



VAN LANSCHOT KEMPEN

RESPONSIBLE BANKING: ALLOCATION OF CLIENT DEPOSITS CERTIFICATION STATEMENT 2017

Van Lanschot Kempen has set out a policy on Corporate Social Responsibility. The evolution and results of this policy have been reported systematically since 2009. This seventh annual certificate¹ examines whether Van Lanschot Kempen deploys client assets strictly according to its own principles of responsible banking.

To all those interested in Van Lanschot Kempen,
To all (Evi) depositors and investors,
To borrowers,
To the general public:



Forum ETHIBELⁱⁱ was appointed to independently audit Van Lanschot Kempen (VLK) on conformity with its principles and guidelines on Corporate Social Responsibility (CSR) with regard to its allocation of the funds entrusted to it as well as its lending and investment policies.

About Van Lanschot Kempen

Van Lanschot Kempen describes itself as a *specialised and independent wealth manager*. Its services are provided to high net-worth individuals, entrepreneurs, associations and foundations. The balance sheet has a high but declining percentage of loans outstanding (from 78% in 2011 to 62% in 2017) and was strengthened during that period: the (*Common Equity*) *Tier 1 ratio* rose from 18.6% (in 2016) to 20.3%.

Corporate Social Responsibility

Van Lanschot Kempen pursues a comprehensive Corporate Social Responsibility (CSR) policy, **based on a stakeholder dialogue and the bank's own core values**. The policy is aimed at **four target areas**, for which 7 assessment targets (KPIs) are being monitored:

Core banking activities. Client loyalty score; growth of *assets under screening* within *Private Banking*, *Evi* and *Asset Management*.

Good employment practices. Enhancing employee engagement.

Environmental management and purchasing. Reducing CO2 per FTE by an average of 2% per annum.

Social engagement. Improvement of transparency and stakeholder dialogue are priorities, together with supporting social projects and making donations.

For 2017, the objectives for three key performance indicators were fully met. Two were largely met, one partially, and another one not. The KPI that has not been met is the target to increase the screened Assets under Management (*assets under screening*). VLK provided two explanations. Not all new assets under screening were immediately screened and there was an increased number in illiquid assets which could not be screened.

Van Lanschot Kempen adheres to several **external international guidelines**, including the *UN Global Compact* (UNGC), *Principles for Responsible Investment* (PRI) and *Guiding Principles on Business and Human Rights* (UNGPR).

Organisation of the CSR policy

The CSR policy has been worked out in detail on all relevant levels at VLK and continues to be embedded at a high level on the **Management Board**. The policy is formulated and implemented by **the Environmental Social Governance (ESG) Council**, the Lending risk policy committee, and line

management. The **Corporate Social Responsibility department** provides support and co-ordination as needed. This department also collects the non-financial data for the Annual Report, based on questionnaires aligned with the external guidelines and internal policy principles, and carries out plausibility checks on the data submitted to it. The **Ethical Council** looks into questions on ethical and societal issues that emerge from the organisation.

Responsible investment

The responsible investment policy, formulated in 2009, is gradually being implemented. It is derived from the aforementioned international guidelines. Forum ETHIBEL has monitored these processes since 2013 (since the financial year 2012) and issues a special certificate in order to confirm compliance with formulated policy.

Responsible lending

Van Lanschot Kempen defined its policy of responsible lending to businesses in 2010 and started the implementation of this policy in April 2011. Lenders are screened on involvement in human rights and labour rights violations, environmental violations, corruption, weapons, fur, gambling, pornography, animal testing and nuclear energy. A risk filter has been used to screen the existing and new corporate loans on high risks related to these sectors or activities. In case of doubt, an engagement process was initiated in order to gain clarification and make improvements.

Audit framework and process

In our audit, we verified whether the funds entrusted to the bank were deployed in line with the responsible lending and investment codes. We assessed compliance with the guidelines and evaluated the outcomes. This certifying statement concerns the full financial year 2017. Our audit has been executed in accordance with the stipulations of the agreement.

Audit of corporate lending

The corporate loans portfolio was further reduced in size from €2.3ⁱⁱⁱ to €2.0 billion. In absolute terms, the portfolio comprised 2,011 outstanding loans, of which 1,960 were exempt from further investigation. This part of the portfolio represents 21% of the total lending portfolio (the remainder being mortgage loans (69%); real estate private individuals (2%); and other loans to private individuals (8%)).

After seven years of **case-by-case analyses**, a total of 143 dossiers were submitted as 'potentially high risk'. Of these 19 remained at the end of 2017, and Van Lanschot Kempen engaged with the companies concerned. The other 124 cases were either reclassified as low risk, or the credit relationship was terminated.

'Potentially high risk' borrowers are active in 'sensitive sectors' (including garments, wood, other manufacturing) and import from or have production facilities in non-Western countries. Possible risks include illegal logging, poor labour conditions, violations of human rights, and severe environmental pollution. Two of the 'potentially high risk' companies concern (indirect) involvement in the weapon sector.

Audit results of the balance sheet*

The balance sheet total was €14.66 billion at the end of 2017. The table (see below) shows the distribution in percent of the balance sheet items, both for the inflow (liabilities) and for the outflow (assets).

Lending is under control. Potential issues were traced, pursued and remedied where needed.

The exact allocation of the item 'liquidities and deposits at banks' could not be ascertained, but VLK does subject its banking relations to an annual verification in order to prevent funds from being allocated to institutions that do not meet the Corporate Social Responsibility requirements. 4 institutions do not meet these requirements. The nature of three of these banks do not warrant intervention. An engagement process has been initiated with one

bank. The CSR requirements have been expanded and refined in 2018.

The 'financial instruments' group (17.7%) is diverse. Of this, the largest part has been screened (17.0%). Screening is virtually impossible for 0.34% (trading book). An engagement process has been initiated for 0.42%. The 'Other' balance sheet item consists of buildings, goodwill and tax claims.

	2011	2012	2013	2014	2015	2016	2017
Balance sheet total (billion €)	18,45	17,99	17,67	17,26	15,50	14,88	14,66
Balance sheet (liabilities)	100%	100%	100%	100%	100%	100%	100%
Savings and deposits	71%	63%	58%	61%	62%	65%	62%
Debt securities	13%	16%	24%	23%	22%	22%	24%
Equity	9%	8%	7%	8%	8%	9%	3%
Due to banks	2%	8%	7%	5%	5%	1%	1%
Other	5%	4%	4%	3%	3%	3%	3%
Balance sheet (assets)	100%	100%	100%	100%	100%	100%	100%
Loans and advances	77,6%	75,1%	70,7%	64%	66%	65%	62%
- private individual loans	[51,1%]	[48,9%]	[47,0%]	[43,8%]	[49,7%]	[49,3%]	[48,9%]
- corporate loans	[26,4%]	[26,2%]	[23,7%]	[19,9%]	[16,2%]	[15,4%]	[13,2%]
Cash and cash equivalents and balances at banks	9,2%	11,7%	13,6%	9,3%	7,0%	12,0%	14,0%
Financial instruments	7,6%	8,9%	11,4%	22,0%	21,9%	16,8%	17,7%
- screened	[5,9%]	[7,8%]	[11,1%]	[21,7%]	[21,7%]	[16,5%]	[17,0%]
- not screened or non-auditable	[0,4%]	[0,3%]	[0,3%]	[0,24%]	[0,04%]	[0,11%]	[0,34%]
- not fully in line; engagement	[1,3%]	[0,8%]	[0,1%]	[0,03%]	[0,14%]	[0,22%]	[0,42%]
Other (cannot be screened)	5,4%	4,4%	4,5%	5,2%	5,2%	6,0%	6,0%
Total screened	92,9%	94,5%	95,4%	94,8%	94,7%	93,3%	92,9%

* Totals may not add up due to rounding

New developments

An important advancement in 2017 is its continued commitment towards the **Sustainable Development Goals (SDGs)** of the United Nations. Van Lanschot Kempen has chosen five SDGs to which it specifically aims to focus. Their contribution to these SDGs in 2017 has already been reported.^{iv}



Another important step is that VLK reports for the second year on the **carbon footprint** of the balance sheet. In 2017, this covered around two-thirds of the balance sheet. Progress has particularly been made in measuring the carbon footprint of the mortgage portfolio and the Assets under Management. Awareness has also been created among the mortgage clients regarding energy savings and production.

As a consequence of VLKs commitment towards the "Banking sector agreement on human rights", the wealth manager started to communicate more elaborately on the processes in place to determine potential negative impact on **human rights**. VLK also published a public statement indicating that it does not maintain any direct relations with producers of **tobacco** products.

In addition, as of 2017, VLK expanded its product range by providing the possibility to invest via Duurzaam+, and a new mutual fund set up by Kempen.

Recommendation

Since 2017, Van Lanschot Kempen executes a tobacco policy. This policy applies to a number of activities (such as responsible lending). However, this is defined in a separate file. Hence, it is not included in the responsible codes of activities that fall within the scope of this tobacco policy. We would suggest that VLK refers to this tobacco policy in all relevant responsible codes (documents).

Conclusion

Based on our assessments we assume that the allocation of the balance sheet has been screened for 92.9% by VLK on the basis of its codes. Strictly speaking, this does not imply that every allocation fully meets all criteria, but it means that social-ethical risks have been properly identified and are being managed accordingly.

Given our knowledge of the screened dossiers, it is our opinion that the codes are virtually fully complied with. Neither the winding down of certain activities, nor the growth in the managed assets influence the 'screenability ceiling' of 95%.

We declare that Van Lanschot Kempen carefully and responsibly details, develops and implements its Corporate Social Responsible lending and investment policies.

Brussels, July 5, 2018
On behalf of Forum ETHIBEL asbl,



Kenny Frederickx,
General Director



Ro Van den broeck,
Research Officer

ⁱ For a further situating of the Van Lanschot Kempen profile, for a historical perspective, results and societal positioning:

- *Annual Report 2017*, in which financial and non-financial information is presented together as a coherent whole, <https://media.vanlanschot.nl/media/pdfs/2017-annual-report-van-lanschot-kempen.pdf>

- *Corporate Social Responsibility supplement 2017*,

<https://www.vanlanschotkempen.com/media/2790/2017-csr-supplement-van-lanschot-kempen.pdf>

- *Certification Statements of Forum ETHIBEL* for 2011 (baseline measurement), and for 2012 until 2016,

<https://www.vanlanschotkempen.com/responsible/external-assessment>

ⁱⁱ **Forum ETHIBEL** is a Belgian association, established in 1992 and recognised as an expert in rating, independent audits and certification of financial and other products and services that meet precise ethical and social criteria, and standards on environment and sound corporate governance. www.forumethibel.org

ⁱⁱⁱ From 2017, a value adjustment took place. Fair value hedge accounting is included in Private Banking mortgages instead of Private Banking - other loans. The comparative figures have been adjusted accordingly.

^{iv} These are *affordable and clean energy* (SDG 7), *decent work and economic growth* (SDG 8), *responsible production and consumption* (SDG 12), *peace, justice and strong institutions* (SDG 16), and *partnerships for the goals* (SDG 17). VLKs contribution to these SDGs in 2017 is publicly available.

<https://www.vanlanschotkempen.com/media/2741/our-contribution-to-the-sustainable-development-goals-van-lanschot-kempen.pdf>