Liabilities to group companies accounted for €323.6 million of this item (2015: €327.7 million).

For special loans issued by the ECB and for repo transactions we put up debt securities as collateral. For more information, please refer to Note 2, Government paper eligible for central bank refinancing, and to Note 5, Debt instruments.

14. Public and private sector liabilities	31/12/2016	31/12/2015
Total	**9,583,996**	**9,835,077**
Savings		
Savings withdrawable on demand	2,039,754	2,206,229
Savings not withdrawable on demand	188,952	234,602
Total savings	**2,228,706**	**2,440,831**
Other public and private sector liabilities		
Other public and private sector liabilities withdrawable on demand	6,734,088	6,472,511
Other public and private sector liabilities not withdrawable on demand	621,202	921,735
Total other public and private sector liabilities	**7,355,290**	**7,394,246**

Savings include all deposit and savings accounts held by private individuals and not-for-profit organisations.

For repo transactions we put up debt securities as collateral. For more information, please refer to Note 2, Government paper eligible for central bank refinancing and to Note 5, Debt instruments.

Liabilities to group companies accounted for €281.3 million of this item (2015: €311.0 million).

15. Issued debt securities	31/12/2016	31/12/2015
Total	**2,495,468**	**2,669,055**
Listed debt securities	1,789,752	2,068,886
Unlisted debt securities	705,717	600,169

This item consists of debt instruments with rates of interest that are either fixed or variable, in so far as not subordinated. €75.7 million of these debt securities become payable on demand in 2017 (2016: €762.9 million). The discount on issued debt securities amounted to €10.2 million (2015: €9.6 million) and is included in the item's carrying value.

Liabilities to group companies accounted for €22.3 million of this item (2015: €28.2 million).

16. Other liabilities

This item relates to current tax liabilities (2016: €1.1 million, 2015: nil) and amounts payable such as creditors, suspense accounts and intercompany obligations.

17. Provisions	31/12/2016	31/12/2015
Total	**35,439**	**20,479**
Pension provision	8,654	7,968
Tax provision	7,082	2,867
Other provisions	19,703	9,644

The pension provision is a long-term obligation we have entered into 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 20, Provisions, in the consolidated financial statements.

The tax provision is taken for assets and derivatives liabilities subject to portfolio fair value hedge accounting whose value in the statement of financial position temporarily diverges from its value for tax purposes. This provision is generally of a long-term nature.

Other provisions comprise provisions taken for the jubilee benefits scheme, employee discounts, restructuring and all other provisions. These provisions are 37% long-term and 63% short-term.

18. Subordinated loans	31/12/2016	31/12/2015
Total	**167,218**	**118,151**
5.446% subordinated bond loan 08/33	25,000	25,000
5.395% subordinated bond loan 08/38	25,000	25,000
5.344% subordinated bond loan 08/43	50,000	50,000
3.396% subordinated bond loan 16/26	49,332	–
6.020% subordinated bond loan 04/24	16,978	17,129
Other subordinated loans	908	1,022

Subordinated loans provide solvency capital for F. van Lanschot Bankiers 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 €5.8 million (2015: €6.5 million).

19. Equity	31/12/2016		31/12/2015	
Total		**1,340,470**		**1,300,301**
Equity attributable to shareholder				
Issued share capital		40,000		40,000
Share premium reserve		318,521		318,481
Revaluation reserve	20,249		24,847	
Actuarial results on defined benefit pension scheme	–16,625		–15,201	
Cash flow hedge reserve	–10,883		–13,670	
Statutory reserves	33,424		28,260	
Reserves under the Articles of Association	1,989		1,971	
Freely available reserves	888,061		880,507	
Other reserves		916,215		906,714
Undistributed profit attributable to shareholder		65,735		34,163
Total equity attributable to shareholder		**1,340,470**		**1,299,358**
Equity attributable to non-controlling interest in perpetual capital securities				
Non-controlling interest in perpetual capital securities		–		–
Undistributed profit (attributable to non-controlling interest in perpetual capital securities)		–		943
Total equity attributable to non-controlling interest in perpetual capital securities		**–**		**943**

The statutory reserves comprise a reserve in the amount of the share in the positive income from associates of €31.2 million (2015: €26.3 million) and a reserve for currency translation differences on associates of €2.3 million (2015: €1.9 million).

Tax effects on changes in the revaluation reserves worked out at €0.5 million in 2016 (2015: €4.6 million).

20. Contingent liabilities	31/12/2016	31/12/2015
Total	**246,343**	**274,335**
Guarantees, etc.	246,343	274,335
Other contingent liabilities	–	–

In 2016, we issued guarantees for a number of group companies in the amount of €182.4 million (€192.2 million).

21. Irrevocable commitments	31/12/2016	31/12/2015
Total	**161,689**	**443,688**
Unused credit facilities	115,820	202,642
Sale and repurchase commitments	45,356	241,046
Other irrevocable commitments	513	–

22. 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 €393.1 million (2015: €495.6 million) and the sum of liabilities in foreign currencies to €395.2 million (2015: €495.5 million).

List of maturities

The tables below show the assets and liabilities based on their remaining contractual terms to maturity at the reporting date.

The aggregate amounts reconcile with the values disclosed in the company statement of financial position. The amounts are based on non-discounted cash flows. Items that do not generate a cash flow, such as discounting, cost amortisation, changes in the value of derivatives, own risk margins, etc., are presented in a separate column in order to make clear the reconciliation with the statement of financial position.

List of maturities at 31/12/2016	With-drawable on demand	< 3 months	≥ 3 months < 1 years	≥ 1 years < 5 years	≥ 5 years	Subtotal	No cash flow	Total
Assets								
Due from banks	1,317	201,173	43,860	400	10,962	**257,711**	–	**257,711**
Loans and advances to the public and private sectors	1,435,226	35,673	113,425	235,394	6,333,986	**8,153,704**	**39,509**	**8,193,213**
Total assets	**1,436,543**	**236,845**	**157,285**	**235,794**	**6,344,948**	**8,411,415**	**39,509**	**8,450,924**
Liabilities								
Due to banks	367,745	26,120	13,849	–	–	**407,715**		**407,715**
Public and private sector liabilities	8,949,080	127,593	63,150	288,634	155,538	**9,583,996**	–	**9,583,996**
Issued debt securities	–	35,577	40,070	1,278,183	1,142,701	**2,496,531**	–1,063	**2,495,468**
Subordinated loans	–	–	–	–	167,217	**167,217**	1	**167,218**
Total liabilities	**9,316,826**	**189,291**	**117,069**	**1,566,817**	**1,465,456**	**12,655,459**	**–1,062**	**12,654,397**

List of maturities at 31/12/2015	With-drawable on demand	< 3 months	≥ 3 months < 1 years	≥ 1 years < 5 years	≥ 5 years	Subtotal	No cash flow	Total
Assets								
Due from banks	65,041	253,671	68,756	–	10,962	**398,430**	–	**398,430**
Loans and advances to the public and private sectors	2,553,959	49,300	132,975	366,033	5,459,613	**8,561,880**	**43,258**	**8,605,138**
Total assets	**2,619,000**	**302,971**	**201,731**	**366,033**	**5,470,575**	**8,960,310**	**43,258**	**9,003,568**
Liabilities								
Due to banks	255,309	345,252	350,637	–	–	**951,198**	–	**951,198**
Public and private sector liabilities	8,858,910	248,131	220,866	272,584	229,631	**9,830,122**	4,955	**9,835,077**
Issued debt securities	–	7,949	758,107	1,236,834	681,939	**2,684,829**	–15,774	**2,669,055**
Subordinated loans	–	–	–	–	116,904	**116,904**	1,247	**118,151**
Total liabilities	**9,114,219**	**601,332**	**1,329,610**	**1,509,418**	**1,028,474**	**13,583,053**	**–9,572**	**13,573,481**

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 9, Fair value.

Financial instruments at fair value at 31/12/2016

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	498,000	–	–	498,000
Debt instruments	1,403,149	–	–	1,403,149
Equity instruments	30	20,015	13,191	33,236
Derivatives (receivables)	19,855	115,087	–	134,943
Total assets	**1,921,034**	**135,102**	**13,191**	**2,069,327**
Liabilities				
Issued debt securities	–	881,254	32,825	914,079
Other liabilities	–	–	5	5
Derivatives (liabilities)	19,855	137,905	–	157,760
Total liabilities	**19,855**	**1,019,159**	**32,829**	**1,071,844**

Financial instruments at fair value at 31/12/2015				
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	1,050,019	–	–	1,050,019
Debt instruments	1,707,455	–	–	1,707,455
Equity instruments	273	19,598	19,630	39,501
Derivatives (receivables)	26,124	158,203	–	184,327
Total assets	**2,783,871**	**177,801**	**19,630**	**2,981,302**
Liabilities				
Issued debt securities	–	751,922	73,720	825,642
Other liabilities	–	–	330	330
Derivatives (liabilities)	26,124	163,897	–	190,021
Total liabilities	**26,124**	**915,819**	**74,050**	**1,015,993**

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	2016			2015		
Item	Value changes recognised in profit or loss	Value changes to revaluation	**Total value changes**	Value changes recognised in profit or loss	Value changes to revaluation	**Total value changes**
Assets						
Government paper eligible for central bank refinancing	31,545	–7,801	**23,744**	18,709	–7,730	**10,979**
Debt instruments	654	10,271	**10,925**	–10,349	–1,160	**–11,509**
Equity instruments	6,427	–7,566	**–1,139**	416	4,004	**4,420**
Derivatives	14,090	–	**14,090**	–5,446	–	**–5,446**
Issued debt securities	–26,061	–	**–26,061**	–8,544	–	**–8,544**
Total	**26,656**	**–5,097**	**21,559**	**–5,214**	**–4,886**	**–10,100**

Financial instruments not recognised at fair value

The table below shows the nominal and fair value of financial instruments not recognised at fair value, with the exception of financial instruments where the nominal value is a reasonable approximation of the fair value. The value of financial instruments not recognised at fair value 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 not recognised at fair value	2016		2015			
	Fair value	Carrying amount	Fair value	Carrying amount	Valued using	Valuation method
Assets						
Government paper eligible for central bank refinancing	360,273	329,308	361,498	337,070	Listed market prices	Listed market prices
Due from banks	260,496	257,711	400,519	398,430	Observable market inputs	Discounted cash flows using applicable money market rates
Loans and advances to the public and private sectors	8,423,470	8,193,213	8,950,249	8,605,138	Unobservable market inputs	Discounted cash flows using current market fees for comparable loans and taking into account the creditworthiness of the counterparty
Debt instruments						
– Held to maturity	196,191	184,130	195,898	186,569	Listed market prices	Listed market prices
– Other debt instruments at amortised cost	967,709	968,408	1,091,203	1,071,314	Unobservable market inputs	Discount model
Liabilities						
Due to banks	407,887	407,715	951,855	951,198	Observable market inputs	Discounted cash flows using applicable money market rates for liabilities
Public and private sector liabilities	9,681,313	9,583,996	9,971,804	9,835,077	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	1,603,872	1,581,389	1,873,399	1,843,413	Observable market inputs	Discounted cash flows using applicable money market rates for debt instruments with a comparable term to maturity
Subordinated loans	181,169	167,218	146,131	118,151	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

Commitments not recognised in the statement of financial position
We have entered into contracts for buildings – including service fees and rent for any parking spaces – as well as car lease and computer lease contracts. The remaining terms of the lease and rental agreements range between one month and 13 years. The total of future minimum lease and rent payments amounts to €49.1 million, of which €10.8 million within one year, €22.6 million between one and five years, and €15.8 million after five years.

We have agreed commitments regarding ICT services with group companies for an amount of €4.7 million.

We will be able to terminate the contract five years after its commencement, with the exit fee depending on the remaining term. A long-term rental agreement with a commitment amount of €32.7 million was transferred from a group company to Van Lanschot in early 2017.

In 2016 Van Lanschot entered into three IT contracts for hiring services and capacity, licensing, implementation and maintenance of our platform online services, reporting and treasury systems. For more information, please refer to the supplementary notes to the consolidated financial statements.

Notes to the company statement of income

(x €1,000)

23. Net interest income

Interest income	2016	2015
Total	**360,246**	**425,769**
Interest income on cash equivalents	85	19
Interest income on banks and private sector	267,528	253,867
Interest income on held-to-maturity investments	7,049	7,168
Other interest income	1,777	1,864
Interest income on items not recognised at fair value	**276,439**	**262,918**
Interest income on available-for-sale investments	9,124	13,063
Interest income on financial assets at fair value through profit or loss	7,431	17,348
Interest income on financial assets held for trading	–	–
Interest income on derivatives	67,253	132,440

Interest expense	2016	2015
Total	**162,192**	**233,983**
Interest expense on banks and private sector	49,271	85,780
Interest expense on issued debt securities	36,046	42,366
Interest expense on subordinated loans	5,821	6,549
Other interest expense	2,209	990
Interest expense on items not recognised at fair value	**93,347**	**135,685**
Interest expense on balances at central banks	2,729	1,160
Interest expense on derivatives	66,116	97,138
Net interest income	**198,054**	**191,786**

24. Income from securities and associates

This item includes the income realised by associates, securities and other income related to associates and securities.

25. Net commission income	31/12/2016	31/12/2015
Total	**102,615**	**107,300**
Securities commissions	8,170	10,810
Management commissions	79,999	81,897
Cash transactions and funds transfer commissions	9,871	10,561
Corporate Finance and Equity Capital Markets commissions	1,397	1,330
Other commissions	3,179	2,702

26. Result on financial transactions	31/12/2016	31/12/2015
Total	**3,344**	**17,581**
Gains and losses on securities trading	–510	105
Gains and losses on currency trading	5,720	9,925
Unrealised gains/losses on derivatives under hedge accounting	931	2,077
Realised and unrealised gains/losses on trading derivatives	346	3,325
Realised gains on available-for-sale debt instruments	8,093	15,400
Gains/losses on economic hedges - hedge accounting not applied	12,814	–10,849
Gains/losses on financial assets designated at fair value through profit or loss	–24,050	–2,402

27. Staff costs

The average number of staff in 2016 was 1,234 (2015: 1,137), or 1,166 in full-time equivalents (2015: 1,063). Of these, 149 were employed outside the Netherlands (2015: 144).

	2016	2015
Total	**141,029**	**136,579**
Salaries and wages	104,115	103,275
Pension costs	14,435	14,188
Other social security costs	12,675	13,059
Other staff costs	9,803	6,057

28. Other administrative expenses

Other administrative expenses comprise IT expenses, costs of marketing and communication, accommodation expenses, office expenses and other administrative expenses.

29. 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.

30. Impairments

This item comprises the balance of the required impairments and reversals of such impairments.

31. Result from sale of private and public sector loans and advances

In 2015 Van Lanschot sold a portfolio of non-performing real estate loans to a subsidiary of Cerberus Capital Management LP. The proceeds of this sale amounted to €23.2 million negative. In 2015 an amount of €22.4 million negative relating to these loans was taken to the Result from sale of public and private sector loans and advances, and €0.8 million negative relating to interest rate swaps associated with the portfolio was taken to the Result on financial transactions.

32. 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. When determining the tax amount, we have applied currently existing tax rules. Changes in the effective tax rate may be caused particularly by the equity holding exemption, notional interest deduction, unused losses and non-deductible costs.

	2016	2015
Operating profit before tax from continuing operations	73,818	30,157
Profit before tax from discontinued operations	–	–
Total gross result	**73,818**	**30,157**
Prevailing tax rate in the Netherlands	25%	25%
Expected tax	18,455	7,539
Increase/decrease in tax payable due to:		
Tax-free income from securities and associates	–10,628	–14,894
Taxed release of tax reserves	–	1,222
Non-deductible costs	1,351	1,220
Non-deductible losses	–	447
Adjustments to taxes for prior financial years	–76	163
Impact of foreign rate tax differences	–522	–656
Movements in deferred taxes	–446	–
Other changes	–51	10
	–10,372	**–12,488**
Total tax	**8,083**	**–4,949**

Profit appropriation

If the Annual General Meeting approves of the dividend proposal as included in these financial statements, the appropriation of net result will be as follows:

Profit appropriation (x €1,000)	2016	2015
Total	**65,735**	**34,163**
Addition to (withdrawal from) reserves	16,425	15,730
Dividend on shares	49,310	18,433

Remuneration of the Statutory and Supervisory Boards

For further details of remuneration received in 2016, see 'Remuneration' on pages 65-67.

Remuneration Statutory Board in 2016	Fixed salary*	Fixed payment toward pension contribution**	Variable pay, cash	Deferred variable pay for previous years, shares of Van Lanschot NV***	Severance pay	Miscellaneous	Total remuneration
Total	**2,850**	**660**	–	**136**	–	**14**	**3,660**
Karl Guha	975	219	–	34	–	7	**1,235**
Constant Korthout	625	147	–	34	–	7	**813**
Richard Bruens	625	147	–	34	–	–	**806**
Arjan Huisman	625	147	–	34	–	–	**806**

Remuneration Statutory Board in 2015	Fixed salary	Fixed payment toward pension contribution**	Variable pay, cash	Deferred variable pay for previous years, shares of Van Lanschot NV***	Severance pay	Miscellaneous	Total remuneration
Total****	**2,850**	**660**	**–**	**136**	**–**	**–**	**3,646**
Karl Guha	975	219	–	34	–	–	**1,228**
Constant Korthout	625	147	–	34	–	–	**806**
Richard Bruens	625	147	–	34	–	–	**806**
Arjan Huisman	625	147	–	34	–	–	**806**

* A proportion of fixed salary is paid in the form of Van Lanschot NV shares. Karl Guha received 10,431 shares and the other members of the Statutory Board each received 9,272 shares. The number of shares granted is based on the average share price for the first four trading days of the year 2016 (€21.57). IFRS takes the share price at grant date as the basis for recognition. This price amounted to €21.40.

** This payment is a contribution for pension and disability insurance and, together with the fixed salary, forms part of the total periodic remuneration.

*** As of 2015 the remuneration of the Statutory Board was changed and variable pay was ended as part of the new remuneration policy. The table Remuneration of Statutory Board in the Remuneration section on page 67 of the directors' report does not show variable remuneration payable in shares awarded. IFRS, as adopted within the European Union, prescribes that the costs of deferred variable share-based compensation should be spread over the period within which the relevant activities were performed. The vesting period for shares of Van Lanschot NV conditionally awarded in the 2014 financial year is 2015 to 2017; the shares vest in equal portions.

**** Ieko Sevinga resigned as a member of the Statutory Board on 13 November 2014; his employment contract ended on 13 May 2015. In 2015 he received a fixed salary of €156,845 plus a fixed payment for pension and disability insurance of €36,692, as well as an amount of €33,995 which is recognised in the statement of income as deferred variable pay for previous years in shares of Van Lanschot NV.

Depositary receipts for shares of Van Lanschot NV granted and awarded to Statutory Board members at 31 December 2016

	Granted conditionally (maximum)			Awarded unconditionally*			
	Year	Number	Value (x €1,000)	Year	Number	Value (x €1,000)	Lock-up period until
Karl Guha	2015	3,590	67	2017	1,795	34	2022
				2018	1,795	34	2023
Constant Korthout	2015	3,616	68	2017	1,808	34	2022
				2018	1,808	34	2023
Richard Bruens	2015	3,616	68	2017	1,808	34	2022
				2018	1,808	34	2023
Arjan Huisman	2015	3,616	68	2017	1,808	34	2022
				2018	1,808	34	2023

* The unconditional award of the second portion of the conditional variable remuneration in Van Lanschot NV shares awarded for the 2014 financial year will be made at the Supervisory Board meeting on 8 March 2017. The table Depositary receipts of Van Lanschot NV for shares granted and awarded to Statutory Board members at 31 December 2016 reports the relevant depositary receipts for shares that will vest in 2017.

Depositary receipts for shares of Van Lanschot NV granted and awarded to Statutory Board members at 31 December 2015

	Granted conditionally (maximum)			Awarded unconditionally**			
	Year	Number	Value (x €1,000)	Year	Number	Value (x €1,000)	Lock-up period until
Karl Guha	2015	5,386	101	2016	1,795	34	2021
				2017	1,795	34	2022
				2018	1,795	34	2023
Constant Korthout	2015	5,426	102	2016	1,808	34	2021
				2017	1,808	34	2022
				2018	1,808	34	2023
Richard Bruens	2015	5,426	102	2016	1,808	34	2021
				2017	1,808	34	2022
				2018	1,808	34	2023
Arjan Huisman	2015	5,426	102	2016	1,808	34	2021
				2017	1,808	34	2022
				2018	1,808	34	2023

** The unconditional award of the first portion of the conditional variable remuneration in Van Lanschot NV shares awarded for the 2014 financial year was made at the Supervisory Board meeting on 8 March 2016. The table Depositary receipts of Van Lanschot NV for shares granted and awarded to Statutory Board members at 31 December 2015 reports the relevant depositary receipts for shares vested in 2016.

Number of depositary receipts for shares of Van Lanschot NV held by Statutory Board members in 2016				
	At 1 January	Bought/ awarded	Sold/post- employment	At 31 December
Total	**57,667**	**71,644**	**–**	**129,311**
Karl Guha	14,181	22,117	–	36,298
Constant Korthout	17,637	21,509	–	39,146
Richard Bruens	13,599	21,509	–	35,108
Arjan Huisman	12,250	6,509	–	18,759

At 31 December 2016, the members of the Statutory Board held no options for depositary receipts for shares of Van Lanschot NV.

Loan and advances to Statutory Board members at 31 December 2016					
	At 31 December	Repaid	Interest	Term	Collateral
Total	**2,671**	**526**			
Constant Korthout	450	–	2.30%	30	Mortgage
	150	100	3.50%	30	Mortgage
Richard Bruens	1,171	15	2.00%	30	Mortgage
	280	7	2.00%	30	Mortgage
	–	64	Floating	1	–
Arjan Huisman	220	120	1.40%	30	Mortgage
	400	220	Floating	30	Mortgage

Loan and advances to Statutory Board members at 31 December 2015					
	At 31 December	Repaid	Interest	Term	Collateral
Total	**3,197**	**662**			
Constant Korthout	450	–	2.30%	30	Mortgage
	250	100	3.50%	30	Mortgage
Richard Bruens	1,186	15	2.50%	30	Mortgage
	287	7	3.10%	30	Mortgage
	64	–	Floating	1	–
Arjan Huisman	340	340	3.75%	30	Mortgage
	620	200	Floating	30	Mortgage

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

Remuneration of the Supervisory Board	2016	2015
Total	**388**	**372**
Willy Duron	107	63
Jos Streppel	87	71
Jeanine Helthuis	64	56
Bernadette Langius (from 13 May 2015)	62	37
Godfried Van Lanschot	60	59
Tom de Swaan* (up to 25 February 2016)	8	66
Heleen Kersten (up to 13 May 2015)	–	22

On 19 May 2016 the General Meeting of Van Lanschot NV approved a proposal for adjustment of the remuneration of the Supervisory Board. Further details can be found in the Remuneration section on page 67.

No loans or advances had been granted to members of the Supervisory Board at 31 December 2016 and 31 December 2015.

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 F. van Lanschot Bankiers NV, subject to the approval of the Supervisory Board. Loans are not forgiven.

’s-Hertogenbosch, 30 March 2017

Supervisory Board

- Willy Duron, *Chairman*
- Jos Streppel, *Deputy Chairman*
- Jeanine Helthuis
- Bernadette Langius
- Godfried van Lanschot
- Lex van Overmeire

Statutory Board

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

* Tom de Swaan (1946) resigned as member of the Supervisory Board on 25 February 2016. He was appointed as member of the Supervisory Board in 2007 and was Chairman since 2008. His third term of office started in May 2015. He was also Chairman of the Selection & Appointment Committee and member of the Remuneration Committee of the Supervisory Board.

Events after the reporting period

There have been no significant events since the reporting date that affect the relevance of information provided in the 2016 financial statements.

Other information

Independent auditor's report

To: the general meeting and Supervisory Board of F. van Lanschot Bankiers NV.

Report on the financial statements 2016

Our opinion

- the accompanying consolidated financial statements give a true and fair view of the financial position of F. van Lanschot Bankiers NV as at 31 December 2016 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 accompanying company financial statements give a true and fair view of the financial position of F. van Lanschot Bankiers NV as at 31 December 2016 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 2016 of F. van Lanschot Bankiers NV, Den Bosch ('the Bank'). The financial statements include the consolidated financial statements of F. van Lanschot Bankiers NV and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the following statements for 2016: the consolidated statements of income, comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2016;
- the company statement of income for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been 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. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of F. van Lanschot Bankiers NV in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview and context

F. van Lanschot Bankiers NV is a Dutch banking institution operating in the segments private banking, online wealth management Evi, asset management, merchant banking, corporate banking and other activities. The Group comprises of several components and therefore we considered our Group audit scope and approach as set out in the scope of our group audit section. We paid specific attention to the areas of focus driven by the operations of the Bank, as set out below.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Executive Board made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

In the section 'summary of significant accounting principles' of the financial statements the Bank describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty in impairment of loans and advances to the public and private sectors, fair value measurement of financial instruments, the valuation of the deferred tax asset and the provision for compensation of SME interest rate derivatives in accordance with the Uniform Recovery Framework, we considered these to be key audit matters as set out in the key audit matter section of this report. Besides the key audit matters, other areas of focus were the Bank's IT systems, risk management, goodwill and intangible assets, remuneration and pensions.

Our audit procedures related to the IT environment reflected a combination of controls testing and performing substantive audit procedures. Where possible and considered relevant for our audit, we tested the operating effectiveness of IT general controls ('ITGCs') and application controls.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Executive Board that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at Group and at component levels included the appropriate skills and competences which are needed for the audit of a bank. We therefore included specialists in the areas of amongst others IT, accounting and valuation of financial instruments, employee benefits and tax in our team.

Furthermore, the Bank has an internal audit department ('Group Audit') that performs operational, compliance and IT audits. The audits performed by Group Audit did not directly affect our audit and as a result we did not make direct use of the work of Group Audit. However, we evaluated together with Group Audit the outcome and results of their audits and included relevant risks and/or developments in our risk assessment and audit plan.

The outlines of our audit approach were as follows:

Materiality
- Overall materiality: €4.25 million which represents 5% of profit before tax.

Audit scope
- We conducted our audit work primarily in the Netherlands.
- Site visits were conducted to Belgium and Switzerland.
- Audit coverage: 96% of consolidated total assets, 99% of total revenue and 94% of profit before tax.

Key audit matters
- Impairment of loans and advances to the public and private sectors
- Fair value measurement of financial instruments
- Valuation of the deferred tax asset
- Compensation of SME interest rate derivatives in accordance with the Uniform Recovery Framework

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'.

We set certain quantitative thresholds for materiality. 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 on our opinion.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	€4.25 million
Benchmark applied	5% of profit before tax
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the consolidated financial statements. On this basis we believe that profit before tax is the most important metric for the financial performance of the Bank, its use is deemed to result in an adequate level of materiality. We also considered other benchmarks that are of great interest to stakeholders (including CET1 capital) and concluded that materiality based on those benchmarks would fall within the range of overall materiality based on profit before tax.
Component materiality	To each component in our audit scope, we allocate, based on our judgment, materiality that is less than our overall Group materiality. The range of materiality allocated across components was between €0.53 million and €4.25 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above €212.5 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

F. van Lanschot Bankiers NV is the parent company of a group of entities. The financial information of this Group is included in the consolidated financial statements of F. van Lanschot Bankiers NV

The Group audit focussed on the financially significant components: Kempen & Co NV, Van Lanschot Belgian Branch (BE), FvL Bankiers Switzerland (CH), Van Lanschot Participaties B.V. and AIO II B.V. For the components Van Lanschot Belgian Branch in Belgium, FvL Bankiers Switzerland in Switzerland and AIO II B.V we instructed component auditors that are familiar with the local laws and regulations to perform the audit work.

All five components were in full scope (ISA 600) and were subjected to audits of their complete financial information.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Total assets	96 %
Profit before tax	94 %
Revenue	99 %

None of the remaining components represented individually more than 0.2% of total group assets, 1% of revenues and 4% of profit before tax or revenues. 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.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

The Group audit team visited the Belgian and Swiss operations and local component auditors given the significance of these components.

The Group consolidation, financial statement disclosures and a number of complex items (including the items addressed below as key audit matter) are audited by the Group engagement team at the head office.

By performing the procedures above at components, combined with additional procedures at Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

First year audit considerations

Prior to becoming the Bank's auditors in 2016, we developed our transition plan starting in August 2015. We carried out a comprehensive process of understanding the strategy of the Bank, its business, its environment including internal controls and IT systems, and the way this impacts the Bank's financial reporting and internal controls framework. Additionally, we carried out a review of the predecessor auditor's files and discussed the outcome thereof to confirm our understanding of the opening balance sheet and internal controls within the Bank. Based on these procedures, we have prepared our risk assessment and audit plan which has been discussed with the Executive Board and the Audit Compliance Committee.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Executive Board, the Audit Compliance Committee and the Supervisory Board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

<table>
<tr><th>Key audit matter</th><th>How our audit adressed the matter</th></tr>
<tr><td>Impairments of loans and advances to the public and private sectors
See note 8 to the financial statements for the disclosures of loans and advances to the public and private sectors including impairments, the paragraph ‘Impairments of loans and advances to the public and private sectors’ of the summary of significant accounting principles and subsection 2 of the risk management paragraph containing the disclosures in view of credit risk.

The gross loans and advances to the public and private sectors amount to €9.786 million, the total impairment as at 31 December 2016 amounts to €162 million, consisting of an amount of €60 million for impaired mortgage loans and €102 million for impaired loans.</td><td>Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Bank and the testing of operational effectiveness of the internal controls directly related to:
– the identification of impairment triggers;
– the parameters and data applied in the impairment models, including the governance around the models and the model validation and testing; and
– the review and approval by management on the outcomes of the individual impairments and the impairment models.

We determined that we could rely on these controls for the purpose of our audit.</td></tr>
</table>

We consider the impairment of loans and advances to public and private sectors a key audit matter as management applies judgment in the determination and recognition of these impairments. As the loans and advances are significant to the financial statements, a change in assumptions may have a material effect on the financial statements. The impairment of loans and advances to the public and private sectors consists of two different components: – impairments for individually identifiable impaired loans and advances ('individual items'); and – the model-based impairments for incurred but not reported losses ('IBNR'). The judgmental elements included in the impairment for individual identifiable impaired loans and advances are: – timely identification of impairment triggers; – expected future cash flows; – the discount rate; and – the value of the corresponding collateral. The subjective elements included in the model-based IBNR concern: – the probability of default ('PD'); – exposure at default ('EAD'); – loss given default ('LGD'); and – loss identification period ('LIP'). These subjective elements are based on historical data.	For impairments for individually identifiable impaired loans and advances, we paid attention to the update of the application which is used to identify and to calculate impairments for these individual items. We assessed the IT controls around this application and determined that the calculations are in alignment with the requirements of IAS 39. We substantively tested for a sample of the loans and advances the judgmental elements such as: – classification as performing or non-performing loan based on the (non-)existence of triggering events; – nature and accuracy of the expected future cash flows based on the source from which the cash flows arise; – the accuracy of the applied discount rate taken applicable latest interest rate; and – the valuation of the corresponding collateral based on appraisal reports and other external information. We found no material exceptions in these tests. For IBNR losses, the Bank applies a model for the recognition and calculation of this impairment. We assessed the appropriateness of the model by re performing the extraction of data used and we assessed the outcome(s) of the model validation reports as prepared by the client. We tested the assumptions and data used for the collective impairment for IBNR losses, by assessing the accuracy of the applied PDs and LGDs based on reconciling these to the outcomes of the calculation model and by performing sample testing on the source data of the LIP. An area of focus in our assessment has been the accuracy of the LIP and actual incurred losses used as inputs for the expected loss. We assessed the completeness and accuracy of the disclosures relating to impairments of loans and advances to the public and private sector. We evaluated compliance with disclosure requirements from EU-IFRS and the appropriate reflection of the Bank's exposures to credit risk. In our view the recognised impairments of management were within a reasonable range of outcomes in the context of the overall loans and advances and the related uncertainties and sensitivities as disclosed in the financial statements
Fair value measurement of financial instruments See notes 2, 4, 5, 6, 15 and 18 to the financial statements for the disclosures of the financial instruments valued at fair value and subsection 10 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 to level 1, 2 and 3. The total asset value of financial instruments measured at fair value as at 31 December 2016 amounts to €2.341 million and the total liability value amounts to €1.233 million. The fair value measurement of financial instruments consists of: – financial assets and liabilities held for trading; – derivatives; – financial assets and liabilities designated at fair value through profit or loss; and – available-for-sale investments. For financial instruments traded in an active market (level 1) the valuation is based on quoted prices and market data. There is limited judgment involved in the fair value valuation of these instruments. For financial instruments for which direct or indirectly observable data is available (level 2) and financial instruments for which no observable data is available (level 3), management applies judgment in the fair value valuation of these instruments. Given the inherent subjectivity in the valuation of level 2 and level 3 financial instruments, we determined this to be a significant matter for our audit.	Our audit included testing of the Bank's internal controls with respect to the governance over models, financial instrument deal capturing, source data management and the valuation of financial instruments. For each type of financial instruments, we tested the outcome of management's valuations of the level 2 and 3 financial instruments by: – assessing the appropriateness of the classification as either level 2 or 3; – testing the appropriateness of the settings within the valuation models used with market practices; – comparing on a sample basis the observable input data with independent data sources and externally available market data; – evaluating the inputs and models used in determining the unobservable inputs; and – independently re-performing, on a sample basis, management's valuation using the tested data in our own valuation tools, based on external data sources where available. We assessed the completeness and accuracy of the disclosures relating to the level 2 and 3 financial instruments measured at fair value and verified compliance with disclosure requirements from EU-IFRS. Based on our procedures we found that management's outcome of the models used for the fair value of the level 2 and 3 financial instruments, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

The fair value measurement of the level 2 and 3 instruments are determined based on comparable values and with the use of net present value models, option models or the net intrinsic value of the underlying investment. In addition, for certain level 3 instruments, the Bank used market and transaction multiples in the valuation. The inputs to these models consist of both contractual data, observable external market data and/or unobservable data. The assessment of the unobservable data comprises a higher risk as the determination of those data requires complex models and judgment by management. The nature of the financial instrument drives the model and data used.

Valuation of the deferred tax asset

See note 12 to the financial statements for the disclosures of the deferred tax asset and the paragraph 'Tax assets and liabilities' of the summary of significant accounting principles.

The total amount of deferred tax asset as at 31 December 2016 amounts to €40 million.

A proportion of the deferred tax assets of €24 million relates to the carry-forward losses of the Bank in the Netherlands and Belgium. These losses can only be offset against fiscal profits of Van Lanschot Bank and are restricted in the number of years to be carried forward. Of the total deferred tax asset €8 million (being a carry-forward loss of €32 million) should be offset against fiscal profits before 31 December 2018.

Given the significance of the deferred tax asset, the limited period to carry forward the losses and the dependency on fiscal profits needed to be in a position to recognise such losses, the valuation (recoverability) of the deferred tax asset for tax losses is highly subject to management estimates, and we consider the valuation of this deferred tax asset to be a significant matter for our audit.

Management provided us with a breakdown of the historic losses by year and by legal entity of Van Lanschot Group and the composition of the carry-forward deferred tax asset relating to tax losses.

Together with our tax specialists, we verified that historical data included in the breakdown are in accordance with the tax declaration(s) and/or any other relevant information.

We also assessed that the carry-forward deferred tax asset for tax losses was determined in accordance with IAS 12 and the relevant tax legislation and the applicable tax rates in the Netherlands and Belgium.

We tested management's valuation of the 31 December 2016 deferred tax asset for tax losses, by:

- assessing the recoverability through agreeing the forecasted future taxable profits with the approved management forecast per fiscal entity;
- challenging the approved management forecast for feasibility and historical accuracy (this also includes that assumptions used within the management forecasts are acceptable within the relevant tax regime, are reasonable, are consistent with those used elsewhere by the Bank, for example in the impairment testing);
- considering the local expiry periods together with any applicable restrictions in recovery for each individual jurisdiction; and
- reviewing the sensitivity analysis as performed by management.

We assessed the completeness and accuracy of the disclosures relating to the deferred tax asset and verified compliance with disclosure requirements from EU-IFRS.

In our view the recognised deferred tax assets are within a reasonable range of outcomes.

Provision for compensation of SME interest rate derivatives in accordance with the "Uniform Recovery Framework"

See note 20 to the financial statements for the disclosures of the provisions and the paragraph 'Provisions' of the summary of significant accounting principles.

The total amount of the provision for compensation for SME interest rate derivatives as at 31 December 2016 amounts to €8.9 million.

The Bank has committed itself to applying the Uniform Recovery Framework ('framework') in compensating certain SME clients that have or had interest rate contracts with the Bank. An independent commission of experts had prepared this framework and the Bank has appointed an independent reviewer to test the Bank's compliance with the framework. The Dutch Authority for the Financial Markets ('AFM') supervises the process.

Given the complexity of applying the framework and the level of judgment required, we consider the valuation of this provision to be a significant matter for our audit.

We evaluated the process that the Bank has in place to ensure the completeness and accuracy of the compensation of the clients that are in scope of the framework. We also obtained the Bank's plan of action that has been submitted to the AFM.

We tested the accuracy and completeness of the provision formed for the compensation by performing the following procedures:

- We assessed the model used to calculate compensation and the inherent judgment applied in the model in accordance with the framework.
- For a sample of files that are in scope of the framework, we assessed the calculated compensation by reconciling the key data inputs used (including notional amounts, cash flows, interest rates) to source data and underlying contracts and recalculated the compensation amounts based on these inputs.
- For a sample of files where management assessed that compensation is not applicable in accordance with the framework because the derivative contracts are out of scope, we tested whether this assessment was appropriately performed based on the underlying documentation.
- We tested the accuracy and occurrence of expenses that the Bank has recognised as part of the provision.

Based on our audit procedures and considering the acceptable range in the context of estimation uncertainty, we did not identify a material misstatement in the context of the overall financial statements.

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
- Report of the Executive Board
- Governance
- 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 all information that is required by Part 9 of Book 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 Book 2 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 Executive Board is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of F. van Lanschot Bankiers NV on recommendation of the Supervisory Board following the passing of a resolution by the shareholders at the annual meeting held on 13 May 2015 and the appointment will be renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 1 year.

Responsibilities for the financial statements and the audit

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive 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 Executive 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 Executive Board is responsible for assessing the Bank's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going-concern basis of accounting unless the Executive Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the Bank's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Bank'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 audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all 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, 30 March 2017
PricewaterhouseCoopers Accountants NV

Original has been signed by R.E.H.M. van Adrichem RA

Appendix to our auditor's report on the consolidated financial statements 2016 of F. van Lanschot Bankiers NV

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 consolidated financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. 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. 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 Bank's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Concluding on the appropriateness of the Executive 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 Bank'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 Bank 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 Bank's 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 communicate 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.

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 safeguards.

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.

Profit appropriation

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 28 (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
Assets which are entrusted by clients to Van Lanschot purely for custody or for which solely administrative services are performed. Clients take their own investment decisions, over which Van Lanschot has no influence.

Assets under discretionary management
Client assets entrusted to Van Lanschot under a discretionary management agreement, irrespective of whether these assets are held in investment funds, deposits, structured products (Van Lanschot index guarantee contracts) or cash.

Assets under management
Assets deposited with Van Lanschot by clients, breaking down into assets under discretionary management and assets under non-discretionary management.

Assets under non-discretionary management
Client assets held for clients by Van Lanschot, irrespective of whether these assets are held in investment funds, deposits, structured products (index guarantee contracts) or cash, with either a Van Lanschot investment adviser advising the client on investment policy or clients making their own investment decisions without Van Lanschot's input.

Assets under screening (AuS)
The part of the assets under management that are screened for sustainability issues.

Base point value (BPV)
A method to measure interest rate risk. It indicates how much profit or loss is generated in the event of a parallel shift in the yield curve by one basis point.

Basel III
The new 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. The gradual transition from Basel II to Basel III is taking place over a period of five years and started in 2014.

Basel III leverage ratio (LR)
The leverage ratio represents the relationship between total assets plus contingent items and the Basel III Tier I capital. The leverage ratio is calculated in accordance with the Delegated Act.

Basel A-IRB exposures: Retail
Receivables modelled in retail models. At Van Lanschot, this class includes the mortgage portfolio, the securities-backed loan portfolio and consumer loans up to €250,000.

Basel F-IRB exposures: Corporates
Receivables from corporates modelled in non-retail models. At Van Lanschot, this class of exposure comprises commercial real estate clients, holding companies as clients, and private and corporate loan accounts.

Basel F-IRB exposures: Equities
Positions in equities and subordinated loans, provided these are not designated as deductions from capital. Van Lanschot applies the simple risk weight method.

Basel F-IRB exposures: Securitisation
Van Lanschot's securitisation investor positions, recognised in keeping with the ratings-based method, i.e. with risk weightings calculated on the basis of external credit ratings.

Basel SA exposures: Administrative bodies and non-commercial undertakings
Receivables from administrative bodies and non-commercial undertakings are assigned a risk weighting based on the credit quality category of the central government of the jurisdiction where the registered office is situated. A risk weighting of 20% therefore applies for administrative bodies and non-commercial undertakings in the Netherlands.

Basel SA exposures: Central counterparties
Receivables from entities acting as a single party between counterparties trading contracts on one or more financial markets. Under certain conditions, these receivables may be assigned a risk weighting of 2%. If not all the conditions are met, these receivables are treated in the same way as receivables from financial institutions.

Basel SA exposures: Central governments and central banks
Receivables from central governments and central banks with credit ratings from designated rating agencies. Their risk weightings are linked to their precise credit quality steps. Receivables from central governments and central banks of EU member states are assigned a risk weighting of 0%. At Van Lanschot, this class of exposures chiefly comprises Dutch government bonds, balances withdrawable on demand at central banks and exposures for which a state guarantee is available.

Basel SA exposures: Covered bonds
Bonds backed by collateral. This class of receivables is assigned a risk weighting between 10% and 100%, depending on the risk weighting of the financial company issuing them. If an external credit rating for the bond is not available, the risk weighting of the issuing financial entity is used.

Basel SA exposures: Financial companies and financial institutions
Receivables from and debt securities issued by banking counterparties. Almost all of these receivables have short maturities, and such good credit ratings that the credit quality step system allows for a risk weighting of 20%. Risk weightings are 50% where no such ratings are available.

Basel SA exposures: International organisations
Almost all receivables from international organisations have such good credit ratings that the credit quality step system allows for a risk weighting of 0%.

Basel SA exposures: Items associated with particularly high risks
This class of exposures comprises investments in venture capital, which are assigned risk weightings of 150%.

Basel SA exposures: Local or regional government bodies
Receivables from and debt securities issued by local or regional government-related bodies. Almost all of these receivables have short maturities, and such good credit ratings that the credit quality step system allows for a risk weighting of 0%.

Basel SA exposures: Multilateral development banks
These receivables are treated as receivables from financial institutions. Almost all receivables from multilateral development banks have short maturities, and such good credit ratings that the credit quality step system allows for a risk weighting of 20%. Certain specified development banks have a risk weighting of 0%.

Basel SA exposures: Other risk-weighted assets
This class of exposures consists of property and equipment, prepayments and accrued income, and equities available for sale.

Basel SA exposures: Past due items
Receivables that are past due by more than 90 days, to which the standardised method is applied, and that exceed the agreed limits by at least €5,000. Risk weightings are 150% or 100%, depending on the size of the relevant provision. If the relevant provision amounts to less than 20% of the unsecured portion of the receivable, a risk weighting of 150% applies.

Basel SA exposures: Private individuals and medium-sized enterprises
Receivables owed to subsidiaries by private individuals and medium-sized enterprises that are not backed by securities or residential mortgages, assigned a risk weighting of 75%. At Van Lanschot this class of exposures mainly includes receivables owed to group companies by private individuals.

Basel SA exposures: Receivables from corporates
Receivables from corporates owed to Van Lanschot's subsidiaries and non-retail receivables, in so far as these are not covered by one of the non-retail models. These items are assigned a risk weighting of 100%.

Basel SA exposures: Receivables in the form of units or shares in UCITS
Receivables relating to investment funds which do not pose a heightened risk within the meaning of Article 128 of the CRR. The risk weighting of these items is 100%.

Basel SA exposures: Secured on real estate
Receivables whose amounts are smaller than or equal to 75% of the value of the residential real estate, in so far as these are not included in a retail model. These are assigned a risk weighting of 35%.

Basel SA exposures: Securitisation positions
Securitisation positions in subsidiaries' investment portfolios, recognised in keeping with the SA method, i.e. with risk weightings calculated on the basis of external credit ratings.

Capital conservation buffer
Under CRD IV, Van Lanschot is required to maintain Common Equity Tier I 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.

Carbon Disclosure Project (CDP)
The Carbon Disclosure Project is a not-for-profit organisation that collects, harmonises and publishes environmental data. Van Lanschot Kempen affiliated to the CDP in 2014 and also supplies it with environmental data. cdp.net

Carried interest arrangement
A carried interest arrangement relates primarily to private equity fund managers who are given the opportunity to obtain a stake in a company acquired. This arrangement is financed by a subordinated loan or by cumulative preference shares that do not participate in any surplus profits. The manager holds ordinary shares and participates in any surplus profits.

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 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 are required to maintain capital buffers in addition to the own funds requirements contained in the Capital Requirements Regulation (CRR). For Van Lanschot, 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.

Common Equity Tier I capital
Also referred to as core capital. Common Equity Tier I 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 I ratio
Common Equity Tier I 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 I 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. This also includes the settlement risk, i.e. the risk that counterparties do not fulfil their obligations in connection with, for instance, securities transactions.

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.

Cross-currency swap
A currency swap in which the principal and interest payments denominated in one currency are exchanged for the principal and interest payments denominated in another currency during a fixed term.

CSR Netherlands (MVO Nederland)
Dutch knowledge and networking organisation for corporate social responsibility (CSR), set up in 2004. Van Lanschot Kempen is a member. mvonederland.nl/csr-netherlands

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'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

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 agreement, 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.

Depositary receipts for shares (DRS)
Depositary receipts for shares have no voting rights, but do entitle their holders to profits.

Derivatives
Financial assets whose value derives from the value of other financial assets, indices or other variables. Van Lanschot holds both derivatives whose size (face value), conditions and prices are determined between Van Lanschot 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.

DUFAS
Dutch Fund and Asset Management Association. DUFAS is an industry association for asset managers and investment institutions active in the Netherlands. dufas.nl

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 regulator for financial institutions in the Netherlands.
afm.nl/en

EBIT
Earnings before interest and tax.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

Economic hedges
Derivatives used to manage risks without applying hedge accounting, carried at fair value. At Van Lanschot, 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 private and public 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.

E-Risc
Environmental Risk Integration in Sovereign Credit Analysis. A UNEP FI project in which investors, credit rating agencies and universities have jointly developed a model to incorporate environmental indicators in the assessment of a country's creditworthiness.

Expected loss (EL)
Expected loss on loans, reflected in the formula EL=PD*EAD*LGD.

Exposure at default (EAD)
Exposure at the time of a client's default, also referred to as net exposure.

Fair Bank and Insurance Guide
(Eerlijke Bank- en Verzekeringswijzer, EBVW)
The Fair Bank and Insurance Guide is an initiative of Oxfam Novib, Amnesty International, Friends of the Earth Netherlands, the trade union FNV, the Dutch Society for the Protection of Animals and the peace movement Pax. The organisation evaluates and compares the sustainability of Dutch banks and insurers.
eerlijkebankwijzer.nl

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 and availabele-for-sale investments, for example. Hedge relations are typically exact hedges, involving debt securities and availabele-for-sale investments 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'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. 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

Forward Rate Agreement (FRA)
An agreement between two parties, the purchaser and the vendor, to settle at a future date the difference between a pre-agreed interest rate and one to be set in the future. The agreement has a set term. The purchaser of an FRA fixes interest for a certain period in the future.

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 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 the voting shareholders and others with voting rights.

Gold Standard
The Gold Standard is an independent sustainability label for carbon offset projects. Several of Van Lanschot Kempen's carbon offset projects qualify for the label. cdmgoldstandard.org

Greenhouse Gas Protocol
The Greenhouse Gas Protocol is the worldwide standard for accounting and reporting greenhouse gas emissions by companies. ghgprotocol.org

Green Team
A team that identifies and implements potential environmental improvements within Van Lanschot.

GRESB
The Global Real Estate Sustainability Benchmark (GRESB) is a worldwide sustainability benchmark for real-estate companies. gresb.com

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.

ILO
The International Labour Organisation is a United Nations agency to which over 180 countries are affiliated. The ILO draws up international labour conventions. ilo.org

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.

Incurred but not reported (IBNR)
Value decreases which have occurred at reporting date but of which the bank is not yet aware due to an information time lag.

Innovative Tier I instruments
Equity elements other than paid-up share capital and reserves, taken into account when determining Tier I capital (core capital).

Internationaal Maatschappelijk Verantwoord Ondernemen covenant (IMVO)
The IMVO covenant on human rights is signed by representatives of the government, non-governmental organisations and banks, and aims to help banks uphold human rights when investing in companies.

Institutional Investors Group on Climate Change (IIGCC)
A European collaborative platform for institutional investors in relation to climate change.

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 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 model approaches.

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 must be applied by all listed companies in the European Union from the 2005 financial year.

Irrevocable commitments
All obligations resulting from irrevocable commitments that could result in loans being granted.

ISO 26000
An international standard for corporate social responsibility. It offers practical guidance on integrating socially responsible behaviour into a company's existing strategies, processes, systems and working practices.

KCM
Kempen Capital Management NV

Kempen
Kempen & Co NV

Kroonadviesraad (KAR)
An advisory council made up of a representative selection of our clients, which takes part in Van Lanschot's digital client surveys.

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 selects a number of methods and makes assumptions based on the market conditions (observable data) at the reporting date.

Level 3: Input not based on observable 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.

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)
An estimate of the loss for Van Lanschot after liquidation of the received collateral.

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.

MSCI
A global equity index by Morgan Stanley Capital International, typically used as a standard benchmark.

MSCI ESG Research
A data provider specialising in non-financial investment information. Van Lanschot has used the services of MSCI ESG Research for its sustainable investment process since 2015. msci.com/research/esg-research

Net exposure (EAD)
Exposure at the time of a client's default.

Net stable funding ratio (NSFR)
The relationship between available stable funding and the required amount of stable funding.

Non-controlling interest in perpetual capital securities
Perpetuals issued by subsidiaries, which count as Tier I qualifying capital under Basel II when determining capital adequacy.

Non-performing loans
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.

NVB (Nederlandse Vereniging van Banken)
The Dutch Banking Association. nvb.nl/en

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.

Other non-controlling interests
Non-controlling interests in entities that are fully consolidated by Van Lanschot.

Portfolio of fair value hedges (hedge accounting)
Such a portfolio may comprise one or more swaps or caps (interest rate options) jointly entered into to hedge the interest rate risk of a mortgage portfolio. Both swaps (or caps) and mortgages are divided into term buckets, with the fair value of these mortgages mainly affected by interest rate levels, similar to the valuation of swaps. Minor differences in terms and interest rates may cause some ineffectiveness within the term buckets.

Principles for Responsible Investment (PRI)
The Principles for Responsible Investment consist of six guidelines to which financial institutions can sign up and which are aimed at encouraging responsible investment. Kempen Capital Management signed the Principles for Responsible Investment in 2009. unpri.org

Probability of default (PD)
The likelihood that a client will default within one year.

Proxy voting policy
Kempen & Co regards it as its fiduciary responsibility to vote at shareholders' meetings for its own (Kempen) funds and – at the request of clients – for (discretionary) mandates. The proxy voting policy describes how it fulfils this responsibility. kempen.nl/proxyvoting

Qualifying capital
The sum of total Tier I and total Tier II capital.

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.

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.

Sociaal-Economische Raad (SER)
The SER advises the Dutch government and parliament on the main outlines of socio-economic policy.

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.

Sustainable Development Goals initiative (SGDi)
This agenda for SDG investment, signed by a group of 18 Dutch banks, insurance firms and national pension funds, invites the Dutch government and central bank to make a concerted effort with them in support of the SDGs.

Sustainable Development Investments (SDI)
A statement signed by several institutional investors, including APG, PGGM and Kempen & Co, to encourage the investment of institutional assets in ways that contribute to the SDGs.

Sustainalytics
A Dutch research agency that rates the sustainability of companies worldwide. Sustainalytics reports are widely commissioned by institutional investors, banks and asset managers. sustainalytics.com

The Next Generation
Van Lanschot's community programme aimed at stimulating entrepreneurship and talent development in the Netherlands.

Tier I ratio
The ratio between total Tier I 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 Tier I capital
Total Tier I capital of the bank includes share capital, share premium, other reserves and non-controlling interests in perpetual capital securities, adjusted for certain deductions set by the regulator, such as goodwill and shortfall.

Total Tier II capital
Capital instruments and subordinated loans may be designated Tier II capital under certain conditions.

Transparency benchmark
A benchmark constructed by the Dutch Ministry of Economic Affairs to provide an insight into how Dutch businesses report their activities in relation to corporate social responsibility. transparantiebenchmark.nl

United Nations Global Compact (UN GC)
An initiative of the United Nations to encourage corporate social responsibility. It comprises ten sustainability principles to which businesses can sign up. unglobalcompact.org

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
F. van Lanschot Bankiers NV

Van Lanschot Kempen
Van Lanschot NV and all legal entities forming part of its group.

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.

Text and editing
Van Lanschot NV
Citigate First Financial

Design
Capital Advertising

Dtp
JARGO design

Photography
Cover: Jan Willem Scholten

English translation and editing
Ted Alkins, Anita Graafland, Julian Ross, Tom Scott

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We welcome your views and opinions – please see our contact details above.

This annual report was published on 31 March 2017.