Van Lanschot Kempen Wealth Management NV Performance report

2020 HALF-YEAR RESULTS

1737

VAN LANSCHOT KEMPEN

VAN LANSCHOT KEMPEN

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NOTES TO THE READER

Deviating from their recognition in our (IFRS) financial statements, non-strategic investments, costs related to our strategic investment programme, amortisation of intangible assets arising from acquisitions, and restructuring charges are shown separately in our managerial reporting. Van Lanschot Kempen Wealth Management is hereafter called Van Lanschot Kempen.

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

Some amounts in this document differ from previously published reports, reflecting changes that result from the accounting changes related to provisions for pensions as from 31/12/2019.

FINANCIAL AND NON-FINANCIAL KPIs

In order to monitor Van Lanschot Kempen's progress in delivering on its ambitions and creating long-term value, financial and non-financial key performance indicators (KPIs) and targets have been defined. Our KPIs and targets are based on industry trends and developments, stakeholder expectations, client needs and strategic relevance. Our KPIs can be grouped into five themes that all contribute to our purpose: the preservation and creation of wealth, in a sustainable way, for our clients and the society we serve.

An overview of our performance on the KPIs that we report externally is shown in the table below. The following pages give more information about our performance on these KPIs.

Themes and mission	KPI	Target		Score H1 2020	Score 2019
Financial and risk management	1. CET 1 ratio	15-17%		24.0%	23.8%
	2. Return on equity (CET 1)	10-12%		1.2%	10.5%
	3. Efficiency ratio	70-72%		93.2%	75.5%
Client-centricity	4. Net Promoter Score (NPS):				
	a. Private Banking	10		22	23
	b. Evi	10		6	10
	c. Asset Management	20		n/a[1]	31
	5. Merchant Banking: number of successful transactions with repeat Corporate Finance clients (five-year period)	60-70%		59%	n/a
	6. Merchant Banking: bundled commission paid by repeat Securities clients	> 80%		94%	n/a
	7. Asset Management: average Morningstar rating of investment strategies (institutional share class)	≥ 3.5		3.5	3.9
	8. Three-year relative performance of discretionary management mandates				
	a. Private Banking	> benchmark		-1.6%	-0.4%
	b. Evi	> benchmark		-2.1%	-0.9%
Ethics and integrity	9. Percentage of employees who positively evaluate our culture regarding ethical behaviour and integrity	> industry average (84%)		88%	77%
Sustainability	10. Private Banking sustainability ambition: AuM invested in sustainable (S) and/or impact investment (I) wealth management solutions	last year + 10%		(S) €2,265m (I): €23.6m +€243m	(S): €2,026m (I): €20m +€728m
	11. Asset Management sustainability ambition				
	a. Percentage of internal and external fund managers on the approved list that meet the sustainability criteria	> last year	n/a	65%	n/a
	b. Engagement cases with companies that our funds invest in per year	80-100 cases		68 cases	84 cases
	c. Engagement for change trajectories for which at least one milestone has been reached in the past year	10-15 trajectories	n/a	n/a[2]	n/a

[1] Measured once every two years, score for 2019.
[2] Only measured at year-end.

Themes and mission	KPI	Target		Score H1 2020	Score 2019
Sustainability	12. Decrease in carbon emissions:				
	a. Direct emissions of our own organisation	-2.5%/FTE per year	🟢	n/a[2]	-5.6%
	b. Indirect emissions via our balance sheet (mortgage portfolio)	CO_2/EUR < last year	🟢	n/a[2]	-2.0%
Employees	13. Employee engagement score	> 80%	🟢	n/a[3]	82%
	14. Employer Net Promoter Score (eNPS)	> 10	🟡	4	n/a
	15. Gender balance in management positions	> 30% female and > 30% male	🟠	20% female 80% male	21% female 79% male
	16. Percentage of total number of training courses followed to develop new skills in order to adapt the workforce (e.g. technical, digital, adaptability)	> 25%	🔴	6%	n/a

🟢 KPI more than achieved 🟢 KPI achieved 🟡 KPI almost achieved 🟠 KPI not achieved 🔴 KPI far from achieved

Financial and Risk Management

Financial performance and risk management are key to our organisation, as all direct stakeholders benefit from a solid capital position and sustainable performance. In H1 2020, our CET 1 ratio increased to 24.0%, reconfirming our consistent, stable capital position and well above our target. However, the financial market circumstances in H1 2020 have led to a significantly lower result, reflected in a fall in our return on CET 1 to 1.2% and an increase in our efficiency ratio to 93.2%. More information on these ratios is given on pages 13 and 21 of this report.

Client Centricity

The relationship with our clients is one of our most important assets. Client satisfaction is amongst others measured via the Net Promoter Score (NPS), specifically via the relationship NPS[4] that indicates the percentage of promoters of the organisation less the percentage of detractors. In H1 2020, Private Banking's NPS decreased slightly to 22, which is still well above our target of 10. Evi's NPS decreased to 6, which is slightly below our target. Proactive client communications around Covid-19 were positively evaluated, as was Evi's website. Volatile market performance during the first half of the year is likely to have caused the lower scores than in 2019. The NPS for Asset Management is only measured once every two years.

In addition to NPS, two new KPIs have been added to this theme to measure our progress in building long-term client relationships with our Merchant Banking clients. Among our Corporate Finance clients, this is measured via the percentage of successful transactions with repeat Corporate Finance clients during a year. A client is a repeat Corporate Finance client if it has made a successful transaction with us in the past five years. The result on this KPI indicates whether existing clients are doing business with us again and our ability to acquire new clients. In H1 2020, 59% of transactions were with repeat clients, slightly below our target range of 60-70%.

Client satisfaction among our Securities clients is measured in a similar way: the percentage of repeat Securities clients paying bundled commission for our research in the past 12 months, compared with the previous 12-month period. Given the importance of building long-term client relationships, the target has been set at 80%. At 94.4%, the H1 2020 result is significantly above our target.

[2] Only measured at year-end.
[3] An employee engagement survey is conducted once every two years.
[4] Relationship NPS differs from Transactional NPS, which is also commonly used. Transactional NPS measures client satisfaction after a single transaction and typically leads to a higher score than Relationship NPS.

A crucial element in our relationship with clients is the extent in which client expectations are met by the quality and effectiveness of our solutions, and whether they meet client expectations. The quality of our investment strategies is measured via the average Morningstar rating of these strategies in the institutional share class. In H1 2020, the average rating was 3.5, meeting our target. The effectiveness of our Private Banking and Evi discretionary mandates is measured by comparing the performance of those mandates with their respective benchmarks. The target is to outperform the benchmark, and this has not been met by either mandate. This is largely a consequence of our more prudent stance during the market recovery in the second quarter of 2020, i.e. our underweight in equities, and having a larger exposure to small-cap and value factors throughout the first half of the year.

Ethics and integrity

We strive to operate in an ethical manner and we encourage our employees to behave ethically and with integrity. We monitor whether our employees positively evaluate our culture regarding ethical behaviour and integrity via quarterly employee surveys. Employees are asked to evaluate whether we operate with integrity in both our internal and external dealings, and if they feel they could report dishonest or unethical practices without fear of reprisal. The outcome is benchmarked against other financial services firms (by an external organisation) and was above the industry average at the end of H1 2020.

Sustainability

We can achieve the most significant economic, environmental and social impact by investing the wealth of our clients in a sustainable manner. Private Banking assets under management (AuM) invested in sustainable and impact investment rose to €2.3 billion in H1 2020, from €2.0 billion in 2019, in line with our target to grow this figure by 10% compared with last year. In H1 2020, we undertook 68 engagements for change and awareness with our investees, which means we are on track to reach our annual target of 80–100 engagements. In 2020, we have started to map fund managers to ESG flavours, whereby fund managers that meet our criteria score flavour 3 or higher. In terms of rating external fund managers, the percentage of fund managers that meet our ESG criteria is 65%.

Employees

As a wealth manager, Van Lanschot Kempen depends on hiring and retaining knowledgeable, experienced and professional staff, i.e. our human capital. We are therefore highly motivated to create an attractive work environment for our workforce and to invest in our people.

We strongly believe in a diversified workforce, including gender diversity. Currently, only 20% of our management positions are occupied by women. We remain committed to meeting the objective of at least 30% and have therefor taken serious steps to increase the number of women in management positions (e.g. through recruitment and by introducing new, modern employment conditions). We do realise that this will take some time, but it is promising to see a growing number of women in the next tier of management (EB-3). Our career development programmes will focus on this group, but we also need to provide them with the right environment to become our next-generation leaders.

Given the growing importance of skills relating to digitalisation and advanced analytics, our ambition is for at least 25% of all training courses followed by staff to be aimed at developing new skills. However, the impact of Covid-19 on our organisation meant that the focus during H1 2020 was on compulsory courses and less on the development of new skills.

We measure our employee satisfaction via a periodic pulse survey, which includes a question similar to the methodology of the NPS. The score of 4 represents the percentage of employees who would recommend Van Lanschot Kempen as a good place to work less the percentage of employees that would not.

VAN LANSCHOT KEMPEN

DIVERSITY AND INCLUSION

Globally, diversity and inclusion have become an increasingly critical element in delivering business value on a sustainable basis. A highly inclusive and diverse workforce is more agile and resilient and helps us to drive business performance and innovation, as well as positive social and environmental impact. Diversity for us is not just about matching quotas: our ambition and policy are for the inflow of people into each department to be more diverse than the outflow. For example, if an employee leaves or more headcount becomes available, we aim to increase diversity by hiring someone who brings something new to the team. We want to recruit people from all talent pools to create a more diverse company in the longer term, in terms of gender, age, nationality, background and other characteristics. We monitor the progress on this internally. Without inclusion, however, diversity will not lead to the desired effects. This is why we also aim to increase diversity with every promotion within our organisation. In that way we achieve a work environment in which all individuals are treated fairly and respectfully, have equal access to opportunities and resources, and can contribute fully to the organisation's success. Promotions are monitored by the internal KPI that indicates whether the diversity of people promoted is equal to or greater than the diversity of the workforce as a whole.

VAN LANSCHOT KEMPEN

KEY FINANCIAL DATA

€ million	H1 2020	H2 2019		H1 2019	
Statement of income					
Net result	9.5	14.8	-36%	83.6	-89%
Efficiency ratio (%)	93.2	75.5	-	75.5	-

€ billion	30/06/2020	31/12/2019		30/06/2019	
Client assets	103.4	102.0	1%	97.3	6%
- Assets under management	89.2	87.7	2%	82.6	8%
- Assets under monitoring & guidance	3.2	3.1	2%	3.3	-4%
- Assets under administration	1.2	1.6	-23%	1.8	-32%
- Savings and deposits	9.8	9.5	3%	9.6	3%

€ million	30/06/2020	31/12/2019		30/06/2019	
Statement of financial position and capital management					
Equity attributable to shareholder	1,225	1,211	1%	1,263	-3%
Equity attributable to AT1 capital securities	102	102	0%	102	0%
Equity attributable to non-controlling interests	0	4		4	
Savings and deposits	9,826	9,545	3%	9,582	3%
Loans and advances to clients	8,477	8,598	-1%	8,783	-3%
Total assets	14,901	14,319	4%	14,540	2%
Funding ratio (%)	115.9	111.0	-	109.1	-
Risk-weighted assets	4,195	4,205	0%	4,462	-6%
Common Equity Tier 1 ratio (%)[5]	24.0	23.8	-	22.4	-
Tier 1 ratio (%)[5]	26.4	26.2	-	24.6	-
Total capital ratio (%)[5]	30.0	29.9	-	28.0	-

	H1 2020	H2 2019		H1 2019	
Key figures					
Weighted average of outstanding shares (x 1,000)	400	400	-	400	-
Underlying earnings per share (€)	15.16	31.84	-52%	226.40	-93%
Return on average Common Equity Tier 1 capital (%)	1.2	2.4	-	13.1	-
Number of staff (FTEs at period end)	1,519	1,560	-3%	1,594	-5%

MARKET DEVELOPMENTS

The Covid-19 pandemic and resulting lockdowns are having a major impact on the economy and on the financial sector. The pandemic sparked a chain of events in the markets that led to increased volatility and illiquidity. The deteriorating economic outlook has triggered an unprecedented monetary policy response from central banks and governments around the world. After the first signs of Covid-19 in the first quarter, we implemented measures to keep up our results. Unfortunately, we had to report a loss in the first quarter, mainly due to a number of incidental items related to the highly volatile market. In the second quarter, markets recovered somewhat, translating into a net result of €9.5 million for H1 2020. Our capital ratio continued to be strong during the first half year. The long-term impact of the coronavirus crisis on the economy is still uncertain.

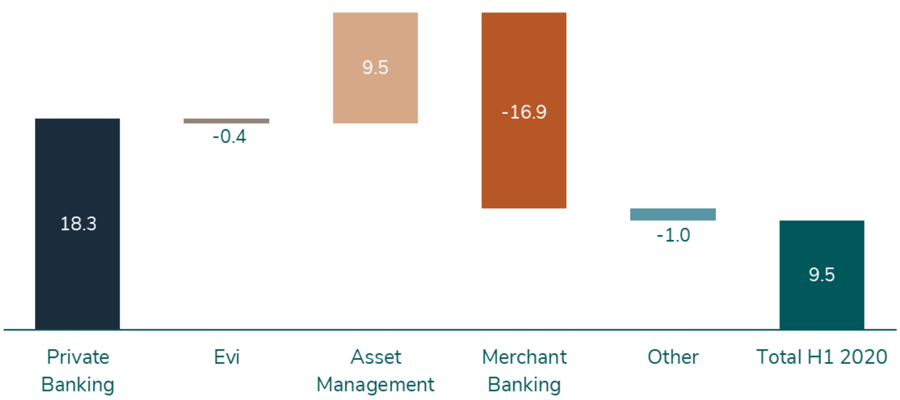
[5] Full-year 2019 including retained earnings; half-year 2019 and half-year 2020 excluding retained earnings.

FINANCIAL RESULTS

€ million	H1 2020	H2 2019		H1 2019	
Commission	148.9	148.2	0%	142.2	5%
- Of which securities commissions	*123.1*	*125.3*	*-2%*	*116.5*	*6%*
- Of which other commissions	*25.8*	*22.9*	*13%*	*25.7*	*0%*
Interest	77.0	90.6	-15%	84.7	-9%
Income from securities and associates	0.6	17.1	-96%	33.4	-98%
Result on financial transactions	-25.3	0.7		-8.1	
Income from operating activities	**201.3**	**256.6**	**-22%**	**252.1**	**-20%**
Staff costs	117.6	120.1	-2%	118.4	-1%
Other administrative expenses	62.8	64.8	-3%	63.0	0%
- Of which regulatory levies and charges	*7.9*	*2.8*		*8.8*	*-10%*
Depreciation and amortisation	7.1	8.7	-19%	9.0	-21%
Operating expenses	**187.5**	**193.7**	**-3%**	**190.4**	**-2%**
Gross result	**13.7**	**62.9**	**-78%**	**61.7**	**-78%**
Addition to loan loss provision	1.3	-4.5		-7.5	
Other impairments	0.2	34.9	-99%	0.1	
Impairments	**1.5**	**30.3**	**-95%**	**-7.5**	
Operating profit before tax of non-strategic investments	0.7	0.8	-1%	37.0	-98%
Operating profit before special items and tax	**13.0**	**33.4**	**-61%**	**106.2**	**-88%**
Strategic investment programme	-	1.7	-100%	9.4	-100%
Amortisation of intangible assets arising from acquisitions	3.1	3.1	0%	3.1	0%
Restructuring charges	-	0.3	-100%	2.5	-100%
Operating profit before tax	**9.9**	**28.3**	**-65%**	**91.2**	**-89%**
Income tax	0.4	13.5	-97%	7.7	-95%
Net result	**9.5**	**14.8**	**-36%**	**83.6**	**-89%**

Private Banking and Asset Management had a positive impact on our net result. The negative result at Merchant Banking was mainly driven by incidental losses on our structured product activities (€27.3 million before tax) due to exceptional volatility and illiquidity in certain segments of the financial markets. The net result of the Other segment includes the loss on our own investments (€6.5 million before tax).

Net result by segment
€ million



H1 2020 *€ million*	Private Banking	Evi	Asset Management	Merchant Banking	Other	Total
Commission	66.4	2.4	52.1	27.0	1.0	148.9
Interest	69.5	1.5	0.1	-0.0	6.1	77.0
Other income	0.6	-	-0.3	-27.2	2.2	-24.7
Income from operating activities	**136.4**	**3.9**	**51.9**	**-0.3**	**9.3**	**201.3**
Staff costs	43.2	1.1	24.2	12.1	37.0	117.6
Other administrative expenses	31.3	2.4	7.6	4.5	17.1	62.8
Indirect costs	33.0	0.8	6.9	5.6	-46.4	-
Depreciation and amortisation	0.7	-	0.1	0.2	6.2	7.1
Operating expenses	**108.2**	**4.3**	**38.8**	**22.3**	**13.9**	**187.5**
Gross result	**28.2**	**-0.5**	**13.1**	**-22.6**	**-4.5**	**13.7**
Impairments	1.2	-	-	-	0.3	1.5
Operating profit before tax of NSIs	-	-	-	-	0.7	0.7
Operating profit before one-off charges and tax	**27.0**	**-0.5**	**13.1**	**-22.6**	**-4.1**	**13.0**
Amortisation of intangible assets arising from acquisitions	2.3	-	0.4	-	0.4	3.1
Operating profit before tax	**24.6**	**-0.5**	**12.7**	**-22.6**	**-4.4**	**9.9**
Income tax	6.4	-0.1	3.2	-5.6	-3.4	0.4
Net result	**18.3**	**-0.4**	**9.5**	**-16.9**	**-1.0**	**9.5**

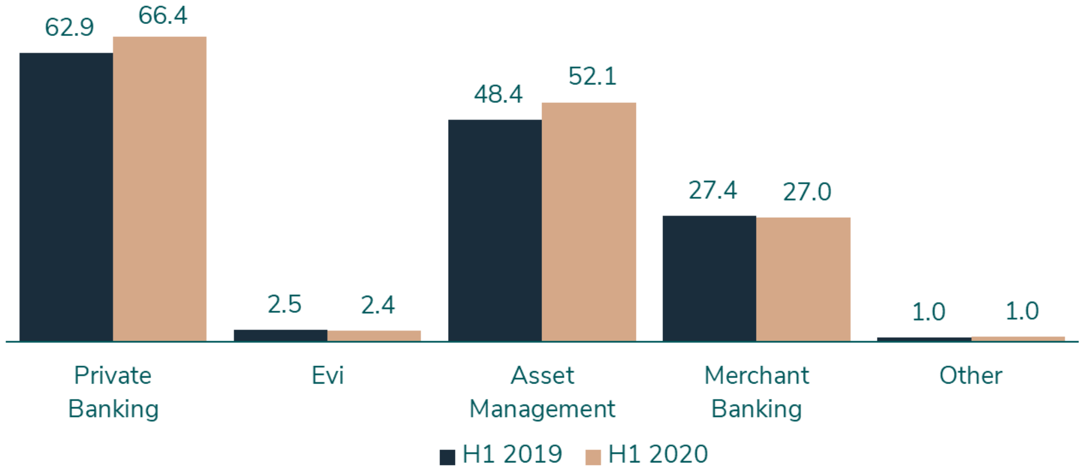
H1 2019 *€ million*	Private Banking	Evi	Asset Management	Merchant Banking	Other	Total
Commission	62.9	2.5	48.4	27.4	1.0	142.2
Interest	77.0	1.4	0.0	-0.1	6.3	84.7
Other income	0.6	-	0.1	-1.3	25.9	25.2
Income from operating activities	**140.5**	**3.9**	**48.5**	**26.0**	**33.2**	**252.1**
Staff costs	46.2	1.9	24.0	12.7	33.6	118.4
Other administrative expenses	25.6	3.1	7.6	3.4	23.2	63.0
Indirect costs	34.9	1.1	6.6	5.1	-47.7	0.0
Depreciation and amortisation	0.4	0.0	0.1	0.0	8.5	9.0
Operating expenses	**107.2**	**6.1**	**38.3**	**21.3**	**17.6**	**190.4**
Gross result	**33.3**	**-2.2**	**10.2**	**4.8**	**15.6**	**61.7**
Impairments	-7.4	-	-	-	-0.1	-7.5
Operating profit before tax of NSIs	-	-	-	-	37.0	37.0
Operating profit before one-off charges and tax	**40.7**	**-2.2**	**10.2**	**4.8**	**52.7**	**106.2**
Strategic investment programme	9.4	-	-	-	-	9.4
Amortisation of intangible assets arising from acquisitions	2.3	-	0.4	-	0.4	3.1
Restructuring charges	2.4	-	-	-	0.0	2.5
Operating profit before tax	**26.6**	**-2.2**	**9.8**	**4.8**	**52.3**	**91.2**
Income tax	6.8	-0.6	2.5	1.3	-2.3	7.7
Net result	**19.8**	**-1.6**	**7.3**	**3.5**	**54.6**	**83.6**

Commission

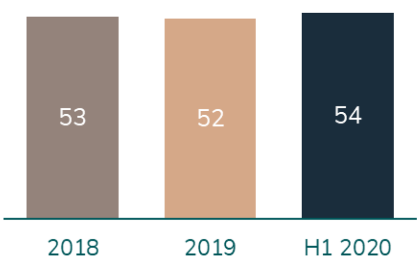
€ million	H1 2020	H2 2019		H1 2019	
Securities commissions	123.1	125.3	-2%	116.5	6%
- Management fees	*110.3*	*114.6*	*-4%*	*105.2*	*5%*
- Transaction fees	*12.7*	*10.8*	*18%*	*11.3*	*13%*
Other commissions	25.8	22.9	13%	25.7	0%
Commission	**148.9**	**148.2**	**0%**	**142.2**	**5%**

Securities commissions grew by 6% compared with H1 2019. Management fees rose 5% compared with H1 2019, driven by higher average AuM volumes on the back of positive market developments in H2 2019 and net inflows across all segments. Transaction fees grew by 13%, driven by a high number of trades due to market volatility. Other commissions remained stable, thanks to 16 successful transactions (M&A, capital market transactions). The Corporate Finance and Equity Capital Markets team was mainly active in capital market transactions in life sciences.

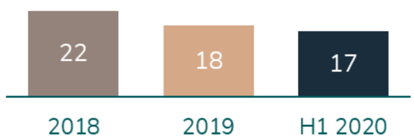
Commission income by segment
€ million



AuM margin – Private Banking
bps



AuM margin – Asset Management
bps



Private Banking's total commission income rose by €3.4 million compared with H1 2019, thanks to growth in transaction fees, as market volatility led to a high number of trades. Private Banking's margins on AuM increased to 54 basis points in H1 2020.

Evi's commission income slipped back slightly, by €0.1 million to €2.4 million, mainly due to lower transaction fee as a result of the phase out of our advisory proposition.

Asset Management's H1 2020 commission income rose by €3.8 million compared with H1 2019. This growth was mainly driven by an increase in commissions, in line with higher average AuM. Average margins fell from 18 basis points in 2019 to 17 basis points in H1 2020 as a result of a change in the composition of AuM, with inflow mainly achieved in fiduciary management: €3.1 billion out of total inflow of €3.8 billion.

Merchant Banking's commission income of €27.0 million was in line with H1 2019 (€27.4 million). This was mainly driven by a number of successful Corporate Finance and ECM transactions. Commission income was comparable to the level in H1 2019, which was also a reasonably good half year.

INTEREST

€ million	H1 2020	H2 2019		H1 2019	
Gross interest margin	85.8	95.4	-10%	91.5	-6%
Interest income and charges on hedge derivatives	-1.9	-1.2	61%	-0.9	
Interest equalisation	-9.4	-9.5	-1%	-7.4	26%
Clean interest margin	*74.6*	***84.7***	***-12%***	***83.2***	***-10%***
Miscellaneous interest income and charges	1.1	4.4	-75%	0.5	
Loan commission	1.3	1.4	-9%	1.0	29%
Interest	77.0	**90.6**	**-15%**	**84.7**	**-9%**

Our H1 2020 interest income of €77.0 million was 9% below the €84.7 million of H1 2019. The current interest rate climate continues to put pressure on our interest income, while the run-off of our corporate banking loan portfolio also had an impact. This wind-down is in line with our strategy and led to a decrease in this portfolio to €0.2 billion, which impacted our gross interest margin by a negative €2.3 million. The Private Banking loan portfolio remained stable at €7.8 billion.

The interest margin[6] fell by 5 basis points in comparison with H1 2019 to an average of 113 basis points (H1 2019: 119 basis points). The "clean interest margin" declined by 7 basis points compared with its level at the end of H1 2019, to 108 basis points.

The balance of interest income and charges on hedge derivatives deteriorated from a negative €0.9 million in H1 2019 to a negative €1.9 million in H1 2020.

Miscellaneous interest income and charges went up from €0.5 million to €1.1 million. This is the result of income from penalty interest driven by many early prepayments and is comprised of a mix of refinancing and redemptions, partly offset by a provision for the decision by Kifid (the Dutch financial services complaints tribunal). This decision led to an interest expense of €2.9 million in compensation for mortgage clients.

INCOME FROM SECURITIES AND ASSOCIATES

€ million	H1 2020	H2 2019		H1 2019	
Dividend	0.6	3.6	-83%	4.1	-85%
Capital gains	0.2	7.9	-97%	16.1	-99%
Valuation gains and losses	-0.2	5.6		13.2	
Income from securities and associates	0.6	**17.1**	**-96%**	**33.4**	**-98%**

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

[6] The interest and clean interest margin are calculated on the basis of a 12-month moving average.

Capital gains were down by €15.9 million to €0.2 million, reflecting the high level in H1 2019 as a result of the sale of our 49% stake in VLC & Partners.

Valuation gains and losses fell by €13.5 million to a negative €0.2 million in H1 2020. This reflects a mix of positive results on our participation portfolio, mainly due to a liquidity event in one of our portfolios, and the negative performance of our co-investments.

RESULT ON FINANCIAL TRANSACTIONS

€ million	H1 2020	H2 2019		H1 2019	
Result on securities trading	-0.5	1.9		1.7	
Result on currency trading	4.6	4.7	-1%	4.2	9%
Result on investment portfolio	-0.2	0.2		0.4	
Result on hedges	-25.9	-5.9		-7.3	
Other income	-3.3	-0.2		-7.1	54%
Result on financial transactions	**-25.3**	**0.7**		**-8.1**	

Result on financial transactions decreased by €17.1 million. The €0.5 million loss recorded on securities trading reflects a negative performance of the trading book.

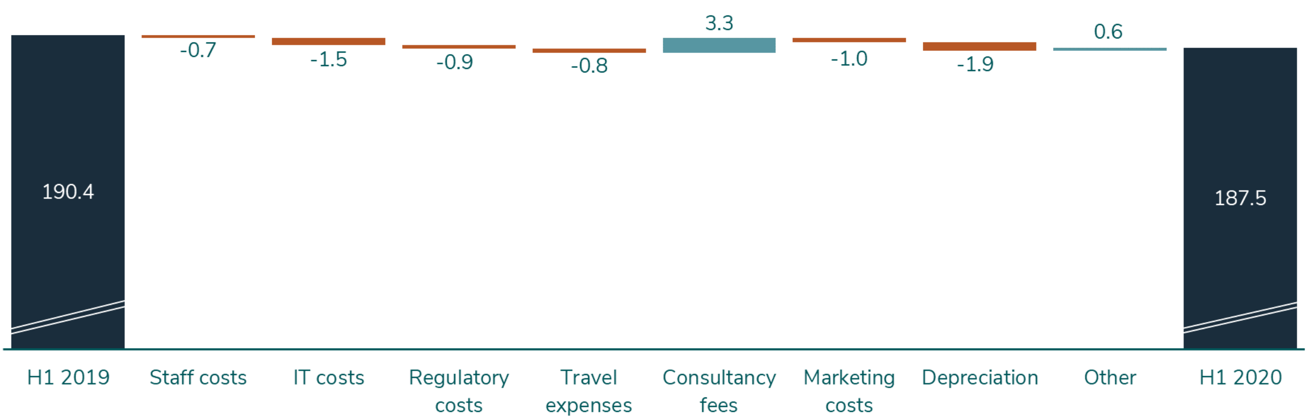
The result on currency trading was relatively stable compared with H1 2019. No bonds were sold from the Investment portfolio OCI. The loss of €0.2 million was fully realised on the mark to market portfolio.

Result on hedges fell in comparison with H1 2019, by €18.6 million, mainly due to the exceptional volatility and illiquidity of certain segments of the financial markets. Merchant Banking saw its structured products portfolio record losses of €21.9 million in the first quarter. The underlying risks of the structured products portfolio are being run on our books and we apply macro hedging with respect to these positions. Market dislocations in March 2020 resulted in a breach of the underlying correlations and caused ineffectiveness of the hedge which led to the loss. The second quarter saw these losses deepen to €27.3 million. This was mainly due to the further decline in dividend expectations in the market and the hedging of the existing portfolio. Under normal market conditions, this portfolio shows no major fluctuations.

OPERATING EXPENSES

As previously indicated, we expected operating expenses to rise slightly for 2020. However, thanks to a proactively implemented package of cost-saving measures, operating expenses were down 2% to €187.5 million (H1 2019: €190.4 million).

Operating expenses
€ million



VAN LANSCHOT KEMPEN

€ million	H1 2020	H2 2019		H1 2019	
Staff costs	117.6	120.1	-2%	118.4	-1%
Other administrative expenses	62.8	64.8	-3%	63.0	0%
- Of which regulatory levies and charges	*7.9*	*2.8*		*8.8*	*-10%*
Depreciation and amortisation	7.1	8.7	-19%	9.0	-21%
Operating expenses	**187.5**	**193.7**	**-3%**	**190.4**	**-2%**

Staff costs

At €117.6 million, staff costs were 1% down on H1 2019. We had expected staff costs to increase, as announced, due to a new pension agreement and harmonisation and modernisation of employment conditions. Thanks to cost-saving measures and management's reluctance to expand the number of full time equivalent staff (FTEs), the expected cost increase is being largely offset. Based on development of the result, variable remuneration is significantly lower than in H1 2019. At the end of H1 2020, we employed 1,519 FTEs – 40 FTEs fewer than at year-end 2019 (1,560). The fall in FTE numbers was mainly the result of the harmonisation: for all employees an FTE now equals 40 working hours instead of 36 hours for some employees, as previously.

Other administrative expenses

Other administrative expenses amounted to €62.8 million in H1 2020, nearly the same level as in H1 2019 (€63.0 million). Thanks not least to the cost-saving measures mentioned above, costs are now lower across the board, except for consultancy costs. The increase in consultancy costs was due to specific strategic and regulatory projects.

Depreciation and amortisation

Depreciation and amortisation fell by €1.9 million, mainly as a result of a book profit realised on the sales of one of our former office buildings (€2.3 million).

Efficiency ratio

The efficiency ratio, i.e. the ratio of operating expenses (excluding costs incurred for amortisation of intangible assets arising from acquisitions) to income from operating activities, deteriorated to 93.2% in H1 2020 from 75.5% in H1 2019. This was mainly due to a lower result on financial transactions in H1 2020.

Impairments

€ million	H1 2020	H2 2019		H1 2019
Private Banking	1.2	-3.8		-7.4
- Of which corporate banking loans	*0.9*	*-1.2*		*-3.1*
Other	0.0	-0.8		-0.1
Addition to loan loss provision	**1.3**	**-4.5**		**-7.5**
Impairment on goodwill and intangible assets	-	34.9		-
Impairment on investments and participating interests	0.2	-		0.1
Other impairments	**0.2**	**34.9**	**-99%**	**0.1**
Impairments	**1.5**	**30.3**	**-95%**	**-7.5**

Addition to loan loss provision

As part of our 2013 strategic reorientation, we have been able to substantially de-risk our balance sheet by winding down our corporate banking loan book. This has resulted in the amount of these loans falling from €4.0 billion (end of 2012) to €0.2 billion as at the end of June 2020. Of our current loan portfolio, 76% comprises Dutch residential mortgages with a relatively low risk profile. As a result, only €1.3 million was added to loan loss provisions in H1 2020, despite the current market circumstances, with corporate banking loans accounting for €0.9 million. In H1 2020, the annualised addition to loan loss provisions relative to average risk-weighted assets worked out at 6 basis points (H1 2019: -33 basis points).

Non-strategic investments

We currently have majority stakes in two non-strategic financial investments, Holonite (Holowell BV) and Allshare. Our aim is to divest our shareholdings in these non-strategic investments over time. The operating profit (before tax) from non-strategic investments amounted to €0.7 million in H1 2020, down from €37.0 million in H1 2019 (which had been exceptionally good because of the sale of AIO II). Excluding the sale, operating profit (before tax) from non-strategic investments in H1 2019 came in at €1.0 million.

Income tax

Income tax for H1 2020 amounted to €0.4 million (H1 2019: €7.7 million. This translates to an effective tax rate of 4.1%, compared with 8.4% in H1 2019.

Earnings per share

€ million	H1 2020	H2 2019		H1 2019	
Net result	9.5	**14.8**	**-36%**	**83.6**	**-89%**
Share of non-controlling interests	0.0	-0.2	-84%	-0.2	-88%
Share of holders AT1 capital securities	-3.4	-3.4	0%	-1.7	100%
Net result for calculation of earnings per share	6.1	**11.3**	**-46%**	**81.7**	**-93%**
Earnings per share (€)	15.16	**28.17**	**-46%**	**204.15**	**-93%**
Weighted number of outstanding shares (x 1,000)	400	400	-	400	-

Share of holders AT1 capital securities relates to the Additional Tier 1 bond we issued in 2019. These securities count as Tier 1 qualifying capital when determining capital adequacy.

VAN LANSCHOT KEMPEN

CLIENT ASSETS

Total client assets have risen by 1% to €103.4 billion compared with year-end 2019, driven by growth in AuM of €1.4 billion.

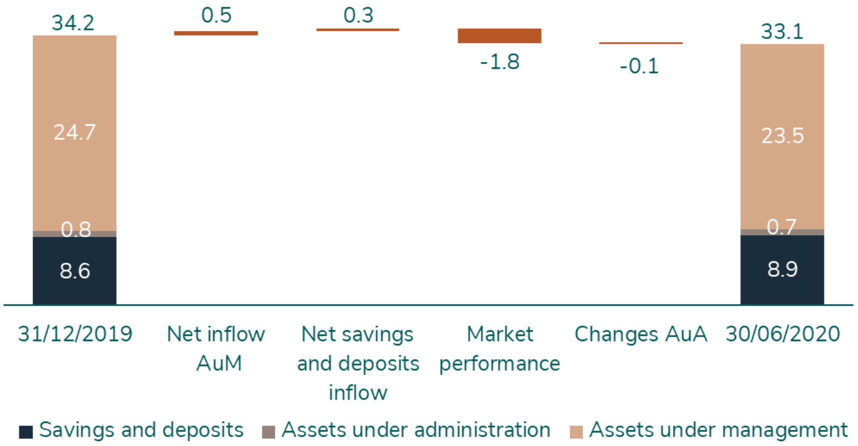
€ billion	30/06/2020	31/12/2019		30/06/2019	
Client assets	**103.4**	**102.0**	**1%**	**97.3**	**6%**
Assets under management	89.2	87.7	2%	82.6	8%
Savings and deposits	9.8	9.5	3%	9.6	3%
Assets under monitoring and guidance	3.2	3.1	2%	3.3	-4%
Assets under administration	1.2	1.6	-23%	1.8	-32%
Client assets	**103.4**	**102.0**	**1%**	**97.3**	**6%**
Private Banking	33.1	34.2	-3%	33.1	0%
Evi	1.6	1.5	5%	1.5	5%
Asset Management	67.8	65.1	4%	61.8	10%
Other	0.9	1.2[7]	-23%	0.9	4%

€ billion	Private Banking	Evi	Asset Management	Other	Total
Client assets at 31/12/2019	**34.2**	**1.5**	**65.1**	**1.2**	102.0
Assets under management in/outflow	0.5	0.1	3.8	-	4.4
Savings and deposits in/outflow	0.3	0.0	-	0.0	0.3
Market performance of assets under management	- 1.8	- 0.1	-1.1	-	-2.9
Change in assets under monitoring and guidance	-	-	0.1	-	0.1
Change in assets under administration	- 0.1	-	-	-0.2	-0.4
Client assets at 30/06/2020	**33.1**	**1.6**	**67.8**	**0.9**	103.4

VAN LANSCHOT PRIVATE BANKING

Client assets at Private Banking declined by 3% in H1 2020 to €33.1 billion, despite a net inflow in AuM and savings of €0.8 billion. Total AuM volume declined to €23.5 billion at the end of June 2020. The net inflow of €0.5 billion (almost entirely non-discretionary) was offset by a negative market performance of €1.8 billion.

Client assets at Private Banking
€ billion

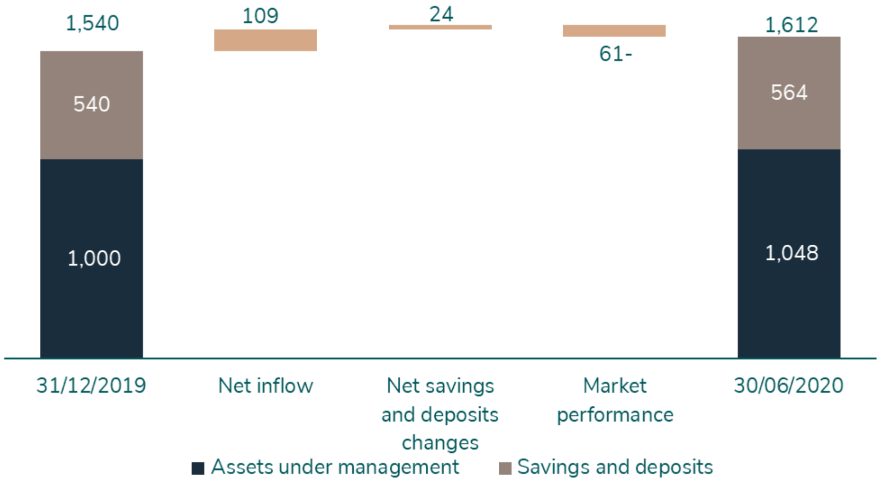


[7] Reclassification of €0.3 billion of savings from Private Banking to Other as at 1/1/2020. Comparative figures for 31/12/2019 have been adjusted accordingly.

EVI VAN LANSCHOT

AuM grew to €1.0 billion in H1 2020 on the back of net inflow, partly offset by a negative market performance. Net inflow was mainly driven by former a.s.r. clients as a result of the partnership between Evi and a.s.r. This has led to inflow of €157 million in AuM, €51 million in savings and approximately 7,000 new customers. We are currently working on several initiatives to support the next phase of growth for Evi. Our focus is on mass-affluent clients and we are leveraging our experience at Private Banking to further strengthen the proposition and enhance efficiency.

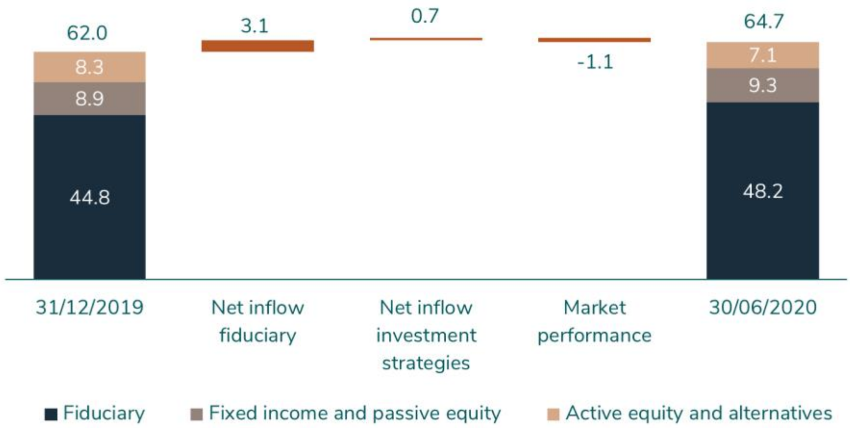
Client assets at Evi
€ million



KEMPEN ASSET MANAGEMENT

AuM at Asset Management rose to €64.7 billion, with a negative market performance of €1.1 billion. Fiduciary mandates showed a strong inflow, thanks to several large new mandates. We also saw an inflow of €0.7 billion from investment strategies. Total client assets at Asset Management stood at €67.8 billion at the end of June 2020 (2019: €65.1 billion).

AuM Asset Management[8]
€ billion



In addition to third-party funds, Asset Management also manages our Private Banking discretionary management mandates and Evi Beleggen products, with total AuM of €11.3 billion at the end of H1 2020 (2019: €11.1 billion). This amount is not included in Asset Management's total AuM of €64.7 billion.

[8] Reclassification of €0.4bn of AuM from Fiduciary to Active equity and alternatives as at 1/1/2020. The comparative figures have been adjusted accordingly.

VAN LANSCHOT KEMPEN

STATEMENT OF FINANCIAL POSITION

€ million	30/06/2020	31/12/2019		30/06/2019	
Statement of financial position and capital management					
Equity attributable to shareholder	1,225	1,211	1%	1,263	-3%
Equity attributable to AT1 capital securities	102	102	0%	102	0%
Equity attributable to other non-controlling interests	0	4		4	
Savings and deposits	9,826	9,545	3%	9,582	3%
Loans and advances to clients	8,477	8,598	-1%	8,783	-3%
Total assets	14,901	14,319	4%	14,540	2%
Funding ratio (%)	115.9	111.0		109.1	

LOAN PORTFOLIO

€ million	30/06/2020	31/12/2019		30/06/2019	
Mortgages	5,992	5,885	2%	5,916	1%
Other loans	1,785	1,906	-6%	1,992	-10%
Private Banking loans	**7,777**	**7,791**	**0%**	**7,908**	**-2%**
Corporate banking loans	246	318	-23%	399	-38%
Mortgages distributed by third parties	520	553	-6%	578	-10%
Total	**8,543**	**8,662**	**-1%**	**8,885**	**-4%**
Impairments	-66	-64	3%	-101	-35%
Total	**8,477**	**8,598**	**-1%**	**8,783**	**-3%**

Our loan portfolio decreased slightly to €8.5 billion from €8.6 billion at the end of 2019.

VAN LANSCHOT PRIVATE BANKING LOANS

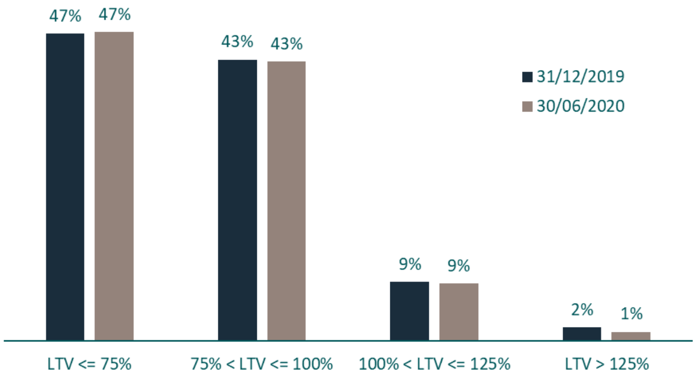
The Private Banking loan portfolio breaks down into Dutch residential mortgages and other loans. Private Banking mortgages increased to €6.0 billion (2019: €5.9 million), thanks to the growth in demand from target group clients, and now make up 70% of our loan portfolio.

The weighted average loan-to-value (LTV) ratio (based on foreclosure value) declined slightly to 75% (year-end 2019: 76%) and 90% of these loans have an LTV of less than 100%.

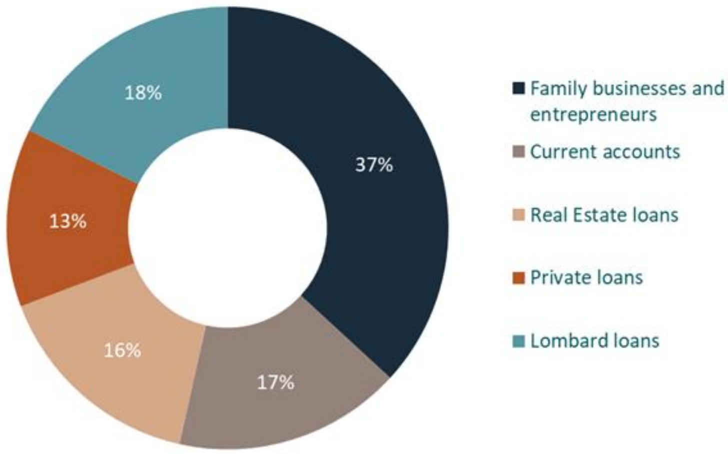
Other Private Banking loans comprise loans to high net-worth individuals as well as business loans that fit into the Private Banking relationship model. We also provide loans to our healthcare clients and to business professionals and executives. These other loans decreased to €1.8 billion (year-end 2019: €1.9 billion), driven by lower volumes of Lombard loans and current accounts (in particular one large client).

In the light of the Covid-19 pandemic we decided to grant moratoria and corona-specific loans to clients. Only a limited number of clients decided to make use of these, with €18.2 million of new corona-related exposures being granted to 132 clients. The majority of these loans and moratoria were granted as new current account loans, some as short-term loans or by raising existing limits.

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



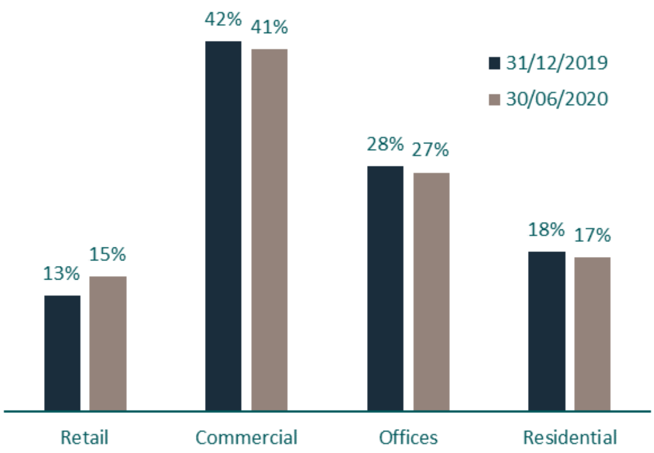
Private Banking loans: other loans
% type of loan



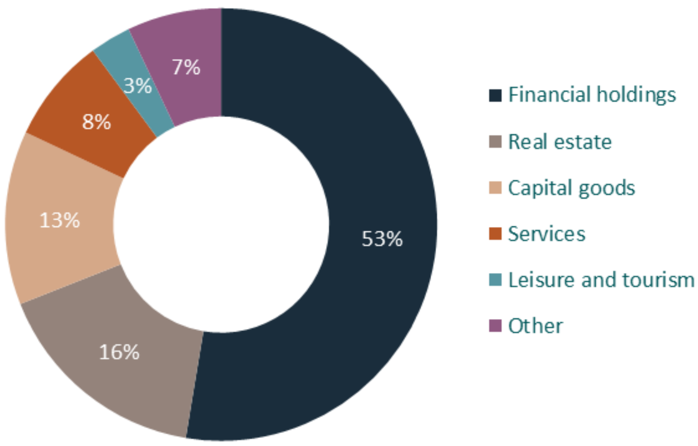
VAN LANSCHOT CORPORATE BANKING LOANS

The run-off of corporate banking loans resulted in a decrease of €0.1 billion to €0.2 billion at the end of H1 2020 of which €0.1 billion real estate financing and €0.1 billion SME loans. Currently this portfolio accounts for 3% of our total loan portfolio.

Corporate banking loans: real estate financing
% type of collateral



Corporate banking loans: SME loans
% type of counterparty



MORTGAGES DISTRIBUTED BY THIRD PARTIES

The portfolio of mortgages distributed by third parties consists of regular Dutch mortgages and is intended to supplement our investment portfolio and enable us to generate attractive returns on available liquidity. It accounts for 6% of our total loan portfolio, with a volume of €0.5 billion. The average outstanding amount per loan of this portfolio is less than €0.2 million.

PROVISIONS

We take provisions for the impaired loans in our loan book. Impaired loans totalled €187 million at the end of June 2020. The stage 3 provisions for these loans amounted to €54 million, working out at a coverage ratio of 29%.

The total impaired ratio improved from 2.7% to 2.2%, while the total coverage ratio rose from 23% to 29%.

The impaired ratio of other Private Banking loans rose from 3.8% to 4.0% as a result of a lower total amount of these loans.

The impaired ratio for corporate banking loans decreased to 25.4% (year-end 2019: 31.6%), while the coverage ratio rose to 22% (year-end 2019: 13%) thanks to the repayment of almost €40 million of impaired loans. These loans were in default but had no provision, because of strong asset coverage; the impairments were due to breaches of contract.

30/06/2020 *€ million*	Loan portfolio	Impaired loans	Provision	Impaired ratio	Coverage ratio
Mortgages	5,992	53	4	0.9%	8%
Other loans	1,785	71	36	4.0%	51%
Private Banking loans	**7,777**	**124**	**40**	**1.6%**	**33%**
Corporate Banking loans	246	63	14	25.4%	22%
Mortgages distributed by third parties	520	1	0	0.2%	1%
Total	**8,543**	**187**	**54**	**2.2%**	**29%**
Provision	-66				
Total	**8,477**		**54**		
ECL stage 1 and 2 (IFRS 9)			12		
Total ECL (IFRS 9)			**66**		

31/12/2019[9] *€ million*	Loan portfolio	Impaired loans	Provision	Impaired ratio	Coverage ratio
Mortgages	5,885	60	6	1.0%	10%
Other loans	1,906	73	36	3.8%	49%
Private Banking loans	**7,791**	**133**	**42**	**1.7%**	**31%**
Corporate Banking loans	318	101	13	31.6%	13%
Mortgages distributed by third parties	553	0	0	0.1%	2%
Total	**8,662**	**234**	**55**	**2.7%**	**23%**
Provision	-64				
Total	**8,598**		**55**		
ECL stage 1 and 2 (IFRS 9)			9		
Total ECL (IFRS 9)			**64**		

CAPITAL AND LIQUIDITY MANAGEMENT

Our Common Equity Tier 1 ratio (CET 1 ratio) recorded an increase to 24.0% from 23.8% at year-end 2019. The 2019 dividend proposal was adopted by the shareholders of Van Lanschot Kempen NV at the general meeting held in May 2020. Taking the advice of the ECB and supported by DNB, payment of the 2019 dividend has been postponed. The Statutory Board and the Supervisory Board are of the opinion that the 2019 dividend can be paid as soon as

[9] Some amounts in this table differ from previously published reports, reflecting a refinement of definitions

circumstances related to Covid-19 allow and so long as we remain in compliance with our stated capital ratio targets. Payment will not be earlier than January 2021.[10]

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

€ million	30/6/2020	31/12/2019		30/6/2019	
Risk-weighted assets	4,195	4,205	0%	4,462	-6%
Common Equity Tier 1 ratio (%)[11]	24.0	23.8		22.4	
Tier 1 ratio (%)[11]	26.4	26.2		24.6	
Total capital ratio (%)[11]	30.0	29.9		28.0	
Leverage ratio (%)[11]	7.1	7.3		7.4	

CAPITAL MANAGEMENT

In H1 2020, our CET 1 ratio improved to 24.0%. Available CET 1 capital increased by €7.8 million, mainly due to a lower shortfall[12] provision, as expected loss fell as a result of prepayments of loans with low provision levels.

Risk-weighted assets remained stable at €4.2 billion as at the end of June 2020; almost the entire change is explained by capital. Improvements in credit risk were partly offset by an increase in market risk, partly as a result of an increased position in the Bolster Investment Fund. Credit risk improvements mainly stemmed from ratings upgrades.

On 17 March 2020, De Nederlandsche Bank (DNB) announced that the introduction of a threshold for risk weightings of mortgage loans – previously scheduled for the autumn of 2020 – will be postponed, for as long as it deems necessary. Consequently, Van Lanschot Kempen will likewise postpone its c. 300 basis point reduction in the capital ratio that had been announced in response to the DNB-imposed measure.

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

€ 1,000	30/6/2020	31/12/2019	30/6/2019
Risk-weighted assets	4,195,217	4,204,916	4,462,166
Common Equity Tier 1	1,008,233	1,000,439	998,815
Required Common Equity Tier 1	409,296	500,385	535,460
Tier 1	1,108,233	1,100,439	1,098,815
Required Tier 1	510,768	563,459	602,392
Total capital	1,258,233	1,256,425	1,248,815
Required total capital	646,063	647,557	691,636

[10] Dividend is already excluded from capital and capital ratios

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

[12] Shortfall is the difference between provisions and expected loss. If the expected loss exceeds provisions, the shortfall is deducted from regulatory capital.

SREP REQUIREMENT

This year's supervisory review evaluation process (SREP) has taken a different course due to the coronavirus crisis. In March 2020, DNB announced measures providing temporary capital relief to less significant institutions (LSIs), aimed at helping banks to continue to serve the economy.

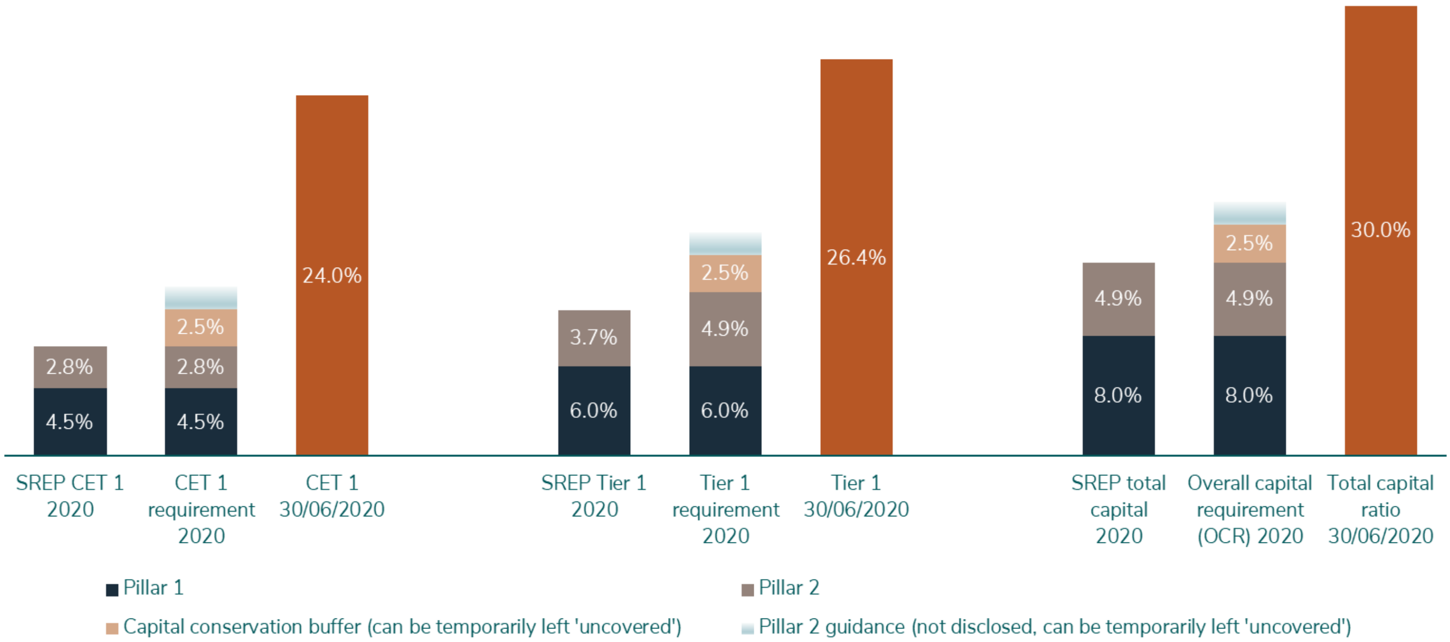
For us, the impact of these measures is twofold: firstly, Pillar 2 requirements (P2R) no longer have to be made up entirely of Common Equity Tier 1 (CET 1) capital. This change in capital composition under P2R was initially scheduled to come into effect in January 2021, in line with the revised approach under the Capital Requirements Directive (CRD V), but has been brought forward. Secondly, DNB is allowing banks to temporarily operate below the level of capital as defined by the Pillar 2 guidance (P2G) and the capital conservation buffer (CCB).

In June 2020, DNB informed us that the 2020 SREP decision concerns an "amendment" to the original 2019 SREP decision. Effectively, the 2019 total SREP capital ratio (TSCR) has been left unchanged at 12.9%, but due to the aforementioned relief on Pillar 2 capital composition, the share of CET 1 capital in our SREP capital requirement has declined.

Since Pillar 2 requirements can now be met partially by Additional Tier 1 (AT1) and Tier 2 capital, our prevailing SREP requirement comprises a CET 1 ratio of 7.3%, a Tier 1 ratio of 9.7% and a total capital ratio of 12.9%. Given that the supervisory permission to operate at a capital level that does not cover the capital conservation buffer (2.5% CET 1), and that Pillar 2 guidance (not disclosed) is only temporary, we are maintaining these elements as part of our minimum capital requirements.

With a CET 1 ratio of 24.0% and a total capital ratio of 30.0% as at the end of June, we comfortably meet all capital requirements.

SREP requirement for 2020

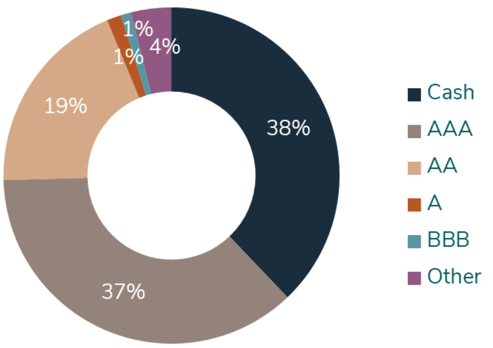


INVESTMENT PORTFOLIO AND CASH

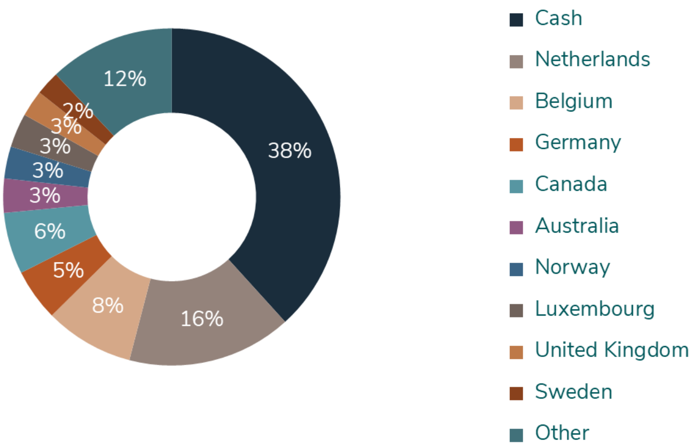
The total investment portfolio and cash[13] amounted to €5.1 billion at the end of H1 2020 (year-end 2019: €4.4 billion). This increase can mainly be explained by our participation in the TLTRO III programme. Cash held with central banks stood at €1.9 billion. Financial assets at fair value through other comprehensive income remained stable at €2.4 billion.

The investment portfolio is primarily held for asset and liability management purposes, and mainly comprises low-risk and highly liquid instruments.

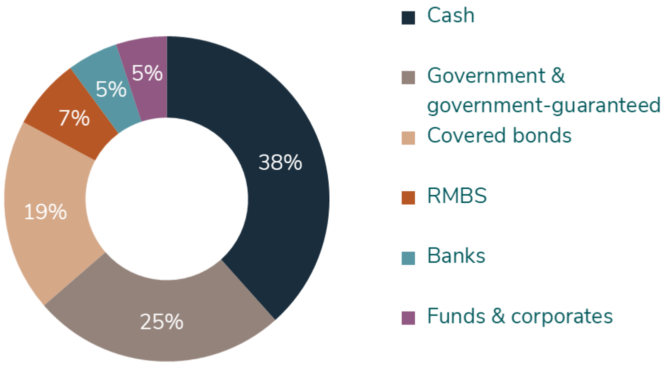
Investment portfolio and cash by rating at 30/06/2020
100% = €5.1 billion



Investment portfolio and cash by country at 30/06/2020
100% = €5.1 billion



Investment portfolio and cash by counterparty at 30/06/2020
100% = €5.1 billion

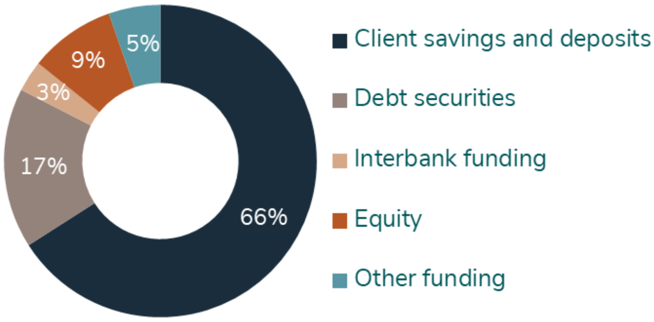


[13] Investment portfolio and cash comprises the balance of financial assets at fair value through other comprehensive income, other financial assets at amortised cost, financial assets designated at fair value through profit or loss, cash withdrawable on demand from central banks, and highly liquid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

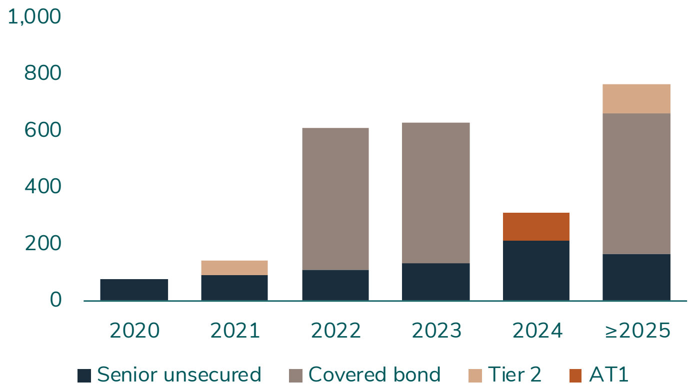
FUNDING

We aim to retain access to both retail and wholesale markets through diversified funding in terms of type and maturity. At the end of H1 2020, our funding ratio had increased by 4.9 percentage points to 115.9% (year-end 2019: 111.0%). In 2020 we participated in one of the tenders of the TLTRO III programme for an amount of €400 million, as a precautionary measure against potential future negative developments in the European economy where banks in general and potentially also Van Lanschot Kempen face increased liquidity requirements and to support our clients.

Funding mix at 30/06/2020
100% = €14.9 billion



Redemption profile[14]
€ million



RATIOS

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

	30/6/2020	Requirement	31/12/2019	30/6/2019
Liquidity coverage ratio (%)	183.7	> 100	156.9	155.5
Net stable funding ratio (%)[15]	158.2	> 100	154.4	131.1

EVENTS AFTER THE REPORTING PERIOD

On 18 August 2020, Van Lanschot Kempen announced the acquisition of Hof Hoorneman Bankiers which will increase our client assets by €1.9 billion. The proposed acquisition is subject to the approval of the regulators and is expected to be completed by the end of 2020.

[14] Breakdown by years is based on the first call dates of the instruments.
[15] Half-year 2019 figures are based on Basel III rules.

VAN LANSCHOT KEMPEN

RECONCILIATION OF IFRS AND MANAGEMENT REPORTING

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

€ million	IFRS	Non-strategic investments	Amortisation of intangible assets arising from acquisitions	Managerial
Commission	148.9	-	-	148.9
Interest	76.8	0.2	-	77.0
Income from securities and associates	0.6	-	-	0.6
Result on financial transactions	-25.3	-	-	-25.3
Other income	4.7	-4.7	-	-
Income from operating activities	205.8	-4.5	-	201.3
Staff costs	121.8	-4.2	-	117.6
Other administrative expenses	61.8	1.0	-	62.8
Depreciation and amortisation	10.8	-0.6	-3.1	7.1
Operating expenses	194.4	-3.8	-3.1	187.5
Gross result	11.4	-0.7	3.1	13.8
Impairments	1.5	-	-	1.5
Operating profit before tax of non-strategic investments	-	0.7	-	0.7
Operating profit before special items and tax	9.9	-	3.1	13.0
Amortisation of intangible assets arising from acquisitions	-	-	3.1	3.1
Operating profit before tax	9.9	-	-	9.9
Income tax	0.4	-	-	0.4
Net result	9.5	-	-	9.5

GLOSSARY

Assets under administration (AuA)
Assets which are entrusted by clients to Van Lanschot Kempen purely for custody or for which solely administrative services are performed. Clients take their own investment decisions, over which Van Lanschot Kempen has no influence.

Assets under discretionary management
Client assets entrusted to Van Lanschot Kempen under a discretionary management agreement, irrespective of whether these assets are held in investment funds, deposits, structured products (Van Lanschot Kempen index guarantee contracts) or cash.

Assets under management (AuM)
Assets deposited with Van Lanschot Kempen by clients, breaking down into assets under discretionary management and assets under non-discretionary management.

Assets under monitoring and guidance (AuMG)
Client assets that are only subject to monitoring, plus minor advisory and related services. Clients make their own investment decisions and Van Lanschot Kempen has little or no influence on the management of these assets.

Assets under non-discretionary management
Client assets held for clients by Van Lanschot Kempen, irrespective of whether these assets are held in investment funds, deposits, structured products (index guarantee contracts) or cash, with either a Van Lanschot Kempen investment adviser advising the client on investment policy or clients making their own investment decisions without Van Lanschot Kempen's input.

DISCLAIMER AND CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

Actual results, performances and circumstances may differ considerably from these forward-looking statements as a result of risks, developments and uncertainties relating to, but not limited to, (a) estimates of income growth, (b) costs, (c) the macroeconomic and business climate, (d) political and market trends, (e) interest rates and currency exchange rates, (f) behaviour of clients, competitors, investors and counterparties, (g) the implementation of Van Lanschot Kempen's strategy, (h) actions taken by supervisory and regulatory authorities and private entities, (i) changes in law and taxation, (j) changes in ownership that could affect the future availability of capital, (k) changes in credit ratings and (l) evolution and economic and societal impact of the Covid-19 pandemic.

Van Lanschot Kempen cautions that forward-looking statements are only valid on the specific dates on which they are expressed, and accepts no responsibility or obligation to revise or update any information, whether as a result of new information or for any other reason.

Van Lanschot Kempen's semi-annual accounts are prepared in accordance with IAS 34 (Interim Financial Reporting), as adopted by the European Union. In preparing the financial information in this document, except as described otherwise, the same accounting principles are applied as in the 2019 Van Lanschot Kempen consolidated annual accounts.

The financial data in this document have not been audited. Small differences in tables may be the result of rounding. Percentages are calculated based on unrounded figures.

This document does not constitute an offer or solicitation for the sale, purchase or acquisition in any other way or subscription to any financial instrument and is not a recommendation to perform or refrain from performing any action.

VLKWM
Financial report

2020 HALF-YEAR RESULTS

VAN LANSCHOT KEMPEN

Contents

Consolidated statement of financial position

(€1,000)

		30/06/2020	31/12/2019
Assets			
Cash and cash equivalents and balances at central banks	1	2,087,324	1,417,164
Financial assets from trading activities		52,403	49,263
Due from banks		261,184	297,556
Derivatives	2	407,456	367,279
Financial assets at fair value through profit or loss	3	258,244	321,509
Financial assets at fair value through other comprehensive income	4	2,413,946	2,384,261
Loans and advances to the public and private sectors	5	8,477,322	8,597,894
Other financial assets at amortised cost	6	468,905	425,606
Investments in associates using the equity method		64,862	52,452
Property and equipment	7	92,277	102,521
Goodwill and other intangible assets	8	137,894	141,311
Tax assets		23,722	18,566
Other assets		155,597	143,469
Total assets		**14,901,135**	**14,318,853**
Equity and liabilities			
Financial liabilities from trading activities		104	2,150
Due to banks	9	480,199	141,715
Public and private sector liabilities	10	9,826,117	9,545,095
Derivatives	2	601,675	449,826
Financial liabilities at fair value through profit or loss	11	773,750	907,602
Issued debt securities	12	1,525,313	1,545,109
Provisions	13	48,834	49,597
Tax liabilities		1,029	792
Other liabilities		144,940	187,306
Subordinated loans	14	172,760	173,090
Total liabilities		**13,574,721**	**13,002,283**
Issued share capital		40,000	40,000
Share premium reserve		154,753	154,753
Other reserves	15	1,024,036	923,172
Undistributed profit attributable to shareholder		6,066	92,929
Equity attributable to shareholder		**1,224,855**	**1,210,853**
AT1 capital securities		100,000	100,000
Undistributed profit attributable to holders of AT1 capital securities		1,688	1,688
Equity attributable to AT1 capital securities		**101,688**	**101,688**
Other non-controlling interests		-158	3,606
Undistributed profit attributable to other non-controlling interests		29	423
Equity attributable to other non-controlling interests		**-129**	**4,029**
Total equity		**1,326,413**	**1,316,570**
Total equity and liabilities		**14,901,135**	**14,318,853**
Contingent liabilities		106,712	105,706
Irrevocable commitments		800,221	939,156
Total contingent liabilities and irrevocable commitments		**906,933**	**1,044,862**

The number besides an item refers to the Notes to the consolidated statement of financial position.

Consolidated statement of income

For the six months ended

(€1,000)

		H1 2020	H1 2019
Income from operating activities			
Interest income calculated using the effective interest method		105,044	116,412
Other interest income		14,764	18,427
Interest expense calculated using the effective interest method		20,981	26,150
Other interest expense		21,996	24,222
Net interest income	16	**76,831**	**84,468**
Income from associates using the equity method		5,999	21,052
Other income from securities and associates		-5,397	48,363
Income from securities and associates	17	**602**	**69,415**
Commission income		152,630	149,669
Commission expense		3,725	7,487
Net commission income	18	**148,905**	**142,183**
Result on financial transactions	19	**-25,264**	**-8,127**
Net sales		6,933	6,718
Cost of sales		2,216	2,150
Other income	20	**4,717**	**4,569**
Total income from operating activities		**205,791**	**292,507**
Expenses			
Staff costs	21	121,824	126,275
Other administrative expenses	22	61,805	69,732
Staff costs and other administrative expenses		**183,629**	**196,007**
Depreciation and amortisation		10,783	12,706
Operating expenses		**194,412**	**208,713**
Impairments of financial instruments		1,280	-7,510
Other impairments		226	59
Impairments	23	**1,506**	**-7,451**
Total expenses		**195,918**	**201,262**
Operating profit before tax		**9,873**	**91,245**
Income tax	24	**403**	**7,654**
Net result		**9,470**	**83,592**
Of which attributable to shareholder		6,066	81,666
Of which attributable to holders of AT1 capital securities		3,375	1,688
Of which attributable to other non-controlling interests		29	238
Earnings per ordinary share (€)	25	15.16	204.17

The number besides an item refers to the Notes to the consolidated statement of income.

Consolidated statement of comprehensive income

For the six months ended

(€1,000)

		H1 2020	H1 2019
Net result (as per income statement)		9,470	83,592
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Other comprehensive income through revaluation reserve			
Revaluation of financial assets at fair value through other comprehensive income		-5,734	9,657
Realised return on financial assets at fair value through other comprehensive income	19	-	-181
Impairments of financial assets at fair value through other comprehensive income		-13	58
Income tax effect		1,244	-1,866
Total other comprehensive income through revaluation reserve	15	-4,502	7,668
Other comprehensive income from value changes of derivatives (cash flow hedges)			
Decrease in value of derivatives directly subtracted from equity		-5,307	-6,360
Income tax effect		1,152	1,304
Total other comprehensive income from value changes of derivatives (cash flow hedges)	15	-4,156	-5,056
Other comprehensive income from currency translation differences		-242	91
Total other comprehensive income from currency translation differences	15	-242	91
Total other comprehensive income to be reclassified in subsequent periods to profit or loss		-8,900	2,703
Other comprehensive income not to be reclassified in subsequent periods to profit or loss			
Change in fair value attributable to change in credit risk of financial liability as at fair value through profit and loss			
Change in fair value attributable to change in credit risk of financial liability as at fair value through profit and loss		23,665	3,244
Income tax effect		-5,135	-665
Total change in fair value attributable to change in credit risk of financial liability as at fair value through profit and loss	15	18,530	2,579
Remeasurement of defined benefit plans			
Remeasurement of defined benefit plans		653	-843
Income tax effect		-149	209
Total remeasurement of defined benefit plans	15	504	-634
Total other comprehensive income not to be reclassified in subsequent periods to profit or loss		19,034	1,945
Total other comprehensive income		10,134	4,648
Total comprehensive income		19,604	88,239
Of which attributable to shareholder		16,200	86,314
Of which attributable to holders of AT1 capital securities		3,375	1,688
Of which attributable to other non-controlling interests		29	238

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

Consolidated statement of changes in equity

For the six months ended 30 June 2020

(€1,000)

	Share capital	Share premium reserve	Other reserves	Undistri-buted profit	Total equity attributable to shareholder	Equity attributable to AT1 capital securities	Equity attribu-table to other non-controlling interests	Total equity
At 1 January 2020	40,000	154,753	923,172	92,929	1,210,853	101,688	4,029	1,316,570
Net result (as per income statement)	-	-	-	6,066	6,066	3,375	29	9,470
Total other comprehensive income	-	-	10,134	-	10,134	-	-	10,134
Total comprehensive income	-	-	10,134	6,066	16,200	3,375	29	19,604
Share plans	-	-	-4,001	-	-4,001	-	-	-4,001
To other reserves	-	-	92,929	-92,929	-	-	-	-
Dividends/capital return	-	-	-	-	-	-3,375	-326	-3,701
Other changes	-	-	1,802	-	1,802	-	-	1,802
Change in other non-controlling interests	-	-	-	-	-	-	-3,862	-3,862
At 30 June 2020	40,000	154,753	1,024,036	6,066	1,224,855	101,688	-129	1,326,413

Van Lanschot Kempen has postponed the payment of its 2019 dividend. The Statutory Board and the Supervisory Board are of the opinion that the 2019 dividend can be paid to our shareholder as soon as circumstances related to the coronavirus (Covid-19) allow and under the condition that we remain in compliance with our stated capital ratio targets, but not earlier than January 2021. This decision is in response to the advice from the European Central Bank (ECB) and De Nederlansche Bank (DNB). The 2019 dividend to be paid amounts to €60.0 million and is included in Other reserves.

Consolidated statement of changes in equity

For the six months ended 30 June 2019

(€1,000)

	Share capital	Share premium reserve	Other reserves	Undistri-buted profit	Total equity attributable to shareholder	Equity attributable to AT1 capital securities	Equity attribu-table to other non-controlling interests	Total equity
At 1 January 2019[1]	40,000	216,149	912,883	74,631	1,243,663	-	12,213	1,255,876
Net result (as per income statement)	-	-	-	81,666	81,666	1,688	238	83,592
Total other comprehensive income	-	-	4,648	-	4,648	-	-	4,648
Total comprehensive income	-	-	4,648	81,666	86,314	1,688	238	88,239
Share plans	-	-	-4,043	-	-4,043	-	-	-4,043
To other reserves	-	-	14,657	-14,657	-	-	-	-
Dividends/capital return	-	-	-	-59,974	-59,974	-	-309	-60,283
Increase/(decrease) of capital	-	-	-	-	-	100,000	-	100,000
Other changes	-	-	-3,188	-	-3,188	-	-	-3,188
Change in other non-controlling interests	-	-	-	-	-	-	-8,470	-8,470
At 30 June 2019	40,000	216,149	924,957	81,666	1,262,771	101,688	3,672	1,368,131

1 Prior year figure adjusted due to restatement (see “Summary of significant accounting policies”, subsection “Disclosure relating to prior period error” of our annual report 2019).

Consolidated statement of cash flows

For the six months ended

(€1,000)

		H1 2020	H1 2019
Cash flow from operating activities			
Operating profit before tax		9,873	91,245
Adjustments for			
- Depreciation and amortisation		13,200	12,982
- Cost of share plans		1,996	1,306
- Results on associates using the equity method		-5,780	-5,000
- Valuation results on financial assets at fair value through profit or loss		7,374	-10,171
- Valuation results on financial liabilities at fair value through profit or loss		72,064	50,160
- Valuation results on derivatives		46,054	1,124
- Impairments	23	1,506	-7,452
- Changes in provisions		2,239	-764
Cash flow from operating activities		**148,526**	**133,430**
Net movement in operating assets and liabilities			
- Financial assets/liabilities from trading activities		-5,187	-4,584
- Due from/to banks		367,149	-18,005
- Loans and advances to public and private sectors/public and private sector liabilities		432,463	365,138
- Derivatives		230	-88,631
- Withdrawals from restructuring provision and other provisions		-2,348	-6,089
- Other assets and liabilities		-48,309	38,222
- Current tax assets/liabilities		-0	-1,996
- Income taxes paid		-8,144	-8,654
- Dividends received		617	4,109
Total net movement in operating assets and liabilities		**736,470**	**279,510**
Net cash flow from operating activities		**884,996**	**412,940**
Net cash flow from discontinued operations		-	**27,475**
Cash flow from investing activities			
Investments and acquisitions			
- Investments in debt instruments		-153,533	-684,198
- Investments in equity instruments		-19,232	-5,907
- Investments in associates using the equity method		-7,140	-1,041
- Property and equipment		-3,153	-69,712
- Goodwill and other intangible assets		-42	-98
Divestments, redemptions and sales			
- Investments in debt instruments		157,975	236,575
- Investments in equity investments		-190	-3,538
- Investments in associates using the equity method		-	714
- Property and equipment		3,557	826
- Goodwill and other intangible assets		100	-
Dividends received		369	1,740
Net cash flow from investing activities of continuing operations		**-21,289**	**-524,639**
Net cash flow from investing activities of discontinued operations		-	**-154**

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

Consolidated statement of cash flows (continued)

For the six months ended

(€1,000)

	H1 2020	H1 2019
Cash flow from financing activities		
Share plans	-4,324	-8,121
AT1 capital securities	-	100,000
Other non-controlling interests	-3,862	-908
Redemption of subordinated loans	-113	-113
Redemption of debt securities	-635	-1,135
Receipts on financial liabilities at fair value through profit or loss	-11,907	-14,410
Redemption of financial liabilities at fair value through profit or loss	-170,344	-247
Payment of lease liabilities	-6,370	-6,399
Dividends paid	-3,701	-59,746
Net cash flow from financing activities of continuing operations	**-201,256**	**8,921**
Net cash flow from financing activities of discontinued operations	**-**	**-**
Net change in cash and cash equivalents and balances at central banks	**662,451**	**-75,456**
Cash and cash equivalents and balances at central banks at 1 January[1]	1,436,381	1,473,572
Cash and cash equivalents and balances at central banks at 30 June[1]	2,098,832	1,398,114
Additional disclosure		
Cash flows from interest received	119,608	131,400
Cash flows from interest paid	45,576	51,665

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

Notes to the condensed interim financial statements

General
Van Lanschot Kempen Wealth Management NV (formerly Van Lanschot NV until 31 December 2019) is an independent wealth manager specialising in the preservation and creation of wealth, in a sustainable way, for both its clients and the society of which it is part. Van Lanschot Kempen Wealth Management NV ("Van Lanschot Kempen") is a 100% subsidiary of Van Lanschot Kempen NV. The company has its registered office at Hooge Steenweg 29, 5211 JN 's- Hertogenbosch, the Netherlands. Van Lanschot Kempen is a public limited company incorporated under Dutch law and registered under number 16038212 at the Chamber of Commerce.

Basis of preparation
The condensed interim consolidated financial statements of Van Lanschot Kempen and its subsidiaries have been prepared in accordance with IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all financial information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements of Van Lanschot Kempen Wealth Management NV as at 31 December 2019. The condensed interim consolidated financial statements have not been audited. All amounts are denominated in thousands of euros, unless stated otherwise. The totals may not always match the sum of the individual values due to rounding.

Continuity
The Statutory Board has examined the ability of Van Lanschot Kempen to continue its operations. This analysis includes consideration of the impact of the crisis as a result of Covid-19. The Statutory Board concluded that we are able to continue our operations for the foreseeable future and is not aware of any material uncertainties that cast significant doubt on our ability to continue as a going concern. The consolidated financial statements have been prepared on this basis.

Consideration of the impact of Covid-19 on our business
In recent months, the world has been gripped by the outbreak of Covid-19. While much is still unknown, Covid-19 will certainly have an impact on economic developments in the Netherlands and the other countries in which we are active. Covid-19 had a direct impact on our business in the first half of 2020 in the shape of value decreases in our (securities) positions. In addition, the market performance of our clients' portfolios affects the amount we receive in management and advisory fees. We have not experienced major disquiet among our clients, and instead saw a net inflow in the months following the start of the crisis as investors spotted a good entry point.

The volatility in the securities markets, combined with reduced liquidity in various derivatives, caused a negative result on our portfolio of structured products and our investments in our own investment funds. For these reasons, we incurred a loss for the first quarter of 2020. Although results in the second quarter were positive and in line with last year, we expect Covid-19 to impact our results going forward. The pandemic and the corresponding lower markets could impact commission income for 2020 and 2021. As a result, we have taken several cost-cutting measures to reduce our cost base and re-balance our costs with lower expected revenues.

Van Lanschot Kempen reports goodwill on its statement of financial position for an amount of €95.2 million. At mid 2020, we performed a goodwill impairment trigger analysis to determine if the coronavirus crisis is an impairment trigger for one or more of our Cash Generating Units (CGUs). We concluded that a goodwill impairment test was necessary for the CGU Merchant Banking. For the CGUs Asset Management, Private Banking and Non-strategic investments no impairment test was needed. The impairment test performed did not result in a goodwill impairment for Merchant Banking at half-year 2020. For more information, see Note 8, Goodwill and other intangible assets.

The current economic crisis as a result of the Covid-19 pandemic may have an impact on our capital and liquidity position. However, our liquidity and capital position has remained strong. Our CET 1 ratio is well above the internal requirement of 15-17% and also well above the required regulatory capital. The CET 1 ratio has improved slightly, coming in at 24.0% at 30 June 2020, compared with 23.8% at year-end 2019. Our liquidity position has also improved over the last months. We saw a net increase in client deposit balances in the first half of 2020 and participated in the TLTRO III programme. This resulted in a net increase in our Liquidity Coverage Ratio (LCR) from 157% at year-end 2019 to 184% at half-year 2020. For more information see Note 19, Result on financial transactions, and Note 26, Loss allowance for expected credit loss.

If our clients run into financial difficulties, this can lead to higher credit losses. In the first half of 2020, the impact of Covid-19 was reflected in an increase in expected credit loss (ECL). This was mainly driven by the economic scenarios used to calculate ECL; compared with year-end 2019, all parameters showed a significant deterioration due to the impact of Covid-19 on the economy. For more information, see Note 26, Loss allowance for expected credit loss.

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

To summarise, Van Lanschot Kempen is well able to cope with the Covid-19 crisis and the accompanying recession, thanks to its solid position. We can therefore affirm that the continuity of the company is in no way under pressure. Should the Covid-19 outbreak continue to cause disruption to economic activity globally through 2020, there could be further adverse impacts on our income due to lower lending and transaction volumes and lower revenue due to equity market volatility.

Summary of significant accounting policies

Accounting policies

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of our annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards and interpretations effective from 1 January 2020.

Significant accounting judgements and estimates

In the process of applying our accounting policies, we use estimates and assumptions which can have a significant impact on the amounts recognised in the condensed interim consolidated financial statements. For more information, see "Significant accounting judgements and estimates" in the annual consolidated financial statements of Van Lanschot Kempen Wealth Management NV as at 31 December 2019. These estimates and assumptions are based on the most recent information available and include the impact of Covid-19. The actual amounts may differ in the future. Where applicable, the impact of Covid-19 on assumptions used are explained further in the condensed interim consolidated financial statements.

Changes in IFRS standards already effective

The following new or revised standards or interpretations became effective on 1 January 2020 and have an impact on these condensed interim consolidated financial statements. Unless stated otherwise, application of these standards had no impact on Van Lanschot Kempen's equity or result.

IFRS 3 – Definition of a Business

The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. In case of a business combination, an impact assessment will be made.

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

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

Notes to the consolidated statement of financial position

(€1,000)

1 Cash and cash equivalents and balances at central banks	30/06/2020	31/12/2019
Total	2,087,324	**1,417,164**
Cash	33	32
Balances at central banks	1,948,068	1,243,932
Statutory reserve deposits at central banks	15,010	14,425
Amounts due from banks	124,213	158,776
Impairments	-0	-1

The increase in Statutory reserve deposits at central banks is mainly explained by the funding obtained under the TLTRO III programme (€400 million). See note 9 (Due to banks) for more information.

Reconciliation with consolidated statement of cash flows	30/06/2020	31/12/2019	Movements
Cash and cash equivalents	2,087,324	1,417,164	670,160
Due from banks, available on demand	35,226	75,594	-40,368
Due to banks, available on demand	-23,717	-56,377	32,660
Due from/to banks available on demand, net	11,509	19,217	-7,708
Total	2,098,832	**1,436,381**	**662,451**

2 Derivatives	30/06/2020			31/12/2019		
	Asset	Liability	Contract amount	Asset	Liability	Contract amount
Total	407,456	601,675	11,344,518	**367,279**	**449,826**	**11,653,638**
Derivatives used for trading purposes	41,418	40,317	51,524	31,298	29,345	43,267
Derivatives used for hedge accounting purposes	132,215	274,575	5,775,455	105,940	214,744	5,644,540
Other derivatives	233,824	286,783	5,517,538	230,041	205,736	5,965,831

Derivatives increased during the first half of 2020, mainly due to negative interest and index and foreign exchange developments.

3 Financial assets at fair value through profit or loss	30/06/2020	31/12/2019
Total	258,244	**321,509**
Debt instruments		
Government paper and government-guaranteed paper	25,311	27,932
Sovereign, supranationals and agencies (SSA) bonds	12,564	62,638
Banks and financial institutions, listed	19,427	19,458
Covered bonds	55,949	79,470
Puttable investment funds	95,899	87,385
Company cumprefs (shareholdings) (FVPL mandatory)	2,123	2,024
Total debt instruments	211,273	**278,906**
Equity instruments (FVPL mandatory)		
Shares, listed	-	9,088
Shares, unlisted	46,971	33,515
Total equity instruments	46,971	**42,603**

4 Financial assets at fair value through other comprehensive income	30/06/2020		31/12/2019	
	Fair value	Face value	Fair value	Face value
Total	2,413,946	2,366,711	2,384,261	2,335,985
Debt instruments				
Government paper and government-guaranteed paper	555,589	540,500	539,189	524,500
Sovereign, supranationals and agencies (SSA) bonds	463,376	450,556	454,305	440,556
Banks and financial institutions, listed	24,617	24,700	24,731	24,700
Covered bonds	941,075	925,555	928,015	914,155
Asset-backed securities	366,816	364,930	385,661	381,604
Companies, listed	62,473	60,470	52,362	50,470

5 Loans and advances to the public and private sectors	30/06/2020	31/12/2019
Total	8,477,322	8,597,894
Mortgage loans	6,334,098	6,287,753
Loans	1,334,348	1,349,692
Current accounts	402,988	547,762
Securities-backed loans and settlement claims	276,221	313,130
Subordinated loans	579	579
Value adjustment, fair value hedge accounting	194,848	162,746
Impairments	-65,761	-63,768

Impairments on Loans and advances to the public and private sectors rose to €65.8 million during the first half of 2020. The rise is mainly attributable to an increase in Stage 1 ECL which is largely due to the worsening of economic prospects as communicated by the Bureau for Economic Policy Analysis (CPB) and DNB. These prospects are based on the assumption of a strong recession in 2020 and a recovery in 2021 and 2022. In calculating ECL, we use macroeconomic variables provided by CPB and DNB, among other input. Total Stage 1 ECL amounted to €6.5 million at 30 June 2020. Stage 2 and Stage 3 ECL were almost unchanged compared to year-end 2019; however, the exposures within these stages have decreased. For more information, see Note 26, Loss allowance for expected credit loss.

We have provided our clients with the option of moratorium arrangements in response to the coronavirus crisis. Few clients have made use of these arrangements and exposures have led to few transfers between the ECL stages. We have thus not been confronted with a significant increase in credit risk.

6 Other financial assets at amortised cost	30/06/2020		31/12/2019	
	Carrying value	Face value	Carrying value	Face value
Total	468,905	457,148	425,606	412,000
Debt instruments				
Government paper and government-guaranteed paper	230,082	220,300	211,729	200,000
Banks and financial institutions, listed	187,961	187,000	213,905	212,000
Covered bonds	30,188	29,200	-	-
Asset-backed securities	20,698	20,648	-	-
Impairments	-25	-	-28	-

7 Property and equipment	30/06/2020	31/12/2019
Total	92,277	102,521
Buildings	27,256	31,517
Right-of-use assets – buildings	46,925	51,648
Right-of-use assets – transport equipment	5,781	7,318
IT, operating system software and communications equipment	5,721	5,168
Other assets	6,435	6,840
Work in progress	158	30

The total value of Property and equipment fell from €102.5 million to €92.3 million in half-year 2020, mainly due to depreciation on Right-of-use assets – buildings. The decrease in Buildings can be explained by the sale of a building with carrying amount of €3.5 million, the realised profit of €2.3 million is recognised in the statement of income.

Lease liabilities amount to €54.1 million at half-year 2020 (2019: €60.5 million) and are included in Other liabilities.

8 Goodwill and other intangible assets	30/06/2020	31/12/2019
Total	137,894	141,311
Goodwill	95,247	95,247
Other intangible assets	42,647	46,064

We have defined six CGUs, namely Private Banking, Evi, Asset Management, Merchant Banking, Other and Non-strategic investments. These correspond to our operating segments (see section on segment information) except for the Other activities segment, which is split between Other and Non-strategic investments. For impairment testing, goodwill was allocated to Private Banking, Asset Management, Merchant Banking and Non-strategic investments. The goodwill in Non-strategic investments relates to our subsidiary Holowell.

At half-year 2020, we performed an impairment trigger analysis and concluded that a goodwill impairment test for the CGU Merchant Banking was necessary. For the CGUs Asset Management, Private Banking and Non-strategic investments the analysis showed that no impairment test was needed. At year-end 2020, Van Lanschot Kempen will perform its annual impairment test on goodwill related to all CGUs, and will perform a useful-life test on the other intangible assets.

The goodwill related to the CGU Merchant Banking has arisen from the acquisition of Kempen & Co in 2007. In the first half-year of 2020, Merchant Banking performed below budget, primarily due to the result of its structured products activities. To determine whether an impairment is necessary, the recoverable amount of this CGU is compared with its carrying amount.

The recoverable amount is calculated on the basis of value in use. This calculation uses cash flow projections for the CGU Merchant Banking for a five-year period. These projections are based on the current year and on the financial estimates for 2021 until 2024 used by management in its strategic forecasts as per end of 2019. The projections for the 2020 result were adjusted because of the negative result of structured products. In addition, the projections for 2020-21 were adjusted downward to reflect the impact of Covid-19. For the period after the explicit projections per CGU, the growth rate is set at the long-term market growth rate of 1.0% (unchanged compared to prior year). This rate is based on our own projections and on wealth management market projections by market experts.

Management has compared the main assumptions with market forecasts and expectations. Cash flow estimates are based on our strategic plans and potential future trends. Events and factors that could have a significant impact on the estimates include stock and bond market developments, effects of mergers and acquisitions, competitive conditions, client behaviour and changes in the client base, cost structure, trends in interest rates and risks, and other circumstances specific to the industry and sector.

The cash flows of the CGU Merchant Banking are discounted using a cost of equity reflecting the risk-free interest rate, supplemented with a surcharge for the market risk exposure of the CGU. For the impairment test performed at half-year 2020, a cost of equity after tax of 8.8% was used (year-end 2019: 8.5%).

The impairment test performed at half-year 2020 did not result in a goodwill impairment for Merchant Banking. The model uses a baseline scenario, which we reckon is a realistic scenario for the future cash flows generated by the CGU Merchant Banking. The calculated recoverable amount of this CGU is higher than its carrying amount. A sensitivity analysis was also performed, focusing particular attention on changes in net profit and the cost of equity. The sensitivity analysis underlines the conclusion from our base scenario that no impairment on Merchant Banking is needed.

9 Due to banks	30/06/2020	31/12/2019
Total	480,199	141,715
Deposits	56,482	85,338
Payables arising from unsettled securities transactions	22,658	14,847
Loans and advances drawn	1,059	41,530
Special loans from ECB	400,000	-

Special loans from the ECB consist of funding obtained under the Targeted Longer-Term Refinancing Operations III programme (TLTRO III). The loans are collateralised by eligible securities. This programme has a maturity of three years with an optional redemption each quarter from September 2021 onwards. The interest rate is fixed at the end of maturity or at early redemption.

10 Public and private sector liabilities	30/06/2020	31/12/2019
Total	9,826,117	9,545,095
Savings	2,969,810	2,994,800
Deposits	133,297	161,502
Current accounts	6,341,177	5,988,483
Other client assets	379,776	398,402
Value adjustments fair value hedge accounting	2,056	1,908

11 Financial liabilities at fair value through profit or loss	30/06/2020	31/12/2019
Total	773,750	907,602
Unstructured debt instruments	42,944	47,936
Structured debt instruments	730,806	859,666

Structured debt instruments decreased due to redemption for an amount €128.9 million.

12 Issued debt securities	30/06/2020	31/12/2019
Total	1,525,313	1,545,109
Covered bonds	1,461,561	1,491,490
Floating-rate notes	16,939	17,605
Value adjustments fair value hedge accounting	46,813	36,014

13 Provisions	30/06/2020	31/12/2019
Total	48,834	49,597
Provisions for pensions	38,577	39,841
Provision for long-service benefits	2,568	2,552
Provision for restructuring	1,325	3,426
Provision for interest rate derivatives recovery framework	86	184
Provision for financial guarantees	137	76
Other provisions	6,141	3,518

Other provisions in H1 2020 includes a provision for interest payments in response to a judgement of the Dutch Financial Services Complaints Authority (Kifid) for an amount of €2.9 million.

14 Subordinated loans	30/06/2020	31/12/2019
Total	172,760	173,090
Certificates of indebtedness	155,778	155,986
Other subordinated loans	16,336	16,450
Value adjustments fair value hedge accounting	646	654

15 Other reserves	Revaluation reserve financial assets at fair value through other comprehensive income	Actuarial results on defined benefit schemes	Currency translation reserve	Cash flow hedge reserve	Own credit risk reserve	Retained earnings	Postponed dividend	Total
At 1 January 2020	1,831	-37,682	872	-15,221	-6,819	980,191	-	923,172
Net changes in fair value	-4,502	-	-	-4,156	-	-	-	-8,658
Value change in own credit risk	-	-	-	-	18,530	-	-	18,530
Profit appropriation	-	-	-	-	-	32,954	59,974	92,929
Share plans	-	-	-	-	-	-4,001	-	-4,001
Actuarial results	-	504	-	-	-	-	-	504
Other changes	-	-	-242	-	-	1,802	-	1,560
At 30 June 2020	-2,671	-37,178	630	-19,376	11,711	1,010,946	59,974	1,024,036
Tax effects	1,244	-149	-	1,152	-5,135	-	-	-2,888

Van Lanschot Kempen has postponed the payment of its 2019 dividend. The Statutory Board and the Supervisory Board believe that the 2019 dividend can be paid to our shareholder as soon as circumstances related to the coronavirus (Covid-19) allow and under the condition that we remain in compliance with our stated capital ratio targets, but not earlier than January 2021. This decision is in response to the advice from the European Central Bank (ECB) and DNB. The 2019 dividend to be paid amounts to €60.0 million and is included in Other reserves.

Notes to the consolidated statement of income

(€1,000)

16 Net interest income	H1 2020	H1 2019
Total interest income	119,808	134,840
Interest income on cash equivalents	-	35
Interest income on banks and private sector	100,997	109,978
Interest income on financial assets at fair value through other comprehensive income	138	2,560
Interest income on other financial assets at amortised cost	3,909	3,839
Interest income calculated using the effective interest method	**105,044**	**116,412**
Interest income on financial assets at fair value through profit or loss	199	672
Interest income on derivatives	9,644	12,815
Other interest income	4,921	4,940
Other interest income	**14,764**	**18,427**
Total interest expense	42,977	50,371
Interest expense on balances at central banks	1,468	2,474
Interest expense on banks and private sector	10,831	13,361
Interest expense on issued debt securities	4,534	5,275
Interest expense on subordinated loans	4,148	5,040
Interest expense calculated using the effective interest method	**20,981**	**26,150**
Interest expense on derivatives	18,154	21,371
Other interest expense	3,843	2,851
Other interest expense	**21,996**	**24,222**
Net interest income	76,831	84,468

17 Income from securities and associates	H1 2020	H1 2019
Total	602	69,415
Income from associates using the equity method	5,780	5,006
Realised result of associates using the equity method	219	16,046
Realised and unrealised gains/losses on investments at fair value through profit or loss	-5,397	12,321
Other gains on sales	-	36,042

Other gains on sales for H1 2019 relate to the sale of our stake in AIO II in the first quarter of 2019.

18 Net commission income	H1 2020	H1 2019
Total	148,905	142,183
Securities commissions	14,046	12,473
Management commissions	108,881	103,991
Cash transactions and funds transfer commissions	2,752	3,038
Corporate Finance and Equity Capital Markets commissions	19,223	18,600
Other commissions	4,003	4,082

19 Result on financial transactions	H1 2020	H1 2019
Total	-25,264	-8,127
Gains/losses on securities trading	-505	1,677
Gains/losses on currency trading	4,627	4,227
Gains/losses on derivatives under hedge accounting	-3,405	-3,986
Realised gains on financial assets at fair value through other comprehensive income	-	181
Gains/losses on economic hedges/hedge accounting not applied	-61,512	51,549
Gains/losses on financial assets and liabilities at fair value through profit or loss	35,532	-61,774

Exceptional volatility and illiquidity in certain segments of the financial markets have led to pre-tax losses of €27.3 million in our structured product portfolio, this is included in the line items Gains/losses on economic hedges/hedge accounting not applied. We offer structured products to our clients at Private Banking as part of our overall wealth management proposition – as an alternative investment product to help diversify their investment portfolios, with risks and returns tailored to the requirements of the client. The activities related to structured products in terms of structuring, hedging and the inherent risk are carried out by Merchant Banking. In essence, this involves using company-issued debt with embedded derivatives linked to equity indices. The extreme volatility and illiquidity of the markets as a response to the Covid-19 crisis in March 2020, made it impossible to make timely adjustments to these hedges, causing losses to mount. In normal market conditions, this portfolio does not typically show any major swings.

20 Other income	H1 2020	H1 2019
Total	4,717	4,569
Net sales	6,933	6,718
Cost of sales	-2,216	-2,150

Other income comprises income from non-strategic investments arising from debt conversion. This involves loans that companies were unable to repay to Van Lanschot Kempen and that were converted into shareholdings to give these companies time to recover.

21 Staff costs	H1 2020	H1 2019
Total	121,824	126,275
Salaries and wages	92,428	94,991
Pension costs for defined contribution schemes	11,650	9,155
Pension costs for defined benefit schemes	1,432	3,048
Other social security costs	9,991	10,852
Share-based payments for variable remuneration	397	1,099
Other staff costs	5,926	7,129

Staff costs fell by €4.5 million compared with H1 2019, mainly due to decreases in Salaries and wages and in Other staff costs. The decrease in Salaries and wages mainly reflects lower variable renumeration and redundancy costs.

Pension costs for defined benefit schemes fell due to a change in the pension schemes. The pension schemes of Kempen and Van Lanschot have been replaced by a new individual defined contribution scheme as of 1 January 2020. The former Van Lanschot scheme was classified as a collective defined contribution scheme, and the former Kempen scheme was classified as defined contribution with guaranteed indexation.

22 Other administrative expenses	H1 2020	H1 2019
Total	61,805	69,732
Accommodation expenses	4,319	4,849
Marketing and communications	3,562	4,656
Office expenses	2,345	2,406
IT expenses	18,968	27,623
External auditors' fees	1,624	1,410
Consultancy fees	8,331	4,993
Travel and hotel fees	858	1,731
Information providers' fees	7,367	7,075
External service provider charges	5,353	3,279
Other	9,078	11,710

Other administrative expenses were down by €7.9 million compared with H1 2019. IT expenses decreased mainly due to our strategic investment programme, which was completed in 2019. The increase in Consultancy fees reflects higher costs related to legal advice and strategic and regulatory projects.

23 Impairments	H1 2020	H1 2019
Total impairments	1,506	-7,451
Cash and cash equivalents and balances at central banks	-0	0
Due from banks	-1	4
Financial assets at fair value through other comprehensive income	-13	58
Loans and advances to the public and private sectors	1,237	-7,635
Other financial assets at amortised cost	-3	-3
Financial guarantees	61	66
Impairment of financial instruments	1,280	-7,510
Investments in associates using the equity method	226	59
Other impairments	226	59

Impairments represent the balance of the required impairments and the release of such impairments. See Note 26, Loss allowance for expected loss, for more information on impairments related to financial instruments.

24 Income tax	H1 2020	H1 2019
Operating profit before tax from continuing operations	9,873	91,245
Total gross result	9,873	91,245
Prevailing tax rate in the Netherlands	25%	25%
Tax on continuing operations	403	7,654
Total tax	403	7,654
Expected tax	2,468	22,811
Increase/decrease in tax payable due to		
Non-deductible interest	78	-
Tax-free income from securities and associates	-2,581	-15,704
Non-deductible costs	489	625
Non-deductible losses	-41	-164
Adjustments to taxes for prior financial years	-167	4
Impact of foreign tax rate differences	80	-98
Movements in deferred taxes	53	177
Other changes	23	1
Total increase/decrease	-2,065	-15,158
Total tax	403	7,654

Additional notes

(€1,000)

25 Earnings per ordinary share	H1 2020	H1 2019
Net result	9,470	83,592
AT1 capital securities	-3,375	-1,688
Other non-controlling interests	-29	-238
Net result for calculation of earnings per share	6,066	**81,666**
Weighted average number of ordinary shares in issue	400,000	400,000
Earnings per ordinary share (€)	15.16	204.17

26 Loss allowance for expected credit loss

The loss allowance for ECL on financial instruments and the macroeconomic variables used are described in the following section. The table below shows the IFRS 9 stage and coverage ratios for loss allowances recognised in assets, categorised by ECL by stage, as at 30 June 2020 and 31 December 2019.

	30/06/2020				31/12/2019			
€ million	Loan portfolio	Provision	Coverage ratio	Stage ratio	Loan portfolio	Provision	Coverage ratio	Stage ratio
STAGE 1								
Mortgages	5,486	0.5	0.0%	91.6%	5,336	0.4	0.0%	90.7%
Other loans	1,435	5.2	0.4%	80.4%	1,433	2.8	0.2%	75.2%
PB Loans	**6,921**	**5.6**	**0.1%**	**89.0%**	**6,769**	**3.2**	**0.0%**	**86.9%**
CB Loans	**149**	**0.7**	**0.5%**	**60.6%**	**165**	**0.3**	**0.2%**	**52.0%**
Mortgages distributed by third parties	519	0.1	0.0%	99.8%	552	0.1	0.0%	99.8%
Total	**7,589**	**6.5**	**0.1%**	**88.8%**	**7,486**	**3.7**	**0.0%**	**86.4%**
STAGE 2								
Mortgages	453	1.0	0.2%	7.6%	489	1.4	0.3%	8.3%
Other loans	279	2.8	1.0%	15.6%	400	2.9	0.7%	21.0%
PB Loans	**732**	**3.8**	**0.5%**	**9.4%**	**889**	**4.3**	**0.5%**	**11.4%**
CB Loans	**34**	**1.5**	**4.5%**	**14.0%**	**52**	**1.3**	**2.5%**	**16.4%**
Mortgages distributed by third parties	-	0.0	0.0%	0.0%	1	0.0	0.0%	0.1%
Total	**767**	**5.4**	**0.7%**	**9.0%**	**942**	**5.5**	**0.6%**	**10.9%**
STAGE 3								
Mortgages	53	4.0	7.6%	0.9%	60	5.7	9.6%	1.0%
Other loans	71	36.3	51.0%	4.0%	73	36.0	49.3%	3.8%
PB Loans	**124**	**40.3**	**32.5%**	**1.6%**	**133**	**41.7**	**31.4%**	**1.7%**
CB Loans	**63**	**13.5**	**21.6%**	**25.4%**	**101**	**12.8**	**12.8%**	**31.6%**
Mortgages distributed by third parties	1	0.0	1.4%	0.2%	0	0.0	1.8%	0.1%
Total	**187**	**53.9**	**28.8%**	**2.2%**	**234**	**54.6**	**23.3%**	**2.7%**
TOTAL								
Mortgages	5,992	5.5	0.1%		5,885	7.5	0.1%	
Other loans	1,785	44.3	2.5%		1,906	41.7	2.2%	
PB Loans	**7,777**	**49.8**	**0.6%**		**7,791**	**49.2**	**0.6%**	
CB Loans	**246**	**15.8**	**6.4%**		**318**	**14.5**	**4.6%**	
Mortgages distributed by third parties	520	0.2	0.0%		553	0.1	0.0%	
Total	**8,543**	**65.8**	**0.8%**		**8,662**	**63.8**	**0.7%**	

Stage 1
The model-based Stage 1 provisions increased by €2.8 million to €6.5 million in H1 2020. This reflects an increase of 75.7%, mainly due to more pessimistic economic predictions by CPB and DNB. These predictions are used as inputs in the IFRS 9-models. The latest figures from CPB and DNB (published in June 2020) were used. They predict a sharp recession during 2020 (including a 6.4% decline in GDP), followed by a recovery in 2021 and 2022. The nominal value of the Stage 1 loan portfolio increased only marginally due to growth in the total mortgage portfolio and improvements in credit risk (mortgages transferring from Stages 2 and 3 to Stage 1).

Stage 2
The model-based Stage 2 provisions increased due to the more pessimistic CPB and DNB predictions, but this effect was compensated by lower nominal value, due to improved credit quality (transfers to Stage 1) and limited transfers to Stage 3. The combined effect resulted in a slightly higher coverage ratio compared with 2019.

Stage 3
The baseline for Stage 3 provisions are determined by our Credit Restructuring & Recovery department, with limited IFRS 9 model adjustments. In H1 2020, Stage 3 provisions decreased marginally due to the release of provision for a number of clients and limited new defaults. The repayment of loans by a number of defaulted corporate banking clients had no impact on provisions (no provisions were recognised at year-end 2019) but lowered impaired exposure and thus moved the coverage ratio from 23.3% to 28.8%.

The table below shows the total IFRS 9 stage and loss allowances recognised.

IFRS 9	30/06/2020	31/12/2019	Write-offs	Change provision	Total change
Stage 1	6,881	4,305	-	2,577	2,577
Stage 2	5,370	5,552	-	-182	-182
Stage 3	53,976	54,629	-373	-280	-653
Total	66,227	64,486	-373	2,114	1,741

We incorporate forward-looking information for the sophisticated approach. We use macroeconomic variables and consider three macroeconomic scenarios in calculating ECL: a base scenario, an upside scenario, and a downside scenario. There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current half year. As at 30 June 2020, the scenarios have been updated to reflect the rapidly evolving Covid-19 situation. The table shows the macroeconomic variables used for the sophisticated approach as at 30 June 2020 and 31 December 2019.

Macroeconomic variables	As at 30 June 2020			As at 31 December 2019		
	2020	2021	2022	2019	2020	2021
Gross domestic product						
Base-case scenario	-6.14%	3.16%	2.66%	1.99%	1.69%	1.39%
Upside scenario	-4.72%	4.58%	4.08%	3.41%	3.11%	2.81%
Downside scenario	-8.69%	0.61%	0.11%	-0.58%	-0.88%	-1.18%
Volume of exports						
Base-case scenario	-10.53%	7.87%	4.47%	2.82%	2.72%	2.32%
Upside scenario	-8.49%	9.91%	6.51%	4.85%	4.75%	4.35%
Downside scenario	-14.20%	4.20%	0.80%	-0.86%	-0.96%	-1.36%
Total investments						
Base-case scenario	-8.68%	4.82%	4.82%	6.44%	2.94%	2.94%
Upside scenario	0.22%	13.72%	13.72%	15.29%	11.79%	11.79%
Downside scenario	-24.67%	-11.17%	-11.17%	-9.66%	-13.16%	-13.16%
Private consumption						
Base-case scenario	-7.41%	4.29%	3.09%	1.62%	2.22%	2.62%
Upside scenario	-6.34%	5.36%	4.16%	2.69%	3.29%	3.69%
Downside scenario	-9.32%	2.38%	1.18%	-0.31%	0.29%	0.69%
Residential real estate price						
Base-case scenario	4.84%	-1.56%	-3.16%	7.23%	3.23%	2.53%
Upside scenario	7.84%	1.44%	-0.16%	10.29%	6.29%	5.59%
Downside scenario	-0.54%	-6.94%	-8.54%	1.68%	-2.32%	-3.02%
Government consumption						
Base-case scenario	3.10%	1.90%	1.90%	1.90%	2.70%	1.60%
Upside scenario	3.11%	1.91%	1.91%	1.89%	2.69%	1.59%
Downside scenario	3.09%	1.89%	1.89%	1.91%	2.71%	1.61%

For the portfolios that fall under the scope of IFRS 9, Van Lanschot Kempen performs a scenario analysis to calculate the sensitivity of the ECL to macroeconomic variables. The main economic drivers of the ECL are gross domestic product (GDP), volume of exports (EXP), total investments (TI), private consumption (PC), residential real estate price (RREP) and government consumption (GC). In the table below, ECLs are shown per stage and per scenario.

Sensitivity analysis as at 30 June 2020	Stage 1	Stage 2	Stage 3	Total	Change
Original situation	6,881	5,370	53,976	66,227	
Base-case scenario	6,832	5,310	53,658	65,800	-427
Upside scenario	5,672	4,524	52,519	62,715	-3,512
Downside scenario	8,131	6,264	55,740	70,135	3,907

Concentration and liquidity risk

Despite the coronavirus crisis, the past half year saw a net increase (€648 million) in client deposit balances, partly due to the acquisition of the deposit base of the former a.s.r. bank (€51 million). Together with our TLTRO III participation (€400 million) in June, the growth in client deposits resulted in a net increase in liquidity of €375 million. We are not seeing shifts in the concentration of our funding sources; nor do we see any growing concentration risks in our loan book. As compared with year-end 2019, the composition of our funding base has not changed significantly, except for the TLTRO III participation.

27 Fair value

Financial instruments at fair value

A portion of the financial instruments are measured at fair value in the statement of financial position. The fair value is based either on quoted prices in active markets, inputs other than quoted prices that are observable in the market, or inputs based on data not observable in the market.

We have developed a policy on the criteria for allocating financial instruments recognised in the statement of financial position at fair value to each of the three levels. A review is carried out at the end of each reporting period to determine whether any changes have taken place in the hierarchy between the levels.

Level 1: Quoted prices in active markets

The fair value of financial instruments traded in an active market is based on the price at the reporting date (market price). The bid price is applied for financial assets and the offer price for financial liabilities. Since these instruments are traded in an active market, their prices adequately reflect current and frequent market transactions between unrelated parties.

Level 2: Inputs observable in the markets

The fair value of financial instruments not traded in an active market (e.g. over-the-counter financial derivatives) is established using cash flow and option valuation models. Based on estimates, we make assumptions based on the market conditions (observable data) at the reporting date. The estimated present value of future cash flows is used to determine the fair value of the other financial instruments. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The discount rate is the same as the market interest rate at the reporting date for a similar instrument subject to the same conditions, taking into account collateral furnished under credit support annexes (CSAs).

The fair value of forward currency contracts is calculated by reference to forward exchange rates at the reporting date.

Estimates and judgements made are based on past experience as well as other factors, including expectations with respect to future events that could reasonably occur given current circumstances. Estimates and judgements are assessed on an ongoing basis.

Level 3: Significance of unobservable market data

The financial instruments in this category are assessed on an individual basis. Their valuation is based on the best estimate of management by reference to the most recent prices, prices of similar instruments and, to a not insignificant extent, information not observable in the market. Unobservable inputs may include volatility, correlation, seasonality and credit spreads. A valuation technique is used in which at least one input that has a significant effect on the instrument’s valuation is not based on observable market data. A significant effect on the instrument’s valuation is considered to be present when the unobservable input accounts for at least 10% of the total instrument’s fair value and exceeds a threshold of €50,000. The effect of fair value adjustments on the instrument’s valuation is included in the assessment.

Financial instruments at fair value				**30/06/2020**
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading	48,907	3,059	438	52,403
Derivatives	41,418	350,773	15,265	407,456
Financial assets at fair value through profit or loss	187,344	51,545	19,355	258,244
Financial assets at fair value through other comprehensive income	2,413,946	-	-	2,413,946
Total assets	**2,691,614**	**405,377**	**35,058**	3,132,049
Liabilities				
Financial liabilities held for trading	104	-	-	104
Derivatives	40,317	556,723	4,635	601,675
Financial liabilities at fair value through profit or loss	-	748,539	25,212	773,750
Total liabilities	**40,421**	**1,305,262**	**29,847**	1,375,529

Financial instruments at fair value				31/12/2019
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading	44,648	4,152	463	49,263
Derivatives	31,224	329,517	6,539	367,279
Financial assets at fair value through profit or loss	263,740	44,231	13,539	321,509
Financial assets at fair value through other comprehensive income	2,384,261	-	-	2,384,261
Total assets	**2,723,873**	**377,900**	**20,541**	**3,122,313**
Liabilities				
Financial liabilities held for trading	2,150	-	-	2,150
Derivatives	29,345	417,071	3,410	449,826
Financial liabilities at fair value through profit or loss	-	898,491	9,111	907,602
Total liabilities	**31,496**	**1,315,561**	**12,521**	**1,359,578**

Transfers of financial assets or liabilities between levels

We have developed a policy document for the fair value hierarchy. This divides the variables used into observable and unobservable market inputs. If the unobservable input variables are significant, the instrument is classified as Level 3. An unobservable input variable is significant if the change in the fair value due to the application of the variable is greater than the threshold values. Our policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period.

As per half-year 2020, some financial instruments included in Derivatives (assets and liabilities) and in Financial liabilities at fair value through profit or loss have been transferred from Level 2 to Level 3 and vice versa. The Derivatives receivables and payables and Financial liabilities at fair value through profit or loss were transferred to Level 2 as a result of the input variables' correlation and seasonality; the shorter remaining term to maturity of these financial instruments meant that these input variables qualified as non-significant, justifying a transfer to Level 2. In the case of Derivatives (assets), this entailed a transfer of €1.4 million from Level 2 to Level 3 and a transfer of €0.0 million from Level 3 to Level 2. The transfer of Derivatives (liabilities) includes a €1.9 million shift from Level 2 to Level 3 and a transfer of €8.2 million from Level 3 to Level 2. In the case of Financial liabilities at fair value through profit or loss, a change in valuation method was implemented. This resulted in a transfer of €11.9 million from Level 2 to Level 3.

Breakdown of movements in financial assets classified as Level 3 in H1 2020							
	At 1 January	To statement of income	To equity	Purchases	Sales	Transfers	At 30 June
Assets							
Financial assets held for trading	463	-25	-	-	-	-	438
Derivatives	6,539	2,578	-	5,704	-994	1,438	15,265
Financial assets at fair value through profit or loss	13,539	5,716	-	100	-	-	19,355
Total assets	**20,541**	**8,269**	**-**	**5,804**	**-994**	**1,438**	**35,058**
Liabilities							
Derivatives	3,410	298	-	538	-1,584	1,972	4,635
Financial liabilities at fair value through profit or loss	9,111	-283	-	4,450	-	11,933	25,212
Total liabilities	**12,521**	**15**	**-**	**4,988**	**-1,584**	**13,905**	**29,846**
Total assets less liabilities	**8,020**	**8,254**	**-**	**815**	**590**	**-12,467**	**5,212**

Breakdown of movements in financial assets classified as Level 3 in H1 2019							
	At 1 January	To statement of income	To equity	Purchases	Sales	Transfers	At 30 June
Assets							
Financial assets held for trading	472	-5	-	-	-	-	467
Derivatives	10,138	539	-	1,325	-1,581	-1,126	9,295
Financial assets at fair value through profit or loss	21,143	2,237	-	-	60	-	23,440
Total assets	**31,753**	**2,771**	**-**	**1,325**	**-1,521**	**-1,126**	**33,201**
Liabilities							
Derivatives	8,641	653	-	949	-2	-3,169	7,072
Financial liabilities at fair value through profit or loss	27,896	-1,062	-	-	-10,620	-4,311	11,903
Total liabilities	**36,537**	**-408**	**-**	**949**	**-10,622**	**-7,480**	**18,975**
Total assets less liabilities	**-4,784**	**3,179**	**-**	**376**	**9,101**	**6,354**	**14,226**

Fair value changes recognised in profit or loss on financial instruments classified as Level 3	H1 2020			H1 2019		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Net interest income	-	-	-	-	-	-
Income from securities and associates	-25	5,618	5,593	-5	1,774	**1,769**
Result on financial transactions	-	2,662	2,662	-	1,410	**1,410**
Total	-25	8,279	8,254	**-5**	**3,184**	**3,179**

Notes on fair value determination using non-observable inputs (Level 3)	Fair value		Valuation method	Significance of non-observable market inputs
	30/06/2020	**31/12/2019**		
Assets				
Financial assets held for trading	438	463	- Net asset value	- Net asset value - Face value
Derivatives[1]	15,265	6,539	- Discounted cash flow - Option model	- Volatility - Correlation
Financial assets at fair value through profit or loss[1]	19,355	13,539	- Discounted cash flow - Net asset value	- Interest rates - Discount rates - Most recent published net asset values of the underlying assets - Kempen: Cost or lower market value - Net asset value - Market value - Multiple analyses of comparable companies less a discount of 20% for illiquidity and company size based on EVCA guidelines - Most recently known share price - EBITA - Issue or transfer price - Market price on final trading day - Face value less provisions
Total assets	35,058	**20,541**		
Liabilities				
Derivatives[1]	4,635	3,410	- Discounted cash flow - Option model	- Volatility - Correlation
Financial liabilities at fair value through profit or loss[1]	25,212	9,111	- Discounted cash flow - Option model	- Volatility - Correlation
Total liabilities	29,847	**12,521**		

1 The range and sensitivity of these financial instruments are disclosed in the table Notes on range and sensitivity of non-observable market inputs (Level 3). No range or sensitivity information is available for the other financial instruments.

Notes on range and sensitivity of non-observable market inputs (Level 3) at H1 2020	Significant non-observable market inputs	Range	Sensitivity
Assets			
Derivatives			
Structured products derivatives			
- Options	- Correlation	-23.5% - 24.5% (1.5%)	Total impact €0.3 million
	- Volatility	13.6% - 30.2% (21.5%)	Total impact €4.8 million
	- Dividend	1.0% - 3.5% (2.1%)	Total impact €1.0 million
- Equity swaps	- Correlation	-24.0% - 31.1% (3.3%)	Total impact €0.3 million
	- Volatility	14.5% - 30.2% (22.4%)	Total impact €0.2 million
	- Dividend	1.0% - 1.7% (1.3%)	Total impact €0.0 million
Financial assets at fair value through profit or loss			
Debt instruments: company cumprefs (shareholdings)	- Interest rates	6% - 12% (9%)	Total impact -€0.0 million
	- Discount rates	7% - 13% (10%)	Total impact -€0.0 million
Liabilities			
Derivatives			
Structured products derivatives			
- Options	- Correlation	-24.1% - 28.0% (1.6%)	Total impact €1.2 million
	- Volatility	n/a	n/a
- Equity swaps	- Correlation	-21.2% - 29.6% (2.9%)	Total impact €0.3 million
Financial liabilities at fair value through profit or loss			
Structured debt instruments	- Correlation	n/a	n/a
	- Volatility	n/a	n/a

Financial instruments at amortised cost

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 are estimated on the basis of the present value or other estimation or valuation methods.

Financial instruments at amortised cost	30/06/2020		31/12/2019				
	Fair value	Carrying amount	Fair value	Carrying amount	Level	Valuation method	Significant observable and non-observable market inputs
Assets							
Due from banks	261,026	261,184	297,444	297,556	2	Discounted cash flows using applicable money market rates	Interest rate and discount rate
Loans and advances to the public and private sectors	8,609,913	8,477,322	8,855,716	8,597,894	3	Discounted cash flows using current market fees for comparable loans and taking into account the creditworthiness of the counterparty	Interest rate, discount rate and counterparty credit risk
Other financial assets at amortised cost	481,573	468,905	442,305	425,606	1	Quoted prices in active markets	-
Liabilities							
Due to banks	480,033	480,199	141,715	141,715	2	Discounted cash flows using applicable money market rates for liabilities	Interest rate and discount rate
Public and private sector liabilities	9,898,009	9,826,117	9,607,892	9,545,095	3	Discounted cash flows using applicable money market rates for liabilities with a comparable term to maturity, taking account of own credit risk	Interest rate, discount rate and own credit risk
Issued debt securities	1,530,232	1,525,313	1,550,831	1,545,109	1	Quoted prices in active markets	Interest rate and discount rate
Subordinated loans	206,635	172,760	222,483	173,090	3	Discounted cash flows using applicable money market rates for debt instruments with a comparable term to maturity, taking account of own credit risk	Interest rate, discount rate and own credit risk

28 Netting of financial assets and financial liabilities

Netting of financial assets and liabilities at 30/06/2020	Gross	Gross in the statement of financial position	Net presented in the statement of financial position	Related amounts not netted in the statement of financial position	Net
Derivatives (assets)	430,279	22,822	407,456	8,669	398,787
Derivatives (liabilities)	624,498	22,822	601,675	8,669	593,006

Netting of financial assets and liabilities at 31/12/2019	Gross	Gross in the statement of financial position	Net presented in the statement of financial position	Related amounts not netted in the statement of financial position	Net
Derivatives (assets)	414,524	47,245	367,279	5,398	361,881
Derivatives (liabilities)	497,071	47,245	449,826	5,398	444,428

29 Related parties

					H1 2020
	Income	Expenses	Amounts receivable	Amounts payable	Guarantees
Total	**1**	**-**	**-**	**4,363**	**20,944**
Parties with a shareholding in VLKWM of at least 5%	-	-	-	-	-
Investments in associates using the equity method	1	-	-	4,363	20,944

					H1 2019
	Income	Expenses	Amounts receivable	Amounts payable	Guarantees
Total	**16**	**-**	**898**	**1,269**	**30,226**
Parties with a shareholding in VLKWM of at least 5%	-	-	-	-	-
Investments in associates using the equity method	16	-	898	1,269	30,226

For further information on related party transactions, see our 2019 annual report (from page 162).

Contingent assets

In 2015 Van Lanschot Kempen started an appeal against the Dutch tax authorities (Belastingdienst) regarding the applied pro-rata percentage which is used for the calculation of its VAT returns in the Netherlands. In March 2020, the Court in Den Bosch ruled in favour of Van Lanschot Kempen. This ruling results in Van Lanschot Kempen being able to claim VAT from the Dutch tax authorities for the previous years (2014-19), which had already been paid. As the Belastingdienst will appeal the ruling at the Supreme Court, Van Lanschot Kempen considers this material claim a contingent asset.

Contingent liabilities

In our Annual Report 2019 we referred to an investigation of AFM regarding specific parts of Kempen & Co, related to compliance with Money Laundering and Terrorist Financing (Prevention) Act (Wwft). Since the publication of our Annual Report 2019 we did not receive any further information from the AFM concerning this investigation. We still expect to receive more information about the potential consequences during the remainder of 2020.

Segment information

Segmentation of our activities is based on operating segments, as our risk and return profile is chiefly affected by differences in our products and services. Internal cost allocation is based on use of services. Our activities break down into five operating segments, while intersegment transactions are conducted on an arm's length basis.

Private Banking

Private Banking offers private clients and entrepreneurs a broad range of products in the private banking market, while also focusing on business professionals and executives, healthcare professionals, foundations and associations.

Evi

Evi, Van Lanschot Kempen's online investment coach in the Netherlands and Belgium. Its activities specifically target mass affluent individuals and Millennials.

Asset Management

A specialist asset manager, Asset Management focuses on a range of investment strategies while also offering fiduciary services to domestic and international institutional clients such as pension funds and insurers.

Merchant Banking

Merchant Banking offers specialist services including equities research and trading, mergers & acquisitions services, structured investment activities, capital market transactions and debt advisory services to institutional investors, corporates, financial institutions and public and semi-public entities.

Other activities

These comprise activities in the fields of interest rate, market and liquidity risk management, staff departments, as well as the activities of Van Lanschot Participaties/ Bolster and consolidated investments.

Operating segments in H1 2020 (€ million)						
	Private Banking	Evi	Asset Management	Merchant Banking	Other activities	Total
Statement of income						
Net interest income	69.5	1.5	0.1	-0.0	5.9	76.8
Income from securities and associates	-	-	-0.2	-	0.8	0.6
Net commission income	66.4	2.4	52.1	27.0	1.0	148.9
Result on financial transactions	0.6	-	-0.0	-27.2	1.4	-25.3
Other income	-	-	-	-	4.7	4.7
Total income from operating activities	**136.4**	**3.9**	**51.9**	**-0.3**	**13.9**	**205.8**
Staff costs	43.2	1.1	24.2	12.1	41.2	121.8
Other administrative expenses	31.3	2.4	7.6	4.5	16.1	61.8
Allocated internal expenses	33.0	0.8	6.9	5.6	-46.4	-
Depreciation and amortisation	3.0	-	0.5	0.2	7.2	10.8
Impairments	1.2	0.0	-	-	0.3	1.5
Total expenses	**111.7**	**4.3**	**39.2**	**22.3**	**18.3**	**195.9**
Operating result before tax	**24.6**	**-0.5**	**12.7**	**-22.6**	**-4.4**	**9.9**

Operating segments in H1 2019 (€ million)						
	Private Banking	Evi	Asset Management	Merchant Banking	Other activities	Total
Statement of income						
Net interest income	77.0	1.4	0.0	-0.1	6.1	84.5
Income from securities and associates	-	-	0.1	-	69.3	69.4
Net commission income	62.9	2.5	48.4	27.4	1.0	142.2
Result on financial transactions	0.6	-	-0.0	-1.3	-7.4	-8.1
Other income	0.0	-	-	-	4.6	4.6
Total income from operating activities	**140.5**	**3.9**	**48.5**	**26.0**	**73.5**	**292.5**
Staff costs	49.6	1.9	24.0	12.7	38.1	126.3
Other administrative expenses	33.4	3.1	7.6	3.4	22.1	69.7
Allocated internal expenses	35.5	1.1	6.6	5.1	-48.4	-
Depreciation and amortisation	2.8	0.0	0.5	0.0	9.5	12.7
Impairments	-7.4	-	-	-	-0.1	-7.5
Total expenses	**113.9**	**6.1**	**38.7**	**21.3**	**21.3**	**201.3**
Operating result before tax	**26.6**	**-2.2**	**9.8**	**4.8**	**52.3**	**91.2**

Events after the reporting period

On 18 August, we announced the acquisition of 100% of the shares of Hof Hoorneman Bankiers NV, a private bank based in Gouda, currently having client assets of around €1.9 billion. The transaction is contingent upon approval by regulatory authorities. We expect the closing of this transaction late 2020. We anticipate that the transaction will among others lead to an increase of Goodwill and other intangible assets and Total assets and liabilities.

Other information

Statutory Board responsibility statement

The members of the Statutory Board hereby declare, to the best of their knowledge, that the 2020 condensed interim consolidated financial statements, which have been prepared in accordance with IAS 34 (Interim Financial Reporting), give a true and fair view of the assets, liabilities, financial position and income of Van Lanschot Kempen Wealth Management NV and its consolidated entities, and that the condensed interim consolidated financial statements of 30 June 2020 gives a true and fair view of the information to be provided in accordance with Article 5 (25) (d) (8) (9) of the Dutch Financial Supervision Act ("Wft").

's-Hertogenbosch, the Netherlands, 25 August 2020

Statutory Board

Karl Guha, Chairman

Constant Korthout

Richard Bruens

Arjan Huisman