

Annual Report 2005



 **KAS BANK N.V.**



Profile of KAS BANK

KAS BANK N.V. is a sound, specialist European bank offering a wide range of securities and investor services. KAS BANK's focus is on value-added services in the field of treasury, risk control and management information, which have evolved from its basic services of investment administration, custody, clearing and settlement.

KAS BANK's main target groups are institutional investors (pension funds, insurance companies, investment funds and asset managers) and financial institutions (banks and brokers). KAS BANK does not provide active asset management services itself and is fully independent, guaranteeing its absolute neutrality and autonomy. A low risk profile is an integral part of its services.

Client Focus and Operational Excellence are central to KAS BANK's services: the client, and the faultless processing on which the client relies, is paramount. This is achieved by combining a proactive approach with advanced information technology and rigorous process control. KAS BANK uses a single central technology platform for all European markets with which it has direct connections.

KAS BANK, which has offices in Amsterdam and London, celebrates its bicentenary in 2006.

KAS BANK: committed to your business

Five years in figures

KAS BANK N.V.¹

Consolidated, in millions of euros

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|-------------|-------------|-------------|-------------------|-------------|
| Shareholders' equity | 207.8 | 204.4 | 209.5 | 225.6 | 199.9 |
| Group funds (share capital, reserves and subordinated liabilities) | 237.3 | 233.9 | 246.5 | 263.1 | 234.1 |
| Balance sheet total | 7,774.0 | 6,036.8 | 8,022.7 | 6,463.3 | 5,699.1 |
| Income | | | | | |
| Interest | 23.3 | 24.6 | 31.3 | 31.9 | 31.4 |
| Commission | 77.7 | 67.3 | 59.6 | 71.3 | 74.1 |
| Trading/investment | 19.1 | 16.8 | | | |
| Other income ² | 0.4 | 0.1 | 10.3 | 70.4 | 23.3 |
| | 120.5 | 108.8 | 101.2 | 173.6 | 128.8 |
| Operating expenses ³ | 93.3 | 85.0 | 84.9 | 123.7 | 85.7 |
| Operating profit before tax | 27.2 | 23.8 | 16.3 | 49.9 | 43.1 |
| Operating profit | 19.4 | 15.9 | 13.2 | 53.8 | 30.2 |
| Figures per share of 1.00 nominal value* | | | | | |
| Net asset value ⁴ | 13.55 | 13.46 | 13.81 | 13.53 | 12.52 |
| Profit | 1.32 | 1.09 | 0.89 | 3.59 | 1.99 |
| Dividend | 1.00 | 0.95 | 0.89 | 2.00 ⁵ | 1.15 |
| Share price - high | 19.10 | 16.20 | 17.60 | 20.90 | 22.85 |
| Share price - low | 15.11 | 14.56 | 13.50 | 13.27 | 12.10 |
| Share price - year-end | 18.70 | 15.10 | 15.30 | 16.50 | 18.10 |

* in euros

Ratios

| | | | | | |
|---|-----|-----|------|------|------|
| Net return on average shareholders' equity (%) ⁶ | 9.7 | 8.2 | 6.5 | 26.8 | 16.4 |
| Efficiency ratio (expenses/income) | 77 | 78 | 85 | 68 | 66 |
| Growth in earnings per share (%) | 21 | 22 | - 75 | 80 | 1 |
| BIS ratio (average) | 17 | 23 | 26 | 22 | 18 |

1. The comparative figures for 2004 have been restated in connection with the adoption of IFRS with effect from 1 January 2004. The figures for the years 2001-2003 are based on Dutch GAAP.

2. The figures for the years 2001-2003 include income from securities and participating interests, results on financial transactions and other revenue.

3. The figures for the years 2001-2003 include value adjustments to receivables, value adjustments to financial fixed assets and additions to/withdrawals from the fund for general banking risks.

4. After proposed dividend for year.

5. Including extra dividend of € 1.00.

6. Operating profit as a percentage of average shareholders' equity after interim and final dividend. There was exceptional income/ expense in 2001 and 2002.

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Personal notes

Supervisory Board

| | |
|-------------------------|-----------------------|
| P. Ribourdouille | (1938), chairman |
| D.J. de Beus | (1946), vice-chairman |
| Mrs. E.J. Mulock Houwer | (1941), secretary |
| C.E. Beckers | (1952) |
| C. Griffioen | (1941) |
| A.H. Lundqvist | (1945) |
| R.A.H. van der Meer | (1949) |

P. Ribourdouille, chairman

| | |
|---------------------------------------|---|
| Profession/current principal position | : None |
| Previous principal position | : Member of the Managing Board of ABN AMRO Holding N.V. |
| Other positions | : Chairman of the Supervisory Boards of Optas Verzekeringen N.V. and Amsterdam RAI B.V.; member of the Supervisory Board of Investeringsmaatschappij Goedland N.V.; chairman of the Advisory Council of EDS Nederland B.V.; member of the Executive Committees of Stichting Optas and Stichting Ondersteuning Bachvereniging. |
| First appointed | : 2000 |
| Current term of office expires | : 2008 |

D.J. de Beus, vice-chairman

| | |
|---------------------------------------|--|
| Profession/current principal position | : Adviser to the Executive Directors of PGGM. |
| Previous principal position | : Chairman of the Executive Directors of PGGM. |
| Other positions | : Non-executive director of F&C Asset Management plc, London; member of the Board of Trustees of 's Heeren Loo Zorggroep; member of the Board of Trustees of Stichting Nederlands Philharmonisch Orkest and Nederlands Kamerorkest; member of the Investment Advisory Committee of Gasunie Pension Fund; member of the Advisory Council of Akkermans & Partners and Hay Group B.V.; member of the Investment Advisory Committee of Start Foundation. |
| First appointed | : 1996 |
| Current term of office expires | : 2007 |

Mrs. E.J. Mulock Houwer, secretary

| | |
|---------------------------------------|--|
| Profession/current principal position | : Director-General of Prevention, Youth & Sanctions of the Ministry of Justice. |
| Other positions | : Member of the Executive Committee of Vereniging Aegon and Residentie Orkest Den Haag, member of the Supervisory Board of Hogeschool InHolland. |
| First appointed | : 1994 |
| Current term of office expires | : 2006 |

C.E. Beckers

| | |
|---------------------------------------|--|
| Profession/current principal position | : Managing Director of Alpha Management Group of Barclays Global Investors, London; Professor of Financial Theory by Special Appointment at the Catholic University of Leuven (Belgium). |
| Other positions | : Member of the Investment Committee of Blue Sky (KLM) Pension Fund; Director of St. Lawrence Trading Inc., Bermuda. |
| First appointed | : 1998 |
| Current term of office expires | : 2006 |
| Nationality | : Belgian |

C. Griffioen

| | |
|---------------------------------------|---|
| Profession/current principal position | : None |
| Previous principal position | : Member of the Executive Board and CFO of Koninklijke KPN N.V. |
| Other positions | : Member of the Supervisory Board of N.V. Nederlandse Gasunie and Gas Transport Services; vice-chairman of the Supervisory Board of Tenna B.V.; member of the |

Supervisory Boards of Cordares Holding N.V. and Berenschot Holding B.V.; member of the Board of Trustees and chairman of the Audit Committee of Zorggroep Noorderbreedte; member of the Curatorium for the Post-Graduate Controller course at Groningen University; adviser to the Regional Director of Deloitte.

First appointed : 1998
 Current term of office expires : 2008

A.H. Lundqvist

Profession/current principal position : Chairman of the Executive Board of Eindhoven University of Technology.
 Previous principal position : Chairman of the Executive Board of IBM Nederland N.V.
 Other positions : Chairman of the Supervisory Boards of Hoogevest Groep B.V., Surfnet B.V. and Surfdiensten B.V.; member of the Supervisory Board of Generali Verzekeringsgroep N.V.; member of the Board of Trustees of St. Anna Zorggroep; member of the Advisory Council for Science and Technology Policy; member of the Executive Committee of Stichting Preferente Aandelen Vedior.

First appointed : 2001
 Current term of office expires : 2009

R.A.H. van der Meer

Profession/current principal position : Professor of Business Economics at Groningen University, General Manager of P&C B.V./Lesuut Finance B.V.
 Previous principal position : Member of the Executive Board of Fortis.
 Other positions : Chairman of the Supervisory Boards of Fortis Obam, Stadsherstel Den Haag N.V. and Teslin Capital Management N.V.; Vice-Chairman of Cório N.V.; member of the Supervisory Boards of Fortis Investments SA, Van Hoogevest Groep B.V., GITP International B.V., Robein Bank N.V., Greenfield Capital Partners N.V., International Insurance Company N.V. and Morgan Fleming (SICAV); member of the Executive Committees of Administratiekantoor Van der Moolen N.V. and Buhmann N.V.; member of the DSI Arbitration Commission; deputy member of the Enterprise Section of the Amsterdam Court of Appeal.

First appointed : 2005
 Current term of office expires : 2009

The members of the Supervisory Board are Netherlands nationals unless stated otherwise.

Managing Board

A.A. Röell (1959), chairman with effect from 12 May 2005
 F.S. von Balluseck (1942), chairman until 12 May 2005
 Th.J.M. van Heese (1945), vice-chairman until 31 December 2005
 J.P. van Veenendaal (1943)
 J.S.A. van Scheijndel (1958)
 N.E. Blom (1962), with effect from 1 February 2006

Managing Director

L.G. Vis (1951)

Assistant Managing Directors

H. Brink (1958)
 D.K. Korpel (1962)
 J. Voskuilen (1954)

Secretary

M.G.F.M.V. Janssen (1955)

Internal auditor

M.A. Bongers (1956)

Managing Board KAS BANK N.V.



From left to right: J.P. van Veenendaal, N.E. Blom, J.S.A. van Scheijndel and A.A. Röell.

Dear shareholder,

The foundations of today's KAS BANK were laid in 1806 by a group of Amsterdam merchants who had identified a gap in the market: safe custody of cash. Within a very short time, the bank established itself as a vital link in Amsterdam's financial system.

Now, 200 years later, KAS BANK is still performing the same function, but on a European scale. KAS BANK takes a proactive approach to the harmonisation of cross-border securities trading and leads the field in innovative risk control solutions, utilising its vast expertise in administrative systems and information management. For institutional investors and financial institutions, KAS BANK provides a fully automated European market environment, in which its risk management, securities and treasury services play a key role.

The European market is a challenging and complex arena where rules and practices differ from region to region and product to product, the infrastructure differs from country to country and the markets are highly diverse. Three things are essential to success in Europe: knowledge, knowledge and knowledge. Specialist expertise is a prerequisite for assembling individual products into a comprehensive and error-free service. That is what counts in 2006, just as it did in 1806.

Europe is facing a challenging future and is starting to reconsider the process by which closer cooperation between the European partners is achieved and how fast it should progress. The European project has not been abandoned, but a new movement is emerging which prioritises performance and effectiveness and which looks beyond Europe to the world outside. In KAS BANK's immediate professional field of securities and investor services, and in the broader context of continuity of income for an ageing population, lie major challenges for us all. KAS BANK is fully aware of these challenges and is looking to the future with confidence.

A.A. Röell
Chairman of the Managing Board
KAS BANK N.V.

Geachte aandeelhouder,

In 1806 legde een aantal Amsterdamse kooplieden de basis voor het huidige KAS BANK. De bank zag een gat in de markt – bewaarneming van baar geld – en werd binnen korte tijd een onmisbare schakel in het Amsterdamse financiële verkeer.

Nu, precies 200 jaar later, speelt KAS BANK een gelijke rol, maar dan op Europese schaal. De bank gaat voorop voor wat betreft de ontwikkelingen op het gebied van harmonisatie van grensoverschrijdend effectenverkeer.

Zij is vooruitstrevend op het gebied van innovatieve risicobeheersende oplossingen, daarbij gebruikmakend van haar grote kennis van administratieve systemen en informatiemanagement. Voor Institutionele Beleggers en Financiële Instellingen biedt de bank een volledig geautomatiseerde Europese marktomgeving aan, waarbinnen risicomanagement, effectendienstverlening en treasury een hoofdrol spelen.

Het Europese speelveld is uitdagend en complex. De regelgeving verschilt per regio en product, de infrastructuur verschilt per land en ook de markten verschillen onderling sterk. In Europa tellen kennis, kennis en kennis.

Alleen het gebruik van gespecialiseerde kennis leidt ertoe dat individuele producten aaneengeschakeld worden tot complete en foutloze dienstverlening.

En dat is wat anno 2006, overigens precies zoals in 1806, nu eenmaal telt.

Europa staat voor een uitdagende periode. Een periode van herbezinning is aangebroken omtrent de snelheid en wijze waarop verdere samenwerking tussen de Europese partners tot stand komt. Het Europese project is daarmee niet verloren, veeleer ontstaat een nieuwe beweging, die resultaat en effectiviteit voorop stelt. En die ook oog heeft voor de wereld buiten Europa. Zowel op het directe vakgebied – securities en investor services – als op het achterliggend terrein – inkomenscontinuïteit voor ouderen – liggen enorme uitdagingen voor ons allen. KAS BANK is zich hiervan terdege bewust en ziet de toekomst met vertrouwen tegemoet.

Jhr. mr. A.A. Röell

Voorzitter Raad van Bestuur

KAS BANK N.V.

Cher actionnaire,

C'est en 1806 que plusieurs négociants d'Amsterdam jetèrent les bases de l'actuelle KAS BANK. Cette banque, qui voyait dans la garde de l'argent liquide un nouveau créneau, devint rapidement un maillon indispensable dans les échanges financiers sur la place d'Amsterdam.

Aujourd'hui, exactement deux cents ans plus tard, KAS BANK joue un rôle identique, mais cette fois-ci à l'échelon européen. La banque est à l'avant-garde des développements en matière d'harmonisation du commerce transfrontalier des valeurs mobilières. Grâce ses vastes connaissances des systèmes administratifs et de la gestion de l'information, elle est comme aucune autre en mesure de créer des solutions innovatrices en matière de maîtrise des risques. Quant aux investisseurs institutionnels et aux établissements financiers, la banque leur offre un marché européen entièrement informatisé, dans lequel la gestion des risques, les prestations de services de valeurs mobilières et les opérations financières jouent un rôle majeur.

La scène européenne représente un défi et se caractérise par sa complexité. La réglementation y varie selon les régions et les produits, l'infrastructure selon les pays, tandis que les marchés présentent aussi de grandes différences entre eux. En Europe, la réussite passe par une connaissance absolue du marché. Seule une connaissance spécialisée permet d'assembler des produits distincts en prestations de services irréprochables. Et c'est ce qui compte en 2006, exactement d'ailleurs comme cela comptait en 1806.

L'Europe est confrontée à un nouveau défi. L'heure est à la remise en cause de la vitesse et de la façon dont la collaboration entre les partenaires européens doit se poursuivre. Cela ne veut pas dire que le projet européen est perdu, mais plutôt qu'un nouveau mouvement est en train de voir le jour, un mouvement où résultat et rendement sont en haut de l'affiche. Et qui a le regard porté sur le reste du monde. Nous avons tous d'immenses défis à relever, aussi bien dans notre métier proprement dit – le domaine des valeurs mobilières et des services aux investisseurs – que dans ce qui en constitue la toile de fond : la continuité des revenus des personnes âgées. KAS BANK en a pleinement conscience et envisage l'avenir avec confiance.

A.A. Röell

Président du Conseil d'administration

KAS BANK N.V.

Sehr geehrter Aktionär,

Im Jahre 1806 legten einige Amsterdamer Handelsleute den Grundstein für die heutige KAS BANK. Die Bank sah eine Marktlücke – Verwahrung von Bargeld – und wurde innerhalb kurzer Zeit ein unentbehrlicher Teil des Amsterdamer Finanzverkehrs.

Heute, genau 200 Jahre später, spielt die KAS BANK eine ebensolche Rolle, nun allerdings in europäischem Maßstab. Die Bank ist führend bezüglich der Entwicklungen auf dem Gebiet der Harmonisierung und im grenzüberschreitenden Wertpapierverkehr. Sie ist ebenfalls führend auf dem Gebiet der innovativen Lösungen im Bereich Risikomanagement und nutzt ihre hohe Kompetenz im Bereich der administrativen Systeme und des Informationsmanagements. Für institutionelle Anleger und Finanzinstitute bietet die Bank eine vollständig automatisierte europäische Marktumgebung, in der Risikomanagement, Dienstleistungen im Wertpapierbereich und Treasury eine Hauptrolle spielen.

Europa ist ein herausforderndes und komplexes Terrain. Die Vorschriften unterscheiden sich nach Region und Produkt, die Infrastruktur ist in jedem Land anders, und auch die Märkte unterscheiden sich stark voneinander. Nur die Anwendung von Spezialwissen führt dazu, dass individuelle Produkte zu einer kompletten und perfekten Dienstleistung verbunden werden. Und das ist es, was im Jahre 2006 zählt, übrigens genauso wie im Jahre 1806.

Europa steht vor einer herausfordernden Periode. Es hat eine Periode der Rückbesinnung bezüglich der Geschwindigkeit und der Art und Weise, wie eine weitere Zusammenarbeit zwischen den europäischen Partnern zustande kommt eingesetzt. Das europäische Projekt ist damit nicht verloren, vielmehr entsteht eine neue Bewegung, die Ergebnis und Effektivität in den Vordergrund stellt. Sie wird auch die Welt außerhalb Europas im Auge behalten. Sowohl auf dem ursprünglichen Fachgebiet – Sicherheit und Dienstleistungen für Kapitalanleger – als auch auf dem dahinter liegenden Feld – Einkommenskontinuität für Ältere – liegen enorme Herausforderungen für uns alle. KAS BANK ist sich dessen vollkommen bewusst und blickt zuversichtlich in die Zukunft.

Jhr. mr. A.A. Röell
Vorsitzender des Vorstands
KAS BANK N.V.

Caro azionista,

Nel 1806 le basi dell'attuale KAS BANK furono stabilite da un gruppo di mercanti di Amsterdam che identificarono una carenza di offerta nel mercato: il servizio di custodia del denaro in contanti.

In breve la banca divenne un nodo essenziale del sistema finanziario della città.

Adesso, dopo esattamente 200 anni, la KAS BANK svolge un ruolo analogo, ma su scala europea. La banca è all'avanguardia per quanto riguarda gli sviluppi nel settore dell'armonizzazione della circolazione transfrontaliera dei valori mobiliari. La banca è altresì all'avanguardia per quanto riguarda le soluzioni innovative per la gestione dei rischi, avvalendosi a tal fine della sua profonda conoscenza dei sistemi amministrativi e informativi. Per gli investitori istituzionali e per gli istituti finanziari la banca offre un ambiente integralmente automatizzato a livello europeo, in cui la gestione del rischio, la prestazione di servizi per valori mobiliari e la tesoreria sono le funzioni principali.

Le condizioni di concorrenza europee sono stimolanti e complesse. La normativa varia per regione e per prodotto, l'infrastruttura cambia da paese a paese e anche i mercati evidenziano forti diversità. In Europa conta la conoscenza, la conoscenza e ancora la conoscenza. Solo grazie ad una conoscenza specializzata si possono integrare i singoli prodotti per garantire un servizio integrale e senza errori. E questo è quello che conta nell'anno 2006, peraltro proprio come nel 1806.

L'Europa si trova sulla soglia di un periodo stimolante e ha intrapreso una rivisitazione dei processi che conducono ad una più stretta cooperazione tra i partners e della tempistica relativa. Il che non significa un abbandono del progetto Europa, tuttavia sta prendendo piede un movimento che privilegia il risultato e l'efficienza e che guarda oltre i confini dell'Europa stessa. Sia nel suo campo di specializzazione vero e proprio – quello dei titoli e dei servizi per gli investitori – sia nel contesto più ampio che riguarda la continuità del reddito per la popolazione anziana sono racchiuse sfide enormi per tutti noi. La KAS BANK ne è ben consapevole e guarda al futuro con ottimismo.

Jhr. mr. A.A. Röell
Presidente del Consiglio di amministrazione
KAS BANK N.V.

حضرة المساهم المحترم

في 1806 قام عدد من تجار أمستردام بوضع الأساس الذي يقوم عليه بنكنا الحالي: كاس بنك. في تلك الأيام انتبه البنك لوجود ثغرة في السوق و هي الحاجة لتوفير خدمات حفظ السيولة النقدية. ذلك الإدراك جعل البنك يتحول في فترة وجيزة إلى حلقة لا يمكن الاستغناء عنها في المعاملات المالية في أسواق أمستردام.

اليوم و بعد مرور 200 عام بالتحديد ما يزال كاس بنك يؤدي نفس الدور و لكن على الصعيد الأوروبي ككل. و أصبح البنك يتميز بمكانة طليعية فيما يتعلق بالتطورات الخاصة بتنسيق تداول الأسهم و السندات المالية عبر الحدود. كما أنه يقف في المقدمة عندما يتعلق الأمر بابتكار حلول للحد من المخاطر انطلاقاً من إلمامه الكبير بالأساليب الإدارية و جودة تحكمه في المعلومات. البنك يوفر للمؤسسات المالية و صناديق الاستثمار مساحاً أوتوماتيكياً كاملاً للسوق الأوروبي مع التركيز على التحكم في الأخطار دون إهمال الخدمات الخاصة بالأسهم و السندات.

المجال الأوروبي معقد و مليء بالتحديات. التشريع يختلف حسب المنطقة و المنتج كما أن البنية التحتية تختلف من دولة إلى أخرى. و الأسواق فيما بينها تعرف تباينات شديدة. المفتاح في أوروبا هو كلمة المعرفة ثم المعرفة فالمعرفة. اللجوء إلى المعرفة المتخصصة هو الوسيلة الوحيدة للتوفيق بين منتجات قائمة بحد ذاتها لتحويلها إلى خدمة متكاملة و سليمة. هذا مطلوب اليوم في عام 2006 كما كان مطلوباً في عام 1806.

أوروبا مقدمة على مرحلة من التحديات و عليها أن تراجع نفسها لتحديد سرعة و طريقة التعاون بين الشركاء الأوروبيين مستقبلاً. هذا لا يعني ضياع المشروع الأوروبي بل بروز حركة جديدة تعطي الأولوية للنجاحة و تحقيق النتائج. كما أنه من المطلوب عدم الاغفال عن العالم خارج البيئة الأوروبية. حيث أصبحنا كلنا اليوم نواجه تحديات جمة على الصعيد المهني المباشر- الأوراق المالية و خدمات الاستثمار – و كذلك على صعيد ضمان استمرار الدخل للكبار في السن. نحن في كاس بنك نعي هذه التحديات و نتطلع للمستقبل بثقة كاملة.

البارون أستاذ أ. رويل
رئيس مجلس إدارة
كاس بنك ان.في.



Information for shareholders

Shareholders' position strengthened

Attendance at the 2005 General Meeting of Shareholders was high, because it had been made easier for holders of KAS BANK depositary receipts to vote at meetings. Depositary receipt holders who attended the meeting were automatically entitled to vote. They were also able to vote by proxy. The shareholders and depositary receipt holders attending the meeting represented almost 50% of the voting shares.

A new Shareholders' Committee was not appointed in 2005 because its powers had been further restricted by new legislation which prevented it serving a useful function. At KAS BANK, the right to recommend candidates for appointment to the Supervisory Board and to be notified of proposed appointments of members of the Managing Board is therefore no longer delegated to a committee and has reverted to the plenary General Meeting of Shareholders.

A proposal will be brought before the General Meeting of Shareholders to dispense with the '15% rule' in the Articles of Association and to remove the restrictions on the exchange of depositary receipts for shares. This will mean that holders of the company's shares and depositary receipts will have unrestricted and unconditional voting rights. Depositary receipt holders will also be able to vote in the event of 'hostilities', such as a public bid. Our shareholders and depositary receipt holders will then be able in all circumstances to exercise their voting rights and participate in decision-making at the General Meeting of Shareholders.

Share capital and listing unchanged

The company's share capital consists of ordinary shares and cumulative preference shares, all of which are registered. Share certificates are not issued. The number of KAS BANK ordinary shares in issue at year-end 2005 was unchanged from year-end 2004 at 15,699,017. A large proportion (approximately 86%) of the ordinary shares in the company's issued capital were registered in the name of Stichting Administratiekantoor Aandelen KAS BANK, in exchange for which the same number of bearer depositary receipts has been issued. There are 25 cumulative preference shares in issue. The nominal value of KAS BANK shares and depositary receipts is one euro (€ 1.00).

The ordinary shares, in the form of depositary receipts, have been listed on the Official Market of the Euronext Amsterdam N.V. stock exchange since 1986. KAS BANK is included in the NextPrime segment of Euronext, one of the exchange's quality segments in which the investor is provided with clear and detailed information on the companies listed.

Dividend policy unchanged

The dividend policy, which was discussed by the 2004 General Meeting of Shareholders, is unchanged. A long-term pay-out averaging 60-80% of the operating result is still the goal, while maintaining adequate flexibility in exceptional circumstances. Our aim is a healthy rising trend in the dividend over time.

More 5% holdings

NIB Capital N.V. transferred its shareholding in KAS BANK to ABP and PGGM in 2005. Delta Deelnemingen Fonds has given notification of a holding KAS BANK at the beginning of 2006, while Friesland Bank sold its holding. The following institutions have given notification of holdings of 5% or more in KAS BANK pursuant to the Major Holdings in Listed Companies Disclosure Act 1996. The year of notification is given in brackets. The size of the

holding may have changed since that date, however, because notification is not required if the change is within the bandwidths of 5-10% and 10-25%.

- ING Groep N.V. 15.6% (1998)
- Fortis Brussels S.A./N.V. 11.4% (2003)
- Stichting PGGM 11.0% (2005)
- Delta Deelnemingen Fonds 6.9% (2006)
- Stichting Pensioenfonds ABP 6.2% (2005)
- T.F.C. Andringa 5.0% (2004)

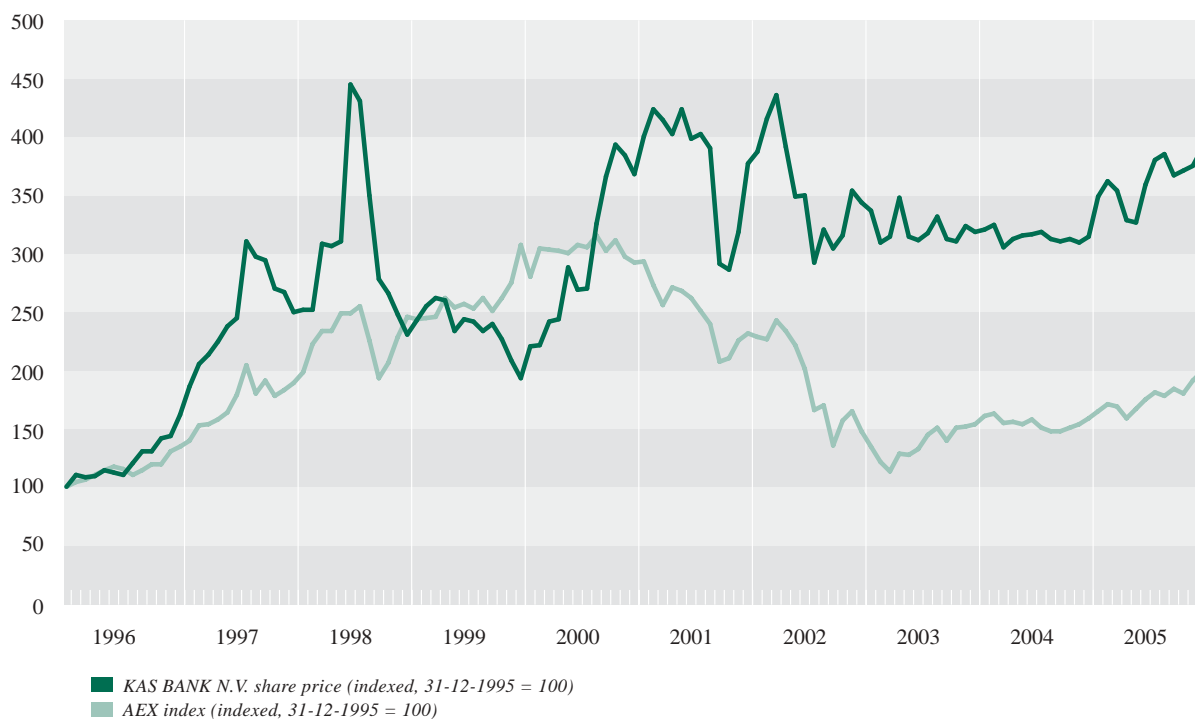
The above hold both registered shares and depositary receipts. KAS BANK has held over 5% of its own shares since 2002 (6.1% as at 31 December 2005). This holding is the result of the gradual purchase by the bank of its own shares to meet its obligations under the stock option plan.

Standard & Poor's 'A' rating

KAS BANK was awarded an 'A' long-term rating and an 'A-1' short-term rating by Standard & Poor's in 2005. The rating outlook was classed as 'stable'.

Share price outperforms AEX

Movements in the (indexed) price of KAS BANK depositary receipts over the past ten years are compared with the AEX Index in the graph below.



Figures per KAS BANK share

The figures per ordinary KAS BANK N.V. share can be found in the 'Five years in figures' summary inside the front cover.

2006 calendar

- 7 March 2006
 - announcement of 2005 figures
 - analysts' meeting
- 10 March 2006
 - KAS BANK's bicentenary
- 13 April 2006
 - publication of 2005 annual report
- 3 May 2006
 - Annual General Meeting of Shareholders
- 5 May 2006
 - ex-dividend quotation of KAS BANK N.V. depositary receipts
- 17 May 2006
 - 2005 final dividend payable
- 7 September 2006
 - publication of 2006 interim figures
 - analysts' meeting
- 8 September 2006
 - ex-dividend quotation of KAS BANK N.V. depositary receipts
- 20 September 2006
 - 2006 interim dividend payable

2007 calendar

- 22 February 2007
 - announcement of 2006 figures
 - analysts' meeting
- 29 March 2007
 - publication of 2006 annual report
- 25 April 2007
 - Annual General Meeting of Shareholders
- 27 April 2007
 - ex-dividend quotation of KAS BANK N.V. depositary receipts
- 9 May 2007
 - 2006 final dividend payable
- 6 September 2007
 - publication of 2007 interim figures
 - analysts' meeting
- 7 September 2007
 - ex-dividend quotation of KAS BANK N.V. depositary receipts
- 19 September 2007
 - 2007 interim dividend payable

Further information is available from Mr. M.G.F.M.V. Janssen, Managing Board Secretary by telephone on +31 20 557 5230 or e-mail via info@kasbank.com or at KAS BANK's website: www.kasbank.com.



Report of the Supervisory Board

To the General Meeting of Shareholders

Managing Board changes

Mr. A.A. Röell was appointed chairman of the company's Managing Board by the Supervisory Board with effect from 12 May 2005. Having reached pensionable age, Mr. F.S. von Balluseck stood down from the Managing Board on the same date after 18 years' service to the Board, 17 of which as its chairman. The Supervisory Board thanks Mr. Von Balluseck most sincerely for all his efforts on behalf of the company in an important period in its history, which saw it transformed into a fundamentally different kind of institution with a stock exchange listing. Mr. Von Balluseck played a prominent role in this transformation.

Mr. Th.J.M. van Heese retired at the end of 2005 and was succeeded by Mr. J.S.A. van Scheijndel, who had been appointed in June 2004. The Supervisory Board owes Mr. Van Heese a particular debt of gratitude for the wisdom and commitment he brought to his 34-year career with KAS BANK, of which he spent over 18 years as a member of the Managing Board. Because Mr. Van Heese had served as vice-chairman of the Managing Board for the preceding 18 months, no issues arose during that period with which he was not closely involved.

Both Mr. Von Balluseck and Mr. Van Heese were made Knights in the Order of Orange-Nassau on their retirement.

The appointment of Mr. N.E. Blom to the company's Managing Board as of 1 February 2006 was announced at the end of 2005. He will succeed Mr. J.P. van Veenendaal, who is to retire on 1 June 2006. Mr. Blom will be responsible for Operational Excellence.

2005 financial statements

The 2005 financial statements were discussed with the Managing Board and the external auditors at the meeting of the Supervisory Board on 6 March 2006. The 2005 financial statements were prepared by the Managing Board and have been examined by the external auditors KPMG Accountants N.V., whose unqualified report thereon can be found on page 102 of this report. We recommend that you adopt the 2005 financial statements at the General Meeting of Shareholders on 3 May 2006.

Following the discussion with you of the company's profit retention and distribution policy, we propose that a dividend be declared for 2005 of € 1.00 per ordinary share of € 1.00 nominal value. An amount of € 0.45 has already been paid as interim dividend. The final dividend for 2005 will therefore be € 0.55 per ordinary share of € 1.00 nominal value and will be paid in cash.

We also propose that the members of the Managing Board be discharged of liability for their management and the members of the Supervisory Board of liability for their supervision in 2005.

Corporate governance

The Corporate Governance Code and a number of issues arising from it were discussed with the shareholders at the General Meeting of Shareholders in 2005. The stock option and performance share plans for Managing Board members were approved, the profile for Supervisory Board members was discussed and the company's Articles of Association were amended. Several further improvements to the corporate governance structure are on the agenda in 2006.

Supervision and advice

The Supervisory Board met six times with the Managing Board in 2005, on one occasion in London, when the company's operations in the United Kingdom were the main focus. Among the main topics addressed were the Managing Board changes, the definition of new financial targets, the strategy for achieving them and the setting of the budget. The financial results, performance analyses and the reporting process were discussed in the light of IFRS. Permanent items on the agenda were the design and functioning of the internal risk control and monitoring systems, the risks associated with the company's operations and the sensitivity of its results to external circumstances. The Supervisory Board also discussed the bank's IT structure, the reports of the rating agencies, the bank's social policy and the pension regulations. Several presentations were given to brief the Supervisory Board members on specific issues.

One of the meetings was held in the absence of the Managing Board, at which the Supervisory Board discussed its own functioning and that of its individual members, the functioning of the Managing Board and that of its individual members and the relationship between the Supervisory Board and the Managing Board. The conclusions were discussed with the Managing Board.

Members of the Supervisory Board attended two consultation meetings of the Employees' Council at which the bank's general policy, results and other developments were discussed.

General Meeting of Shareholders

The agenda for the Annual General Meeting of Shareholders on 3 May 2006, together with detailed explanatory notes, can be found at the front of this annual report.

Principles of remuneration policy/remuneration report

The company's remuneration policy for the coming years, which was adopted by the General Meeting of Shareholders in 2004, has been posted on the company's website. The principles of the remuneration policy are as follows: the remuneration of the members of the Managing Board consists of a fixed and a variable element, a stock option and performance share plan. For the purposes of determining the variable element of the remuneration and the number of option rights and performance shares to be awarded, the performance of each member of the Managing Board is assessed annually with reference to five predetermined performance criteria. These relate to financial performance (return on equity, efficiency ratio), peer comparison, strategy and risk control.

The remuneration of the individual members of the Managing Board in 2005 was determined by the Supervisory Board on the basis of a proposal by the Appointments and Remuneration Committee. The fixed remuneration of Messrs. Röell and Van Scheijndel was increased in accordance with contractual provisions. The variable remuneration of the members of the Managing Board, on the basis of the predetermined performance criteria, remained within the policy limit of six months' fixed salary. Non-recurring additional variable remuneration was allocated to Mr. Röell in connection with his transfer to KAS BANK in 2004. The number of options granted to each member of the Managing Board in 2005 was fixed at the same number as in previous years. The stock option and performance share plans were approved by the General Meeting of Shareholders in 2005 and will be applied for the first time in 2006 (in respect of 2005). Further details are given in the 2005 financial statements. The remuneration of the members of the Managing Board complied with the duly adopted remuneration policy in 2005.

Composition of the Supervisory Board

The Supervisory Board consisted of seven members in 2005, which will be reduced to six after the General Meeting of Shareholders in 2006. All the members of the Supervisory Board are independent within the meaning of the Corporate Governance Code and none is a former member of the Managing Board. The members of the Supervisory

Board receive no profit-related remuneration. None of the members of the Supervisory Board holds KAS BANK shares or options.

The Supervisory Board has formulated a membership profile which defines its size and composition. The membership profile for the Supervisory Board was discussed at the General Meeting of Shareholders in 2004 and 2005 and the text of the profile has been posted on the company's website. A properly constituted Supervisory Board should encompass a wide range of expertise and experience in the following areas: information and communications technology, accounting organisation, national and international banking, securities and derivatives, social policy, national and international business, the workings of institutional investors and financial institutions and the European securities industry.

The duties and procedures of the Supervisory Board are defined in by-laws, which are available from the company's offices. The by-laws have also been posted on the company's website.

The members of the Supervisory Board retire by rotation, and in 2005 it was the turn of Messrs. J.H. Geertsema and A.H. Lundqvist. Mr. Geertsema was not eligible for reappointment, having reached the retirement age prescribed by the Articles of Association. He was succeeded by Mr. R.A.H. van der Meer, who was appointed to the Supervisory Board for a four-year term commencing on 12 May 2005. Mr. Lundqvist was reappointed to the Supervisory Board for a four-year term as from the same date. In the case of Mr. Lundqvist, the Employees' Council exercised its enhanced right of recommendation. Both appointments were made by the General Meeting of Shareholders on nominations by the Supervisory Board.

Mrs. E.J. Mulock Houwer is to stand down from the Supervisory Board at the end of the General Meeting of Shareholders on 3 May 2006, having served on the board for twelve years, the maximum permitted term. The Supervisory Board expects the successor to Mrs. Mulock Houwer to be appointed at the forthcoming General Meeting of Shareholders. Agreement has been reached with the Employees' Council on an enhanced right of recommendation in respect of this candidate.

Mr. C.E. Beckers, who is due to retire by rotation at the same meeting, has not offered himself for reappointment. The Supervisory Board having decided to reduce the number of members from seven to six, this vacancy on the Board will not be filled for the present.

Committees formed by the Supervisory Board

The Supervisory Board has formed three committees: the Risk Management Supervision Committee, the Audit Committee and the Appointments and Remuneration Committee. The task of the committees is to prepare for decision-making by the Supervisory Board.

The Risk Management Supervision Committee is responsible for supervising the Managing Board with regard to all banking-related aspects of the company's internal risk control and monitoring systems, including credit risks, market risks and operational risks. The Risk Management Supervision Committee met on four occasions in 2005. The main items on the agenda were risk control and internal risk models, developments in the area of security and compliance within the bank, credit reporting and loss analysis. The Risk Management Supervision Committee consists of three members of the Supervisory Board: Messrs. R.A.H. van der Meer (chairman), D.J. de Beus and C.E. Beckers.

The Audit Committee is responsible for supervising the Managing Board with regard to all accounting-related aspects of the company's internal risk control and monitoring systems, the quality, integrity and selection of the financial information provided by the company, the role and functioning of the Internal Audit department, the relationship with the external auditors, with particular reference to their independence, and the bank's ICT security.

The Audit Committee met four times in 2005. The main items on the agenda were the annual and interim reporting, the ICT structure and the relationship with the external auditors. The Audit Committee consists of three members of the Supervisory Board: Messrs. C. Griffioen (chairman), R.A.H. van der Meer and A.H. Lundqvist.

The Appointments and Remuneration Committee is responsible for defining the selection criteria and appointment procedures for all members of the Supervisory Board and Managing Board and carrying out preliminary work in connection with appointments and reappointments to the Managing Board and Supervisory Board. The committee also submits proposals to the Supervisory Board relating to remuneration policy and the remuneration of the individual members of the Managing Board. The Appointments and Remuneration Committee held six meetings in 2005, at which the business transacted included preparations for the appointment of a new Managing Board member, the reappointment of a Supervisory Board member and the appointment of new members of the Supervisory Board in 2005 and 2006. The Committee took cognisance of the various senior management appointments and discussed the criteria for the variable remuneration of Managing Board members and the consequences of the new pension scheme. The Appointments and Remuneration Committee consists of four members of the Supervisory Board: Messrs. P. Ribourdouille (chairman), D.J. de Beus and A.H. Lundqvist and Mrs. E.J. Mulock Houwer.

The minutes of all the meetings of the committees are submitted to the Supervisory Board, on the basis of which the chairman of each committee reports on its deliberations and findings.

Amsterdam, 6 March 2006

The Supervisory Board:
P. Ribourdouille, chairman
D.J. de Beus
E.J. Mulock Houwer
C.E. Beckers
C. Griffioen
A.H. Lundqvist
R.A.H. van der Meer





Report of the Managing Board

Report of the Managing Board

KAS BANK 1806–2006

KAS BANK bicentenary in 2006

On 10 March 2006, KAS BANK will be celebrating its bicentenary in the heart of Amsterdam. A great deal may have changed at KAS BANK since 1806, but we still have our roots in the centre of the city and, as in 1806, the bank is still making a contribution to the community.

Today, KAS BANK is a specialised European securities bank with direct access to all the relevant financial markets in Europe and clients from around the world. KAS BANK has changed out of all recognition but, as in 1806, it is still a dynamic and enterprising organisation which looks to the future with confidence. The Managing Board takes this opportunity to thank its clients, its staff, its shareholders and its partners for their confidence in and commitment to the bank.

2005 Results

Healthy growth resulting in strong profit increase

KAS BANK ended 2005 with a profit of € 19.4 million, compared with € 15.9 million in 2004. This is an increase of 22%. Excluding non-recurring income in 2004 and 2005 as a consequence of changes in the pension scheme, profit was 37% higher, due to healthy growth in commission income reflecting the acquisition of new clients and a greater volume of cross-selling. All financial objectives have been achieved with this result.

Investment climate in 2005

Although the trend on most stock exchanges was encouraging, margins narrowed for the third year in succession in response to keen competition between international providers of financial services for the professional market. The bank's interest income was adversely affected by the still-low long-term interest rates and the tightening yield curve, but there have recently been tentative signs of an improving interest-rate environment.

Development of results 2005

Income

Income increased by 11% to € 120.5 million (2004: € 108.8 million).

Growth mainly took place in treasury, risk management on behalf of third parties and investment management services. Income arising from active management of the portfolio 'available for sale' (AFS) decreased. As a result, the quality of the result improved.

Interest

Net interest amounted to € 23.3 million (2004: € 24.6 million). The decrease in market interest rates in 2005 had a negative effect on net interest. The increase in volume is mainly attributable to IFRS as netting of interest income and expenses is only allowed under specific conditions.

Commission

Net commission increased by 15% to € 77.7 million (2004: € 67.3 million).

| <i>Commission in millions of euros</i> | 2005 | 2004 | difference | % |
|--|------|------|------------|-----|
| Custody and Investment Management Services | 31.2 | 25.2 | 6.0 | 24% |
| Clearing & Settlement | 27.6 | 27.0 | 0.6 | 2% |
| Securities Borrowing & Lending | 13.3 | 9.7 | 3.6 | 37% |
| Other commissions | 5.6 | 5.4 | 0.2 | 4% |
| Total | 77.7 | 67.3 | 10.4 | 15% |

The increase in income from custody was attributable to both an increase in exchange rates and an increase in the number of clients. The number of institutional clients using IMS services increased further.

Income from securities borrowing & lending increased considerably. The growth related to all securities borrowing & lending activities, both in the Netherlands and abroad. In particular the increase in agency lending – whereby the bank acts as intermediary instead of counterparty with reference to securities lending – was sharp. Our main foreign markets are Germany, France and Italy.

Despite a significant increase in clearing and settlement income, commission income showed a modest increase due to competition.

Trading/AFS income

Income from trading/AFS income amounted to € 19.1 million (2004: € 16.8 million).

| <i>Trading/AFS income in millions of euros</i> | 2005 | 2004 | difference |
|--|------|------|------------|
| Trading income - foreign exchange transactions | 12.3 | 9.2 | 3.1 |
| Trading income - securities and derivatives | 1.3 | 0.7 | 0.6 |
| AFS income ¹ | 5.5 | 6.9 | - 1.4 |
| Total | 19.1 | 16.8 | 2.3 |

¹ including income from sales of shareholdings in Exchanges amounting to € 1.3 million (2004: € 2 million).

The result from transactions in the AFS portfolio decreased due to a decrease in sale transactions. The result from shares in exchanges included in the AFS portfolio decreased due to a super dividend of € 0.8 million received in 2004 from the London Stock Exchange (LSE).

Income from foreign exchange increased considerably, which was attributable to new products and more client activity. As a result, the quality of the result improved.

Operating expenses

Operating expenses amounted to € 93.3 million (2004: € 85.0 million); a 10% increase. Operating expenses were influenced in both 2005 and 2004 by a release in pension obligations resulting from one-off changes in the pension regulation (€ 1.4 million in 2005 and € 3.6 million in 2004). In addition, non-recurrent restructuring expenses are included in 2005. Adjusted for these items, the increase of the operating expenses amounted to 5%.

| <i>Operating expenses in millions of euros</i> | 2005 | 2004 | difference | % |
|--|------|------|------------|-----|
| Staff | 58.6 | 53.4 | 5.2 | 10% |
| Property | 4.6 | 4.6 | - | 0% |
| IT | 11.1 | 9.7 | 1.4 | 14% |
| General expenses | 9.3 | 8.6 | 0.7 | 8% |
| Depreciations | 9.7 | 8.7 | 1.0 | 11% |
| Total | 93.3 | 85.0 | 8.3 | 10% |

The increase in staff expenses, in addition to the abovementioned causes, is mainly attributable to increases in collective agreement and periodic increases. The number of staff decreased marginally. In 2005, more temporary staff was employed for the purpose of IT projects.

IT costs increased as a result of expansion in the capacity of the computer systems, as a result of which the licence and maintenance expenses increased. This also affected depreciation expenses. By expanding IMS and Treasury services, expenses of exchange rate information services increased further.

Tax expense

When determining the tax expense, existing tax facilities, exempted profit elements and facilities not qualifying for deduction were also included. The tax expense is determined on the basis of the profit for the year.

Solvency

The qualifying capital comprises the core capital (Tier-1 capital) including the supplementary capital (Tier-2 capital). The qualifying capital is offset against risk weighted assets, which results in the BIS ratio.

At year-end, the BIS ratio was 19% (2004: 21%). The Tier 1-ratio amounted to 16% (2004: 17%). The average BIS ratio in 2005 was 17% (2004: 23%). On average, the Tier 1-ratio amounted to 15% (2004: 17%).

Profit appropriation

With the approval of the Supervisory Board, it has been decided to add € 3.7 million of the profit of € 19.4 million to reserves, leaving € 15.7 million at the disposal of the General Meeting of shareholders. We propose that a dividend be declared for the 2005 financial year of € 1.00 per ordinary share of € 1.00 nominal value. If this proposal is adopted by the General Meeting of Shareholders, the final dividend will be € 0.55. An interim dividend of € 0.45 has already been paid. It is proposed that the final dividend be paid entirely in cash. The pay-out ratio is approximately 80% of the profit for the year. The final dividend will be payable on 17 May 2006.

Outlook

KAS BANK resumed publication of financial targets in 2005, and these will guide the bank's operations in 2006. The economic outlook for Europe is uncertain, which will inevitably have repercussions for the securities industry. However, the sale of part of our shareholdings in the three leading stock exchanges in the first quarter of 2006 will generate additional net revenue of approximately € 8.4 million and, partly for that reason, the Managing Board predicts healthy growth in the full-year profit for 2006, if no special circumstances arise.

Strategy and objectives

KAS BANK refines its mission

KAS BANK is a specialist European Bank for securities and investment services. Its primary target groups are institutional investors (such as pension funds, insurance companies, investment funds and asset managers) and financial institutions (such as banks, brokers and securities traders). In the Netherlands, KAS BANK also provides services for private clients, both directly and through asset managers working in partnership with the bank.

Our clients demand faultless management and settlement of their transactions all over the world. They are looking for the optimum balance between judicious risk management and maximum revenues from their investment and trading utilities. KAS BANK has developed a wide range of treasury, risk management and securities products and services which meet their needs.

With the growing internationalisation of our client base, client connectivity through the Internet has become crucial. KAS BANK sees the Internet as its primary channel of communication and invests in its web presence on a continuous basis.

Proactivity, one of the key elements of our mission, informs the relationship between the client and our staff. As a specialist, we are in a position to offer our clients innovative custom solutions, devised by our highly skilled team which seeks to generate solutions that anticipate direct market demand. KAS BANK operates in a culture in which growth opportunities and challenges go hand in hand.

European strategy advances

There are a number of developments in progress within Europe which are conducive to the achievement of the bank's European strategy. Firstly, the bank is ideally positioned to play a part in shaping the sustainable solution to the problem of population ageing and the related demand for income continuity. The European Commission's directive on an Institution for Occupational Retirement Provision (IORP), which addresses the issue of the internationalisation of pension schemes, represents another step in the lengthy, but inevitable process of further integration. Both of KAS BANK's home markets, the United Kingdom and the Netherlands, have well-developed pension systems. The expertise it can draw upon in those countries can be used by KAS BANK elsewhere in Europe to offer its added-value services in risk management, information provision and treasury. The interest in (cross-border) asset pooling, the large-scale adoption of defined-contribution schemes and the growth in the use of derivatives all point to a retirement provision market which is becoming increasingly internationalised.

Secondly, the volume and complexity of national and European regulations in the securities markets are creating opportunities for specialists such as KAS BANK to offer supplementary services. Performance measurement, compliance monitoring, investment administration and reporting to regulators are just some of the products through which the bank is taking over more and more of the functions of institutional investors and/or financial institutions. Quality, specialisation, neutrality and thorough knowledge of the 'do's and don'ts' which apply in the various market segments are KAS BANK's key attributes in this regard.

Lastly, KAS BANK occupies a special position in Europe by virtue of its extensive network of direct connections to European markets, which we have made accessible to players in Europe and outside. Our connections to central banks, clearing houses, custodians and derivatives and equities markets create a platform for our clients from which they can operate as if there were already a unified capital market in Europe. With its own risk management system, its centralised collateral management function and its clear administration and settlement procedures, KAS BANK provides an innovative alternative to the present highly fragmented situation in Europe.

KAS BANK's services comprise, on the one hand, traditional custody, administration and settlement services and, on the other, high-quality added-value services. The latter now account for around a quarter of KAS BANK's total revenues, and this proportion is expected to increase in the future. Rapid growth is expected in particular in KAS BANK's passive asset management services, which comprise a comprehensive range of functions for institutional investors such as currency overlay, passive tactical asset allocation, interest rate swaps (partly in response to the new Financial Assessment Framework) and management of the transition of asset managers' portfolios. As a result, the bank's result will be less susceptible to external factors.

Growth is not an end in itself. The securities and investor services sector is highly knowledge-intensive and requires custom-made solutions and this, together with the diversity of markets and market practices across Europe, creates potential for sustainable growth in KAS BANK's chosen market segments.

The threats come from the lack of a level European playing field, both in terms of less than optimum structures within the industry itself, such as ownership and control of central securities depositories (CSDs), which are effectively privately owned government monopolies, and in terms of the implementation of European regulations, as in the case of tax reclaim in France for example. Such complex structures are not conducive to fair and transparent competition, which ultimately means less than efficient pricing for end-users. KAS BANK is an active participant in national and European bodies which seek to bring about the balanced harmonisation of the European securities industry.

As a medium-sized player in a highly knowledge-intensive market, it is important for KAS BANK to avoid overstretching its knowledge resources and assets. By focusing closely on our key target groups and with our flexible corporate culture, we have been able to meet our clients' needs without diversifying beyond our core competences. Our neutrality in relation to active asset management and our independence from all financial institutions enable us to form deep-rooted relationships with our clients.

Financial targets for sustainable growth and profitability

Since mid-2005, KAS BANK has published financial targets by which we can measure the quality of our growth and our profit. Movements in long-term interest rates, for example, have a direct correlation with KAS BANK's performance which is largely beyond our control. Linking the targets to the long-term interest rate trend gives a clearer picture of the bank's actual performance. The wide bandwidth allocated to the efficiency ratio reflects KAS BANK's ambitions in terms of cost control and productivity.

The financial targets and achieved results are detailed in the graph below. Circumstances may arise in any year which make it necessary to depart from these targets.

| Parameter | Target | 2005 | 2004 |
|-------------------------------|---------------------------------------|------|------|
| Growth in non-interest income | ≥ 10% | 19% | 11%* |
| Efficiency ratio | 70-77% | 77% | 78% |
| Return on Equity | 5-8 points over 10-year interest rate | 9.7% | 8.2% |
| BIS-ratio | ≥ 15% | 19% | 21% |
| Growth in earnings per share | > 8% | 21% | 22%* |
| Dividend pay-out | 60-80% | 81% | 94% |

* 2003 based on Dutch GAAP

Other targets: key performance indicators defined

KAS BANK's organisation is designed to translate two critical success factors – client focus and operational excellence – into practice. Its progress towards these goals is measured in terms of two key performance indicators (KPIs), to show more clearly the commercial targets which underlie the financial targets. KAS BANK has defined objectively measurable KPIs to show the direction in which the business is moving. By setting goals for each KPI, to be achieved within a given number of years, the bank's commercial and operational targets can be expressed in practical terms.

KPIs for client focus:

| Client Focus | Indicator | 2005 | Target |
|--------------|--|-------|--------|
| | Settlements NL : Europe ¹ | 60:40 | 40:60 |
| | AuA ² NL : Europe ¹ | 70:30 | 50:50 |
| | Number of new clients NL : Europe ¹ | 70:30 | 30:70 |
| | Top 10 client share | 29% | < 25% |
| | Volume - core : value added | 59:41 | 50:50 |

KPIs for Operational Excellence:

| Operational Excellence | Indicator | 2005 | Target |
|------------------------|--|-----------|------------|
| | STP ³ ⇒ direct connections | 96% | > 97% |
| | STP ³ ⇒ via correspondent banks | 79% | > 80% |
| | Continuity ⇒ systems uptime | 99.7% | > 99.5% |
| | Scalability ⇒ CPU staffing | 55% | < 70% |
| | Reduction in external complaints | - 6%/year | - 30%/year |
| | Training costs per employee | 3.1% | 3.5% |

¹ including other countries

² Assets under Administration/custody

³ Straight Through Processing

Client focus: plans for 2006

- to consolidate our position in the institutional market in the United Kingdom by increasing our commercial effectiveness;
- to focus more closely in the Netherlands on the largest pension funds and insurance companies and other selected clients;
- to research how best to respond to demand from asset managers for outsourcing of investment administration and related services;
- to expand our risk management services for institutional investors by introducing integrated asset/liability software designed to reduce interest-rate, currency and market risk;
- to expand our services for local intermediaries in Germany and France, increase sales capacity in these markets and investigate the feasibility/desirability of establishing a base there;
- to establish a deposit bank function and settlement capacity (as a deposit bank) on the principal regional stock exchanges (Frankfurt, Stuttgart, Munich, Düsseldorf);
- to investigate opportunities in Luxembourg and Ireland, as the main centres for investment fund administration and custody and asset pooling for pension funds.

Operational excellence: plans for 2006

- to expand Internet connectivity by adding more transaction-related functions;
- to increase the proportion of straight-through processing (STP) of orders delivered online from 96% to over 97%, and thus further reducing the need for manual intervention in operational processing; this will be achieved by targeting clients which are not yet submitting orders online, so the Internet will become increasingly important in the operational processing;
- to establish a connection to the LIFFE derivatives market in London;
- to implement a new securities lending system;
- to raise the STP percentage for transactions via our correspondent banks from 79% to over 80%, focusing in particular on stocks which are traded on several exchanges under the same code (dual listing);
- to ensure that our staff are as expert and professional as possible, which we consider a critical success factor, by providing more training; the proportion of income spent on staff training will increase to 3.5%.

Client focus: progress in 2005

Institutional investors segment

The bank's results in the institutional investor segment of the market continued to improve in 2005. Given the growing interest in our value-added products, however, the volume of assets in custody and under management is becoming less relevant. Non-Dutch securities accounted for 82% of the total assets in custody.

Demand for outsourcing has grown significantly in the Netherlands as a consequence of the introduction of the new Financial Assessment Framework (n-FTK), the modest funding ratios of some pension funds and further developments in pension fund governance. This trend towards outsourcing has arisen because pension funds need a state-of-the-art administration system but want to reduce their costs at the same time.

In KAS BANK's case, investment administration is increasingly forming the basis for our services to institutional investors. In contrast to custody administration, which records the legal position, investment administration monitors the financial position and is used by KAS BANK as the basis for performance measurement, risk analysis and compulsory reporting to regulators on behalf of institutional investors.

In response to the keen competition on the market, we have continued to develop our value-added products based on investment administration. In 2005, we introduced passive tactical asset allocation and successfully rolled out our passive currency overlay product.

Further work has been done on our Microrisk and Projected Macrorisk model (MAPM), which has been developed in-house. MAPM is an invaluable tool for pension funds in preparing the risk analyses required by the n-FTK. The model can perform solvency and continuity analyses in both nominal and real terms and incorporates a simulation model which enables pension funds to compute the risk profile for a variety of investment allocations. Using this model, KAS BANK produced a study paper in early 2005, showing how to formulate an appropriate investment policy (consistent with a conservative risk budget) based on the structure of a pension fund's obligations. KAS BANK plans to expand its risk management services for institutional investors by offering integrated asset/liability programmes for analysing, assessing and monitoring interest-rate, currency and market risks. The choice of risk profile is, of course, at the Client's discretion.

The life-course savings scheme ('levensloopregeling') introduced by the Netherlands government at the start of 2006 created an excellent opportunity for KAS BANK to support pension funds proactively. KAS BANK has played a significant role in implementing life-course savings schemes for a number of Dutch pension funds. The savings accounts under these schemes are held with KAS BANK, which also acts as custodian within the meaning of the relevant legislation and provides performance measurement services.

The life-course savings scheme is seen as the forerunner of pension provision based on defined-contribution (DC) schemes, under which the benefit risk is borne by the members individually, not collectively, so that administration of pension obligations also has to be individualised. KAS BANK took over the administration of its first DC schemes in 2005.

Dutch financial institutions are becoming increasingly concerned at the number of investment funds moving their registered offices to Luxembourg or Ireland. Multinational companies are also pooling their pension funds' investments in those countries, usually for tax reasons. With the 'fonds voor gemene rekening' (mutual fund), the Netherlands now also has an excellent vehicle which can be used to set up pooling structures of this kind. Although the tax legislation which came into effect on 1 January 2006 has brought the position of the Netherlands closer to that of Luxembourg and Ireland, it is important that the Netherlands should keep its pension industry, which enjoys a worldwide reputation for innovation and forward thinking, within its national borders. We welcome all progress in this area.

KAS BANK has many years' experience in pooling investments and has the knowledge and skills needed to set up pooling structures. KAS BANK administers and manages investment pools for several Dutch clients. In conjunction with a leading accountancy firm, KAS BANK organised a well-attended seminar on this subject in late 2005.

Dutch institutional investors are increasingly outsourcing the management of their portfolios to asset managers, with many of which KAS BANK has a close relationship. There is also growing interest among asset managers themselves in outsourcing investment administration and related services. KAS BANK will review its product portfolio in 2006 to assess how well it is equipped to meet this demand. In this application, good connectivity with the asset manager's front-office systems is essential.

The Turner Commission published its second report on the UK pension system at the end of 2005. Whereas the first report (2004) had consisted largely of an analysis of the pensions issue in the UK, the second proposed a number of ways of keeping pension charges at an affordable level. The main recommendations made by the report were the introduction of a national pension savings scheme (alongside the existing basic State pension provision) and a gradual raising of the retirement age (to 66 in 2030). The national pension savings scheme would be funded by employees' and employers' contributions and would be given favourable tax treatment.

In the UK, collective defined-benefit schemes are being terminated and replaced by individual defined-contribution schemes (where the member bears the risk) on a large scale. This trend is less apparent in the Netherlands, where a switch from final-pay to (partial) average-pay schemes is in progress. The collective aspect is more highly valued in the Netherlands, chiefly on the grounds that the risks are spread more widely.

KAS BANK doubled its client base in the UK and systematically extended its position in the institutional market segment, where small and medium-sized pension funds have been our main target group. Now that we have attained critical mass, we are also turning our attention in the UK to the larger pension funds. Competition on the market is intense and margins are under pressure. Consultants play a key role in the final choice of custodian in the UK, and are an important distribution channel.

Financial institutions segment

Despite intense competition on the European clearing and settlement market, KAS BANK has acquired several major financial institutions as new clients and deepened its relationship with existing clients through cross-selling. The pressure on margins was particularly high in the case of basic services, but this was compensated by higher volume, thanks to the favourable stock market climate in 2005, and the introduction of new services.

Financial institutions are also outsourcing their back-office functions, and KAS BANK is responding by offering modular back-office services on a selective basis, concentrating on wholesale rather than retail services.

Order execution is becoming increasingly integrated with clearing and settlement: the party receiving the order also settles it. KAS BANK's order management services offer clients substantial cost-savings on the Euronext markets. Securities transactions are also settled via KAS BANK. In 2005, we invested in the development of an Internet-based order management facility.

With KAS BANK, all securities transactions within the eurozone can be settled using a single euro account. Because combined securities and derivatives transactions can be settled via this account, clients can make substantial productivity gains in liquidity management and collateral management. KAS BANK also saves costs for its clients because it uses a single IT platform to settle securities transactions. KAS BANK has been described as 'one of the few truly European clearing and settlement platforms'.

Outside Europe, the Dubai International Financial Exchange (DIFX), which has been incorporated under UK law, has appointed KAS BANK as its settlement agent for Europe. We have also acquired the status of General Clearing Member (GCM) for this market. DIFX is presenting itself as the exchange for the fourth time zone – covering the Middle East, India/Pakistan and South Africa – alongside New York, London/Frankfurt and Singapore/Tokyo. Our close involvement in the construction of the clearing and settlement platform for DIFX has stimulated renewed interest in the Middle East on the part of global and European brokers.

Treasury

KAS BANK's Treasury department is responsible for money brokerage, currency trading, securities lending, collateral management and balance-sheet management.

Good results were achieved last year in securities lending, a service in which KAS BANK can act as principal (as the client's counterparty) or as agent (where KAS BANK is an intermediary). Both lending volume and profit developed satisfactorily, reflecting the growth in the securities available for lending, our intensive marketing effort and the connection to an Internet trading platform. Lending of non-Dutch securities and fixed-income bonds accounted for most of the growth. By comparing the performance of our securities lending programme with the rest of the market (benchmarking), KAS BANK provides clients with transparent reporting.

Interest income was under pressure from the low interest rates and the flat yield curve, but the reduction in income was mitigated by active balance-sheet management.

One of the primary objectives of balance-sheet management at KAS BANK is to maintain adequate liquidity. Because it holds various accounts with the national central banks in Europe, it is essential that KAS BANK's liquidity management and collateral management are effective and timely. No problems with liquidity management were experienced in 2005.

The results on foreign-exchange trading were satisfactory, helped by the increasing internationalisation of institutional capital flows and the active hedging of clients' exchange risks. The rapid emergence of Internet trading platforms is making foreign-exchange trading more transparent, which is bringing pressure to bear on margins.

Private banking

High priority was again given in 2005 to the quality of our services, in particular with regard to compliance with regulations, integrity and duty of care as they relate to investment analysis, advice and management. Further progress was made in putting the 'know your customer' principle into practice. Sales of mortgages were higher. Management services such as currency overlay and passive tactical asset allocation were transferred to the Private Banking department to ensure effective functional segregation.

Further donations were received last year for Ars Donandi, the welfare and culture foundation which provides a vehicle for third parties wishing to set up their own funds. Ars Donandi is an efficient response to the needs of private and corporate donors and foundations to safeguard the continuity and maintain the effectiveness of the assets allocated to charitable causes. Ars Donandi is enjoying growing popularity among these donors.

Operational excellence: progress in 2005

KAS BANK broadened its European profile in 2005 by establishing new connections or augmenting existing connections in the following markets:

- direct connection as general clearing member (GCM) on the Irish Stock Exchange in December 2005, simultaneously with the introduction of the central counterparty structure in Ireland;
- admission as clearing member to the Euronext Paris (Monep) and Euronext Brussels (Belfox) derivatives markets;
- Connection to the Italian market via a third-party clearing. It is difficult to establish a direct connection under the local rules and purchasing clearing services from third parties is a good solution;
- Expansion of our connection to the SWX in Switzerland, where we are now acting as settlement agent;
- Connection to the Swedish securities infrastructure via third-party clearing for settlement of transactions on Stockholmsbörsen.

The custody and settlement services for the Dubai exchange (DFIX) have been implemented and KAS BANK has been admitted as a general clearing member.

KAS BANK works unceasingly to increase the straight-through processing (STP) percentage, through modifications to internal systems, continuous contact with our clients and expansion of the Internet applications, in both the direct and indirect markets.

Following further refinements to our internal control procedures, KAS BANK has been issued an SAS70-II control statement. This certificated statement by our external auditors strengthens the bank's position with both institutional investors and financial institutions. KAS BANK is the first bank in the Netherlands to qualify for this statement – a testament to the quality of our services.

Voting by proxy at general meetings of shareholders is an issue which has attracted a great deal of attention. Large institutional investors are under growing pressure to use their votes, to the extent that US pension funds which abstain from voting may find themselves facing a class action. KAS BANK has significantly expanded its services in this area and voting is now possible in many countries via the Internet.

The integration of the various European markets is making slow progress. Through its participation in a number of European working groups, KAS BANK is closely involved in the efforts to further harmonise the European securities and payments infrastructure. In the area of payments, a new TARGET2 system for connections with the central banks has been introduced. Developments relating to the establishment of a Single European Payments Area (SEPA) are being closely monitored and will be implemented in due course.

The number of cleared option contracts has grown sharply, thanks to our direct connections to the Belfox (Belgium) and Monep (France) derivatives markets. KAS BANK's connections to the trading platforms are used for both securities and derivatives transactions by a growing number of brokers and traders. By combining transactions, they can negotiate lower tariffs on those exchanges.

Considerable time and effort was invested in strengthening the IT support for our services, in terms of both quality and efficiency, via projects ranging from new stock exchange connections and expansion of KAS-Web (our Internet application) to network security and productivity improvement. Our disaster-recovery procedures have been reviewed and a manual prescribing the action to be taken in the event of an emergency has been finalised. Fall-back drills are held on a regular basis.

Risk control and monitoring systems

General remarks and SAS70 type II report

KAS BANK operates and maintains a system of administrative organisation and internal controls, using secure ICT systems and highly developed risk-management systems. The business processes are organised and controlled in accordance with the Nederlandsche Bank's Regulation on Organisation and Control (Regeling Organisatie en Beheersing).

A SAS70 Type II/FRAG 21 report has been prepared by KAS BANK and certified by the external auditors. This report, providing information on the risk-control measures which are relevant to KAS BANK's clients, complies with the requirements of the Statement on Auditing Standards Number 70, Type II, entitled 'Service Organisations' (SAS70), issued by the American Institute of Certified Public Accountants. The report also complies with the requirements of the Financial Reporting and Auditing Group (FRAG21) of the Institute of Chartered Accountants in England and Wales. The functioning of the internal controls with regard to the services is also assessed.

Principles

KAS BANK seeks to maintain a low risk profile through effective risk management in all relevant areas of its operations. This profile is achieved by focussing on selected client groups and specialised services, compliance with legislation and regulations and appropriate internal procedures.

Securities custody

Through KAS BANK's direct connections with national central securities depositories (CSDs) in several European countries, optimum protection is also provided for securities which the investor holds in those countries. In countries where KAS BANK does not have a direct connection with the CSD, it operates where possible via KAS Depository Trust Company and/or KAS Nominees Ltd. through a network of correspondent banks. Specialised banks are

selected for this function, and their risk profiles and the quality of their services are regularly reviewed and corrected. Securities custody is also regulated by applicable legislation and by contract.

Clearing and settlement

Settlement of securities transactions is generally on a delivery-versus-payment basis, which necessitates verifying prior to settlement that sufficient funds and securities are available. Sufficient collateral must be lodged before the clearing facility for securities and derivatives transactions can be used. The Risk Management department is responsible for verifying the adequacy of the collateral. The securities lending service is also subject to appropriate collateral requirements.

Integrity and compliance

As integrity has come to play a more prominent role in the legislation on financial supervision, the standards of integrity which financial institutions, their employees and their governance are required to meet have become increasingly strict in the past decade. The compliance function assists the organisation in complying with and implementing the ever-expanding array of laws and internal and external rules to which the bank is subject.

The purpose of the compliance function is to promote and maintain the bank's integrity and good name and thus preventing damages. Its primary tasks are to ensure conformity with the codes of conduct relating to securities transactions and client relationships, to avoid conflicts of interest, to prevent involvement by the bank in culpable acts or other socially unacceptable practices and to avoid harm to clients' confidence in the bank or in the financial markets in general. Several new rules were implemented in 2005, including rules to prevent market abuse, money laundering and financing of terrorism.

Risk management

Policy issues and decisions relating to risk control are the responsibility of the Risk Management Committee, consisting of the members of the Managing Board and the head of Risk Management. Some of the divisions have their own Risk Management Subcommittees. Members of the Managing Board also participate in several other committees, including the Interest Rate Committee (balance-sheet management) and the ICT Security Steering Committee. Risk control is a line responsibility and senior management involvement in risk control is embedded in the organisation. Day-to-day structural monitoring of various aspects of risk control is performed by the Risk Management and Internal Audit departments among others.

The Risk Management department is primarily responsible for analysis, preparation of policy on and coordination of the control of the bank's operational, credit, market and liquidity risks, and also has a general responsibility for the entire bank. Risk Management employs a range of systems, procedures, limits and checks and participates in relevant internal and external consultation procedures.

Operational risk

The operational risk to which the bank is exposed in the conduct of its business is controlled by various means, for example by formulating procedures and task instructions which incorporate internal monitoring and reporting structures, providing training and, at a more general level, ensuring a high level of expertise among the staff. The Risk Management department has an Operational Risk Manager and the bank's operations are overseen by the Internal Audit department and external regulators. KAS BANK gives high priority to the control of operating risk and intends to redouble its efforts in this area in the coming years.

Credit risk

Lending in connection with settlement, clearing or securities lending facilities or otherwise is generally against the collateral of securities. KAS BANK selects the stocks which it will accept as collateral and to which it accords a

percentage collateral value. Selection and valuation are the subject of continuous review, paying particular attention to the liquidity and volatility of the stocks concerned. Lending is monitored using a system which quantifies the risks and carries out checks on the collateral which has been lodged, taking an integrated view of the client's economic position on all the markets on which the client is active. A system of limits, set by the Risk Management Committee, is applied where lending is unsecured or less than fully secured.

Market risk

Treasury transactions are mainly undertaken in execution of clients' instructions. KAS BANK trades in financial instruments for its own account and risk to a limited extent. The bank's balance sheet is highly liquid and its capital ratios are strong. Given the liquidity of its balance sheet, its exposure to interest-rate risk is low and is further constrained by the hedging of part of the interest-rate risk on fixed-income assets with interest-rate derivatives. KAS BANK holds only a few very limited foreign-exchange positions for its own account. Both interest-rate risk and currency risk are controlled by a system of guidelines and limits, including value-at-risk limits, set by the Risk Management Committee.

Liquidity risk

Given the liquidity of KAS BANK's balance sheet, its exposure to liquidity risk is low. KAS BANK has lodged substantial collateral with central banks, clearing institutions and other bodies to facilitate its clients' settlement and payment processes.

The risk management function reports to the Managing Board and the Risk Management Committee.

Auditing and supervision

The independent audit and review function performed by the Internal Audit department (IAD) within the bank is defined in by-laws which have been discussed with the Audit Committee of the Supervisory Board. The following types of audit are performed under these by-laws:

- financial audits, to measure and evaluate the quality (reliability) of financial reporting;
- operational audits, to measure and evaluate the quality of process and risk control and to verify the existence and evaluate the structure and functioning of internal risk control, including the administrative organisation and the internal control measures which it incorporates and which are essential for effective operation;
- information technology (ICT) audits, to evaluate the control of ICT risks by assessing the ICT organisation and ICT processes, the systems under development and the technical ICT infrastructure and evaluating the risks relating to the ICT organisation, policy, processes, services and resources (people, applications, systems, technology, facilities and information) and related control measures;
- compliance audits, to measure and evaluate compliance with legislation and regulations.

The risk-orientated audit approach and planning are determined in consultation with the external auditors and are assessed by the regulators. IAD's terms of reference cover the whole of KAS BANK.

The IAD reports to the chairman of the Managing Board and the Risk Management Committee and briefs the Audit Committee and the Risk Management Supervision Committee of the Supervisory Board on a regular basis.

KAS BANK is supervised by the Nederlandsche Bank and the Authority for the Financial Markets in the Netherlands (AFM) and the Financial Services Authority in the UK.

Financial reporting risks

KAS BANK's adoption of the International Financial Reporting Standards (IFRS) as from 1 January 2005 has necessitated a number of changes to internal procedures and related internal risk control and monitoring systems.

Further improvement of financial and risk-management information is kept under constant review by the bank.

The structure and functioning of the internal risk control and monitoring systems are regularly evaluated in the light of the bank's objectives and risk profile, assessed by internal and external supervisors and discussed with the relevant committees formed by the Supervisory Board.

In the light of the foregoing, it can be confirmed with reasonable confidence that the internal risk control and monitoring systems have functioned satisfactorily and that the financial reporting therefore contains no material misstatements.

It should be understood that, given their inherent limitations, the internal risk control and monitoring systems cannot:

- provide complete assurance concerning the achievement of strategy, objectives or chosen risk profile;
- eliminate all material inaccuracies or instances of loss, fraud or non-compliance with legislation or regulations.

Developments

By developing and maintaining its internal risk control and monitoring systems, KAS BANK ensures that its services are responsive to the dynamics of its operating environment. Operational risk is one of the areas on which particular attention is focused, with the aim of increasing efficiency and reducing error rates. Another area of special concern is product development risk and the time taken by related projects.

In response to the growth in securities lending volume and the more active approach adopted to balance sheet management, attention is focusing more closely on control of the related risks. New systems have been or are being purchased which offer improved risk control functions for both securities lending and treasury activities.

The know-your-customer principle and related client acceptance, identification and monitoring procedures are still a significant area of concern. KAS BANK is closely following developments at the national and international level and is bringing its internal procedures into line.

KAS BANK also monitors developments in the auditing and compliance field and contributes to consultations organised by the regulators, the Netherlands Bankers' Association and auditors' organisations. At the international level, the bank's processes comply with the recommendations of the Basel Committee on Banking Supervision and the Financial Action Task Force.

Social policy

Social policy fosters commitment and quality

KAS BANK is a knowledge-intensive organisation which employs only specialists and professionals. Our staff have to invest heavily in knowledge, on a continuous basis, to accommodate the ongoing internationalisation of our services, the diversity and complexity of European legislation and regulations and the growing demand for our specialism. Professional training and internships, including cross-border assignments, are essential to maintaining the quality and professionalism of our people. Given the breadth and diversity of our markets and client base, which we service from Amsterdam and London, it is important that our staff are committed and flexible. The past year has demonstrated that we can count on their commitment.

To reinforce KAS BANK's position in the market and in response to the growing competition and the resulting pressure on prices, high priority was given last year to improving productivity and efficiency. Significant progress was made in this area last year, thanks to the effort and involvement of our staff who came forward with many ideas for cutting costs, improving quality and working faster, better and more effectively.

Performance management was introduced at the higher levels within KAS BANK in 2005 in order to foster greater commitment to and responsibility for the achievement of the bank's strategic and financial goals. It is intended ultimately to extend performance management to all the bank's staff. Performance will in due course be linked to the variable remuneration.

Pension provision at KAS BANK changed with effect from 2005, with the switch from a final-pay scheme to a combined final-pay/average-pay scheme. Different arrangements were also made with regard to the sharing of the contribution burden as between the company and the employees. Employees now pay a maximum contribution of 5% of their pensionable salary. The pension regulations have been amended again on 1 January 2006, in connection with the entry into force of new legislation relating to early retirement and life-course savings schemes.

At 748 FTEs (2004: 755 FTEs), the number of employees in Amsterdam and London was fairly constant in 2005 and little change is expected in 2006.

Constructive cooperation with Employees' Council

Seven meetings were held between the Employees' Council and the Managing Board last year, two of which were also attended by members of the Supervisory Board. The matters discussed at these meetings included KAS BANK's policy and strategy, the financial results, the general course of business and a number of other specific issues affecting the staff and the bank. The Employees' Council's constructive cooperation, its valuable input and its open communication in the past year were greatly appreciated and we thank the Council most sincerely.

At the strategic and organisational level, items on the agenda included the Managing Board changes in 2006, the amendment of the Articles of Association in connection with the revised two-tier management structure legislation and the Corporate Governance Code, productivity improvement, the abolition of the 4x9 shift roster, the introduction of performance management and the realignment of the organisation in the context of the 'Committed to Growth' project.

At the social level, the topics discussed included revision of the code of conduct, the introduction of a whistleblower's charter, the appointment of confidential advisers and restrictions on the number of periodic medical examinations. The Employees' Council was closely involved with the introduction of the life-course savings scheme and the new healthcare system within the bank. The Employees' Council approved the proposed nomination of Mr. R.A.H. van der Meer for appointment to the Supervisory Board and the reappointment of Mr. A.H. Lundqvist, through the exercise of its enhanced right of recommendation, and recommended a candidate for the vacancy which will arise in 2006 on the retirement of Mrs. E.J. Mulock Houwer.

Corporate social responsibility

The KAS BANK Welfare Fund and KAS BANK Study Fund provided financial support for several social and cultural projects last year. The KAS BANK Welfare Fund made donations to projects and initiatives to help young teenage mothers and people with physical handicaps. The KAS BANK Study Fund provided financial support for young talent in the music, film and fashion worlds. Through donations and sponsorship, KAS BANK also made a number of regular and one-off financial contributions to good causes, charitable institutions and cultural projects which were linked in some way with Amsterdam.

Amsterdam, 6 March 2006

Managing Board:

A.A. Röell, chairman

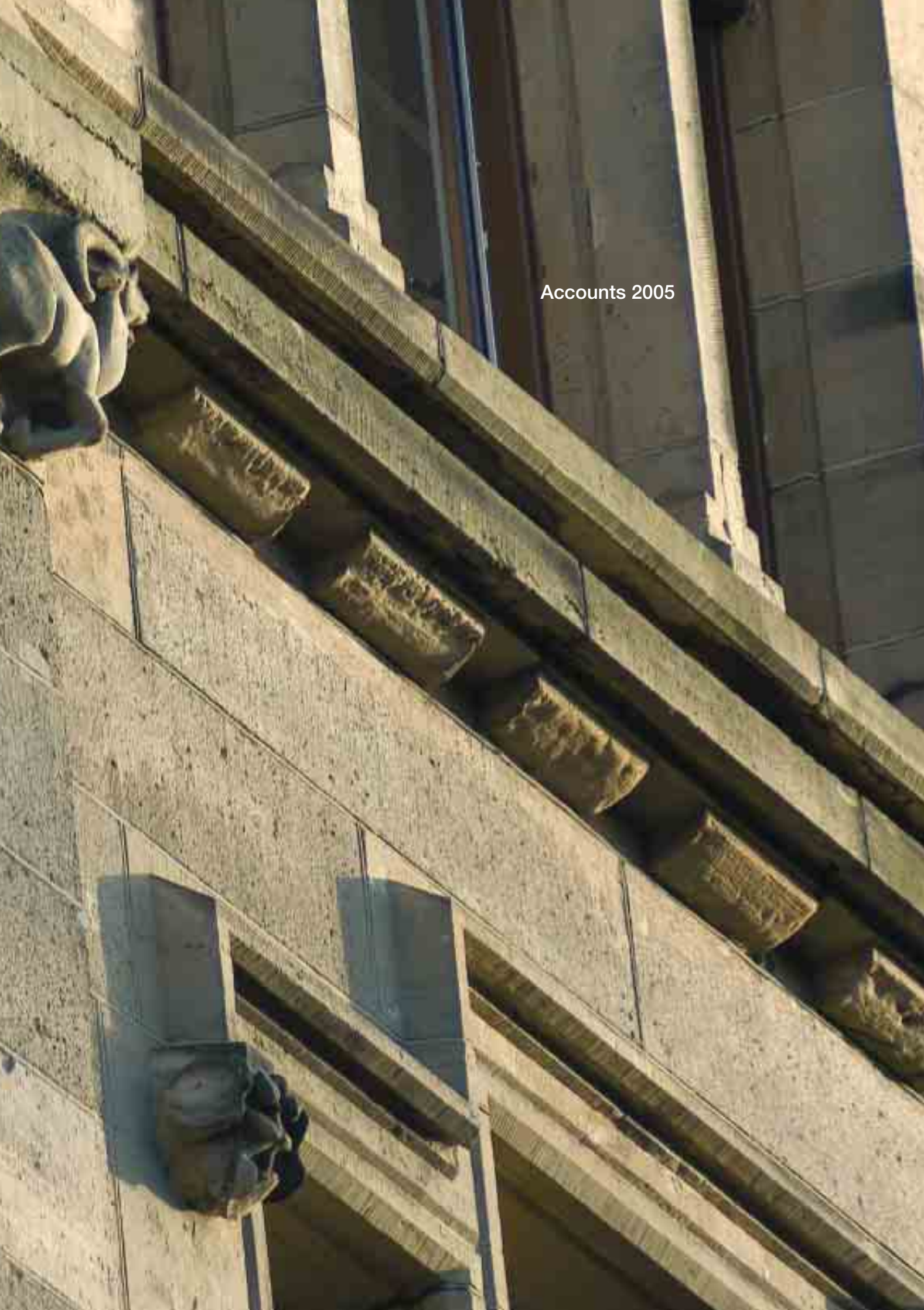
J.P. van Veenendaal

J.S.A. van Scheijndel

N.E. Blom

Th.J.M. van Heese (until 31 December 2005)





Accounts 2005

Consolidated income statement

in thousands of euros

| Income | Note | 2005 | 2004 |
|----------------------------------|------|---------------|---------------|
| Interest income | 1 | 174,921 | 147,694 |
| Interest expense | 2 | 151,646 | 123,047 |
| Net interest | | 23,275 | 24,647 |
| Commission income | 3 | 94,409 | 83,550 |
| Commission expense | 4 | 16,755 | 16,271 |
| Net commission | | 77,654 | 67,279 |
| Trading income | 5 | 13,657 | 9,858 |
| Available-for-sale income | 5 | 5,461 | 6,920 |
| Trading/AFS income | | 19,118 | 16,778 |
| Other income | 6 | 435 | 91 |
| Total income | | 120,482 | 108,795 |
| Operating expenses | | | |
| Staff expenses | 7 | 58,609 | 53,374 |
| Other administrative expenses | 8 | 24,908 | 22,906 |
| Depreciation expenses | 9 | 9,736 | 8,742 |
| Total operating expenses | | 93,253 | 85,022 |
| Profit before tax expense | 10 | 27,229 | 23,773 |
| Tax expense | | 7,850 | 7,857 |
| Profit for the year | | 19,379 | 15,916 |
| Earnings per share | | | |
| | 11 | | |
| - basic (in euros) | | 1.32 | 1.09 |
| - diluted (in euros) | | 1.32 | 1.08 |

Consolidated statement of recognised income and expense

in thousands of euros

| | Note | 2005 | 2004 |
|--|------|---------------|---------------|
| Profit for the year | 36 | 19,379 | 15,916 |
| Change in fair value of available-for-sale investments | 34 | - 484 | 8,450 |
| Actuarial gains/losses on pensions | 35 | - 3,096 | - 3,744 |
| Others | | 64 | - 1,124 |
| Total recognised income and expense | | 15,863 | 19,498 |

Consolidated balance sheet *(before proposed profit appropriation)*

in thousands of euros

| Assets | Note | 31 december 2005 | 31 december 2004 |
|---------------------------------------|------|-------------------------|-------------------------|
| Cash and deposits at the central bank | 12 | 173,369 | 81,638 |
| Banks | 13 | 1,297,299 | 429,333 |
| Loans and advances | 14 | 3,864,668 | 3,046,128 |
| Reverse repurchase agreements | 15 | 799,279 | 745,767 |
| Derivative financial instruments | 16 | 66,489 | 122,878 |
| Investments held-for-trading | 17 | 1,401 | 1,024 |
| Available-for-sale investments | 18 | 1,447,752 | 1,469,304 |
| Property investment | 19 | 757 | 725 |
| Property and equipment | 20 | 51,266 | 54,824 |
| Intangible assets | 21 | 6,868 | 5,930 |
| Deferred tax assets | 22 | 10,740 | 8,971 |
| Current tax assets | 23 | 2,814 | 1,771 |
| Other assets | 24 | 29,446 | 43,167 |
| Prepayments and accrued income | 25 | 21,840 | 25,298 |
| Total assets | | 7,773,988 | 6,036,758 |
| Equity and liabilities | | | |
| Banks | 26 | 1,296,740 | 516,870 |
| Funds entrusted | 27 | 6,056,980 | 5,052,422 |
| Derivative financial instruments | 16 | 70,132 | 147,084 |
| Deferred tax liabilities | 22 | 7,441 | 7,440 |
| Current tax liabilities | 23 | 2,039 | 4,526 |
| Other liabilities | 28 | 48,660 | 30,563 |
| Accruals and deferred income | 29 | 22,115 | 16,284 |
| Employee benefits | 30 | 32,550 | 27,722 |
| Subordinated liabilities | 31 | 29,496 | 29,496 |
| Total liabilities | | 7,566,153 | 5,832,407 |
| Issued share capital | 32 | 15,699 | 15,699 |
| Share premium | 33 | 21,569 | 21,569 |
| Revaluation reserve | 34 | 30,372 | 30,856 |
| Other reserves | 35 | 127,880 | 127,375 |
| Unappropriated profit | 36 | 12,315 | 8,852 |
| Total shareholders' equity | | 207,835 | 204,351 |
| Total equity and liabilities | | 7,773,988 | 6,036,758 |
| Contingent liabilities | 37 | 117,241 | 122,087 |

Consolidated cash flow statement

in thousands of euros

| | 2005 | 2004 |
|--|------------------|------------------|
| Cash flow from operating activities | | |
| Profit for the year | 19,379 | 15,916 |
| Depreciation expenses | 9,736 | 8,742 |
| Tax expenses paid | - 11,038 | - 3,706 |
| Movement in employee benefits | 4,828 | 6,368 |
| Movement in banks (not due on demand) | 680,714 | - 137,384 |
| Movement in loans and advances | - 818,540 | - 300,270 |
| Movement in reverse repurchase agreements | - 53,512 | - 271,058 |
| Movement in derivative financial instruments | - 20,563 | 16,863 |
| Movement in funds entrusted | 1,004,558 | 296,165 |
| Other movements in respect of operating activities | 158,496 | - 30,990 |
| Total cash flow from operating activities | 974,058 | - 399,354 |
| Cash flow from investing activities | | |
| Investments and acquisitions | | |
| • available-for-sale bonds | - 563,355 | - 446,675 |
| • shares | - 7,066 | - 2,047 |
| • property and equipment | - 2,344 | - 5,958 |
| • intangible assets | - 4,772 | - 5,045 |
| | - 577,537 | - 459,725 |
| Disposals, repayments and sales | | |
| • available-for-sale bonds | 473,779 | 440,135 |
| • shares | 6,259 | 1,296 |
| | 480,038 | 441,431 |
| Total cash flow from investing activities | - 97,499 | - 18,294 |

Consolidated cash flow statement

in thousands of euros

| | 2005 | 2004 |
|---|----------------|------------------|
| Cash flow from financing activities | | |
| Repurchase of own shares | 2,238 | - 701 |
| Repayment of subordinated loans | - | - 227 |
| Dividend paid | - 14,914 | - 13,972 |
| Total cash flow from financing activities | - 12,676 | - 14,900 |
| Effect of exchange rate fluctuations on cash items | - 3,342 | - 1,559 |
| Net cash flow | 860,541 | - 434,107 |
| Cash at the beginning of the year | 303,181 | 737,288 |
| Cash at year-end | 1,163,722 | 303,181 |
| Reconciliation of cash flow statement with balance sheet items | | |
| Cash and deposits at the central bank | 173,369 | 81,638 |
| Credit institutions balances due on demand | 990,353 | 221,543 |
| Cash at year-end | 1,163,722 | 303,181 |

Accounting policies

General

KAS BANK N.V. has its registered office in Amsterdam, Netherlands. The company's consolidated financial statements for the year ending 31 December 2005 include the company and all its group companies, together referred to as 'KAS BANK'. A list of the principal group companies is given below.

KAS BANK's core activities are securities custody, clearing and settlement services and related information services. Because its services are modular, they can be tailored precisely to our clients' needs. From its virtually fully automated security services, KAS BANK has developed a wide range of value-added services, investment management services and information services for professional end-investors, which have become another of its core activities. As well as an extensive range of management information services, the bank also prepares reports to regulators, provides risk management services and performs profitability calculations. All these value-added reports can be accessed 24/7 via the Internet. KAS BANK's professional services are complemented by a full range of treasury services.

The 2005 financial statements were drawn up by the Managing Board on 6 March 2006 and will be presented for adoption to the General Meeting of Shareholders on 3 May 2006.

Statement of compliance

The consolidated financial statements of KAS BANK N.V. have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as adopted within the European Union, and interpretations of the International Financial Reporting Interpretations Committee of the IASB.

This is the first time KAS BANK has prepared its financial statements under IFRS and has applied IFRS 1, First-time adoption of International Financial Reporting Standards.

An overview and explanation of the effects of the transition to IFRS on KAS BANK's reported financial position, financial results and cash flow can be found in the section entitled 'Reconciliation of previous accounting policies and International Financial Reporting Standards (IFRS)', which reconciles shareholders' equity and profit for the same periods under Dutch GAAP and IFRS.

Consolidation

Group companies are entities which are controlled by KAS BANK. A group company is controlled by KAS BANK if KAS BANK is able directly or indirectly to govern its financial and operating policies in order to obtain economic benefits from its activities. Group companies are consolidated as from the date on which control is acquired and are eliminated from the consolidation as from the date on which KAS BANK relinquishes control.

The group companies include:

- Associatie Cassa B.V.
- KAS Derivaten Clearing N.V.
- KAS Fondsbeheer B.V.
- KAS BANK Effectenbewaarbedrijf N.V.
- KAS Trust B.V.
- KAS Servicing B.V.

- KAS Participatiemaatschappij B.V.
- Centrum voor Fondsenadministratie B.V.

all established in Amsterdam.

A complete list of group companies has been deposited with the Trade Register of the Amsterdam Chamber of Commerce.

Intragroup balances, any unrealised gains and losses on transactions within the group and income and expenses relating to such transactions have been eliminated in the preparation of the financial statements.

Presentation

The financial statements are presented in thousands of euros, unless stated otherwise.

In preparing the financial statements, the management is required to form judgments and make estimates and assumptions which affect the items presented in the balance sheet and explanatory notes and the items presented in the income statement for the reporting period. Although these estimates are based on past experience and take into account the latest developments, the reality may differ.

The financial statements have been prepared on the basis of the IFRS rules which are applicable on or may be applied before the reporting date for the period for which IFRS is adopted by KAS BANK for the first time, viz. 31 December 2005.

KAS BANK has opted for early implementation, with effect from 1 January 2004, of the revised IAS 19-, Employee benefits, published by the IASB in December 2004.

Preparation of the financial statements under IFRS has necessitated a number of changes compared with the most recent previous financial statements, which were prepared in accordance with Dutch GAAP as applicable at that time. The accounting policies outlined below have been applied consistently to all periods presented in these financial statements. These policies have also been applied in preparing the opening IFRS balance sheet as at 1 January 2004, the date of transition to IFRS, as prescribed by IFRS 1.

The accounting policies have been applied consistently in these financial statements to KAS BANK and its group companies.

Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease in a liability has arisen that can be measured reliably. Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Set-off

Amounts receivable and payable and due on demand or maturing at the same time which relate to one person or legal entity or group of jointly and severally liable legal entities are shown net in the balance sheet where the bank has a right of set-off and it is the intention to settle the liability on a net basis or realise the asset at the same time that the liability is settled. Income and expenses are not set off unless related to hedging or to assets and liabilities which are set off in accordance with the foregoing.

Transactions in foreign currencies

Income and expenses relating to transactions in foreign currencies are translated at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated on the balance sheet date at the known exchange rate on that date. Exchange gains and losses arising out of the aforesaid

transactions and valuations are recognised in the income statement in trading income. Unrealised exchange gains and losses on non-monetary financial assets are part of the total movement in the value of the asset. In the case of non-monetary financial assets which are classified as investments held-for-trading or as derivative financial instruments, exchange gains and losses are part of the gains and losses on the investment or derivative. In the case of non-monetary assets which are classified as available for sale, unrealised exchange gains and losses are recognised in the income statement in available-for-sale income.

Financial assets

KAS BANK's financial assets consist of loans, receivables, available-for-sale investments and investments held-for-trading.

All purchases and sales of financial assets are recognised on the transaction date, viz. the date on which KAS BANK commits itself to purchasing or selling the asset.

Loans and receivables

Loans and receivables are non-derivative financial assets which are not quoted on an active market and on which interest is payable at a fixed or floating rate. These arise when the company has advanced monies to a debtor other than for trading purposes.

The loans and receivables are carried at amortised cost. The principal sums are accounted for in the balance sheet in banks, loans and advances and funds entrusted. Given their short-term nature, the fair value is virtually identical to the carrying amount. Interest income and expenses are recognised in net interest in the income statement, using the effective interest method.

Available-for-sale investments

Securities which are held for an indefinite period and can be sold if cash is needed or if warranted by movements in market value are classified as available-for-sale investments.

These securities are stated at cost on initial recognition and are subsequently stated at fair value on the balance sheet date, based on the listed bid price as at the balance sheet date. Securities of which the fair value cannot be measured reliably are stated at cost less any impairments.

Except for impairments and, in the case of monetary items, exchange differences, unrealised gains and losses arising out of movements in the fair value are accounted for in shareholders' equity. If the securities are sold or in the event of impairment, the attributable accrued gains and losses accounted for in shareholders' equity are transferred to available-for-sale income in the income statement.

If these securities are interest-bearing, the interest, calculated using the effective interest method, is recognised in interest income in the income statement. Dividends received are accounted for in the income statement in available-for-sale income.

Investments held-for-trading

Securities acquired in order to generate short-term profits are accounted for in investments held-for-trading. The securities in this portfolio are stated at cost on initial recognition and subsequently at fair value, based on the quoted bid price on the balance sheet date. All realised and unrealised gains and losses are accounted for in trading income in the income statement.

Reverse repurchase agreements

Securities which are purchased subject to the binding condition that they will be sold back in the future at a predetermined price (reverse repurchase agreements) are accounted for as secured loans. The monetary receivable, including accrued interest, is included in reverse repurchase agreements on the assets side of the balance sheet. Securities acquired by means of reverse repurchase agreements are used mainly as collateral and are not carried on the balance sheet. The interest on reverse repurchase agreements – calculated using the effective interest method – is amortised over the term of the agreement and accounted for in interest income in the income statement.

Derivative financial instruments

KAS BANK uses derivative financial instruments (derivatives) mainly to hedge currency, credit and interest-rate risks arising out of its operating, financing and investing activities. Derivatives which do not qualify for hedge accounting are accounted for as assets held for trading.

Derivatives, including foreign exchange contracts, currency and interest-rate swaps and options, are stated at cost on initial recognition and thereafter at fair value. The fair value of interest-rate swaps is the sum which KAS BANK would receive or pay if the swap were terminated on the balance sheet date, taking into account current interest rates. The fair value of currency swaps is the market price on the balance sheet date, viz. the present value of the quoted forward rate. The fair value of options is measured on the basis of official stock market quotations. Derivatives are recognised as assets if the fair value is positive and as liabilities if the fair value is negative.

Movements in the fair value of derivatives are accounted for in trading income in the statement. Movements in the fair value of derivatives used for hedge accounting are accounted for in net interest in the income statement.

Hedge accounting

KAS BANK employs hedge accounting by designating derivatives as hedges against changes in the fair value of an asset or liability on the balance sheet due to movements in interest rates (fair-value hedge). In these cases, the qualifying criteria for hedge accounting are satisfied.

A movement in the fair value of a hedging transaction which has been classified as a fair-value hedge is accounted for in net interest in the income statement. The simultaneous movement in the fair value of the hedged asset or liability which is attributable to the specific hedged risk is also accounted for in net interest in the income statement. Unhedged movements in the fair value of assets or liabilities classified as available for sale are accounted for in the revaluation reserve.

If a transaction no longer satisfies the hedge accounting criteria or the hedging relationship is terminated, the carrying amount of the hedged asset or liability is adjusted in net interest in the income statement over the remaining term, using the effective interest method.

Some transactions in derivatives which KAS BANK regards as economically effective hedging transactions in the context of its risk control policy do not qualify for hedge accounting. Gains and losses on these transactions in derivatives are recognised directly in trading income in the income statement.

Property investments

Property investments are held to generate rental income and/or capital gain and are carried in the balance sheet at fair value. The fair value of the property investments is determined every five years by a qualified independent appraiser. Interim valuations are made on the basis of the relevant price index. All changes in the value of and rental income from property investments are reflected in available-for-sale income in the income statement.

Property and equipment

Property in use by the bank is carried in the balance sheet at fair value as determined by an external appraiser on the basis of replacement value, taking account of continuity and functionality, less depreciation. Part of the property is appraised periodically. Changes in value as a result of periodic reappraisal, less a provision for deferred tax liabilities, are accounted for in shareholders' equity. Depreciation expenses are charged to the income statement on a straight-line basis over the estimated useful life of each separate component of an item of property and equipment. No depreciation is charged on land. The estimated useful life of the buildings is 50 years. Property under construction is valued at the cost of the instalment payments which have fallen due. Any instalments still payable are included in other liabilities.

Equipment is stated at cost, less accumulated depreciation and impairment losses. Depreciation expenses are charged to the income statement on a straight-line basis over the estimated useful life of each item of property, plant and equipment. Machines and computer hardware are written off over three years, furniture over five years, technical installations and alterations over ten years and alterations to leased property over the term of the lease. The residual value is assessed annually.

Assets on which depreciation is charged are assessed for impairment whenever events or changes indicate that the carrying amount may exceed the future economic benefits. An asset is written down immediately to the recoverable amount if the carrying amount exceeds the recoverable amount. Impairment losses are recognised in impairment losses in the income statement.

Intangible assets

Expenses relating to the development and maintenance of software are recognised as expenses. Expenses relating to development activities to support KAS BANK's services to clients are capitalised if the expenses can be directly related to the production of identifiable and unique software which will probably generate economic benefits for more than one year, including the cost of staff employed on the development of the software. Capitalised development expenses are recognised at cost less accumulated amortisation and impairment losses. Depreciation expenses are charged to the income statement over the estimated useful life, which is three years. This item also includes software purchased from third parties, which is depreciated over three years.

Assets on which depreciation expenses are charged are assessed for impairment whenever events or changes indicate that the carrying amount may exceed the future economic benefits. An asset is written down immediately to the recoverable amount if the carrying amount exceeds the recoverable amount. Capitalised expenses relating to software developed in-house which is not yet in use are assessed annually for impairment. Impairment losses are recognised in impairment losses in the income statement.

Lease agreements

A lease agreement is classified as a finance lease if substantially all the risks and rewards incidental to ownership of an asset are transferred from the lessor to KAS BANK. In all other cases, lease agreements are classified as operating leases.

Assets acquired via a finance lease are carried at the lower of their fair value and the present value of the nominal lease payments upon inception of the lease, less accumulated depreciation and impairment losses. The discount rate used to calculate the present value of the nominal lease payments is interest-rate implicit in the lease.

Capitalised finance leases are depreciated in accordance with the criteria stated in relation to property and equipment.

Lease payments made under an operating lease are recognised in the income statement on a straight-line basis over the term of the lease. If an operating lease contract is terminated before expiry, any penalties are recognised in the period in which the lease contract is terminated.

Impairment losses

The carrying amount of KAS BANK's assets, excluding deferred tax assets, are reviewed at each balance sheet date to ascertain whether there is any indication that an asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. The recoverable amount of assets with an indefinite useful life and intangible assets which are not yet available for use is estimated at each balance sheet date.

Financial assets carried at amortised cost

At each balance sheet date, an assessment is made of whether there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset in the balance sheet and the impact of that event or events on the estimated future cash flows of the financial asset can be reliably estimated.

The impairment loss is the difference between the asset's amortised cost and the value of future cash flows, discounted at the financial asset's original effective interest rate. Impairment losses and reversals of prior impairments are recognised in impairment losses in the income statement.

If the financial asset is collateralised, account is taken of future cash flows that may result from foreclosure of the collateral, less costs of selling, irrespective of whether foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the reversal is accounted for in impairment losses in the income statement.

Financial assets carried at fair value

At each balance sheet date, an assessment is made of whether there is objective evidence that an asset is impaired. If there is objective evidence of impairment of an available-for-sale investment, the cumulative loss – the difference between the amortised cost and current fair value, less previous impairments which have been accounted for in the income statement – is transferred from shareholders' equity to available-for-sale income in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the reversal is accounted for in impairment losses in the income statement. In the case of shares, the reversal of previously recognised impairment losses is accounted for in profit.

Other assets

An impairment loss on other assets is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss can only be reversed by an increase in the carrying amount to the extent that the carrying amount thus determined does not exceed what the carrying amount would have been (net of amortisation) had no impairment loss been recognised in prior years.

Share capital

KAS BANK's authorised capital comprises ordinary shares and preference shares. The issued and fully paid registered ordinary shares are accounted for in the balance sheet in shareholders' equity. The issued and fully paid registered preference shares are accounted for in the balance sheet in other liabilities. The preference share capital is classified as borrowed capital because, pursuant to Article 25 of the Articles of Association, dividend distributions are not voluntary. Dividends on these shares are accounted for in interest expense in the income statement.

Repurchase of own shares

Upon the repurchase of shares in the company's capital which are included in shareholders' equity in the balance sheet, the consideration paid, including directly attributable costs, is recognised as a movement in shareholders' equity. Repurchased shares which are not cancelled are deducted from shareholders' equity.

Dividend on shares

Dividend paid on shares is recognised in shareholders' equity in the period in which it is approved by the shareholders. Dividend for the year which is adopted after the balance sheet date is disclosed in the notes on shareholders' equity and the other information. Interim dividend distributed during the year is accounted for in shareholders' equity.

Interest income and expense

Interest income and expense in respect of interest-bearing securities are accounted for in the income statement using the effective interest method which, in addition to the coupon interest, also takes into account the amortisation of share premium or discount, transaction expenses and other differences between the initial carrying amount and the nominal value of the interest-bearing securities. Accrued interest on securities issued at a discount, such as Treasury paper, is accounted for in interest income.

Commission income and expense

The commission which KAS BANK earns on a wide range of services can be divided into two broad categories: net commission earned on services provided over a period, for which the clients are invoiced periodically, and net commission earned on transaction-driven services. Net commission earned on services which are provided over an extended period are allocated to the period on a pro rata basis. Net commission earned on transaction-driven services is accounted for directly in the income statement.

Employee benefits

Retirement benefit obligations

The KAS BANK pension plans are defined-benefit plans whereby the company incurs the actuarial risk and the employee is assured of a defined benefit upon reaching pensionable age.

KAS BANK has delegated the management of the Dutch pension plan to Stichting Pensioenfonds van KAS BANK, which has reinsured the obligations fully with a life insurance company. The pensions of UK staff are managed by the KAS UK Retirement Benefit Scheme, which has reinsured the obligations with a UK life insurance company.

The pension obligations are determined individually for each plan, by deducting the fair value of the plan assets from the present value of promised retirement benefits at the balance sheet date, taking into account unrecognised past-service costs. Future retirement benefits are calculated on the basis of estimates of the rights vested in employees in exchange for their services in the reporting period and previous periods. This calculation is performed annually by an actuary, using the Projected Unit Credit Method. The present value of the pension obligations is determined by discounting the estimated future outward cash flows at the interest rate for high-grade corporate bonds with maturities corresponding to those of the pension obligations.

Pension costs are accounted for in staff expenses in the income statement and the net pension obligation is accounted for in employee benefits in the balance sheet. Actuarial gains and losses result from changes in actuarial assumptions and differences between the actuarial assumptions at the beginning of the year and the realised results at year-end. Actuarial gains and losses are accounted for in shareholders' equity, in accordance with paragraph 159B of IAS 19, which became operative on 1 January 2006.

If the benefits under a plan are adjusted, the portion of the adjusted benefits which relates to employees' past service is recognised in staff expenses in the income statement over the average period until the benefits become vested. Adjustments to benefits which become vested immediately are accounted for in staff expenses in the income statement.

Other long-term staff remuneration

KAS BANK's net liability in respect of long-term staff remuneration other than retirement benefit provision comprises future remuneration earned by employees in exchange for their services in the reporting period and previous periods, taking into account mortality risk and the probability of employees remaining in company service and participating in the plans. The liability is discounted to present value and recognised in the balance sheet in employee benefits.

Expenses are accounted for in staff expenses in the income statement.

Option scheme

The value of the options granted is calculated using an option valuation model. The fair value of the options granted is accounted for in the income statement in staff expenses, with a corresponding movement in shareholders' equity. The fair value of the options granted is determined using the trinomial model, taking into account the terms on which the options were granted.

Tax expense

Corporation tax

Tax on the profit or loss for the periods presented comprises the corporation tax payable, liable for set-off and deferred in respect of the reporting period. Corporation tax is recognised in the income statement, except insofar as it relates to items recognised directly in shareholders' equity, in which case the tax is recognised in shareholders' equity.

The tax payable and liable for set-off in respect of the financial year is the expected liability in respect of the taxable profit for the financial year, calculated using the tax rates ruling on the balance sheet date, and adjustments to the tax payable in respect of prior years.

Deferred tax assets and liabilities

Deferred tax assets and liabilities relate to differences between the valuation of certain assets and liabilities for tax purposes and their valuation for accounting purposes. The deferred tax asset or liability is determined on the basis of the current tax rate and is recognised at face value. A deferred tax asset is recognised if it is probable that taxable profits will become available in future against which it can be set off.

Deferred tax assets and liabilities are set off where there is a legally enforceable right to set off such assets and liabilities and they relate to the same entity.

Securities lending transactions

Securities lending transactions are generally entered into with securities as collateral. The related assets and liabilities in the form of securities are not recognised in the balance sheet. Securities received as collateral may be pledged. Collateral received in the form of cash is accounted for in banks and funds entrusted.

Cash flow statement

The cash flow statement has been prepared by the indirect method and shows the source of the funds which became available in the reporting period. Cash flows are divided into three categories: operating activities, investing activities and financing activities.

Cash is understood to mean cash and deposits at the central bank and credit institutions balances due on demand. Balances due on demand by credit institutions are accounted for in banks.

The difference between the cash flow shown in the cash flow statement and the movement in cash in the balance sheet reflects exchange differences and is accounted for in exchange differences on cash items.

Segmentation

The segment information is provided on KAS BANK's business segments and geographical segments. A business segment is a distinguishable component of an entity which is engaged in providing a group of related services and is subject to risks and returns which are different from those of other business segments. A geographical segment is defined by the location where the revenues are generated. Segment profits, assets and liabilities comprise items which are directly attributable or may reasonably be allocated to the segment.

Custody and registration of securities and derivatives

Securities other than those kept as specifically numbered certificates and those not covered by the Giro Securities Transfer Act are held in safe custody by KAS BANK Effectenbewaarbedrijf (KAS Depositary Trust Company) N.V. or KAS Nominees Ltd. The rights and obligations arising from third-party positions in derivatives are vested in KAS Derivaten Clearing N.V. Since clients' securities and derivatives are thus divorced from the company's assets, they are not included in the balance sheet.

Notes to the consolidated income statement for 2005

in thousands of euros

| | 2005 | 2004 |
|---|----------------|----------------|
| 1. Interest income | | |
| Included in this item is income from lending and related transactions and other income in the nature of interest. Interest income not qualifying for set-off is included gross. | | |
| This item comprises interest and similar income from: | | |
| Available-for-sale investments | 47,953 | 54,123 |
| Reverse repurchase agreements | 14,142 | 15,066 |
| Loans and advances | 112,826 | 78,505 |
| | 174,921 | 147,694 |
| 2. Interest expense | 151,646 | 123,047 |
| This item comprises the costs of borrowing and related transactions and other expense in the nature of interest. Interest expense not qualifying for set-off is included gross. | | |
| 3. Commission income | 94,409 | 83,550 |
| This item includes income from custody, settlement, securities lending and derivatives clearing services. | | |
| 4. Commission expense | 16,755 | 16,271 |
| This item includes expenses relating to custody, settlement, securities lending and derivatives clearing services. | | |
| Net commission by type of service: | | |
| Custody and investment management services | 31,126 | 25,221 |
| Clearing and settlement | 27,589 | 27,016 |
| Securities borrowing & lending | 13,323 | 9,680 |
| Other commission | 5,616 | 5,362 |
| Total | 77,654 | 67,279 |
| 5. Trading/AFS income | | |
| Investments held-for-trading: | | |
| Securities and derivatives | 1,336 | 722 |
| Foreign-exchange trading results | 12,321 | 9,136 |
| | 13,657 | 9,858 |

Notes to the consolidated income statement for 2005

in thousands of euros

| | 2005 | 2004 |
|---|---------------|---------------|
| 5. Trading and investment (continued) | | |
| Available-for-sale investments: | | |
| Securities | 5,429 | 6,920 |
| Other gains and losses on available-for-sale investments | 32 | - |
| | 5,461 | 6,920 |
| 6. Other income | | |
| | 435 | 91 |
| This item includes non-recurring income indirectly generated by operations which cannot be classed under any other heading. | | |
| 7. Staff expenses | | |
| Staff costs comprise: | | |
| Salaries | 40,236 | 37,155 |
| Pension costs | 6,911 | 5,325 |
| Costs of early retirement and disability schemes | 604 | 754 |
| Other social security charges | 4,001 | 3,754 |
| Other staff expenses | 6,857 | 6,386 |
| | 58,609 | 53,374 |

The salaries item includes € 0.3 million (2004: € 0.4 million) in respect of the cost of staff options.

Other staff expenses include the cost of temporary staff and costs arising from secondary terms of employment.

The adjustment of the pensionable age to the statutory retirement age of 65, in accordance with the new legislation on early retirement, pre-pension and life-course savings schemes (VPL) which came into effect on 1 January 2006, resulted in a non-recurring reduction in pension costs of € 1.4 million.

The reduction of € 3.6 million in 2004 was due to the change on 1 January 2005 from a final-pay system to a combined final-pay/average-pay system.

Pension costs also include contributions paid for UK pensions amounting to € 0.5 million (2004: € 0.7 million).

Number of employees

| Average number with contract of employment | Number of employees | | Number of full-time equivalents | |
|--|---------------------|------------|---------------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Netherlands | 760 | 752 | 717 | 710 |
| Other countries | 36 | 41 | 35 | 40 |
| Total | 796 | 793 | 752 | 750 |

Notes to the consolidated income statement for 2005

in thousands of euros

| | 2005 | 2004 |
|---|---------------|---------------|
| 8. Other administrative expenses | | |
| Premises costs | 4,539 | 4,602 |
| IT costs | 11,093 | 9,727 |
| General overheads | 9,276 | 8,577 |
| | 24,908 | 22,906 |

9. Depreciation expenses

| | | |
|--|--------------|--------------|
| Land and buildings in use by the company | 489 | 489 |
| Other property and equipment | 5,413 | 5,289 |
| Intangible assets | 3,834 | 2,964 |
| | 9,736 | 8,742 |

10. Tax expense

7,850 **7,857**

This item relates to tax expense on the profit for the year from ordinary operations as disclosed in the income statement. The tax liability has been calculated taking into account available tax facilities, tax-exempt items and items which are not tax-allowable. The average effective tax rate was 28.8% (2004: 33%). The applicable tax rate was 31.5% (2004: 34.5%).

| Reconciliation with effective tax rate | 2005 € | 2005 % | 2004 € | 2004 % |
|---|--------|--------|--------|--------|
| Profit before tax expense | 27,229 | | 23,773 | |
| Tax expense at applicable rate | 8,577 | 31.5 | 8,202 | 34.5 |
| Tax-exempt profit on available-for-sale investments | - 141 | - 0.5 | - 14 | - 0.1 |
| Deductible expenses in respect of staff stock options | - 164 | - 0.6 | - 262 | - 1.1 |
| Other non-deductible items | - 30 | - 0.1 | - 69 | - 0.3 |
| Corporation tax liability for current year | 8,242 | 30.3 | 7,857 | 33.0 |
| Adjustments due to finalisation of prior-year assessments | - 392 | - 1.5 | - | - |
| Corporation tax liability at average effective tax rate | 7,850 | 28.8 | 7,857 | 33.0 |

Notes to the consolidated income statement for 2005

in thousands of euros

| | 2005 | 2004 |
|--|-------------|-------------|
| 11. Earnings per share | | |
| The calculation of the basic and diluted earnings per share at year-end is based on the profit attributable to holders of ordinary shares, amounting to € 19,379 (2004: € 15,916). | | |
| Profit for the year | 19,379 | 15,916 |
| Issued share capital | 15,699 | 15,699 |
| Own shares held by the company | - 1,056 | - 1,039 |
| Weighted average number of ordinary shares | 14,643 | 14,660 |
| Exercise of stock options | 43 | 129 |
| Weighted average number of ordinary shares (diluted) | 14,686 | 14,789 |
| Basic earnings per share (in euros) | 1.32 | 1.09 |
| Diluted earnings per share (in euros) | 1.32 | 1.08 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| ASSETS | 2005 | 2004 |
|--|------------------|------------------|
| 12. Cash and deposits at the central bank | 173,369 | 81,638 |
| This item includes all amounts in legal tender and demand deposits with the central bank. | | |
| 13. Banks | | |
| This item comprises all receivables from credit institutions under official banking industry supervision and from central banks, other than funds included in cash and deposits at the central bank or available-for-sale investments. | | |
| Due on demand from other credit institutions | 990,353 | 221,543 |
| Not due on demand from other credit institutions | 306,946 | 207,790 |
| | 1,297,299 | 429,333 |
| 14. Loans and advances | | |
| Included in this item are all amounts receivable, including receivables covered by securities, other than receivables from credit institutions and items in the form of bonds and other fixed-income securities. This item includes no provisions for doubtful debtors of material significance. Lending mainly concerns loans and advances to professional clients in the Netherlands and the United Kingdom. | | |
| Loans | 252,196 | 67,329 |
| Advances | 3,589,355 | 2,958,409 |
| Mortgage loans | 23,117 | 20,390 |
| | 3,864,668 | 3,046,128 |
| 15. Reverse repurchase agreements | 799,279 | 745,767 |
| Utilisation of reverse repurchase agreements as collateral was as follows: | | |
| Securities and derivatives clearing | 130,278 | 99,531 |
| Funds transfer | - | 2,828 |
| Securities lending | 412,397 | 239,001 |
| | 542,675 | 341,360 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | 2005 | 2004 |
|--|----------------|-----------------|
| 16. Derivative financial instruments | | |
| Derivatives are used both to hedge balance sheet positions and for trading purposes. | | |
| Assets | 66,489 | 122,878 |
| Liabilities | - 70,132 | - 147,084 |
| | - 3,643 | - 24,206 |

The open positions on the balance-sheet date are shown in the table below. The table below shows the notional amounts and corresponding fair values of the underlying assets and liabilities.

| | As at 31 December 2005 | | | As at 31 December 2004 | | |
|---|------------------------|---------------|---------------|------------------------|----------------|----------------|
| | Notional amount | Fair value | Fair value | Notional amount | Fair value | Fair value |
| | | assets | Liabilities | | assets | Liabilities |
| <i>Derivatives trading portfolio</i> | | | | | | |
| <i>Foreign-exchange contracts</i> | | | | | | |
| • forward contracts | 734,568 | 9,977 | 5,044 | 1,127,261 | 7,147 | 60,857 |
| • swaps | 8,365,505 | 55,335 | 50,922 | 5,862,767 | 115,731 | 74,768 |
| Total foreign-exchange contracts | 9,100,073 | 65,312 | 55,966 | 6,990,028 | 122,878 | 135,625 |
| <i>Interest-rate contracts</i> | | | | | | |
| • swaps | 486,323 | 845 | 1,685 | 14,975 | - | 1,234 |
| • forward rate agreements | 210,000 | 128 | 168 | - | - | - |
| • options | 29,928 | - | 115 | 41,510 | - | 115 |
| Total interest-rate contracts | 726,251 | 973 | 1,968 | 56,485 | - | 1,349 |
| <i>Derivatives used for hedging</i> | | | | | | |
| <i>Interest-rate contracts</i> | | | | | | |
| • swaps | 146,305 | 204 | 12,198 | 109,265 | - | 10,110 |
| Total interest-rate contracts | 146,305 | 204 | 12,198 | 109,265 | - | 10,110 |
| Total derivatives | 9,972,629 | 66,489 | 70,132 | 7,155,778 | 122,878 | 147,084 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | 2005 | 2004 |
|--|-----------|-----------|
| 17. Investments held-for-trading | | |
| This item relates exclusively to quoted shares. | | |
| Movements in investments held-for-trading were as follows: | | |
| Carrying amount as at 1 January | 1,024 | 291 |
| Purchases | 1,358 | 1,103 |
| Sales | - 1,324 | - 400 |
| Profit/loss | 343 | 30 |
| Carrying amount as at 31 December | 1,401 | 1,024 |
| 18. Available-for-sale investments | | |
| This item includes bonds issued by public authorities and others at fixed or variable interest, other fixed-income securities and shares. The unlisted shares relate mainly to strategic interests in securities and clearing organisations for which no reliable financial information is available that can be used to calculate the fair value at year-end. | | |
| This item is analysed as follows: | | |
| <i>Money-market paper</i> | 548,787 | 662,867 |
| <i>Bonds</i> | | |
| • listed, hedge | 155,036 | 145,243 |
| • listed, non-hedge | 630,206 | 555,327 |
| • unlisted, hedge | 4,056 | 3,643 |
| • unlisted, non-hedge | 74,544 | 78,281 |
| <i>Shares</i> | | |
| • listed | 30,118 | 19,072 |
| • unlisted | 5,005 | 4,871 |
| Total available-for-sale investments | 1,447,752 | 1,469,304 |
| Securities lodged as collateral were employed as follows: | | |
| Securities lending | 330,699 | 283,326 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

18. Available-for-sale investments (continued)

Movements in available-for-sale investments were as follows:

| | 2005 | | | | 2004 | | | |
|-----------------------------------|--------------------|-----------|---------|-------------|--------------------|-----------|---------|-------------|
| | Money-market paper | Bonds | Shares | Total | Money-market paper | Bonds | Shares | Total |
| Carrying amount as at 1 January | 662,867 | 782,494 | 23,943 | 1,469,304 | 657,791 | 773,171 | 19,056 | 1,450,018 |
| Purchases | 2,550,645 | 563,355 | 5,708 | 3,119,708 | 3,879,680 | 446,675 | 944 | 4,327,299 |
| Sales | - 2,664,351 | - 249,514 | - 4,935 | - 2,918,800 | - 3,876,526 | - 342,020 | - 896 | - 4,219,442 |
| Movements in fair value | - 374 | - 15,447 | 9,365 | - 6,456 | 1,922 | 5,292 | 4,012 | 11,226 |
| Redemptions | - | - 224,265 | - | - 224,265 | - | - 98,115 | - | - 98,115 |
| Profit/loss | - | 7,219 | 1,532 | 8,751 | - | - 2,509 | 1,967 | - 542 |
| Dividend received | - | - | - 490 | - 490 | - | - | - 1,140 | - 1,140 |
| Carrying amount as at 31 December | 548,787 | 863,842 | 35,123 | 1,447,752 | 662,867 | 782,494 | 23,943 | 1,469,304 |

2005 **2004**

19. Property investments

The property investments comprise premises which are leased to third parties. KAS BANK is not able to terminate the leases unilaterally. The premises were revalued in August 2004 by a qualified independent appraiser and that valuation was adjusted in 2005 on the basis of the relevant price index. The premises are protected under the Monuments Act 1988.

Movements in this item were follows:

| | | |
|-----------------------------------|------------|------------|
| Carrying amount as at 1 January | 725 | 725 |
| Revaluations | 32 | - |
| Carrying amount as at 31 December | 757 | 725 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | | | | 2005 | 2004 |
|--|----------|-----------|-------------------------|---------------|---------------|
| 20. Property and equipment | | | | | |
| The Spuistraat and Nieuwezijds Voorburgwal premises were reappraised as at year-end 2002 by a qualified independent appraiser. | | | | | |
| Movements in this balance sheet item were as follows: | | | | | |
| <i>Land and buildings in use by the company</i> | | | | | |
| Carrying amount as at 1 January | | | | 33,397 | 33,886 |
| Depreciation for year | | | | - 489 | - 489 |
| Carrying amount as at 31 December | | | | 32,908 | 33,397 |
| <i>Other equipment</i> | Hardware | Furniture | Technical installations | Alterations | |
| Cost | 6,334 | 2,659 | 265 | 21,032 | 30,290 |
| Accumulated depreciation | - 1,557 | - 1,136 | - 71 | - 6,099 | - 8,863 |
| Carrying amount as at 1 January | 4,777 | 1,523 | 194 | 14,933 | 21,427 |
| Investments | 1,477 | 93 | 204 | 570 | 2,344 |
| Depreciation for year | - 2,739 | - 615 | - 86 | - 1,973 | - 5,413 |
| Carrying amount as at 31 December | 3,515 | 1,001 | 312 | 13,530 | 18,358 |
| Total property and equipment | | | | 51,266 | 54,824 |

The carrying amount of the land and buildings, calculated using the cost method, is € 18 million (2004: € 18.5 million).

Finance leases

KAS BANK leases part of the hardware under a number of finance lease contracts. KAS BANK has the option of purchasing the hardware upon expiry of the lease contract at a predetermined price.

The carrying amount of the leased hardware as at year-end 2005 was € 1.6 million (2004: € 2.6 million).

The remaining terms of the lease agreements are as follows:

| | | |
|---------------------------------|--------------|--------------|
| Up to one year | 1,150 | 1,249 |
| Between one year and five years | 297 | 1,316 |
| | 1,447 | 2,565 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | | | 2005 | 2004 |
|---|--------------------|-------------------|--------------|-------------|
| 21. Intangible assets | | | | |
| This item includes software developed in-house and software purchased from third parties. | | | | |
| Movements in this balance sheet item were as follows: | Purchased software | In-house software | | |
| | 2005 | 2005 | | |
| Cost | 5,925 | 2,275 | 8,200 | 5,819 |
| Accumulated amortisation | - 1,300 | - 970 | - 2,270 | - 1,970 |
| Carrying amount as at 1 January | 4,625 | 1,305 | 5,930 | 3,849 |
| Investment | 3,588 | 1,184 | 4,772 | 5,045 |
| Depreciation for year | - 3,144 | - 690 | - 3,834 | - 2,964 |
| Carrying amount as at 31 December | 5,069 | 1,799 | 6,868 | 5,930 |

22. Deferred tax assets and liabilities

Deferred tax assets are recognised in the balance sheet if it is probable that they will be set off against future profits. The deferred tax assets and liabilities can be analysed as follows:

Deferred tax assets

| | | |
|-----------------------------------|---------------|--------------|
| Pension obligations | 9,083 | 7,814 |
| Other | 1,657 | 1,157 |
| Carrying amount as at 31 December | 10,740 | 8,971 |

Movements in deferred tax assets via shareholders' equity were as follows:

| | | |
|-----------------------------------|--------|-------|
| Carrying amount as at 1 January | 8,971 | 8,032 |
| Movement in pension obligations | 1,269 | 1,068 |
| Other movements | 500 | - 129 |
| Carrying amount as at 31 December | 10,740 | 8,971 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | 2005 | 2004 |
|--|---------------|---------------|
| 22. Deferred tax assets and liabilities (continued) | | |
| <i>Deferred tax liabilities</i> | | |
| Revaluation of available-for-sale investments | 5,255 | 4,890 |
| Difference in valuation of buildings for tax and reporting purposes | 1,609 | 1,609 |
| Other | 577 | 941 |
| Carrying amount as at 31 December | 7,441 | 7,440 |
| Movements in deferred tax liabilities via shareholders' equity were as follows: | | |
| Carrying amount as at 1 January | 7,440 | 4,654 |
| Movement in available-for-sale investments | 365 | 3,119 |
| Difference in valuation of buildings for tax and reporting purposes | - | - 262 |
| Difference in valuation of property investments for tax and reporting purposes | - | - 17 |
| Movement in intangible assets | - | - 190 |
| Movement in derivative financial instruments | - 364 | 136 |
| Carrying amount as at 31 December | 7,441 | 7,440 |
| 23. Current tax assets and liabilities | | |
| Current tax liabilities | 2,039 | 4,526 |
| Current tax assets | 2,814 | 1,771 |
| Net tax assets/liabilities | - 775 | 2,755 |
| Carrying amount as at 1 January | 2,755 | - 1,477 |
| Settled with tax authority | - 11,038 | - 3,706 |
| Tax payable for year | 7,850 | 7,857 |
| Adjustments following finalisation of prior-year assessments | - 392 | - |
| Movements in deferred tax assets and liabilities | 50 | 81 |
| Carrying amount as at 31 December | - 775 | 2,755 |
| 24. Other assets | 29,446 | 43,167 |
| This relates to assets which cannot be classed under any other balance sheet heading. | | |
| 25. Prepayments and accrued income | 21,840 | 25,298 |
| This item includes prepaid expenses which relate to a subsequent period or periods, sums invoiced but not yet received and accrued interest. | | |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| EQUITY AND LIABILITIES | 2005 | 2004 |
|--|------------------|------------------|
| 26. Banks | | |
| This item comprises non-subordinated liabilities to credit institutions other than amounts in the form of debt securities. | | |
| Due on demand by other credit institutions | 1,005,370 | 264,482 |
| Not due on demand by other credit institutions | 291,370 | 252,388 |
| | 1,296,740 | 516,870 |
| 27 Funds entrusted | | |
| This item comprises all non-subordinated liabilities other than amounts owed to credit institutions and amounts in the form of debt securities. | | |
| Savings | 62,094 | 63,232 |
| Time deposits | 1,096,792 | 1,113,663 |
| Other funds entrusted | 4,898,094 | 3,875,527 |
| | 6,056,980 | 5,052,422 |
| 28. Other liabilities | 48,660 | 30,563 |
| These are liabilities which cannot be classed with any of the other balance sheet items, including amounts received for account of clients which have not yet been processed. Other liabilities include KAS BANK cumulative preference shares. Of the 12,500,000 preference shares of € 1.00 nominal value, 25 have been issued and are registered in the name of Stichting Preferente Aandelen KAS BANK. Other liabilities also include a provision for legal expenses of € 1.9 million (2004: € 1.5 million), the amount of which has been determined partly on the basis of legal advice. The Managing Board expects the legal proceedings concerned to be completed within one year. | | |
| 29. Accruals and deferred income | 22,115 | 16,284 |
| This item includes amounts received in advance in respect of income attributable to a subsequent period or periods and payables such as accrued interest. | | |
| 30. Employee benefits | | |
| The employee benefits include retirement benefit and disability benefit obligations. | | |
| This item is analysed as follows: | | |
| Retirement benefit obligation | 30,687 | 26,046 |
| Other staff-related obligations | 1,863 | 1,676 |
| | 32,550 | 27,722 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | 2005 | 2004 |
|--|----------------|----------------|
| <i>30. Employee benefits (continued)</i> | | |
| <i>Pension obligations</i> | | |
| <p>The Dutch pension plan, under which the pensionable age is 65, is a part final-pay and part average-pay plan. The final-pay conditions apply up to € 43,500, beyond which the average-pay system takes over. The accrual rates are 1.8% and 2%, respectively. Contributions are paid by the employee while the contribution rate is 10% or below. If it exceeds this percentage, half of the excess is paid by the company and half by employee, up to a maximum of 5%. If the contribution rate exceeds 20%, all of the excess over 20% is paid by the company. As from 1 July 2006, a transitional arrangement will apply whereby the employee's contribution increases by one percentage point each year on 1 July, up to the maximum of 5%. The UK pension plan, under which the pensionable age is 60, is predominantly a defined-contribution plan. If the contributions under the plan do not reach a minimum level, they are supplemented by the company.</p> | | |
| <p>The obligation recognised under this heading is the obligation with respect to the Dutch pension plan and has been calculated using the Projected Unit Credit Method (PUCM), based on an actuarial computation performed by the actuary as at 31 December 2005. The actuarial computation for the UK retirement benefit plan did not result in an obligation and no obligation has therefore been recognised in the balance sheet. The contributions paid to the reinsurer are accounted for in the income statement.</p> | | |
| The pension obligation is analysed as follows: | | |
| Present value of benefit obligation | 158,823 | 141,120 |
| Fair value of plan assets | - 128,136 | - 115,074 |
| | 30,687 | 26,046 |
| Movements in the present value of the benefit obligation were as follows: | | |
| Balance as at 1 January | 141,120 | 128,950 |
| Current service cost | 7,227 | 7,434 |
| Interest cost on obligation | 6,616 | 6,353 |
| Distributions | - 4,413 | - 3,903 |
| Employee contributions | 15 | - |
| Past service cost | - 1,396 | - 3,649 |
| Net actuarial gains and losses | 9,654 | 5,935 |
| Balance as at 31 December | 158,823 | 141,120 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | 2005 | 2004 |
|---|----------------|----------------|
| <i>30. Employee benefits (continued)</i> | | |
| Movements in plan assets were as follows: | | |
| Balance as at 1 January | 115,074 | 109,395 |
| Expected return on plan assets | 6,074 | 5,720 |
| Employer contributions | 6,101 | 3,275 |
| Employee contributions | 15 | - |
| Distributions | - 4,413 | - 3,903 |
| Net actuarial gains and losses | 5,285 | 587 |
| Balance as at 31 December | 128,136 | 115,074 |
| Pension costs comprise: | | |
| Current service cost | 7,227 | 7,434 |
| Interest cost on obligation | 6,616 | 6,353 |
| Expected return on plan assets | - 6,074 | - 5,720 |
| Past service cost | - 1,396 | - 3,649 |
| | 6,373 | 4,418 |

The adjustment of the pensionable age to the statutory retirement age of 65, in accordance with the new legislation on early retirement, pre-pension and life-course savings schemes (VPL) which came into effect on 1 January 2006, resulted in a non-recurring reduction in pension costs of € 1.4 million. The reduction of € 3.6 million in 2004 was due to the change on 1 January 2005 from a final-pay system to a combined final-pay/average-pay system.

Net actuarial gains and losses, amounting to € 4.4 million in 2005 (2004: € 5.3 million), are accounted for in shareholders' equity.

| The plan assets comprise: | 2005 € | 2005 % | 2004 € | 2004 % |
|---------------------------|----------------|------------|----------------|------------|
| Shares | 37,191 | 29 | 34,536 | 30 |
| Bonds | 86,483 | 68 | 74,088 | 64 |
| Cash | 4,462 | 3 | 6,450 | 6 |
| | 128,136 | 100 | 115,074 | 100 |

The return on plan assets in 2005 amounted to € 11.4 million (2004: € 6.3 million). The expected return on plan assets is calculated by expressing the nominal interest (including accrued interest) on the bonds in the portfolio as a percentage of the market value of the portfolio. To reflect the higher risk, the return on shares is assumed to be 4 percentage points higher than the bond return. The expected return is then weighted to reflect the ratio of shares to bonds.

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | 2005 | 2004 | |
|---|-----------|-----------|-----------|
| 30. Employee benefits (continued) | | | |
| | 2005 % | 2004 % | |
| The principal actuarial assumptions employed are: | | | |
| Discount factor | 4.20 | 4.75 | |
| Return on plan assets | 5.25 | 5.25 | |
| Pay increases ¹ | 2.50 | 2.75 | |
| ¹ including promotion-related increases. | | | |
| Three-year summary ² | 2005 | 2004 | 2003 |
| Present value of benefit obligations | - 158,823 | - 141,120 | - 128,950 |
| Fair value of plan assets | 128,136 | 115,074 | 109,395 |
| Deficit | - 30,687 | - 26,046 | - 19,555 |

² Benefit obligations and plan assets were calculated under IFRS for the first time as at 31 December 2003.

31. Subordinated liabilities 29,496 29,496

The privately placed loans with terms of more than one year but not more than five years are subordinated to all other liabilities. The weighted average interest rate is 5.95% (2004: 5.95%). Interest of € 1.8 million (2004: € 1.8 million) was charged to subordinated liabilities in 2005.

Subordinated liabilities include the following loans:

| Term | 2005 | 2004 |
|-----------------------------|--------|--------|
| August 1997 - August 2007 | 9,076 | 9,076 |
| October 1997 - October 2007 | 4,538 | 4,538 |
| October 1998 - October 2007 | 4,548 | 4,548 |
| May 1998 - May 2008 | 11,345 | 11,345 |

The above loans are denominated in euros and cannot be repaid early. The subordination conditions satisfy the requirements of the Act on the Supervision of the Credit System 1992 (Wet toezicht kredietwezen).

Notes to the balance sheet as at 31 December 2005

in thousands of euros

32. Share capital

| | Shares (no.) | |
|---|--------------|------------|
| | 2005 | 2004 |
| Ordinary shares of € 1.00 nominal value | | |
| Shares | 25,000,000 | 25,000,000 |
| Shares in portfolio | 9,300,983 | 9,300,983 |
| Issued share capital | 15,699,017 | 15,699,017 |

The authorised capital is € 25 million. Of the shares in issue, 13,499,193 (2004: 13,250,550) shares are registered in the name of Stichting Administratiekantoor Aandelen KAS BANK, which has issued bearer depositary receipts for them, likewise in denominations of € 1.00. Most of the remaining 2,199,824 (2004: 2,448,467) ordinary shares are held by Admitted Institutions of Euronext Amsterdam N.V.

Each year, KAS BANK grants stock options to its staff. The number of options granted depends on the individual's job grade. Each option confers the right to one depositary receipt for a share of € 1.00 nominal value. The options are unconditional and are valid for five years. The rights lapse on leaving the company's service, except on early or normal retirement. The members of the Managing Board may extend by two years the expiry dates of one third of the options granted in respect of 2002 and subsequent years. It is KAS BANK policy to cover the obligations arising from the grant of these options by repurchasing shares.

As at 31 December 2005, 943,044 (2004: 1,048,366) staff stock options were outstanding. To cover the related obligations, shares had been purchased at an average price of € 16.44 (2004: € 16.30) (fifo method). The cost of the repurchased shares has been charged to other reserves. The normal value of the repurchased shares totalled € 959,005 (2004: € 1,074,029), representing 6.1% (2004: 6.8%) of the ordinary share capital. Since the stock option scheme is an ongoing scheme, 15,961 (2004: 25,663) shares have already been repurchased for the 2006 tranche.

Movements in the numbers of shares repurchased to cover the stock options granted and shortly to be granted, together with the associated average prices, were as follows:

| | Shares (no.) | |
|--|--------------|-----------|
| | 2005 | 2004 |
| Opening balance at € 16.30 (2004: € 16.09) | 1,074,029 | 978,792 |
| Purchased at € 17.07 (2004: € 15.15) | 151,457 | 231,309 |
| Sold at € 16.23 (2004: € 12.85) | - 266,481 | - 136,072 |
| Closing balance at € 16.44 (2004: € 16.30) | 959,005 | 1,074,029 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | 2005 | 2004 |
|--|----------------|----------------|
| 33. Share premium | 21,569 | 21,569 |
| Of the share premium, which consists of amounts paid by shareholders in excess of nominal value, € 19.6 million (2004: € 19.6 million) may be distributed free of tax. | | |
| 34. Revaluation reserve | | |
| The revaluation reserve is analysed as follows: | | |
| Revaluation reserve for buildings | 13,367 | 13,367 |
| Revaluation reserve for available-for-sale investments | 17,005 | 17,489 |
| Balance as at 31 December | 30,372 | 30,856 |
| <i>Revaluation reserve for buildings</i> | | |
| This reserve comprises the accumulated net movements in the fair value of properties owned by KAS BANK. | | |
| Movements in this item were as follows: | | |
| Balance as at 1 January | 13,367 | 13,161 |
| Revaluation reserve for buildings | - | 206 |
| Balance as at 31 December | 13,367 | 13,367 |
| <i>Revaluation reserve for available-for-sale investments</i> | | |
| This reserve comprises the accumulated net movements in the fair values of available-for-sale investments. | | |
| Movements in this item were as follows: | | |
| Balance as at 1 January | 17,489 | 9,245 |
| Revaluation reserve for available-for-sale investments | - 484 | 8,244 |
| Balance as at 31 December | 17,005 | 17,489 |
| 35. Other reserves | | |
| Movements in this item were as follows: | | |
| Balance as at 1 January | 127,375 | 133,552 |
| Profit appropriation for previous year | 999 | - 782 |
| Movement in its own shares repurchased | 2,238 | - 701 |
| Staff stock options granted | 300 | 380 |
| Actuarial gains and losses on pensions | - 3,096 | - 3,744 |
| Adjustment to net deferred tax assets and liabilities | - | - 905 |
| Transferred from revaluation reserve | - | 39 |
| Other movements | 64 | - 464 |
| Balance as at 31 December | 127,880 | 127,375 |

Notes to the balance sheet as at 31 December 2005

in thousands of euros

| | 2005 | 2004 |
|----------------------------------|---------------|--------------|
| 36. Unappropriated profit | | |
| Profit | 19,379 | 15,916 |
| Interim dividend | - 7,064 | - 7,064 |
| Balance as at 31 December | 12,315 | 8,852 |

The Supervisory Board will recommend to the General Meeting of Shareholders on 3 May 2006 that it approve the distribution by KAS BANK of a dividend for 2005 of € 1.00 per share.

If approval is given, a final dividend of € 0.55 will be paid, an interim dividend of € 0.45 already having been paid in 2005.

Of the proposed 2005 dividend of € 15,699 (2004: € 14,914), an interim dividend of € 7,064 (2004: € 7,064) has already been distributed to shareholders.

Notes on off-balance-sheet commitments and contingent liabilities and risks as at 31 December 2005

in thousands of euros

| | 2005 | 2004 |
|--|-------------------|------------------|
| 37. Contingent liabilities | 117,241 | 122,087 |
| <p>This includes all transactions in which the bank has guaranteed the liabilities of third parties. Guarantees have been given on behalf of clients in relation to the bank's direct connections to foreign stock exchanges.</p> <p>In addition to the guarantees shown beneath the balance sheet, unquantified guarantees have been furnished to Interpay Nederland B.V., Euronext Paris S.A., Euronext Brussels S.A./N.V., Euronext Lisbon S.A. and Euronext Amsterdam N.V.</p> <p>KAS BANK is subject to the Collective Guarantee Scheme of Credit Institutions for the Repayment of Funds and Investments under Section 84 of the Act on the Supervision of the Credit System 1992 (Wet toezicht kredietwezen).</p> | | |
| 38. Receivables and liabilities in respect of securities lending | | |
| <p>KAS BANK acts as principal in securities lending transactions and monitors receivables from counterparties and collateral received on a daily basis as part of its risk control function. Collateral may be lodged in the form of securities or cash. Where collateral takes the form of securities which may be repledged, it is lodged subject to the condition that the securities are returned. Collateral is lodged on behalf of lenders in the form of repledged securities or securities associated with repurchase agreements or held as available-for-sale investments.</p> | | |
| <i>Receivables in respect of securities lending</i> | | |
| Banks | 11,810,737 | 8,117,490 |
| Other parties | 545,776 | 427,665 |
| | 12,356,513 | 8,545,155 |
| <i>Collateral received</i> | | |
| Securities | 12,664,337 | 8,788,595 |
| Cash | 202,754 | 164,071 |
| | 12,867,091 | 8,952,666 |
| <i>Liabilities in respect of securities lending</i> | | |
| Banks | 222,315 | 81,837 |
| Other parties | 12,178,228 | 8,667,205 |
| | 12,400,543 | 8,749,042 |
| <i>Collateral on behalf of lenders</i> | | |
| Borrowers' repledged securities | 12,094,536 | 8,652,930 |
| Reverse repurchase agreements | 412,397 | 239,001 |
| Available-for-sale investments | 330,699 | 283,326 |
| | 12,837,632 | 9,175,257 |

Notes on off-balance-sheet commitments and contingent liabilities and risks as at 31 December 2005

in thousands of euros

| | 2005 | 2004 |
|--|--------------|--------------|
| 39. Operating lease commitments and long-term rental contracts | | |
| KAS BANK leases a property in Amsterdam and office space in London and Paris. KAS BANK has a pre-emptive right to purchase the Amsterdam property and has the option of extending the lease until 31 December 2064. Cars and office equipment are also leased. | | |
| The commitments fall due as follows: | | |
| Up to one year | 2,845 | 1,770 |
| Between one and five years | 2,314 | 3,669 |
| More than five years | 576 | 653 |
| | 5,735 | 6,092 |

Risk control

in thousands of euros

40. General

General

By virtue of its profile, the services it provides for clients and its balance sheet management approach, KAS BANK is exposed to a number of risks, including market risk, credit risk and liquidity risk. With reference to the bank's defined policy, objectives, guidelines and limits, these risks are monitored and reported upon and necessary adjustments are made.

Market risk

Treasury transactions are mainly undertaken in execution of clients' instructions. KAS BANK only trades in financial instruments for its own account and risk on a limited scale. KAS BANK's balance sheet is highly liquid and its capital ratios are strong. Interest-rate risk is constrained by the predominantly short-term nature of the balance sheet. The interest-rate risk on part of the fixed-income assets is hedged with interest-rate derivatives. The foreign-exchange positions held by KAS BANK for its own account are very limited. Both interest-rate risk and exchange risk are controlled by a system of guidelines and limits, including value-at-risk limits. The limits are set by the bank's Risk Management Committee.

Credit risk

Lending in connection with settlement, clearing, securities lending and other services is generally against the collateral of securities. KAS BANK selects the stocks which it will accept as collateral and to which it accords a percentage collateral value. Selection and valuation are subject to regular review, paying particular attention to the liquidity and volatility of the stocks concerned. An in-house system, the Securities Risk Model, is used to quantify the risks and monitor the collateral which has been lodged, taking an integrated view of the client's economic position on all the markets on which the client is active. Lending which is not fully collateralised with securities is subject to a system of limits.

Liquidity risk

Because the balance sheet is highly liquid, the liquidity risk is low. KAS BANK has lodged substantial collateral with central banks and clearing institutions to facilitate its clients' settlement and payment transactions.

41. Exchange risk

The bank's foreign-exchange exposure as at 31 December was as follows:

| | 31 December 2005 | | | | | 31 December 2004 | | | | |
|-------|------------------|-------------|-----------|-------------|----------------------|------------------|-------------|-----------|-------------|----------------------|
| | Assets | Liabilities | Net | Derivatives | Open position (abs.) | Assets | Liabilities | Net | Derivatives | Open position (abs.) |
| USD | 259,473 | 421,462 | - 161,989 | 163,866 | 1,877 | 121,479 | 228,411 | - 106,932 | 104,873 | - 2,059 |
| JPY | 10,373 | 71,799 | - 61,426 | 60,226 | - 1,200 | 3,879 | 22,909 | - 19,030 | 18,540 | - 490 |
| GBP | 89,395 | 215,752 | - 126,357 | 127,362 | 1,005 | 45,539 | 95,481 | - 49,942 | 49,070 | - 872 |
| Other | 104,968 | 137,149 | - 32,181 | 32,640 | 459 | 105,200 | 90,311 | 14,889 | - 8,961 | 5,928 |
| Total | 464,209 | 846,162 | - 381,953 | 384,094 | 2,141 | 276,097 | 437,112 | - 161,015 | 163,522 | 2,507 |

As these figures show, the exchange risks are almost fully hedged.

A large proportion of the forward foreign-exchange transactions outstanding related to balance sheet foreign-exchange position hedging operations. The other forward foreign-exchange transactions relate to trading positions.

Risk control

in thousands of euros

42. Interest-rate risk

The table below analyses the interest-rate risk on balance-sheet positions and interest-bearing financial instruments, including interest-rate derivatives, on the contractual interest due date.

| 31 December 2005 | Variable | ≤ 3 months | ≤ 1 year | ≤ 5 years | > 5 years | Total |
|---|--------------------|------------------|-----------------|----------------|------------------|------------------|
| <i>Assets</i> | | | | | | |
| Cash and deposits at the central bank | 173,369 | - | - | - | - | 173,369 |
| Banks | 1,153,050 | 135,772 | 8,477 | - | - | 1,297,299 |
| Loans and advances | 3,700,937 | 143,729 | 2,918 | 6,422 | 10,662 | 3,864,668 |
| Reverse repurchase agreements | - | 799,279 | - | - | - | 799,279 |
| Available-for-sale investments, non-hedge | - | 593,644 | 119,916 | 364,515 | 147,436 | 1,225,511 |
| Available-for-sale investments, hedge | - | - | 9,992 | 21,512 | 114,801 | 146,305 |
| | 5,027,356 | 1,672,424 | 141,303 | 392,449 | 272,899 | 7,506,431 |
| <i>Liabilities</i> | | | | | | |
| Banks | 1,108,169 | 188,571 | - | - | - | 1,296,740 |
| Funds entrusted | 5,536,919 | 517,986 | 2,075 | - | - | 6,056,980 |
| Subordinated liabilities | - | - | - | 29,496 | - | 29,496 |
| | 6,645,088 | 706,557 | 2,075 | 29,496 | - | 7,383,216 |
| <i>Derivatives</i> | | | | | | |
| Swaps, non-hedge | - | 14,975 | - 14,975 | - | - | - |
| Swaps, hedge | - | 138,128 | - 1,815 | - 21,512 | - 114,801 | - |
| Forward rate agreements | - | - | - 30,000 | 30,000 | - | - |
| Options | - | - 10,000 | - | - | - | - 10,000 |
| Foreign-exchange contracts | - | 4,257 | 9,016 | 3 | - | 13,276 |
| | - | 147,360 | - 37,774 | 8,491 | - 114,801 | 3,276 |
| Interest-rate exposure | - 1,617,732 | 1,113,227 | 101,454 | 371,444 | 158,098 | 126,491 |

Risk control

in thousands of euros

42. Interest-rate risk (continued)

| 31 December 2004 | variable | ≅ 3 months | ≅ 1 year | ≅ 5 years | > 5 years | Total |
|---|--------------------|------------------|-----------------|-----------------|------------------|------------------|
| <i>Assets</i> | | | | | | |
| Cash and deposits at the central bank | 81,638 | - | - | - | - | 81,638 |
| Banks | 368,502 | 57,711 | 3,120 | - | - | 429,333 |
| Loans and advances | 2,999,082 | 24,510 | 2,816 | 9,220 | 10,500 | 3,046,128 |
| Reverse repurchase agreements | - | 745,767 | - | - | - | 745,767 |
| Available-for-sale investments, non-hedge | - | 450,581 | 480,776 | 179,978 | 150,260 | 1,261,595 |
| Available-for-sale investments, hedge | - | - | 3,671 | 25,995 | 107,417 | 137,083 |
| | 3,449,222 | 1,278,569 | 490,383 | 215,193 | 268,177 | 5,701,544 |
| <i>Liabilities</i> | | | | | | |
| Banks | 371,921 | 144,266 | 683 | - | - | 516,870 |
| Funds entrusted | 4,461,400 | 577,217 | 13,805 | - | - | 5,052,422 |
| Subordinated liabilities | - | - | - | 29,496 | - | 29,496 |
| | 4,833,321 | 721,483 | 14,488 | 29,496 | - | 5,598,788 |
| <i>Derivatives</i> | | | | | | |
| Swaps, non-hedge | - | 14,975 | - | - 14,975 | - | - |
| Swaps, hedge | - | 137,083 | - 3,671 | - 25,995 | - 107,417 | - |
| Forward rate agreements | - | - 10,000 | - 20,000 | 30,000 | - | - |
| Foreign-exchange contracts | - | 4,186 | - 16,438 | 13 | - | - 12,239 |
| | - | 146,244 | - 40,109 | - 10,957 | - 107,417 | - 12,239 |
| Interest-rate exposure | - 1,384,099 | 703,330 | 435,786 | 174,740 | 160,760 | 90,517 |

Risk control

in thousands of euros

42. Interest-rate risk (continued)

Effective interest rate, year-end 2005

| | EUR | USD | GBP | JPY | Other currencies |
|--------------------------------|------|------|------|------|---------------------|
| | % | % | % | % | % |
| <i>Assets</i> | | | | | |
| Banks | 2.36 | 4.31 | 5.10 | 3.10 | 3.89 |
| Loans and advances | 3.05 | 5.13 | 5.34 | 0.61 | 4.90 |
| Reverse repurchase agreements | 2.30 | - | - | - | - |
| Available-for-sale investments | 2.81 | 5.23 | 4.69 | - | - |
| <i>Liabilities</i> | | | | | |
| Banks | 1.62 | 4.21 | 3.88 | 0.05 | 0.82 |
| Funds entrusted | 2.01 | 3.40 | 4.09 | - | 1.60 |

The effective interest rate for available-for-sale investments on which the interest-rate risk is not hedged is 2.84%. Securities forming part of a fair-value hedge (nominal value € 146.3 million) are swapped to a variable interest rate.

An increase of 1 basis point in the market interest rate with effect from the balance sheet date applying to all maturity bands would equate to a decrease of € 60,000.- in net interest and € 182,000.- in the revaluation reserve. This assumes that all financial instruments carried on the balance sheet as at 31 December 2005 are held until maturity and, if they mature within one year, are replaced by identical financial instruments.

The interest-rate risk on part of the available-for-sale investments is hedged and satisfies the fair-value hedge criteria. The hedged positions relate mainly to perpetual bonds with a fixed coupon until the interest review date. After that date, these bonds are at a floating rate and the issuing institution has the option of redeeming them. The hedges take the form of interest-rate swaps and relate to the interest-rate risk incurred during the fixed-interest period.

43. Credit risk

Risk-weighted value of loans and advances

The credit-risk exposure, weighted at the percentages used for regular reporting to De Nederlandsche Bank N.V., is shown in the table at the next page. These weightings are generally 0% for receivables from or guaranteed by European public authorities, 20% for receivables from or guaranteed by European banks and 100% for receivables from other counterparties.

Risk control

in thousands of euros

43. Credit risk (continued)

In addition to the guarantees shown beneath the balance sheet, unquantified guarantees have been furnished to Interpay Nederland B.V., Euronext Paris S.A., Euronext Brussels S.A./N.V., Euronext Lisbon S.A. and Euronext Amsterdam N.V.

The collateral lodged is taken into account in calculating the risk-weighted value of items both on and off the balance sheet. An amount of € 4.1 billion (2004: € 2.8 billion) has been netted off for receivables and payables in respect of the same natural person, legal entity or group of jointly and severally liable legal entities where the bank has a right of set-off, and the asset has a maturity the same as or later than the liability.

| | Carrying amount 2005 | Risk- weighted value 2005 | Carrying amount 2004 | Risk- weighted value 2004 |
|----------------------------------|----------------------------|------------------------------------|----------------------------|------------------------------------|
| Banks | 1,297,299 | 97,611 | 429,333 | 61,549 |
| Loans and advances | 3,864,668 | 267,801 | 3,046,128 | 171,144 |
| Reverse purchase agreements | 799,279 | 15,955 | 745,767 | 17,284 |
| Derivative financial instruments | 66,489 | 62,737 | 122,878 | 51,473 |
| Available-for-sale investments | 1,447,752 | 367,720 | 1,469,304 | 389,882 |
| Property and equipment | 51,266 | 51,266 | 54,824 | 54,824 |
| Other balance-sheet items | 247,235 | 69,712 | 168,524 | 97,203 |
| | 7,773,988 | 932,802 | 6,036,758 | 843,359 |
| Contingent liabilities | 117,241 | 4,880 | 122,087 | 9,125 |
| Securities lending | | 111,795 | | 93,705 |
| Total of the risk-weighted items | | 1,049,477 | | 946,189 |

| | 2005 | BIS % 2005 | 2004 | BIS % 2004 |
|-----------------------|----------|------------|---------|------------|
| Tier-1 | 168,828 | | 164,643 | |
| Tier-2 | 40,775 | | 40,093 | |
| Non-qualifying assets | - 11,632 | | - 5,749 | |
| Total BIS | 197,971 | 19 | 198,987 | 21 |

Risk control

in thousands of euros

44. Liquidity risk

The balance sheet items and derivatives are analysed by remaining term to maturity as at 31

December 2005 in the table below.

| Maturity calendar as at 31 December 2005 | On demand | ≤ 3 months | ≤ 1 year | ≤ 5 years | > 5 years | Total |
|---|------------------|------------------|----------------|----------------|----------------|------------------|
| <i>Assets</i> | | | | | | |
| Cash and deposits at the central bank | 173,369 | - | - | - | - | 173,369 |
| Banks | 1,153,050 | 135,772 | 8,477 | - | - | 1,297,299 |
| Loans and advances | 3,700,937 | 139,462 | - | 1,175 | 23,094 | 3,864,668 |
| Reverse repurchase agreements | - | 799,279 | - | - | - | 799,279 |
| Available-for-sale investments, non-hedge | - | 552,243 | 126,750 | 381,540 | 164,978 | 1,225,511 |
| Available-for-sale investments, hedge | - | - | 9,992 | 21,512 | 114,801 | 146,305 |
| | 5,027,356 | 1,626,756 | 145,219 | 404,227 | 302,873 | 7,506,431 |
| <i>Liabilities</i> | | | | | | |
| Banks | 1,108,169 | 188,571 | - | - | - | 1,296,740 |
| Funds entrusted | 5,536,919 | 517,986 | 2,075 | - | - | 6,056,980 |
| Subordinated liabilities | - | - | - | 29,496 | - | 29,496 |
| | 6,645,088 | 706,557 | 2,075 | 29,496 | - | 7,383,216 |
| <i>Derivatives</i> | | | | | | |
| Foreign-exchange contracts | - | 7,680,523 | 1,389,312 | 30,238 | - | 9,100,073 |
| Interest-rate contracts | - | 29,928 | 24,966 | 702,861 | 114,801 | 872,556 |

Risk control

in thousands of euros

44. Liquidity risk (continued)

| Maturity calendar as at 31 December 2004 | On demand | ≤ 3 months | ≤ 1 year | ≤ 5 years | > 5 years | Total |
|---|------------------|------------------|----------------|----------------|----------------|------------------|
| <i>Assets</i> | | | | | | |
| Cash and deposits at the central bank | 81,638 | - | - | - | - | 81,638 |
| Banks | 368,502 | 57,711 | 3,120 | - | - | 429,333 |
| Loans and advances | 2,999,082 | 24,283 | - | 2,373 | 20,390 | 3,046,128 |
| Reverse repurchase agreements | - | 745,767 | - | - | - | 745,767 |
| Available-for-sale investments, non-hedge | - | 416,426 | 469,193 | 197,786 | 178,190 | 1,261,595 |
| Available-for-sale investments, hedge | - | - | 3,671 | 25,995 | 107,417 | 137,083 |
| | 3,449,222 | 1,244,187 | 475,984 | 226,154 | 305,997 | 5,701,544 |
| <i>Liabilities</i> | | | | | | |
| Banks | 371,921 | 144,266 | 683 | - | - | 516,870 |
| Funds entrusted | 4,461,400 | 577,217 | 13,805 | - | - | 5,052,422 |
| Subordinated liabilities | - | - | - | 29,496 | - | 29,496 |
| | 4,833,321 | 721,483 | 14,488 | 29,496 | - | 5,598,788 |
| <i>Derivatives</i> | | | | | | |
| Foreign-exchange contracts | - | 6,459,849 | 529,995 | 184 | - | 6,990,028 |
| Interest-rate contracts | - | 41,510 | 3,671 | 70,970 | 106,088 | 222,239 |

Segmentation

45. Profit segmentation

The main target groups for KAS BANK's specialised services and products are:

- institutional investors: Dutch and UK pension funds, insurance companies and asset managers;
- financial institutions: medium-sized and large Dutch and foreign brokers and banks with trading operations.

Because the services provided by KAS BANK are available to all client categories and use the same systems, it is only possible to allocate assets and liabilities to client groups.

KAS BANK has Dutch, other European and international clients. Support is provided to these clients from London and Amsterdam. The London office serves the UK market and many of the international clients. Processing is mainly carried out on the automated systems in Amsterdam.

| <i>Geographical segmentation of income (in millions of euros)</i> | 2005 | 2004 |
|---|--------------|--------------|
| Europe | 114.6 | 101.0 |
| Other | 5.9 | 7.8 |
| Total | 120.5 | 108.8 |

| <i>Client segmentation (in millions of euros)</i> | 2005 | | | | 2004 | | | |
|---|-------------------------------------|-------------------------|--------------------|---------------|-------------------------------------|-------------------------|--------------------|---------------|
| | Financial institutions ¹ | Institutional investors | Other ² | Total | Financial institutions ¹ | Institutional investors | Other ² | Total |
| Income | 44.1 | 53.5 | 22.9 | 120.5 | 43.7 | 48.3 | 16.8 | 108.8 |
| Direct costs | - 37.3 | - 27.8 | - 1.1 | - 66.2 | - 34.5 | - 23.2 | - 0.9 | - 58.6 |
| Net revenue | 6.8 | 25.7 | 21.8 | 54.3 | 9.2 | 25.1 | 15.9 | 50.2 |
| Unattributable expenses | | | | - 27.1 | | | | - 26.4 |
| Profit before tax expense | | | | 27.2 | | | | 23.8 |
| Segment assets | 2,061 | 3,243 | 2,470 | 7,774 | 511 | 285 | 5,241 | 6,037 |
| Segment liabilities | 2,536 | 4,520 | 718 | 7,774 | 1,376 | 1,505 | 3,156 | 6,037 |

¹ Including Private Banking

² Interprofessional Treasury clients

General

46. Option scheme

Movements in the number of options held by members of the Managing Board and other staff in 2005 and the number outstanding as at 31 December are shown in the table below. With regard to the tranches for 2002 and subsequent years, the members of the Managing Board have the choice of extending the expiry date by two years in respect of one third of the options granted to them. More detailed information on the options held by individual members of the Managing Board is given under 'Related parties'.

Staff options were issued in March 2005 at a price of € 17.10 (2004: € 15.32) each. These options expire in March 2010 (2004: March 2009).

| | Expiry | Exercise price in € | Outstanding as at 31-12 2004 | Option rights granted | Exercised/ expired in 2005 | Outstanding as at 31-12 2005 |
|----------------|------------|---------------------|------------------------------|-----------------------|----------------------------|------------------------------|
| Managing Board | March 2005 | 14.25 | 42,850 | | 42,850 | - |
| | March 2006 | 18.25 | 42,980 | | | 42,980 |
| | March 2007 | 20.10 | 42,980 | | | 42,980 |
| | March 2008 | 14.35 | 43,080 | | | 43,080 |
| | March 2009 | 15.32 | 42,830 | | | 42,830 |
| | March 2010 | 17.10 | | | 46,140 | |
| Other staff | March 2005 | 14.25 | 81,799 | | 81,799 | - |
| | March 2006 | 18.25 | 175,575 | | 19,500 | 156,075 |
| | March 2007 | 20.10 | 191,938 | | 9,111 | 182,827 |
| | March 2008 | 14.35 | 183,671 | | 96,737 | 86,934 |
| | March 2009 | 15.32 | 200,663 | | 84,198 | 116,465 |
| | March 2010 | 17.10 | | | 203,247 | 20,514 |
| | | | 1,048,366 | 249,387 | 354,709 | 943,044 |

The options granted in 2005 have a value of approximately € 300,000 (2004: € 380,000), calculated using the trinomial valuation method.

| The following indicators were employed: | 2005 | 2004 |
|---|---------|---------|
| Expected dividend | 5.61% | 5.81% |
| Expected volatility | 12.7% | 17.8% |
| Exercise price | € 17.10 | € 15.32 |
| Term | 5 years | 5 years |
| Issue price | € 17.10 | € 15.32 |
| Risk-free interest rate | 3.13% | 3.08% |

General

46. Option scheme (continued)

Expected volatility is determined on the basis of the KAS BANK share price over the past three years (the average term of an option series), taking into account the effect of exceptional circumstances on the share price.

The options which have been exercised and have expired and the average exercise price are analysed in the table below.

| | average price in € | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------------|-----------------------|---------|--------|-------|--------|--------|--------|
| Exercised in 1st quarter 2005 | 16.78 | 124,649 | | | 21,583 | 13,455 | |
| Exercised in 2nd quarter 2005 | 16.97 | | | | 5,800 | 4,222 | |
| Exercised in 3rd quarter 2005 | 18.01 | | 1,225 | | 38,647 | 26,002 | 4,400 |
| Exercised in 4th quarter 2005 | 18.38 | | 11,344 | | 29,026 | 38,346 | 13,147 |
| Expired in 2005 | | | 6,931 | 9,111 | 1,681 | 2,173 | 2,967 |
| Total | | 124,649 | 19,500 | 9,111 | 96,737 | 84,198 | 20,514 |

47. Related parties

Parties are related if one controls the other or has significant influence on its financial and operating policies. In the case of KAS BANK, related parties are the members of the Managing Board and the members of the Supervisory Board.

General

47. Related parties (continued)

Remuneration of the Managing Board (in thousands of euros)

| | Fixed remune- ration | Variable remune- ration | Post- employment benefits | Other long-term remune- ration | Value of options granted |
|-----------------------|----------------------------|-------------------------------|---------------------------------|---|--------------------------------|
| 2005 | | | | | |
| A.A. Röell | 306 | 40 | 50 | - | 1 |
| J.S.A. van Scheijndel | 222 | 26 | 37 | 2 | 8 |
| J.P. van Veenendaal | 296 | 65 | 92 | - | 14 |
| Th.J.M. van Heese | 311 | 73 | 95 | - | 14 |
| F.S. von Balluseck | 219 | 91 | 44 | - | 18 |
| | 1.354 | 295 | 318 | 2 | 55 |
| 2004 | | | | | |
| A.A. Röell | 23 | - | 4 | - | - |
| J.S.A. van Scheijndel | 108 | - | 17 | 2 | - |
| J.P. van Veenendaal | 257 | 56 | 85 | - | 18 |
| Th.J.M. van Heese | 298 | 63 | 87 | - | 18 |
| F.S. von Balluseck | 391 | 78 | 98 | - | 22 |
| | 1.077 | 197 | 291 | 2 | 58 |

Fixed remuneration

This item comprises salary, holiday pay, expenses and contributions paid by the employer.

Variable remuneration

In addition to the fixed remuneration, variable remuneration may also be awarded to members of the Managing Board. This remuneration is calculated by the Supervisory Board on the basis of a proposal made by the Remuneration and Appointments Committee, taking into account the results and targets achieved. Variable remuneration is essentially paid in respect of the previous financial year.

Post-employment benefits

This item comprises pension charges recognised in the income statement in respect of members of the Managing Board.

General

47. Related parties (continued)

Long-term remuneration

This item comprises charges recognised in the income statement in respect of long-service bonuses and disability schemes.

Value of options granted

This item comprises charges recognised in the income statement in respect of options granted in the year.

Mr. F.S. von Balluseck retired on 1 June 2005.

Mr. Th.J.M. van Heese retired on 31 December 2005.

Messrs. J.S.A. van Scheijndel and A.A. Röell were appointed to the company's Managing Board with effect from 1 June 2004 and 1 December 2004, respectively.

Loans

The company has advanced two loans against the collateral of securities to Mr. F.S. von Balluseck. These loans, of € 75,000.- and € 142,000.- respectively, have both been used to fund the exercise of options on KAS BANK shares. The € 75,000.- loan bears interest at 3.1% (2004: 3.1%) and is to be repaid in full on 19 March 2007. The € 142,000.- loan, which bears interest at 4.05%, was contracted on 1 April 2005 and is to be repaid in full on 1 April 2009.

The total amount of loans and advances to and guarantees furnished on behalf of other members of the Managing Board is nil (2004: nil). If the bank's lending facilities are utilised by members of the Managing Board, the same terms apply as to other staff. These terms are in line with the market, taking into account the low credit risk.

The company has advanced a mortgage loan of € 22,689.- (2004: € 45,378.-) to Ms. C.A. von Balluseck. The loan bears interest at 4.26% (2004: 4.26%) and matures on 28 February 2006.

The members of the Managing Board hold 45,782 (2004: 35,782) depositary receipts for shares in the company, of which Mr. F.S. von Balluseck (including direct family members) holds 45,165 (2004: 35,165) and Mr. Th.J.M. van Heese holds 617 (2004: 617).

Movements in the number of options held by members and former members of the Managing Board and the number outstanding as at year-end are shown in the table at the next page.

General

47. Related parties (continued)

| | Expiry | Exercise price in € | Outstanding as at 31-12 2004 | Option rights granted | Exercised/ expired in 2005 | Outstanding as at 31-12 2005 |
|---------------------------------|------------|---------------------|------------------------------|-----------------------|----------------------------|------------------------------|
| A.A. Röell | March 2010 | 17.10 | | 1,220 | | 1,220 |
| J.S.A. van Scheijndel | March 2006 | 18.25 | 4,900 | | | 4,900 |
| | March 2007 | 20.10 | 4,900 | | | 4,900 |
| | March 2008 | 14.35 | 5,000 | | | 5,000 |
| | March 2009 | 15.32 | 4,750 | | | 4,750 |
| | March 2010 | 17.10 | | 6,840 | | 6,840 |
| | | | 19,550 | 6,840 | - | 26,390 |
| J.P. van Veenendaal | March 2005 | 14.25 | 5,350 | | 5,350 | - |
| | March 2006 | 18.25 | 11,720 | | | 11,720 |
| | March 2007 | 20.10 | 11,720 | | | 11,720 |
| | March 2008 | 14.35 | 11,720 | | | 11,720 |
| | March 2009 | 15.32 | 11,720 | | | 11,720 |
| | March 2010 | 17.10 | | 11,720 | | 11,720 |
| | | | 52,230 | 11,720 | 5,350 | 58,600 |
| Th.J.M. van Heese | March 2005 | 14.25 | 16,500 | | 16,500 | - |
| | March 2006 | 18.25 | 11,720 | | | 11,720 |
| | March 2007 | 20.10 | 11,720 | | | 11,720 |
| | March 2008 | 14.35 | 11,720 | | | 11,720 |
| | March 2009 | 15.32 | 11,720 | | | 11,720 |
| | March 2010 | 17.10 | | 11,720 | | 11,720 |
| | | | 63,380 | 11,720 | 16,500 | 58,600 |
| F.S. von Balluseck | March 2005 | 14.25 | 21,000 | | 21,000 | - |
| | March 2006 | 18.25 | 14,640 | | | 14,640 |
| | March 2007 | 20.10 | 14,640 | | | 14,640 |
| | March 2008 | 14.35 | 14,640 | | | 14,640 |
| | March 2009 | 15.32 | 14,640 | | | 14,640 |
| | March 2010 | 17.10 | | 14,640 | | 14,640 |
| | | | 79,560 | 14,640 | 21,000 | 73,200 |
| Position as at 31 December 2005 | | | 214,720 | 46,140 | 42,850 | 218,010 |

General

48. Remuneration of the Supervisory Board

The number of members of the Supervisory Board as at year-end 2005 was seven (2004: seven).

The following remuneration was received by the members of the Supervisory Board, including fees for membership of subcommittees formed by the Supervisory Board (in thousands of euros).

| | 2005 | 2004 |
|---------------------|------|------|
| P. Ribourdouille | 41 | 50 |
| D.J. de Beus | 34 | 29 |
| E.J. Mulock Houwer | 26 | 22 |
| J.H. Geertsema | 12 | 26 |
| C.E. Beckers | 26 | 20 |
| C. Griffioen | 30 | 24 |
| A.H. Lundqvist | 30 | 20 |
| R.A.H. van der Meer | 21 | - |
| | 220 | 191 |

Mr. R.A.H. van der Meer was appointed to the Supervisory Board with effect from 12 May 2005.

Mr. J.H. Geertsema retired from the Supervisory Board with effect from 12 May 2005.

The total amount of loans advanced to and guarantees given on behalf of members of the Supervisory Board was nil (2004: nil).



Reconciliation of previous accounting policies and International Financial Reporting Standards (IFRS)

With effect from 2005, the consolidated financial statements are prepared in accordance with IFRS. The adoption of IFRS necessitates a number of changes with respect to the accounting policies (Dutch GAAP) applied to the 2004 and previous financial years. The main differences between the 2004 financial statements and the opening IFRS balance sheet as at 1 January 2004 (KAS BANK's elected transition date) are explained and quantified below.

Investments in securities

Under the previous accounting policies, the bond portfolio was carried at nominal value in interest-bearing securities. The difference between cost and nominal value was accounted for in prepayments and accrued income and amortised over the remaining term to maturity of the bond. Under IFRS, the bond portfolio is classified as available-for-sale investments and is carried at fair value, accounting for movements in fair value in shareholders' equity. Upon redemption or sale, the movements recognised in shareholders' equity are accounted for in the income statement in available-for-sale income.

Fair-value hedge accounting is applied to fixed-income bonds on which interest-rate risk is hedged with interest-rate swaps. Contrary to previous practice, movements in the fair value of bonds which relate to the hedged interest-rate risk are now accounted for in interest in the income statement. Movements in the fair value of the relevant bonds and interest-rate swaps are thus netted off in the income statement.

Carrying amount of associates

Associates on which KAS BANK has no significant influence were previously carried at current value. Under IFRS, these associates are carried at fair value as part of available-for-sale investments and movements in fair value are accounted for in shareholders' equity. Upon sale, movements recognised in shareholders' equity are accounted for in available-for-sale income in the income statement. The fair value of listed stocks is based on market value. Unlisted associates are carried at historical cost.

Derivatives

Under the previous accounting policies, derivatives not held for trading purposes were not recognised and only accrued interest was accounted for in the financial statements. Under IFRS, derivatives are recognised in the balance sheet and carried at fair value. Movements in fair value are accounted for in trading income in the income statement. Movements in the fair value of derivatives used for hedge accounting are recognised in net interest in the income statement.

Pensions

Under the previous accounting policies, only the contributions paid to the pension fund in the Netherlands and the insurance company in the United Kingdom were charged to the income statement. KAS BANK's employees in the Netherlands and the United Kingdom are members of pension schemes which can be classified as defined-benefit plans. Under IFRS, it is first necessary to determine separately for each plan the fair value of the plan assets and the present value of the benefit obligation made to the employees and members of the Managing Board, using the Projected Unit Credit Method (PUCM). The pension obligations are calculated on the basis of remaining years of service, taking into account future variables such as mortality, salary progression, staff turnover and indexation policy. The assets and liabilities are netted off and the remaining net obligation is recognised in KAS BANK's balance sheet in employee benefits.

Reconciliation of previous accounting policies and International Financial Reporting Standards (IFRS)

The charge recognised in the income statement is calculated on the basis of the expected increase in benefit obligations and the expected return on plan assets. Any actuarial differences between the calculated charge and the actual increase in obligations less the actual investment return are accounted for directly in shareholders' equity as a separate item as unrealised actuarial gains and losses.

At the end of 2004, KAS BANK converted the pension plan from a final-pay scheme to a combined final-pay/average-pay scheme, resulting in a non-recurring decrease in past-service costs. This non-recurring item is shown separately in the table at the next page.

Other long-term remuneration

In addition to retirement benefits, other long-term remuneration is provided for employees, including service anniversary bonuses and disability benefits. Under the previous accounting policies, no liabilities were recognised for anniversary bonuses or for the risk of employees becoming disabled. IFRS requires that liabilities be recognised for these items, which are accounted for in the balance sheet in employee benefits.

Staff stock options

Under the previous accounting policies, options on KAS BANK shares granted to KAS BANK employees were not recognised in KAS BANK's income statement. The liability to deliver shares in exchange for exercised options was covered by repurchasing own shares. These purchases are charged to shareholders' equity and any difference between the exercise price and the purchase price is accounted for directly in shareholders' equity.

Under IFRS, staff stock options are classed as share-based payments. If the options are vested unconditionally, the related liability is charged to staff costs in the income statement, at the fair value of the options at the date of grant. The fair value of these options is determined using a market-based valuation method.

Intangible assets

In the past, KAS BANK did not recognise internally generated intangible assets in its balance sheet. IFRS requires these assets, in certain circumstances, to be recognised at cost less accumulated depreciation. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the intangible asset. In the case of KAS BANK, this requirement relates to internally generated software for its own use, to support the services provided for its clients. This software is depreciated over three years and the carrying amount is subjected to an annual impairment test.

Fund for general banking risks

It is not permitted under IFRS to form provisions for general banking risks. This fund has therefore been released to shareholders' equity.

Property investments

Under IFRS, property available for letting is classed as property investments and is accounted for separately in the balance sheet. The buildings are carried at fair value. In contrast to the previous accounting policies, no depreciation is charged on property investments and movements in fair value are accounted for in the income statement.

Reconciliation of previous accounting policies and International Financial Reporting Standards (IFRS)

Provision for deferred tax liabilities

In the past, deferred tax liabilities have been recognised in the balance sheet at present value. Under IFRS, these liabilities are carried at face value.

Reconciliation of shareholders' equity and profit

(in millions of euros)

| | Shareholders' equity | | Profit |
|--|----------------------|------------|--------|
| | 1-1-2004 | 31-12-2004 | 2004 |
| Figures on the basis of Dutch GAAP | 209.5 | 214.9 | 16.6 |
| Investments in securities | - 0.9 | 4.2 | 0.5 |
| Other associates | - 4.0 | - 4.1 | - |
| Derivatives | - 0.2 | 0.1 | 0.3 |
| Pensions | - 12.0 | - 17.6 | - 3.5 |
| Change to pension plan in 2004 | - | - | 2.4 |
| Other long-term remuneration | - 1.0 | - 1.1 | - |
| Staff stock options | - | 0.1 | - 0.2 |
| Intangible assets | 1.1 | 0.9 | - 0.2 |
| Fund for general banking risks | 7.3 | 7.3 | - |
| Property investments | 0.4 | 0.5 | - |
| Provision for deferred tax liabilities | - 0.8 | - 0.8 | - |
| Total difference between IFRS and Dutch GAAP | - 10.1 | - 10.5 | - 0.7 |
| Figures on the basis of IFRS | 199.4 | 204.4 | 15.9 |

Significant effects of adoption of IFRS on balance sheet total

Under the previous accounting policies, the liabilities of both KAS BANK and counterparties in respect of securities lending were recognised in the balance sheet. This is no longer permitted under IFRS, resulting in a reduction of € 4.8 billion in the opening balance sheet total as at 1 January 2004 and € 8.6 billion in the balance sheet total as at 31 December 2004.

Under Dutch GAAP, the balances on the various accounts held with KAS BANK by a legal entity were accounted for on a net basis in the financial statements. The IFRS rules are more strict, and set-off is permitted only in cases where there is a legally enforceable and unconditional right of set-off and it is the intention to settle on a net basis. The effect of these changes increases KAS BANK's opening balance sheet total as at 1 January 2004 by € 2.5 billion and the balance sheet total as at 31 December 2004 by € 2.7 billion.

Company income statement

in thousands of euros

| Income | 2005 | 2004 |
|----------------------------------|---------------|---------------|
| Interest income | 174,916 | 147,689 |
| Interest expense | 151,687 | 123,098 |
| Net interest | 23,229 | 24,591 |
| Commission income | 94,388 | 83,533 |
| Commission expense | 16,755 | 16,272 |
| Net commission | 77,633 | 67,261 |
| Profits of group companies | 38 | 35 |
| Trading income | 13,657 | 9,858 |
| Available-for-sale income | 5,450 | 6,918 |
| Trading/AFS income | 19,107 | 16,776 |
| Other income | 435 | 91 |
| Total income | 120,442 | 108,754 |
| Operating expenses | | |
| Staff expenses | 58,609 | 53,374 |
| Other administrative expenses | 24,883 | 22,884 |
| Depreciation expenses | 9,736 | 8,742 |
| Total operating expenses | 93,228 | 85,000 |
| Profit before tax expense | 27,214 | 23,754 |
| Tax expense | 7,835 | 7,838 |
| Profit for the year | 19,379 | 15,916 |

Company balance sheet

in thousands of euros

| Assets | 31 december 2005 | 31 december 2004 |
|---------------------------------------|-------------------------|-------------------------|
| Cash and deposits at the central bank | 173,356 | 81,624 |
| Banks | 1,297,299 | 429,333 |
| Loans and advances | 3,871,236 | 3,050,792 |
| Reverse repurchase agreements | 799,279 | 745,767 |
| Derivative financial instruments | 66,489 | 122,878 |
| Investments held-for-trading | 1,401 | 1,024 |
| Available-for-sale investments | 1,446,876 | 1,468,855 |
| Financial assets | 33,684 | 33,254 |
| Property investments | 757 | 725 |
| Property and equipment | 51,266 | 54,824 |
| Intangible assets | 6,868 | 5,930 |
| Deferred tax assets | 10,740 | 8,971 |
| Current tax assets | 2,814 | 1,771 |
| Other assets | 29,446 | 43,167 |
| Prepayments and accrued income | 21,808 | 25,244 |
| Total assets | 7,813,319 | 6,074,159 |
| Equity and liabilities | | |
| Banks | 1,296,740 | 516,870 |
| Funds entrusted | 6,096,366 | 5,089,900 |
| Derivative financial instruments | 70,132 | 147,084 |
| Deferred tax liabilities | 7,441 | 7,440 |
| Current tax liabilities | 2,039 | 4,526 |
| Other liabilities | 48,660 | 30,563 |
| Accruals and deferred income | 22,060 | 16,207 |
| Employee benefits | 32,550 | 27,722 |
| Subordinated liabilities | 29,496 | 29,496 |
| Total liabilities | 7,605,484 | 5,869,808 |
| Issued share capital | 15,699 | 15,699 |
| Share premium | 21,569 | 21,569 |
| Revaluation reserve | 30,372 | 30,856 |
| Other reserves | 127,880 | 127,375 |
| Unappropriated profit | 12,315 | 8,852 |
| Total shareholders' equity | 207,835 | 204,351 |
| Total equity and liabilities | 7,813,319 | 6,074,159 |
| Contingent liabilities | 117,241 | 122,087 |

Notes to the company financial statements

in thousands of euros

Summary of accounting policies

The company financial statements have been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, applying the same accounting policies as for the consolidated financial statements, except for those relating to financial assets.

Financial assets

The consolidated group companies and associates in respect of which KAS BANK has significant influence on financial and operating policy decisions are carried in the company financial statements at KAS BANK's share in their net asset value, calculated in accordance with KAS BANK's accounting policies.

Change to accounting policies

KAS BANK has implemented a change to the accounting policies so that the company financial statements can be prepared under the same accounting policies as the consolidated financial statements. This is permitted by Section 362, subsection 8, of Book 2 of the Netherlands Civil Code, under which the same shareholders' equity can be shown in both the consolidated and company financial statements.

The company financial statements were formerly prepared under the accounting policies prescribed by Part 9 of Book 2 of the Netherlands Civil Code. The change to the accounting policies, which has been applied retrospectively, affects shareholders' equity and profit. The effect on shareholders equity as at 1 January 2004 and 31 December 2004 was € 10.1 million negative and € 10.5 million negative, respectively. The effect on profit for 2004 was € 0.7 million negative. The figures presented in these financial statements have been restated on the basis of the new accounting policies. Further information is provided in the section entitled 'Reconciliation of previous accounting policies and International Financial Reporting Standards (IFRS)' on page 90.

| Financial assets | Group companies | Amounts | Amounts | Total |
|-------------------------------------|-----------------|---------------------------------|----------------------------|--------|
| | | receivable from group companies | payable to group companies | |
| Position as at 31 December 2004 | 31,308 | 4,669 | - 2,723 | 33,254 |
| Loan | - 1,913 | 1,913 | - | - |
| Payment of profit for previous year | - 35 | - | - | - 35 |
| Profit for current year | 38 | - | - | 38 |
| Gross revaluation | 427 | - | - | 427 |
| Position as at 31 December 2005 | 29,825 | 6,582 | - 2,723 | 33,684 |

Notes to the company financial statements

The group companies comprise the following wholly-owned subsidiaries:

- Associatie Cassa B.V.
- KAS Derivaten Clearing N.V.
- KAS Fondsbeheer B.V.
- KAS BANK Effectenbewaarbedrijf N.V.
- KAS Trust B.V.
- KAS Servicing B.V.
- KAS Participatiemaatschappij B.V.
- Centrum voor Fondsenadministratie B.V.

Off-balance-sheet financial commitments

Pursuant to Section 403, subsection 1.f, of Part 9, Book 2, of the Netherlands Civil Code, the company has assumed joint and several liability for debts arising out of the legal acts of all group companies.

Tax

All companies form part of the KAS BANK tax group. KAS BANK is jointly and severally liable for the tax liabilities of the tax group as a whole.

Amsterdam, 6 March 2006

The Managing Board:

A.A. Röell

J.S.A. van Scheijndel

J.P. van Veenendaal

N.E. Blom (as from 1 February 2006)

Th.J.M. van Heese (until 31 December 2005)

Supervisory Board:

P. Ribourdouille

D.J. de Beus

E.J. Mulock Houwer

C.E. Beckers

C. Griffioen

A.H. Lundqvist

R.A.H. van der Meer (as from 12 May 2005)



KAS-ASSOCIATIE
SAFE-DEPOSIT

Other information

Profit appropriation for 2005

The provisions of Articles of Association concerning the appropriation of profit read as follows:

Article 25 - Distributions, reserves, losses

1. The company may pay dividends and make distributions to shareholders and others with entitlement to the distributable profit only insofar as its shareholders' equity exceeds the amount of the paid and called capital together with the reserves which the company is required to maintain by law.
2. Out of the profit for the preceding financial year, a dividend will if possible first be paid on the preference shares of a percentage of the amount paid on those shares, said percentage being related to the average yield on the five longest-dated government loans, calculated in the manner set forth below. The percentage dividend payable on the preference shares will be calculated by taking the arithmetic mean of the average effective yield of the loans referred to above, as computed by the Central Bureau of Statistics and published in the Official Price List of Euronext Amsterdam N.V., calculated over the first twenty trading days of the twenty-two trading days prior to the date of first issue of preference shares, plus a percentage of a maximum of one-half percentage point, to be determined by the Managing Board and approved by the Supervisory Board, with reference to the prevailing market conditions. If and to the extent that the profit is not sufficient to pay the dividend referred to in this paragraph in full, the deficit will be made good by a charge on the reserves.
3. In the event of the preference shares being withdrawn and the amount paid thereon being repaid, a distribution will be made on the preference shares being withdrawn which will as far as possible be calculated in accordance with the provisions of paragraphs 2 and 4, on a time-proportional basis, over the period from the date on which the last distribution as referred to in paragraphs 2 and 4 was made – or from the date of issue if the preference shares have been issued since that date – until the date of repayment.
4. If in any financial year the profit or the distributable reserves are not sufficient to make the distributions referred to in this article, the provisions of the first two sentences of paragraph 2 and the provisions of paragraphs 5 and 6 will not apply until the deficit has been made up.
5. The Managing Board, with the prior approval of the Supervisory Board, is empowered to appropriate all or part of the profit to reserves.
6. Any profit remaining after the deduction of an appropriation to reserves as referred to in the preceding paragraphs will be at the disposal of the General Meeting. If the General Meeting resolves to pay a dividend, it will be paid to the holders of ordinary shares in proportion to their holdings of ordinary shares.
7. Insofar as the General Meeting resolves not to pay a dividend in respect of any year, the profit will be added to the reserves.
8. The Managing Board may, with the approval of the Supervisory Board, resolve to pay an interim dividend, provided that the requirements of paragraphs 1 and 13 of the present Article have been met. The provisions of paragraph 10 of the present Article will be applicable *mutatis mutandis* to the payment of the interim dividend.
9. The General Meeting may resolve, only on a proposal of the Managing Board as approved by the Supervisory Board, to pay a dividend from a distributable reserve.
10. Without prejudice to the provisions of Article 4 of the present Articles of Association, the General Meeting may resolve, on a proposal of the Managing Board as approved by the Supervisory Board, to pay a dividend from the profit – or from a distributable reserve – in the form of shares in the company or depositary receipts therefor.
11. Dividends will be payable at such place and at such time as the Managing Board may determine, but at the latest within one month of the resolution adopted by the General Meeting to that effect. Payment of dividend will be

announced to the shareholders by letter and by means of an advertisement placed in a national daily newspaper and in the Official Price List of Euronext Amsterdam N.V.

12. Dividends which have not been taken up within five years of the date on which they became payable will revert to the company.
13. Interim distributions will be made in accordance with Section 105, subsection 4, of Book 2 of the Netherlands Civil Code.

Proposed profit appropriation for 2005

The Supervisory Board proposes that the General Meeting of Shareholders approve the following profit appropriation (in thousands of euros):

| | |
|--|----------|
| Profit according to the consolidated income statement for 2005 | € 19,379 |
| Unappropriated profit | € 3,680 |
| Proposed dividend | € 15,699 |
| | <hr/> |
| Total profit appropriation | € 19,379 |

Of the proposed dividend for 2005, an amount of € 7,064 has already been paid out to shareholders as interim dividend.

Auditors' report

Introduction

We have audited the 2005 financial statements of KAS BANK N.V., Amsterdam, as presented on pages 39 to 97 of this annual report. These financial statements consist of consolidated and company financial statements. The financial statements are prepared under the responsibility of the company's Managing Board. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the Managing Board, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the company as at 31 December 2005 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore we have established to the extent of our competence that the annual report is consistent with the consolidated financial statements.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of the company as at 31 December 2005 and of the result for the year then ended in accordance with accounting policies generally accepted in the Netherlands and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore we have established to the extent of our competence that the annual report is consistent with the company financial statements.

Amsterdam, 6 March 2006

KPMG ACCOUNTANTS N.V.

D. Korf





Various reports and statements

Report of Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's office)

Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office) administers and manages a substantial proportion of the ordinary shares in the issued capital of KAS BANK N.V., and issues in exchange, with the cooperation of the company, depositary receipts with limited exchangeability. The Registrar's Office itself exercises voting rights only in respect of shares for which no proxies have been granted to the depositary receipt holders and shares for which no voting instructions have been received. This arrangement is conducive to the continuity of decision-making within the General Meeting of Shareholders and preserves the balance of the meeting by preventing a chance minority of those entitled to exercise voting rights influencing the decision-making process of the Meeting of Shareholders.

The Executive Committee hereby reports on its activities in the financial year in accordance with Article 18 of its Administration Conditions.

The Executive Committee met twice in 2005 and was represented at the General Meeting of Shareholders on 12 May 2005. The members of the Executive Committee also kept in touch during the year by telephone, letter and e-mail. Among the main topics on the agenda of the Executive Committee's meetings were corporate governance, the provisions relating to the issue of depositary receipts and the composition and independence of the Executive Committee. A profile, defining the size and composition of the Executive Committee, was formulated.

The Executive Committee also resolved to amend the Constitution and Administration Conditions of the Registrar's Office and discussed the annual report of the Registrar's Office. In preparation for the General Meeting of Shareholders, the Executive Committee determined how the voting rights were to be exercised in respect of shares held by the Registrar's Office for which no proxies had been granted and no voting instructions had been received. It was resolved not to organise a separate meeting of depositary receipt holders. The meetings of the Executive Committee were held at the company's offices.

The composition and independence of the Executive Committee, and in particular the chairman of the Supervisory Board's seat on the Executive Committee, were discussed at length at the meetings. The Executive Committee expressed its unanimous support for the principle that its members are under an obligation to act independently in the service of the object of the Registrar's Office, namely to promote the interests of the company and the enterprise associated therewith. It was resolved to allow the chairman of the Supervisory Board to retain his seat on the Executive Committee, so as to safeguard an adequate flow of information to the other members at crucial times. In reaching this decision, the Executive Committee took into account that the chairman of the Supervisory Board does not have a vote on how the Registrar's Office is to vote at the General Meeting of Shareholders, nor on whether proxies are granted to holders of depositary receipts.

Proxies were issued automatically by the Registrar's Office to depositary receipt holders who attended the General Meeting of Shareholders on 12 May 2005 in person or by proxy. At the General Meeting of Shareholders, they were free to exercise at their own discretion the voting rights on the shares held by the Registrar's Office, in exchange for which depositary receipts had been issued to the holders concerned. Proxies were issued to 63 depositary receipt holders and/or their proxies, compared with 42 in 2004. The Registrar's Office received voting instructions from two depositary receipt holders. The Registrar's Office voted in favour of the motions tabled by the Managing Board and Supervisory Board at the General Meeting of Shareholders as set out in the agenda for that meeting. The Registrar's Office was guided in the exercise of its voting rights by the interests of the company, its operations and all its stakeholders. The Registrar's Office cast 51.6% of the votes at the General Meeting of Shareholders, compared with

60% in 2004 and 97.5% in 2003, reflecting the effect of the Corporate Governance Code, the company's active invitation policy and the automatic granting of voting rights to depositary receipt holders and their proxies. Attendance at the 2005 General Meeting of Shareholders was again good.

The total number of ordinary shares in the issued capital of the company remained unchanged in 2005 at 15,699,017. As at year-end 2005, the Registrar's Office had 13,499,193 ordinary shares under administration, in exchange for which the same number of depositary receipts had been issued. Depositary receipts have been issued for approximately 86% of the total issued share capital. The increase in the number of shares under administration by the Registrar's Office compared with year-end 2004 (around 84%) is the result of the exchange of registered shares for depositary receipts by a number of shareholders. The actual administrative procedures are performed by the company. The expenses of the Registrar's Office in 2005, which amounted to approximately € 23,000, related mainly to the remuneration of the members of the Executive Committee and the cost of the CF security corpus issued by Centrum voor Fondsenadministratie. The company has undertaken to make an annual sum available to the Registrar's Office from which it can defray its expenses.

Mr. A. Baan was due to retire from the Executive Committee by rotation in 2005 and was reappointed as an independent member by the Supervisory Board of KAS BANK in accordance with the Executive Committee's recommendation, for a term of three years with effect from 1 July 2005. Mr. Pieterse decided to stand down from the Executive Committee as from 31 May 2005 and the Executive Committee thanks him for his four years' service as a member. Mr. H. Zwarts was appointed as an independent member of the Executive Committee by the Supervisory Board, in accordance with the Executive Committee's recommendation, with effect from 7 September 2005.

The members of the Executive Committee receive an annual fee of € 4,538 for their services to the Registrar's Office. The members of the Executive Committee who are designated as independent are not persons associated with the company within the meaning of Appendix X of the Euronext Listing and Issuing Rules (Fondsenreglement) and Article 4, paragraph 1, of the Constitution of the Registrar's Office. A list of the positions held by the members of the Executive Committee of the Registrar's Office is available for inspection at the company's office.

The agenda of the next meeting of the Executive Committee will include the removal of the restrictions on the exchangeability of depositary receipts, the abolition of powers to limit proxies granted to depositary receipt holders in certain circumstances (during 'hostilities') and the granting of full independence to the Executive Committee. This will require further amendments to the Constitution and Administration Conditions of the Registrar's Office.

Amsterdam, 6 March 2006

The Executive Committee:

| | |
|--|--------|
| A. Baan, chairman | (2008) |
| Chr. H. Tesselhoff | (2007) |
| H. Zwarts, with effect from 7 September 2005 | (2006) |
| R. Pieterse, until 1 June 2005 | |
| P. Ribourdouille | (2007) |

Expiry of term of office given in brackets.

Statements of independence

Statement of independence of Stichting Administratiekantoor Aandelen KAS BANK
(KAS BANK Registrar's Office)

The Executive Committee of Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office) and the Managing Board of KAS BANK N.V. declare hereby that, in their joint opinion, the requirements concerning the independence of the members of the Executive Committee of KAS BANK Registrar's Office, as set forth in Annex X of the Listing and Issuing Rules of Euronext Amsterdam N.V., Amsterdam, have been fulfilled.

A list of the past and present positions held by the members of the Executive Committee of KAS BANK Registrar's Office which may be relevant to the performance of their duties is available for inspection by holders of shares and depositary receipts at KAS BANK's offices.

Amsterdam, 6 March 2006

Executive Committee of Stichting Administratiekantoor Aandelen KAS BANK
Managing Board of KAS BANK N.V.

Statement of independence of Stichting Preferente Aandelen KAS BANK (KAS BANK
Registrar's Office for preference shares)

The Executive Committee of Stichting Preferente Aandelen KAS BANK (KAS BANK Registrar's Office for preference shares) and the Managing Board of KAS BANK N.V. declare hereby that in their joint opinion, the requirements concerning the independence of the members of the Executive Committee of KAS BANK Registrar's Office for preference shares, as set forth in Annex X of the Listing and Issuing Rules of Euronext Amsterdam N.V., Amsterdam, have been fulfilled.

A list of the past and present positions held by the members of the Executive Committee of KAS BANK Registrar's Office for preference shares which may be relevant to the performance of their duties is available for inspection by holders of shares and depositary receipts at KAS BANK's offices.

Amsterdam, 6 March 2006

Executive Committee of Stichting Preferente Aandelen KAS BANK
Managing Board of KAS BANK N.V.

Report of Stichting Administratiekantoor Aandelen KAS BANK Effectenbewaarbedrijf (KDTC Registrar's Office)

Stichting Administratiekantoor Aandelen KAS BANK Effectenbewaarbedrijf ('KDTC Registrar's Office') holds all the shares in KAS BANK Effectenbewaarbedrijf N.V. (KAS BANK Depository Trust Company or KDTC), in exchange for which it has issued non-exchangeable depository receipts for shares to KAS BANK N.V. KDTC acts on KAS BANK's behalf as a custodian of securities for KAS BANK's clients, to the extent that such securities would be counted as KAS BANK's assets by virtue of KAS BANK's custody thereof. KDTC's object expressly excludes the conduct of any business other than the custody of securities which involves commercial risk. Custody is provided by KDTC subject to the 'Terms concerning custody of securities', in which KAS BANK guarantees to its clients the due performance of all of KDTC's obligations to them. The activities associated with custody operations are performed by KAS BANK, which also acts as the Management of KDTC. Changes and additions may be made to the aforementioned Terms by KAS BANK and KDTC acting together, provided that the prior approval of KDTC Registrar's Office is obtained. The Constitution of KDTC Registrar's Office stipulates that at least half of the members of the Executive Committee must be persons who are not employed by KAS BANK or any institution associated with it.

The Executive Committee of KDTC Registrar's Office met on 2 March 2006 to consider KDTC's 2005 financial statements. The Executive Committee also took cognisance of the report by KPMG Accountants N.V., dated 23 February 2006, on its investigation of whether KDTC had applied the Terms correctly in 2005 or had incurred any commercial risk other than the risks inherent in the custody of securities on behalf of third parties. After approval and adoption of the financial statements, the General Meeting of Shareholders of KDTC discharged the Management of the company of liability for its conduct of affairs in 2005.

Mr. P.K. Bouwes Bavinck was due to retire from the Executive Committee by rotation in 2005. Mr. Bouwes Bavinck chose not to offer himself for reappointment and Mr. D. H. Cross was appointed to succeed him on the Executive Committee, for a term of three years. Mr. Von Balluseck also stood down in 2005 and was succeeded with effect from 1 June 2005 by Mr. J.S.A. van Scheijndel, a member of KAS BANK's Managing Board. Both appointments were approved by KAS BANK's Supervisory Board. The chairman of the Executive Committee thanks Messrs. Bouwes Bavinck and Von Balluseck for their many years' service to KDTC Registrar's Office.

Mr. N.M.J. Damen stood down as member and chairman of the Executive Committee at the meeting on 2 March 2006. With the approval of the Supervisory Board, Mr. H. Kadiks was appointed to replace him as member of the Executive Committee with effect from 2 March 2006 and Mr. Cross was appointed to succeed him as chairman. The Executive Committee thanks Mr. Damen for his commitment and support during the 16 years of his association with KDTC Registrar's Office as chairman.

Amsterdam, 2 March 2006

The Executive Committee:

| | |
|------------------------|---------------------------------|
| N.M.J. Damen, chairman | (until 2 March 2006) |
| D.H. Cross | (with effect from 1 June 2005) |
| F.S. von Balluseck | (until 1 June 2005) |
| J.S.A. van Scheijndel | (with effect from 1 June 2005) |
| P.K. Bouwes Bavinck | (until 1 June 2005) |
| H. Kadiks | (with effect from 2 March 2006) |

Report of Stichting Administratiekantoor Aandelen KAS BANK Derivaten Clearing (KASDC Registrar's Office)

Stichting Administratiekantoor Aandelen KAS Derivaten Clearing ('KASDC Registrar's Office') holds all the shares in KAS Derivaten Clearing N.V. ('KASDC'), in exchange for which it has issued non-exchangeable depositary receipts for shares to KAS BANK N.V. KASDC acts on KAS BANK's behalf as a custodian of securities for KAS BANK's clients, to the extent that such securities would be counted as KAS BANK's assets by virtue of KAS BANK's custody thereof. KASDC's object expressly excludes the conduct of any business other than the custody of securities which involves commercial risk. Custody is provided by KASDC subject to the 'Terms concerning custody of securities', in which KAS BANK guarantees to its clients the due performance of all of KASDC's obligations to them. The activities associated with custody operations are performed by KAS BANK, which also acts as the Management of KASDC. Changes and additions may be made to the aforementioned Terms by KAS BANK and KASDC acting together, provided that the prior approval of KASDC Registrar's Office is obtained. The Constitution of KASDC Registrar's Office stipulates that at least half of the members of the Executive Committee must be persons who are not employed by KAS BANK or any institution associated with it.

The Executive Committee of KASDC Registrar's Office met on 2 March 2006 to consider KASDC's 2005 financial statements. The Executive Committee also took cognisance of the report by KPMG Accountants N.V., dated 22 February 2006, on its investigation of whether KDTC had applied the Terms correctly in 2005 or had incurred any commercial risk other than the risks inherent in the custody of derivatives on behalf of third parties. After approval and adoption of the financial statements, the General Meeting of Shareholders of KASDC discharged the Management of the company of liability for its conduct of affairs in 2005.

Mr. P.K. Bouwes Bavinck was due to retire from the Executive Committee by rotation in 2005. Mr. Bouwes Bavinck chose not to offer himself for reappointment and Mr. D. H. Cross was appointed to succeed him on the Executive Committee, for a term of three years. Mr. Von Balluseck also stood down in 2005 and was succeeded with effect from 1 June 2005 by Mr. J.S.A. van Scheijndel, a member of KAS BANK's Managing Board. Both appointments were approved by KAS BANK's Supervisory Board. The chairman of the Executive Committee thanks Messrs. Bouwes Bavinck and Von Balluseck for their many years' service to KASDC Registrar's Office.

Mr. N.M.J. Damen stood down as member and chairman of the Executive Committee at the meeting on 2 March 2006. With the approval of the Supervisory Board, Mr. H. Kadiks was appointed to replace him as member of the Executive Committee with effect from 2 March 2006 and Mr. Cross was appointed to succeed him as chairman. The Executive Committee thanks Mr. Damen for his commitment and support during the 10 years of his association with KASDC Registrar's Office as chairman.

Amsterdam, 2 March 2006

The Executive Committee:

| | |
|------------------------|---------------------------------|
| N.M.J. Damen, chairman | (until 2 March 2006) |
| D.H. Cross | (with effect from 1 June 2005) |
| F.S. von Balluseck | (until 1 June 2005) |
| J.S.A. van Scheijndel | (with effect from 1 June 2005) |
| P.K. Bouwes Bavinck | (until 1 June 2005) |
| H. Kadiks | (with effect from 2 March 2006) |



The image shows the interior of a KAS BANK branch. A prominent feature is a staircase with light-colored stone steps and a white handrail, illuminated by recessed lighting. Above the staircase, a dark green horizontal band contains the KAS BANK logo and name in white. The logo consists of a 3x3 grid of squares. The name "KAS BANK" is written in a bold, sans-serif font. The background wall is light-colored and features several tall, narrow windows with intricate stained glass designs in shades of blue and gold. A large, glowing white sphere is visible on the right side of the frame.

 **KAS BANK**

Corporate governance

Corporate governance

The full text of the corporate governance code was included in KAS BANK's 2004 annual report, together with a statement of the extent to which and way in which it intended to apply each of the best-practice provisions (the 'apply or explain' principle). This summary has not been repeated in this annual report, but is posted on the company's website. Corporate governance was discussed at the General Meeting of Shareholders on 12 May 2005. In the light of the debate at that meeting and in view of developments and trends in the legislation and regulations in the Netherlands and Europe, it has been decided to make a number of further improvements in the area of corporate governance. These relate to:

- abolition of the 15% rule, which currently restricts holdings and transfers of registered shares to a maximum of 15% of the company's issued capital; a proposal will be put to the General Meeting of Shareholders to amend the company's Articles of Association in this respect;
- abolition of the restrictions on the exchangeability of depositary receipts for shares; an amendment to the Constitution and Administration Conditions of Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office) will be discussed with the Executive Committee of the Registrar's Office;
- abolition of the distinction between 'wartime' and 'peacetime' and hence of the powers of the Registrar's Office to refuse to grant proxies in 'wartime'. This will mean that unlimited and unconditional proxies will be granted by the Registrar's Office to depositary receipt holders requesting them, so that they can vote at the General Meeting of Shareholders;
- a change to the composition of the Executive Committee of the Registrar's Office, following the decision that the chairman of the Supervisory Board should no longer have a seat on the Executive Committee of the Registrar's Office, thereby eliminating any uncertainty as to the independence of the Executive Committee. The Constitution of the Registrar's Office will be amended accordingly and discussed with the Executive Committee of the Registrar's Office.

Corporate governance will continue to be given full attention by the Managing Board and Supervisory Board in the years ahead.

The company's corporate governance structure

This section outlines KAS BANK's corporate governance structure: its system of management, the supervision of management by the Supervisory Board, reporting to the providers of capital (investors) on the management and supervision of the management and the powers vested in the investors in KAS BANK. Corporate governance relates to management and control, responsibility and influence and reporting and supervision.

In the light of the introduction of the revised two-tier management structure legislation and the corporate governance code and several other changes in the company's circumstances, the company's Articles of Association were amended in May 2005. The following description of the structure of the company is based on the current Articles of Association and does not take account of the proposed amendments in 2006, which first have to be placed before the General Meeting of Shareholders.

Managing Board

KAS BANK is classed as a 'structure company' in Dutch company law and Part 4, Chapter 6, of Book 2 of the Netherlands Civil Code applies. The management of KAS BANK is entrusted to a Managing Board consisting of two or more members. In the performance for its duties, the Managing Board is guided by the interests of the

company and the enterprise associated therewith, weighing the interests of all stakeholders in the company. The procedures of the Managing Board are defined in the company's Articles of Association and the Managing Board's by-laws, which are posted on the company's website.

Members of the Managing Board are appointed and may be removed by the Supervisory Board. The Supervisory Board is required to notify the General Meeting of Shareholders of a proposal to appoint a member of the Managing Board. The Employees' Council is given an opportunity to state its position on a proposed resolution to appoint or dismiss a member of company's Managing Board. The General Meeting of Shareholders is consulted by the Supervisory Board on a proposal to dismiss a member of the Managing Board. Certain management decisions are subject to the prior approval of the Supervisory Board or the General Meeting of Shareholders.

Supervisory Board

The Supervisory Board of KAS BANK is charged with supervising the policy of the Managing Board, the general course of affairs within the company and the enterprise associated therewith. It also assists the Managing Board in an advisory capacity. In the event of the absence or inability to act of all the members of the Managing Board, the Supervisory Board is charged with the temporary management of the company. In the performance of their duties, the members of the Supervisory Board are guided by the interests of the company and the enterprise associated therewith, weighing the relevant interests of the stakeholders in the company. The procedures of the Supervisory Board are defined in the company's Articles of Association and the Supervisory Board's by-laws. The Supervisory Board has also formulated a profile which defines the Board's ideal size and composition. The Supervisory Board is composed such that the members are able to operate independently of and adopt a critical stance with respect to one another, the Managing Board and any partial interests. The by-laws and profile of the Supervisory Board are posted on the company's website.

Members of the Supervisory Board are appointed by the General Meeting of Shareholders on nomination by the Supervisory Board. The Managing Board, the General Meeting of Shareholders and the Employees' Council may nominate individuals for appointment to the Supervisory Board. The Employees' Council may object to an appointment proposed by the Supervisory Board. The Employees' Council has an enhanced right of recommendation with respect to the member of the Supervisory Board whose portfolio includes social policy.

General Meeting of Shareholders

KAS BANK encourages full participation by the shareholders in decision-making at the General Meeting by actively inviting as many shareholders and depositary receipt holders as possible to attend and minimising the restrictions on voting rights. Subject to certain conditions, a holder of shares or depositary receipts representing one per cent (1%) of the issued capital can have an item placed on the agenda. The principle that shareholders have voting rights in the meeting and depositary receipt holders are only able to address the meeting is increasingly being abandoned. At least one General Meeting of Shareholders is held each year.

In principle, depositary receipt holders attending the General Meeting of Shareholders in person or represented by a proxy are granted voting rights automatically by Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office). In time of 'war' (for example, if a hostile bid is made, if 25% or more of the issued share capital is held by a depositary receipt holder or related group of depositary receipt holders or if the interests of the company are in jeopardy), the Registrar's Office may withhold or withdraw voting rights. In such

circumstances, the Registrar's office may decline to carry out a depositary holder's binding instructions to vote on the depositary receipt holder's behalf.

Under the company's Articles of Association, a shareholder or related group of shareholders may not hold more than 15% of the company's issued capital in the form of registered ordinary shares without the consent of the Managing Board and Supervisory Board. Conversion of depositary receipts into shares is limited to a maximum of 15% of the company's issued capital. A proposal will be put to the General Meeting of Shareholders to remove the 15% rule from the Articles of Association. The limit on the conversion of depositary receipts into shares will also be removed, as will the restrictions on granting voting rights to depositary receipt holders during 'hostilities'.

Financial reporting

The company's financial statements are examined by external auditors appointed by the General Meeting of Shareholders. The financial statements are drawn up by the Managing Board and are presented, after the above-mentioned audit and approval by the Supervisory Board, to the General Meeting of Shareholders for adoption and to the Employees' Council for discussion. Simultaneously with the presentation of the financial statements to the General Meeting of Shareholders, the Managing Board submits a written report on the course of affairs of the company and its management. The meeting of the Supervisory Board at which the financial statements are discussed is attended by the external auditors.

At the Annual General Meeting of Shareholders, the Managing Board renders account to the investors for its management in the previous financial year and the Supervisory Board renders account for its supervision.

The motion at the General Meeting to approve the annual accounts is followed by a motion that, with respect to the financial statements and related matters dealt with by the General Meeting, the Managing Board be discharged of liability for its management and the Supervisory Board of liability for its supervision in the past financial year.

The profit remaining after appropriations to reserves is at the disposal of the General Meeting of Shareholders.

The company's anti-takeover defences

Stichting Preferente Aandelen KAS BANK

The object of Stichting Preferente Aandelen KAS BANK is to protect the interests of the company, the enterprise associated therewith and all stakeholders, including safeguarding against influences which might impair the independence, continuity and/or identity of the company and the enterprise. A right has been granted to Stichting Preferente Aandelen KAS BANK to subscribe for cumulative preference shares in the capital of the company up to a nominal amount corresponding to 50% of the nominal value of the capital in the form of ordinary shares in issue at the time of subscription for those shares. This right will be exercised by Stichting Preferente Aandelen KAS BANK at the discretion of its Executive Committee or if required by the company, on such grounds as the existence of (threatened) hostile intent or danger to the independence, continuity and/or identity of the company.

The Executive Committee of Stichting Preferente Aandelen KAS BANK consists of three independent members: Mrs. P.W. Kruseman and Messrs. H.G. Eijgenhuijsen and A.F. Baron van Lijnden. The chairman of the Supervisory Board, Mr. P. Ribourdouille, and the chairman of the Managing Board, Mr. A.A. Röell, are also members of the

Executive Committee of Stichting Preferente Aandelen KAS BANK. Statements concerning the independence of the members of the Executive Committee of Stichting Preferente Aandelen KAS BANK by the Managing Board of the company and the Executive Committee of Stichting Preferente Aandelen KAS BANK can be found on page 108 of this annual report.



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