CONTENT

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This translation is furnished for convenience purposes only. The original Dutch text of this Report will be binding and shall prevail in case of any variance between the Dutch text and the English translation.

REPORT ON THE FIRST HALF-YEAR OF 2005

The report on the first half-year of 2005 is based on the IFRS regulations for the first time. In addition to this interim report, the principles of valuation and determination of results based on IFRS are therefore published as well. This report also includes a reconciliation statement over 2004 of the transition from the principles of valuation and determination of results based on the Dutch reporting regulations to IFRS.

In this report, the figures based on IFRS over the first half-year of 2005 are explained in comparison with the figures over the first half-year of 2004 adapted to IFRS.

Financial objectives

KAS BANK has determined the financial objectives based on IFRS. The financial objectives have been formulated with a bandwidth or minimum. Circumstances may arise however, as a result of which the objectives are deviated from in any year.

- Annual growth non-interest income : ≥10%
- Efficiency ratio: 70-77%
- Return on Equity is based on the 10-year capital market interest rate raised by 5 to 8%. Based on the current interest rate, this means a target return objective of at least 8.5% for 2005
- Annual growth Earnings per share: >8%
- Solvency (BIS ratio): ≥15%
- Dividend payout: 60-80%

Performance

The net result over the first half-year of 2005 rose by 30% to €9.0 million (2004 H1: €6.9 million). This positive development was mainly attributable to increased commission income. The improved stock exchange climate was coupled with an increase in activities of both existing and new clients. Cost development was moderate partly due to the initiated efficiency measures.

Return on equity over the first half-year of 2005 amounted to 9% (2004 H1: 7%). The efficiency ratio amounted to 79% compared to 81% in the first half-year of 2004. Earnings per share amounted to €0.62 (2004 H1: €0.47). The BIS ratio per 30 June 2005 totalled 17% (30 June 2004: 21%). The Tier-1 ratio amounted to 14% as at 30 June 2005 (30 June 2004: 17%).

Interim dividend

As in the previous year, it has been decided, with the approval of the Supervisory Board, to pay out an interim dividend of €0.45 per ordinary share KAS BANK, to be paid in cash.

Income

Total income rose by 9% to €59.8 million during the first half-year of 2005 (2004 H1: €55.0 million).

Compared to the first half-year of 2004, interest income declined by 10% to €11.2 million (2004 H1: €12.5 million) attributable to a declining interest rate margin.

Commission income rose by 12% to €37.7 million. The division of commission income has been set out in the diagram below.

DIVISION OF COMMISSION INCOME				
	First half-year	First half-year		
In millions of euros	2005	2004	difference	%
Custody and Investment Management Services	13.6	12.2	1.4	11%
Clearing and Settlement	13.8	13.6	0.2	1%
Securities lending	7.6	5.2	2.4	46%
Other	2.7	2.8	-0.1	-4%
	37.7	33.8	3.9	12%

The joint income derived from custody and investment management services (IMS) rose by €1.4 million to €13.6 million (2004 H1: €12.2 million). This increase was attributable to price increases on the securities exchange markets and growth amongst existing and new clients. The number of mandates at IMS also increased.

In comparison with the first half-year of 2004, commission from clearing and settlement increased by €0.2 million to €13.8 million. The number of settlement transactions rose by 16%. This rise was mainly realised abroad. Due to fierce competition, the increase in proceeds was behind on the volume increase. Income from foreign and domestic securities lending rose by 46% to €7.6 million (2004 H1: €5.2 million). The volume (administered as principal, agent and administrator) rose by 61% to €33.2 billion. The growth in securities lending mainly took place in fixed income values in line with the portfolios entrusted to us.
Compared to the first half-year of 2004, the result from trading/investments increased by 23% to €10.7 million (H1 2004: €8.7 million) mainly attributable to good trading results in foreign exchange trade. In addition to the trading results in foreign exchange amounting to €6.1 million over the first half of 2005 (H1 2004: €4.9 million), this item records the result from the management of the portfolio classified as available for sale, trade in special products and the result from participating interests, totalling €4.6 million over the first half-year of 2005 (H1 2004: €3.8 million).

Segmentation of profit contribution

KAS BANK focuses its specialised services and products on two main groups:

Institutional Investors – Dutch and British pension funds, insurance companies and asset managers.
Financial Institutions – national and international mid-sized and large banks and brokers with trading activities.

Services are available to all client categories, using the same information systems. As a result, the distribution of material fixed assets and related liabilities is not possible. It is however possible to attribute financial fixed assets and liabilities in the balance sheet to the various client groups.

KAS BANK has Dutch, European and international clients. The support of the services provided to our clients takes place from London and Amsterdam. Our British clients and many of our international clients are serviced from London. The operational processing mainly takes place via the automated systems in Amsterdam.

GEOGRAPHICAL SEGMENTATION OF INCOME

In millions of euros	First half-year 2005	First half-year 2004
Europe	50.2	47.4
Other	9.6	7.6
Total	59.8	55.0

CLIENT SEGMENTATION

First half-year 2005 *In millions of euros*	Financial Institutions[1]	Institutional Investors	Other[2]	Total
Income from clients	21.9	29.0	8.9	59.8
Direct costs	-18.9	-13.1	-0.9	-32.9
Contribution	3.0	15.9	8.0	26.9
Overhead (non-attributable costs)				-14.2
Operating profit before taxation				12.7
Assets segment	1,613	2,938	2,857	7,408
Liabilities segment	1,990	4,399	1,019	7,408

[1] Including Private Banking

[2] 'Other' refers to interprofessional treasury relationships

First half-year 2004 *In millions of euros*	Financial Institutions[1]	Institutional Investors	Other[2]	Total
Income from clients	23.3	22.9	8.8	55.0
Direct costs	-21.0	-11.5	-0.6	-33.1
Contribution	2.3	11.4	8.2	21.9
Overhead (non-attributable costs)				-11.7
Operating profit before taxation				10.2
Assets segment	1,276	2,631	2,701	6,608
Liabilities segment	1,495	4,162	951	6,608

[1] Including Private Banking

[2] 'Other' refers to interprofessional treasury relationships

Expenses

In the first half-year of 2005, expenses rose by 5% to €47.1 million (2004 H1: €44.8 million).

Compared to the first half of 2004, staff expenses amounted to €29.4 million (2004 H1: €28.4 million); an increase of 4%. This increase mainly resulted from changes in the Collective Labour Agreement and periodical raises. Staff levels (excluding external employees) decreased to 733 FTEs (at the end of June 2004: 738 FTEs).
The number of secondment contracts and temporary employees however, fractionally increased to 19 FTEs as at the end of June 2005 (at the end of June 2004: 17 FTEs).

Other administrative expenses rose by 7% to €13.0 million (2004 H1: €12.2 million). This was caused in particular by the rise in automation expenses including the external information costs.

In the first half of 2005 depreciation expenses rose by 12% to €4.7 million. This increase is the result of the depreciation of the systems put into use at Treasury and Investment Management Services.

Balance sheet total

Under IFRS, it is no longer allowed to record assets and liabilities arising from securities lending of KAS BANK as principal and of counterparties in the balance sheet. As a result, the balance sheet total as per 30 June 2005 is lower, at €9.2 billion (30 June 2004: €5.9 billion).

Prospects

The definition of the financial objectives emphasises the Managing Board’s confidence in the second half of 2005 and onwards, if no special circumstances arise.

CONSOLIDATED BALANCE SHEET

In millions of euros	**IFRS 30 June 2005**	**IFRS 31 Dec. 2004**	**IFRS 30 June 2004**	**Change %**
Assets				
Cash and deposits at the central bank	84.8	81.6	34.6	145
Banks	1,218.0	429.3	600.6	103
Loans and advances	3,477.9	3,046.1	3,008.6	16
Reverse repurchase agreements	684.1	745.8	868.1	-21
Derived financial instruments	137.0	122.9	128.6	7
Assets classified as available for sale	1,652.0	1,470.3	1,830.6	-10
Property investments	0.7	0.7	0.7	0
Property and equipment	57.7	59.5	60.3	-4
Intangible assets	1.5	1.3	1.5	0
Deferred tax claims	8.1	9.0	10.4	-22
Acute tax claims	2.6	1.8	3.8	-32
Other assets	59.4	43.2	28.8	106
Prepayments and accrued income	24.0	25.3	31.4	-24
Total assets	7,407.8	6,036.8	6,608.0	12
Liabilities				
Banks	1,233.8	516.9	875.4	41
Funds entrusted	5,723.5	5,052.4	5,293.0	8
Derived financial instruments	137.1	147.1	136.4	1
Deferred tax liabilities	7.5	7.4	4.9	53
Acute tax liabilities	10.6	11.1	9.4	13
Other liabilities	19.8	30.6	16.4	21
Accruals and deferred income	12.9	9.7	21.3	-39
Long-term employee benefits	26.3	27.7	24.0	10
Subordinated liabilities	29.5	29.5	29.5	0
Shareholders' equity	206.8	204.4	197.7	5
Total liabilities	7,407.8	6,036.8	6,608.0	12
Contingent liabilities	142.4	122.1	133.4	7

Consolidated balance sheet (continued)

In millions of euros	IFRS 30 June 2005	IFRS 31 Dec. 2004	IFRS 30 June 2004
Changes in shareholders' equity			
Opening balance	**204.4**	**197.7**	**199.4**
Consolidated net profit	9.0	9.0	6.9
Revaluations	1.5	9.9	-1.4
Pensions	0.0	-4.6	0.0
Movement in own shares repurchased (including dividend)	-0.5	-0.1	-0.6
Other	0.3	-0.5	0.3
Direct changes in Shareholders' equity	1.3	4.7	-1.7
Total result	10.3	13.7	5.2
Closing dividend previous year	-7.9	0.0	-6.9
Interim dividend	0.0	-7.0	0.0
Movements related to shareholders	-7.9	-7.0	-6.9
Closing balance	**206.8**	**204.4**	**197.7**

CONSOLIDATED PROFIT AND LOSS ACCOUNT

In millions of euros	**first half 2005**	**total 2004**	**second half 2004**	**first halft 2004**	**change %**
Income					
Interest income	71.7	131.5	65.1	66.4	8
Interest expense	60.5	106.8	52.9	53.9	12
Interest	11.2	24.7	12.2	12.5	-10
Commission income	46.3	83.6	42.0	41.6	11
Commission expense	8.6	16.3	8.5	7.8	10
Commission	37.7	67.3	33.5	33.8	12
Trading income	7.0	9.8	5.3	4.5	56
Assets classified as available for sale	3.7	6.9	2.7	4.2	-12
Trading income/investments	10.7	16.7	8.0	8.7	23
Other income	0.2	0.1	0.1	0.0	100
Total income	59.8	108.8	53.8	55.0	9
Expenses					
Staff expenses	29.4	52.7	24.3	28.4	4
Other administrative expenses	13.0	23.6	11.4	12.2	7
Depreciation expenses	4.7	8.7	4.5	4.2	12
Operating expenses	47.1	85.0	40.2	44.8	5
Operating result before taxation	12.7	23.8	13.6	10.2	25
Taxation on operating result	3.7	7.9	4.6	3.3	12
Net profit	9.0	15.9	9.0	6.9	30
Ordinary earnings per share (in euros)	0.62	1.09	0.62	0.47	
Diluted earnings per share (in euros)	0.61	1.09	0.62	0.47	

CONSOLIDATED CASH FLOW STATEMENT

In millions of euros	**30 June 2005**	**31 Dec. 2004**	**30 June 2004**
Net profit	9.0	9.0	6.9
Other cash flow from operating activities	739.0	-41.6	-226.2
Cash flow from investing activities	-63.1	2.1	-20.9
Cash flow from financing activities	-7.3	-8.4	-6.5
Effect of exchange rate changes on cash items	-0.5	0.9	-2.4
Net cash flow	677.1	-38.0	-249.2
Cash at the beginning of the year	450.1	488.1	737.3
Cash at year-end	1,127.2	450.1	488.1

RECONCILIATION OF THE PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The consolidated accounts and the interim report by KAS BANK are realised in line with IFRS starting from 2005. Realising the financial reporting in line with IFRS has resulted in several changes compared to the principles of valuation and determination of results applied up to and including accounting year 2004. Below, the main differences are explained and quantified over the first half year of 2004, the annual accounts over 2004 and the IFRS opening balance sheet per 1 January 2004 (KAS BANK's transition date).

Securities investments

Under the previous principles, the bond portfolio under the Interest-bearing securities was recorded against nominal value. The difference between the purchase value and the nominal value was recorded under Prepayments and accrued income and was amortised during the remaining duration of the bond. Under IFRS, the bond portfolio is classified as available for sale and valued at fair value. This means that movements in the fair value are recorded under Shareholders' equity. In case of redemption or sale, the movements recorded in Shareholders' equity are presented in the profit and loss account under Assets classified as available for sale.

For fixed-income bonds of which the interest risk has been covered by means of interest rate swaps, fair value hedge accounting is applied. This means that, contrary to the aforementioned, the movements in the fair value of bonds are recorded in the profit and loss account under interest income insofar these movements relate to the hedged interest risk. In this way, the fair value adjustments of the relevant bonds and interest swaps are recorded in the profit and loss account in a balanced manner.

Valuation of other participating interests

The participating interests in which KAS BANK cannot exercise any significant influence, were valued against actual value. Under IFRS however, these participating interests are valued against fair value and recorded as part of the Assets classified as available for sale. This means that movements in fair value are recorded under Shareholders' equity. In case of sale, the movements under Shareholders' equity will be recorded in the profit and loss account under Assets classified as available for sale. The fair value of listed stocks is based on the market value. For the remaining participating interests, which are not listed, a valuation model is applied to achieve a fair value. In case it is not possible to determine the fair value in a reliable manner, the participating interest is valued against historical cost price.

Derivatives

Under the old principles, derived financial instruments (derivatives) that were not concluded for trading purposes, were not valued or recorded in the annual accounts, on the understanding that only accrued interest was recorded. Under IFRS, derived financial instruments are recorded in the balance sheet and are valued against fair value. Movements in fair value are recorded in the profit and loss account under Trading income.

Pensions

For the purpose of recording pensions in the annual accounts, under the old principles only premiums paid to the pension fund in the Netherlands and the insurer in the United Kingdom were recorded as expenses in the profit and loss account. KAS BANK employees in the Netherlands and the United Kingdom participate in pension schemes, which can be classified as Defined Benefit Plans (benefits on the basis of assigned rights). IFRS prescribes that first the actual value should be determined separately from the investments kept by the pension funds and the pension commitments promised to the employees and the management on the basis of the Project Unit Credit Method (PUCM). For this purpose, commitments are calculated on the basis of remaining years of employment taking into consideration future developments, such as death, salary development, staff turnover and indexing policy. In addition to the liabilities, the assets of the pension funds are valued against fair value. The assets and liabilities are set off against each other and the remaining net liabilities are recorded in the balance sheet of KAS BANK under Long-term employee benefits.

The expense in the profit and loss account is calculated on the basis of the expected increase in liabilities and the result on investments to be expected. Possible actuarial differences between the calculated expense and the actual increase in liabilities minus the actual investment result are recorded as non-recorded actuarial results directly as a separate item in the Shareholders' equity.

By the end of 2004, KAS BANK adjusted the pension system from a final-wage system to a combined final-wage/mid-wage system, which resulted in a once-only decrease in the liabilities for past years of employment. This single item has been recorded separately in the following statement.

Other long-term benefits of employees

Besides pension benefits, employees have other long-term benefits, such as payments arising from anniversaries and benefits in case of disability. Previously, no liabilities were recorded for benefits arising from anniversaries or the risk that employees could become disabled for work. Under IFRS, liabilities for aforementioned items must be recorded and are recorded in the balance sheet under Long-term employee benefits.

Staff stock options

Under the previously applied principles, stock options KAS BANK provided to staff were not recorded in the profit and loss account of KAS BANK. The delivery obligation arising from the options was covered by the repurchase of own shares. The repurchase was recorded as a negative item in the Shareholders' equity and any possible differences between the exercised price and purchase price were directly recorded in the Shareholders' equity.

Under IFRS, staff stock options are recorded as Share-based-payments and the related obligation should be recorded as an expense in the profit and loss account, in case the options are provided unconditionally. This expense equals the fair value of the options provided at the moment of issue. A market conform valuation method is used for the valuation of these options.

Intangible assets

KAS BANK did not record internally acquired intangible assets in the annual accounts. Under IFRS, such assets, under specific conditions, must be recorded in the balance sheet against cost price minus cumulative depreciation. It is a straight-line depreciation at the expense of the profit and loss account on the basis of the estimated duration of use of the intangible assets. At KAS BANK the aforementioned relates to internally developed software for own use to support services provided to KAS BANK clients. This software is depreciated in three years. It will be assessed annually whether it concerns a sustainable value adjustment to be recorded or not (impairment).

Fund for General Banking Risks

Under IFRS, it is no longer permitted to have a provision for general banking risks. As a result, the fund expires and has been added to the Shareholders' equity.

Property investments

Under IFRS, property available for rent is classified as property investments and is separately recorded on the balance sheet. Property is valued against fair value. Contrary to the previously applied principles, no depreciation of property investments takes place. Movements in the fair value are recorded in the profit and loss account.

Provision deferred tax liabilities

So far, deferred tax liabilities were recorded in the balance sheet against discount value. Under IFRS, these liabilities must be recorded in the balance sheet against nominal value.

Amounts * € 1 million	Shareholders' equity 01-01-2004	30-06-2004	31-12-2004	Net profit per 30-06-2004	31-12-2004
Amounts set on the basis of NL GAAP	209.5	212.6	214.9	8.8	16.6
Securities investments	-0.9	-3.8	4.2	0.3	0.5
Other participating interests	-4.0	-4.0	-4.1	-	-
Derivatives	-0.2	-0.3	0.1	-	0.3
Pensions	-12.0	-13.8	-17.6	-1.9	-3.5
Single decrease past years of employment arising from adjustment pension scheme in 2004	-	-	-	-	2.4
Facilities other long-term staff contributions	-1.0	-1.0	-1.1	-	-
Staff stock options	-	0.1	0.1	-0.2	-0.2
Intangible assets	1.1	1.0	0.9	-0.1	-0.2
Fund for General Banking Risks	7.3	7.3	7.3	-	-
Property investments	0.4	0.4	0.5	-	-
Making facility deferred tax liabilities nominal	-0.8	-0.8	-0.8	-	-
Differences IFRS and NL GAAP in total	-10.1	-14.9	-10.5	-1.9	-0.7
Amounts as set on the basis of IFRS	199.4	197.7	204.4	6.9	15.9

IFRS applications with significant consequences for the bank's balance sheet total

Previously, the obligations arising from securities lending of KAS BANK and of counterparties were recorded in the balance sheet. Under IFRS, it is no longer allowed to record such obligations in the balance sheet. As a result, the balance sheet total decreases in the opening balance per 1 January 2004 by €4.8 billion, in the balance sheet per 30 June 2004 by €5.9 billion and in the balance sheet per 31 December 2004 by €8.6 billion.

Under NL GAAP, the balances of the various accounts held by a legal entity at KAS BANK were recorded in the annual statement in a balanced manner (on a net basis). Under IFRS, the balancing regulations have become more strict, i.e. solely in cases in which there exists the intention and unconditional legally enforced possibility to settle on a net basis. As a result of these conditions, the balance sheet total of KAS BANK increases: the balance sheet total in the opening balance per 1 January 2004 increases by €2.5 billion, in the balance sheet per 30 June by €2.4 billion and in the balance sheet per 31 December by €2.7 billion.

Amsterdam, 7 September 2005
The Managing Board
KAS BANK N.V.

STATEMENT BY THE AUDITOR

Introduction

In accordance with your instructions, we have reviewed the consolidated interim figures covering 1 January 2005 up to and including 30 June 2005 included in this interim financial statement of KAS BANK N.V. established in Amsterdam. These interim financial figures are the responsibility of the company's Managing Board. Our responsibility is to issue a report on these interim financial statements based on our review.

Scope

We conducted our review in accordance with standards for review engagements generally accepted in the Netherlands. These standards require that we plan and perform the review to obtain moderate assurance about whether the interim financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements do not comply with the principles as explained in this interim statement, which describes how International Financial Reporting Standards have been applied including the assumptions the company's Managing Board has made about the principles expected to be applied when the first annual financial statements will be realised in compliance with the International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion above, we draw attention to the valuation and principles explained in this interim financial statement, which describes why the possibility exists that the company's Managing Board may determine that adjustments are required for the principles as applied in these interim financial figures, when the company's Managing Board realises its first annual financial statements in compliance with the International Financial Reporting Standards per 31 December 2005.

Amstelveen, 7 September 2005
KPMG Accountants N.V.

Valuation and principles

General

The consolidated interim figures of KAS BANK N.V. have been drawn up in line with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee of the IASB.

Statement of compliance

The interim figures have been drawn up in line with the International Financial Reporting Standards (IFRS). These are the first interim figures of KAS BANK in line with IFRS for a part of the period on which reporting takes place in the first IFRS annual statement. For its realisation IFRS 1 'First application of International Financial Reporting Standards' was applied.
The interim figures do not include all information required for a complete annual statement.
A statement of the influence of the transition to IFRS on the reported financial position, financial results and cash flows of KAS BANK has been included in the paragraph on the reconciliation of the principles of valuation and determination of results to International Financial Reporting Standards (IFRS) of the notes. In this section, a reconciliation is made to the Shareholders' equity and the net profit according to IFRS for comparative periods on which reports have been provided according to Dutch principles of valuation and determination of results.

Consolidation principles

Subsidiary companies are entities controlled by KAS BANK. 'Control' in this context relates to the circumstances in which KAS BANK has the possibility to, directly or indirectly, determine the financial and operational policy of an entity in order to benefit from the entities' activities.
Subsidiary companies are consolidated from the day the control was acquired, and are no longer consolidated from the day that there is no longer control.

Subsidiary companies are listed below:

- 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.

which are established in Amsterdam.
A complete list of subsidiaries has been registered at the Trade Register of the Chamber of Commerce in Amsterdam.

Intra-group balances and possible non-realised profits and losses on transactions within the group or income and expenses from such transactions are eliminated upon realisation of the interim figures.

Principles of valuation and determination of results

Applied principles for realisation of interim figures

The interim figures are presented in millions of euros rounded to the nearest thousand.

Establishing the interim figures requires the management to form opinions and to make estimates and assumptions that influence the value of the entries presented in the balance sheet and the notes and the values of the presented entries in the profit and loss account during the period of report. In spite of the fact that the estimates are based on the most recent knowledge of current affairs and actions, reality may deviate from the assessments made.

The interim figures have been drawn up on the basis of the IFRS guidelines that are effective or may be applied earlier on the reporting date of the year period in which KAS BANK applies IFRS for the first time, namely 31 December 2005. On the basis of these IFRS guidelines, the Managing Board has made assumptions with reference to the principles expected to be applied for financial reporting when the first IFRS annual accounts will be drawn up for reporting year 2005.

The IFRS guidelines which are effective or which may be applied earlier on a voluntary basis for the annual accounts for 2005 are still subject to change. Moreover, additional interpretations may be issued. Stated IFRS guidelines can therefore not be determined for certain. The principles of financial reporting for the annual period relevant to these interim figures will therefore only then be determined when the first IFRS annual accounts are drawn up per 31 December 2005.

In December 2004, the IASB published the adapted IAS 19 – staff benefits. KAS BANK has decided to implement this earlier with effect from 1 January 2004.

The realisation of the interim figures has resulted in accounting changes compared to the most recent annual accounts drawn up in line with the principles of valuation and determination of results based on the Dutch reporting regulations applicable at the time. The financial reporting principles stated below have been consistently applied for all presented periods in our interim figures. These principles have also been applied for the realisation of the IFRS opening balance sheet per 1 January 2004 for the transition to IFRS, as described in IFRS 1.
The consequences of the transition of the principles of valuation and determination of results based on the Dutch reporting regulations to IFRS are explained in the paragraph on the reconciliation of the principles of valuation and determination of results to International Financial Reporting Standards (IFRS) of the notes.

The financial reporting principles have consistently been applied in these interim figures for KAS BANK and its subsidiary companies.

Income is recorded in the profit and loss account in case of an increase in the economic potential, corresponding with an increase in assets or a decrease in liabilities, of which the size can be determined in a reliable manner. Expenses are recorded in the profit and loss account in case of a decrease in the economic potential, corresponding with a decrease in assets or an increase in liabilities, of which the size can be determined in a reliable manner.

Balancing

Assets and liabilities due on demand or which have the same duration, with reference to one (legal) entity or group of legal entities jointly and severally liable, are recorded in the balance sheet in a balanced manner in case there is an unconditionally enforceable right to offset the recorded amounts and in case of the intention to settle the liability on a net basis or to realise the assets at the same time the liability is settled. Income and expenses are not balanced, except when they relate to hedges and to assets and liabilities that have been offset against each other in line with the aforementioned.

Foreign exchange transactions

Income and expenses arising from foreign exchange transactions are converted against the rate on transaction date. Monetary assets and liabilities expressed in foreign currency are converted per balance sheet date against the exchange rate known on that date. The price results arising from aforementioned transactions and valuations are recorded under Trading income in the profit and loss account. Unrealised exchange rate differences on non-monetary financial assets are part of the total change in value of the assets. For a non-monetary financial asset classified as trading or derivatives, currency changes are part of profits and losses on the investment and/or derivative. For non-monetary assets, which are classified as available for sale, unrealised foreign exchange gains are recorded under Shareholders' equity.

Reverse repurchase transactions

Securities bought with a binding condition that in the future they will be repurchased against a predetermined price (reverse repurchase agreements), are dealt with as loans against collateral. The cash receivables, including accrued interest, are recorded as Reverse repurchase agreement at the asset side of the balance sheet.

The securities acquired by means of reverse repurchase agreements are used in particular for collateral purposes and are not recorded in the balance sheet.

The interest arising from reverse repurchase agreements is amortised – calculated on the basis of the effective interest method – during the duration of the agreement and are recorded in the profit and loss account under Interest income.

Financial assets

KAS BANK's financial assets include loans, receivables and assets classified as available for sale.

All purchases and sales of financial assets are recorded on transaction date, which is the date on which KAS BANK commits itself to buy or sell the asset.

Loans and receivables

Loans and receivables are non-derived financial assets which are not listed on an active market with fixed or to be determined interest payments. These arise after the organisation provides cash to a debtor without the intention of trading with the cash receivable.

Loans and receivables are recorded against amortised cost price. The principal amounts are recorded in the balance sheet under Banks, Loans and advances and Funds entrusted. The interest results are recorded in the profit and loss account under Interest income or Interest expense on the basis of the effective interest method.

Assets classified as available for sale
Securities that are kept indefinitely and can be sold when liquid funds are required or as a result of changes in the market value, are classified as Assets classified as available for sale.

These securities are valued against cost price (including transaction costs) upon the first recording. Assets classified as available for sale are subsequently recorded on balance sheet date against the fair value based on the listed offer price per balance sheet date or on the basis of internal valuation models. Securities, of which the fair value cannot be determined in a reliable manner, are recorded against cost price minus possible special value adjustments.

Unrealised results arising from changes in the fair value are recorded under Shareholders' equity, except for special value adjustments, and, in case of monetary items, exchange rate differences. In case the securities are alienated or in case of special value adjustments, the attributable accumulated result directly recorded in the Shareholders' equity is recorded in the profit and loss account under Assets classified as available for sale. Insofar these securities are interest-bearing, the interest is recorded in the profit and loss account under Interest income on the basis of the effective interest method. Dividends received are recorded in the profit and loss account under Assets classified as available for sale.

Trading income
Under Trading income securities are recorded that have been acquired to generate short-term profits, arising from fluctuations in prices or margins. Securities in this portfolio are valued against cost price (including transactions costs) upon the first recording and are subsequently recorded against fair value based on the listed offer price on balance sheet date. All realised and unrealised results are recorded in the profit and loss account under Trading income.

Derived Financial Instruments
KAS BANK uses derived financial instruments (derivatives) to cover amongst others foreign exchange, credit and interest risks arising from business, financing and investment activities. Derivatives which do not qualify for hedge accounting are recorded as trading instruments.

Derivatives, including foreign exchange contracts, foreign currency and interest rate swaps and options, are recorded against cost price (including transaction costs) upon the first recording. Only in case of clear indications in which for example the transaction price deviates from other perceptible similar actual transactions in the market or based on a valuation model with objectively perceptible data, results for the relevant derivative are included on the first day.

After the first recording these derivatives are recorded against fair value. The fair value of interest rate swaps is the amount KAS BANK would receive or pay to terminate the swap per balance sheet date, taking into account the actual interest rate. The fair value of foreign currency swaps is the listed market price per balance sheet date, being the discount value of the listed forward rate. The fair value of the options is determined on the basis of official listings on exchange markets. All derivatives are recorded as assets in case of a positive fair value and as liabilities in case this value is negative.

Changes in the fair value of derivatives are recorded in the profit and loss account under Trading income. In case derivatives however, qualify for hedge accounting, the entry of a resulting profit or loss depends on the nature of the item hedged.

Hedge accounting

KAS BANK applies hedge accounting by appointing derivatives to hedge a change as a result of changes in the interest rate in the fair value of an asset or liability on the balance sheet (fair value hedging). In such cases, it is complied with the hedge accounting conditions.

A change in the fair value of a hedging transaction, which is classified as fair value hedging, is recorded in the profit and loss account under Interest income or Interest expense. The simultaneous change in the fair value of the hedged asset or liability attributable to the specific hedged risk is also recorded in the profit and loss account under Interest income or Interest expense. The non-hedged change in the fair value of the asset or liability is recorded in the Shareholders' equity (classified as available for sale).

In case a transaction no longer complies with the hedge accounting criteria, the adjustment of the accounting value of a hedged asset or liability must be recorded during the remaining duration under Trading income in the profit and loss account.

Some transactions in derivatives which KAS BANK considers as economically effective hedge transactions in the context of its risk policy do not qualify for hedge accounting. The results on these transactions in derivatives are recorded directly under Trading income in the profit and loss account.

Property and equipment

Property in own use is recorded in the balance sheet against the fair value determined by an independent appraiser, based on the replacement value taking into account continuity and functionality, minus depreciation. Part of the property is appraised periodically. The change in value appearing from the periodical reappraisal is recorded under Shareholders' equity after deducting a provision for deferred tax liabilities. Depreciation is at the expense of the profit and loss account according to the linear method based on the estimated duration of each part of a material fixed asset. No depreciation takes place for ground. The estimated life of buildings amounts to 50 years. Immovable property under construction is recorded against the cost price of the expired building terms. Any terms that have not been paid are recorded under Other liabilities.

Equipment is recorded against cost price minus cumulative depreciation and special value adjustments. Depreciation is at the expense of the profit and loss account in line with the linear method on the basis of the estimated life of a material fixed asset. The machinery, computer equipment and software acquired from third parties are depreciated in three years, furniture in five years, technical equipment in ten years and rebuilding of rented property in line with the period-of-rent. The residual value is assessed annually.

Depreciated assets are assessed for special value adjustments in case events or changes indicate that the book value may exceed the future economic benefits. An asset is directly depreciated to the direct revenue value in case the book value exceeds the estimated direct revenue value. The special value adjustments are recorded in the profit and loss account under Value adjustments.

Property investments

Property investments are kept to realise rent proceeds or an increase in value, or both. Property investments are recorded against fair value in the balance sheet. An independent appraiser determines the fair value of the property investments once every five years. Interim changes in value are based on a relevant price index. All changes in value and rent proceeds arising from property investments are directly recorded in the profit and loss account under Assets classified as available for sale.

Intangible assets

Expenses related to the development and maintenance of software are recorded as expenses. Expenses for development activities that serve as support for KAS BANK's provision of services for clients are capitalised in case the costs can directly be related to the production of identifiable and unique software, which will probably generate economic benefits to the company for more than one year. The capitalised expenses relate to the directly attributable expenses, including expenses for staff involved in the development of the software. The capitalised development expenses are recorded against cost prices minus cumulative depreciation and special value adjustments. It concerns a linear depreciation at the expense of the profit and loss account on the basis of the estimated life. The estimated life amounts to three years.

Depreciated assets are assessed for special value adjustments in case events or changes indicate that the book value exceeds the future economic benefits. An asset item is directly depreciated to the direct revenue value in case the book value exceeds the estimated direct revenue value. Capitalised expenses for internally developed software not yet in use, is tested annually for special value adjustments. The special value adjustments are recorded in the profit and loss account under Value adjustments.

Lease agreements

Lease agreements are classified as financial lease in case nearly all risks and benefits related to the property are transferred by the lessor to KAS BANK. In all other cases, lease agreements are classified as operational lease.

Assets acquired by means of financial lease, are recorded against the lowest value of the fair value and the discount value of the nominal lease payments at the start of the lease, minus cumulative depreciation and special value adjustments. When calculating the discount value of the nominal lease payments, the discount rate equals the implied interest rate according to the lease agreement.

The capitalised financial lease is depreciated in line with the criteria stated under property and equipment.

The capitalised lease payments paid on an operational lease are recorded linearly as expenses in the profit and loss account during the lease period. In case an operational lease is terminated prior to the expiration of the lease period, possible penalties are recorded in the period in which the lease contract was terminated.

Special value adjustments

The book value of KAS BANK's assets, except the deferred tax claims, is reviewed each balance sheet date to determine whether there are any indications of special value adjustments. In case such indications occur, an estimate is made of the realisable value of the asset.
For assets with an indefinite term of use and intangible assets which are not yet ready to use, the realisable value is estimated each balance sheet date.

Financial assets recorded against amortised cost price

On each balance sheet date, it is assessed whether there is objective proof whether a financial asset has depreciated. A financial asset depreciates as a result of one or more events that occurred after the first recording of the asset in the balance sheet and this event has an influence that can be estimated in a reliable manner on the future cash flows of the relevant financial asset.

Depreciation equals the difference between the amortised cost price and the value of the future cash flows discounted against the original effective interest rate of the loan. The special value adjustments and the release of special value adjustments from the past are recorded in the profit and loss account under Value adjustments to receivables.

In case the financial asset has been provided against collateral, the revenue minus expenses from the sale of that collateral, is taken into account for the calculation of future cash flows, irrespective of the fact whether the execution of the collateral is probable.

If, in a subsequent period, the amount of the value adjustment decreases and the decrease can objectively be related to an event after the value adjustment was determined, the previously set value adjustment is reversed and the amount is recorded in the profit and loss account under Value adjustments to receivables.

Financial assets recorded against fair value
On each balance sheet date it is assessed whether there is objective proof whether a financial asset has depreciated. In case of objective proof for assets classified as available for sale, the cumulative losses – being the difference between the amortised cost price and the actual fair value, minus previous value adjustments recorded in the profit and loss account – are removed from the Shareholders' equity and recorded in the profit and loss account under Assets classified as available for sale. If, in a subsequent period, the amount of the value adjustment decreases and the decrease can objectively be related to an event after the value adjustment had been determined, the previously determined value adjustment is reversed and the amount is recorded in the profit and loss account under Assets classified as available for sale. Reversal of previously set value adjustments does not take place for shares.

Other assets
For the other assets a special value adjustment is reversed in case the estimates have changed on the basis of which the realisable value had been determined. A special value adjustment is only reversed insofar the book value of the asset does not exceed the book value after deduction of value adjustments, which would have been determined in case no special value adjustments had been recorded.

Interest income and expenses
Interest income and interest expenses of interest-bearing securities are recorded in the profit and loss account on the basis of the effective interest method, whereby in addition to the coupon interest the amortisation of (dis)agio, transaction costs and other differences between the initial book value and the nominal value of the interest-bearing securities are taken into account.

The allocated interest of securities that are issued on a discount basis, such as government securities, are recorded under Interest income.

In case, as a result of an impairment test, a financial asset is depreciated to the estimated realisable value, the interest income is based on the original effective interest rate used to discount the future cash flows for the calculation of the estimated realisable value.

Commission income and expenses
KAS BANK receives commission by providing a wide range of services. Commission can be classified in two general categories: income received from services provided within a period, for which clients are periodically charged as well, and income received from transaction-driven services. Commission received from services which are provided during a longer period, are divided proportionally during this period. Commission received from transaction-driven services, are recorded when the commission has been collected.

Staff benefits

Pension benefits
The KAS BANK pension scheme is a Defined Benefit Plan, as a result of which the company faces actuarial risks and staff is ensured of a fixed pension upon reaching retiring age.

KAS BANK out sources the management of the Dutch pensions to the Stichting Pensioenfonds of KAS BANK, which completely reinsures the benefits at a life insurance company. The pensions for the UK staff are placed in the KAS UK Retirement Benefit Scheme, which reinsures the benefits at a UK life insurance company.

The level of the pension benefits is calculated for each scheme separately by deducting the fair value of the pension investments from the discount value of the allocated rights on the balance sheet date, taking into account corrections for non-recorded actuarial profits and losses and non-recorded expenses of years of past employment. The value of the allocated rights is calculated on the basis of an estimate of the claims staff has accumulated in exchange for their services in the reporting period and previous periods. An actuary based on the “Projected Unit Credit Method” executes this calculation annually. The discount value of the allocated rights is determined by discounting the estimated future outgoing cash flows against the interest rate on government bonds with durations in line with the allocated rights.

The pension expenses are recorded in the profit and loss account under Staff expenses and the net pension benefits are recorded in the balance sheet under Long-term employee benefits. Actuarial profits and losses are the result of changes in actuarial assumptions and deviations between the actuarial assumptions at the beginning of the reporting year and the realised results at the end of the reporting year. Actuarial results are recorded in the Shareholders’ equity. In case the pension claims arising from the scheme are improved, the part of the improved (pension) claims related to the years of past employment of staff are recorded linearly as expense in the profit and loss account under Staff expenses during the average period until the pension claims become unconditional. Changes to pension schemes, which become unconditional immediately, are recorded in the profit and loss account under Staff expenses in the year that the new scheme takes effect.

Other long-term staff benefits
The net commitment of KAS BANK arising from long-term employee benefits, with the exception of pension schemes, equals the amount of the future remuneration employees earned in exchange for their services in the reporting period and preceding periods, taking into consideration death risk and participation chance. The commitment is discounted to the discount value and is recorded in the balance sheet under Long-term employee benefits.

Expenses are recorded in the profit and loss account under Staff expenses.

Option scheme
The value of the awarded options is calculated on the basis of an option valuation model. The fair value of the awarded options is recorded in the profit and loss account under Staff expenses, with a corresponding entry in the Shareholders’ equity. The fair value of the awarded options is determined on the basis of the trinomial model, in which the conditions are taken into account against which the options have been awarded.

Taxes

Profit-related taxes
Profit or loss related taxes during the presented periods includes the company tax owed, refundable and deferred during the reporting period. The company tax is recorded in the profit and loss account, except insofar this relates to items, which are directly recorded in the Shareholders' equity. In this case, the tax is being recorded in the Shareholders' equity.

The owed and refundable tax during the reporting year equals the tax expected to be due concerning the taxable profit during the reporting year, calculated on the basis of tax rates determined on the balance sheet date and corrections on taxes owed during previous years.

Deferred tax liabilities and claims
Deferred tax liabilities and claims relate to the differences between the commercial and fiscal valuation of several assets and liabilities. The latency is determined on the basis of the applicable tax rate and is recorded against nominal value. An active latency is recorded insofar it is likely that future fiscal profit will be available to compensate the active latency.
The liabilities and claims are recorded in a balanced manner in case of a legally enforced right to balance the tax liabilities and claims and the deferred liabilities and claims relate to the same entity.

Share capital

The registered share capital of KAS BANK includes ordinary and preference shares. Registered and paid-up ordinary shares are recorded in the balance sheet under Shareholders' equity. Registered and paid-up preference shares are recorded in the balance sheet under Other liabilities. The preference share capital is classified as debt capital, as the dividend payments are not voluntary on the basis of Article 25 of the Articles of Association. Dividend on these shares is recorded in the profit and loss account under Interest expense.

Repurchase own shares

In case of repurchase of share capital, which is recorded as Shareholders' equity in the balance sheet, the amount of the paid compensation, including the expenses to be allocated directly, are recorded as a movement in the Shareholders' equity. Bought, non-redeemed shares are shown as a deductible item in the Shareholders' equity.

Dividend on shares

Dividend on shares is recorded in the Shareholders' equity in the period in which it has been approved by the shareholders. Dividends during the year, which have been determined following balance sheet date are recorded under Other information. Interim dividend, which has been paid during the year is recorded under Shareholders' equity.

Cash flow statement

The cash flow statement has been set up according to the indirect method and provides insight into the origin of liquid resources, which have become available during the reporting year. The cash flows are classified according to operating, investing and financing activities.

Cash and deposits at the central bank and deposits due on demand kept at other credit institutions are referred to as liquid resources. Deposits due on demand kept at other credit institutions are recorded under Banks.

The difference between the cash flow included in the cash flow statement and the movement of liquid resources included in the balance sheet, is the result of exchange rate differences and is recorded under the item Effect of exchange rate changes on cash items.

Segmentation

A business segment is a clearly to be distinguished part providing a group of similar services of which the profit and risk profile deviates from other business segments.
A geographical segment refers to the location where the proceeds are earned.

Custody and registration of securities and derived rights

Securities, insofar they are not kept number-related and are not subject to the Securities Bank Giro Transactions Act, are kept by KAS Depositary Trust Company N.V. or KAS Nominees Ltd. The rights and obligations arising from positions of third parties in derivatives have been placed under KAS Derivates Clearing N.V. As securities and derivatives of clients are separated from the company's capital in this manner, these are not recorded in the balance sheet.