KAS BANK N.V.
Annual Report 2017

Enabling prosperity
for future generations

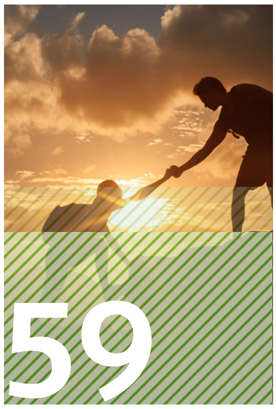
KAS BANK
CLEARLY DIFFERENT

Table of content

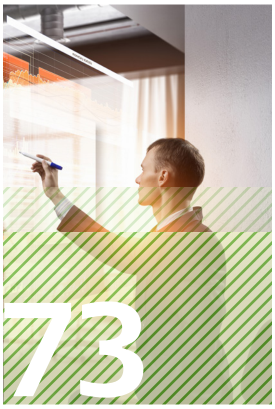
Introduction

Strategy

Our Business Environment



Corporate Governance



Risk Management

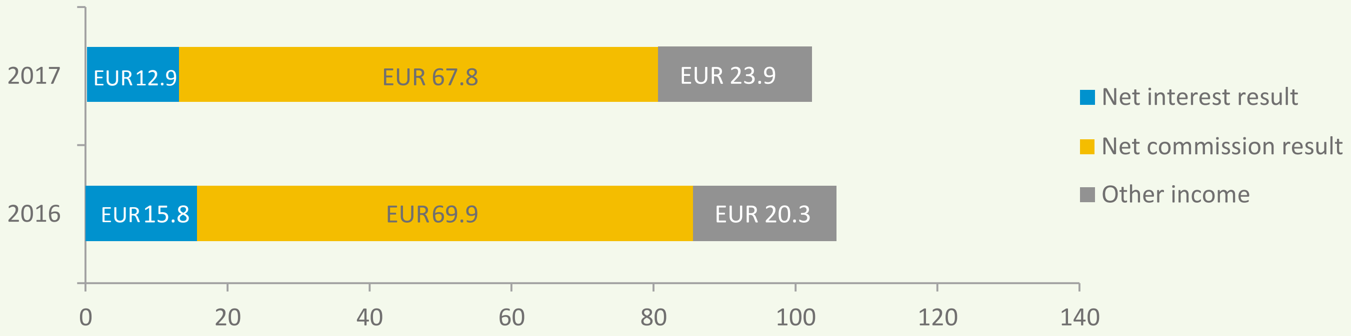
Leadership

Annual Financial Statements

Other Information

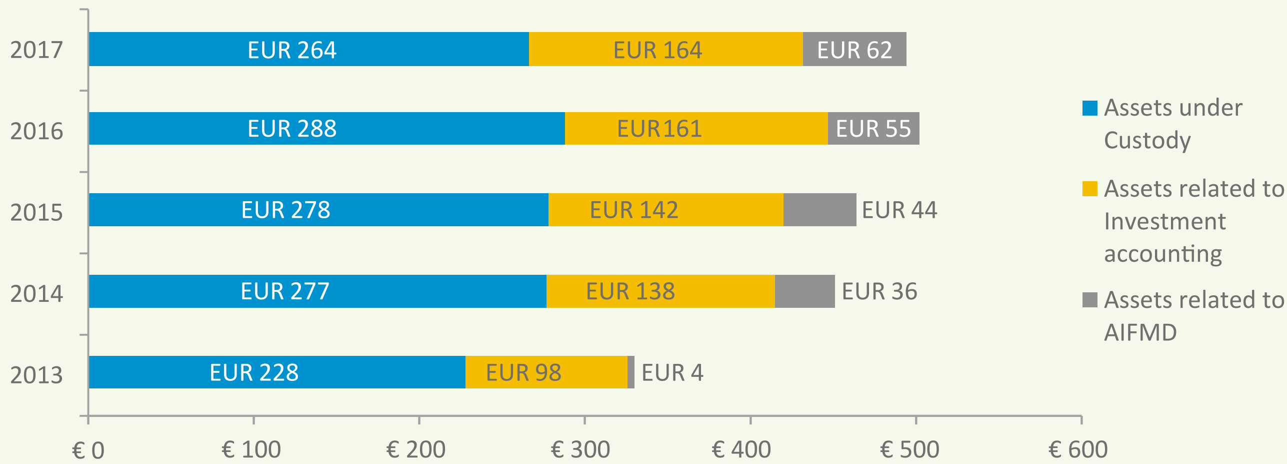
Financial key figures 2017

Total operating income (in EUR millions)



	2017	2016	2015
Dividend	EUR 0.64	EUR 0.64	EUR 0.64
Profit per share	EUR 1.02	EUR 1.01	EUR 1.04

Assets under administration (in EUR billions)



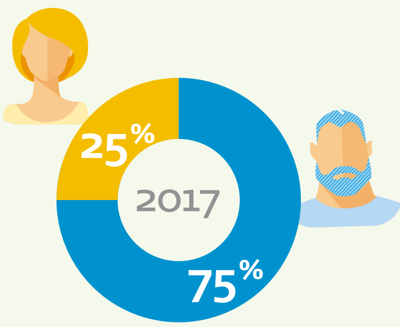
Non-financial key figures 2017

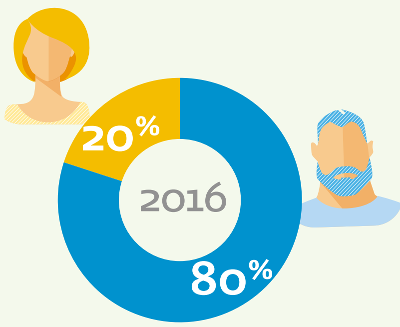
Client satisfaction rate

Employee Engagement*

*Methodology to measure employee engagement was changed over 2017, therefore no figures available over 2016

Gender diversity at top management



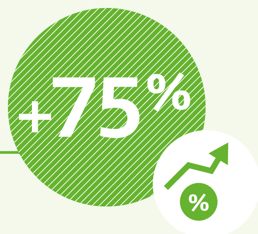


ESG screening module**

2017: 634
2016: 627

**makes socially responsible investment measurable

CO2 emission 2017



Emission
2017 - 110 grams/km
2016 - 63 grams/km

Introduction
Who we are

In a society where technology and a growing economy offer us more prosperity, we strive for greater financial security. To achieve this, we build up pension funds, we save money for our children and take out insurance. We aim for security for both now and in the future. For ourselves and for future generations.

Our strategy

In a rapidly changing world, with increasing uncertainties, building capital resources is an important part of the social foundation. Increasingly, people are taking this responsibility into their own hands and preparing themselves for the individualisation and digitalisation of our society.

We are the bank that supports our clients in realising their goals with our knowledge and by developing unique and sustainable administrative and banking services and solutions. This way we enable our clients to achieve greater financial security.

Ambition

It's our ambition to enable prosperity for future generations by supporting professional investors to invest successfully and to connect them efficiently to the financial markets.

We want to be the leading specialist in the field of custody and administration services for professional investors. We are in control, agile and effective, and committed to continuous improvement. Our clients are always at the heart of our services.

Professional investors need a specialist organisation to whom they can entrust their assets. An organisation that safekeeps, administers and reports on these assets, so that they can focus on their core business: achieving an optimal investment result. We are that organisation.

Core values

Our core values are the foundation for realising our strategic priorities and are entwined to reach the goals we set for our organisation. Our people strive to live by these three core values: committed, connected and competent. We strongly believe that by living up to our core values, we create a culture that is beneficial not only to our employees and organisation but also to the way we partner with our clients create a solid return for our shareholders and strengthen our position in society.

Our specialised employees are the core of our company. Their quality and expertise is crucial to our success. As part of our core values, we create a culture in which continuous improvement, flexibility and risk awareness are the norm. We always follow our standards of conduct and principles. Our clients can keep us to our standards, as ultimately that responsibility leads to better performance.

Strategic priorities

The changing needs of our clients are the basis for our strategic priorities:

- Client Empowerment: Through partnership, personalisation, unique administrative and banking solutions and our independent position, we empower clients to change when needed.
- Data Driven: Based on data and information, we develop sustainable governance and market solutions to enable clients to meet the information needs of their regulators and society's expectations.
- Unique Specialist: We use our unique and valuable knowledge to create sustainable value for our stakeholders and to develop advanced solutions for our clients.
- Operational Excellence: Clients must be able to fully trust our information and reports. For this, we apply a very rigid control model.

Long term value creation

KAS BANK focusses on sustainable value creation for all our stakeholders – clients, employees, shareholders, regulators and society. By listening adapt to our clients, we understand their needs and respond to their changing environment. We help our employees develop their expertise and competences so that they can fully utilize their potential. We enable sustainable growth and optimization of performance to our shareholders within our low risk profile. Our data is transparent, to provide regulators and clients with the necessary openness. We want the best for our society and, therefore, support the local community around us.

What we do

Business to business

KAS BANK is a specialist bank in the field of custody and administration services for professional investors in the Netherlands, United Kingdom and Germany. To keep our clients' assets safe for now and in future. We maintain a low risk profile.

Our clients are pension funds, insurance companies, investment companies, banks, wealth managers, brokers, family offices and charities. They all have a fiduciary responsibility for a collective asset base, which is owned by their customers: over 5 million pensioners, policy holders, investors and bank customers. KAS BANK ensures their assets remain safe, valued and reported accurately and on time. The back-office is our comfort zone, keeping our clients' in control, strengthening their fiduciary role, and thereby enabling prosperity for future generations.

Client services

Our clients use our asset services. These comprise of the traditional custodian services (safekeeping and corporate events) and the more added value services such as fund accounting, NAV-calculation, portfolio-valuation, (regulatory) reporting and monitoring.

Our clients also use our transactional service, such as clearing, settlement and order execution.

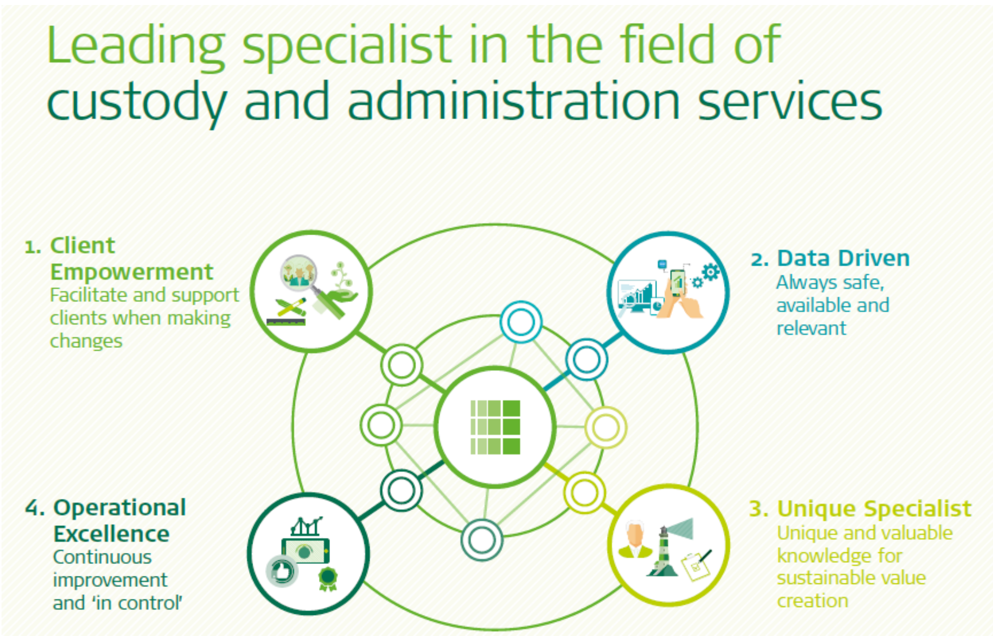
Furthermore, we have a number of clients that use our Treasury Services, mainly, in combination with Transaction Servicing and/or Asset Service. Within our offering of Treasury activities, we provide our clients with overlay services, balance sheet and liquidity management, currency –trading and securities borrowing- and lending.

In our business model, we see a shift from transactional services towards asset and treasury services.

Professional securities services

Our administration platform enables us to offer our clients services that are focused on providing accurate information about performance, risk, compliance, costs and other key information relating to their investments.

We primarily operate within the European wholesale markets, based in the Netherlands, the United Kingdom and Germany as core markets.



Letter of the Chairman

Welcome to the KAS BANK 2017 annual report. Our strategic transformation progresses with increasing results in 2017. Notwithstanding historic low interest rates, continued introductions of new legislation and our self-inflicted change, KAS BANK has demonstrated the resilience required with these challenging market conditions. Our ambition is to enable prosperity for future generations, by supporting institutional investors in the field of custody and administration services.

With KAS BANK as administration bank, we make institutional investors successful, so they can focus on realising the performance that generates prosperity for their individual clients. This way KAS BANK services over 5 million pension participants, policy holders, bank clients and other individuals that save and invest for their future. We offer this important support role to institutional investors from offices in the Netherlands, UK and Germany.

Our makeover proceeds

Our strategic transformation progresses with increasing results in 2017. We installed a strict budget and cost-discipline resulting in a much better, more satisfying financial performance. This, and our asset quality, our sound regulatory ratio's and low risk appetite, resulted in a reconfirmation of our A- (stable outlook) credit rating by Fitch. We have moved into our new head-quarters building, where we successfully launched KAS Lab; our innovation hub. Also, we further simplified our business model by finalizing the outsourcing of our IT-function to ATOS, with a successful migration of all IT hardware and data-functions.

We improved the quality of our internal control, resulting in, amongst others, an unqualified opinion on our ISAE3402 report. Moreover, we introduced Robotics with great success, leading to further optimization of our core processes with the aim to eliminate human intervention wherever it reduces errors.

We have continued the redesign of our core investment management services while production was increased and legislative changes had to be integrated. The regulatory reporting, we do for our institutional investor clients was also topic of a regulatory review. In a joint effort with the regulator we communicated the positive outcome of this to the market.

Our strategic planning process has improved We now work with a strict cost discipline and are satisfied with our financial forecasting capabilities. This helps us in making better and more timely investment decisions. Also, we have invested a lot of time in developing a clear strategy for KAS BANK.

We focus on 4 strategic priorities: we want to empower our clients, we are data driven, we are a unique specialist and focus on operational excellence. In December, we prepared our plan for 2018, so we can use the full 12 months to reach our objectives for the new year. KAS BANK demonstrates its conscious and well-motivated approach to making the bank better every day.

After more than 200 years KAS BANK has moved to a new headquarter building. Our new headquarter visualizes our makeover. We have traded the historic traditional grandeur for a modern, open and transparent workspace. With this we have transformed our office IT-environment to full mobile working methods where all our staff can work at any location and at any time they prefer. We have invested a lot in this new way of working, where an open transparent office helps our cultural development towards better connectivity and cooperation. We now meet and see each other in all openness, and the service to our clients benefits from this.

Our innovation hub: KAS Lab

We are actively investing in our future, as we realize that in these times of disruption, KAS BANK needs to develop, change and renew its business model in order to adapt to this change successfully. We assume the most challenging approach, to prepare for full and disruptive change.

We respect our long history and tradition, yet want to ensure it does not blind us and prevent us from actioning change. KAS LAB is our free thought zone; where positive thinking towards future models is the rule and risk, compliance and other decelerators of change are kept out of the design process. And our clients are invited in, as they are the dominant source of new ideas, models and services. We have launched various innovations, amongst them a trial with blockchain technology.

How we deal with change

Transformation and makeover require change. People in general resist change, as it brings uncertainty and requires constant adaptation. At KAS BANK we have invested in further development of our culture, with attention to our ability to change. We have actively provided more support and means for our staff to cope with the ever-increasing demands and pressure they have to deal with. This was also reflected in increased work pressure measurements. We have actively invested in leadership training programs for our managers, introducing time and occasion for reflection and peer-coaching.

Our clients remain loyal

With all this change and optimization, we thank our customers for their loyalty. KAS BANK remains dedicated to personal and direct services with employees that demonstrate the responsibility to care for their clients and their interests. In 2017, we have seen client satisfaction under pressure which we have addressed our focus on further process improvements and optimization.

We have welcomed new customers in all three markets we operate in. Consolidation continues in the pension and insurance segments in the Netherlands. We are able to counterbalance this trend with new services and growth in Wealth and Funds segments (NL) and in further expanding our pension fund client base in Germany and the UK.

Thank you

Finally, I would like to take this opportunity to thank all our stakeholders, and in particularly, our clients, shareholders and partners, for their commitment to our organisation. And I want to thank our employees for their hard work and commitment to KAS BANK and our clients.
I look forward to working with all of you, as we continue to build a strong banking and securities environment.

Amsterdam, 13 March 2017

Sikko van Katwijk
Chairman of the Managing Board

Our Shares

Listing

KAS BANK is listed on the Euronext Amsterdam stock exchange. Ordinary shares in the form of depositary receipts for shares have been listed on the Official Market of the Euronext Amsterdam N.V. stock exchange since 1986. KAS BANK is part of Euronext's Amsterdam Small Cap Index (AScX index).

Attendance at General Meetings of Shareholders in 2017

We held our annual General Meeting of Shareholders on 26 April 2017, during which attendees with voting rights represented 93.3% of the issued capital. Shareholders and depositary receipt holders in attendance represented 24.8% of the voting capital.

The KAS BANK Registrar's Office (In Dutch: Stichting Administratiekantoor Aandelen KAS BANK) acted on behalf of holders of depositary receipts who did not attend the meeting in person, representing 75.2% of the voting shares. All depositary receipt holders attending the meeting were automatically authorised to vote by the KAS BANK Registrar's Office. All resolutions at the meeting were adopted almost unanimously, and voting results were published on our company website immediately after the meeting.

3% holdings

The following institutions have given notification of holdings of 3% or more in KAS BANK pursuant to the Financial Supervision Act and the Decree on Disclosure of Control and Major Holdings in Listed Companies (as at 31th December 2017).

Shareprice

During 2017, the price of KAS BANK shares increased by approximately 18%, from EUR 8.43 (at year-end 2016) to EUR 9.97 (at year-end 2017). The basic earnings per KAS BANK share in 2017 were EUR 1.02 (2016: EUR 1.01). The figures per KAS BANK ordinary share can be found in the 'Five years in figures' summary.

Dividend

As discussed during the General Meeting of Shareholders, our dividend policy aims at distributing 60-80% of the net result, where profit permits unless exceptional circumstances prevent us. We distribute dividends because we believe that our major shareholders as risk carriers should share in the returns achieved by our company. We are confident in achieving a long-term structural stable return, based on the nature of our business, combined with our low risk profile, and our historical performance.

In January of 2018, the European Central Bank (ECB) continued recommending that credit institutions satisfying the applicable capital requirements should distribute their net profits in dividends in a conservative manner. This will enable them to continue to fulfil all requirements, even in deteriorating economic and financial conditions.

It is proposed that a dividend of EUR 0.64 per ordinary share be declared for 2017. An interim dividend of EUR 0.33 per ordinary share has already been distributed. The final dividend will be EUR 0.31, paid out in cash. This dividend is in accordance with the ECB's recommendations.

3% holdings

SHAREHOLDER	PERCENTAGE OF KAS BANK SHARES
NN Groep N.V.	5.41%
All Capital Holding B.V.	5.27%
C.A.C.M. Oomen	5.21%
KAS BANK N.V.	5.14%
HECO S.A.	5.01%
Dimensional Fund Advisor LP	3.00%

Our Calendar

2018

8 March	Announcement of 2017 figures (before opening of trading) Analysts' meeting
14 March	Publication of the 2017 Annual Report Notice convening the Annual General Meeting of Shareholders
28 March	Registration date for the General Meeting of Shareholders
25 April	Annual General Meeting of Shareholders Publication of Q1-2018 figures (before opening of trading)
27 April	Ex-dividend quotation of KAS BANK N.V. depositary receipts
30 April	Record date for the determination of dividend entitlement
3 May	2017 Final dividend payable
6 September	Publication of H1-2018 interim figures (before opening of trading) Analysts' meeting
7 September	Ex-dividend quotation of KAS BANK N.V. depositary receipts
10 September	Record date for the determination of interim dividend entitlement
14 September	2018 Interim dividend payable
18 October	Publication of Q3-2018 figures (before opening of trading)

2019

7 March	Announcement of 2018 figures (before opening of trading) Analysts' meeting
13 March	Publication of the 2018 Annual Report Notice convening the Annual General Meeting of Shareholders
27 March	Registration date for the General Meeting of Shareholders
24 April	Annual General Meeting of Shareholders Publication of Q1-2019 figures (before opening of trading)
26 April	Ex-dividend quotation of KAS BANK N.V. depositary receipts
29 April	Record date for the determination of dividend entitlement
2 May	2018 Final dividend payable
5 September	Publication of H1-2019 interim figures (before opening of trading) Analysts' meeting
6 September	Ex-dividend quotation of KAS BANK N.V. depositary receipts
9 September	Record date for the determination of interim dividend entitlement
13 September	2019 Interim dividend payable
31 October	Publication of Q3-2019 figures (before opening of trading)

Strategy

Strategy
Stakeholders & ambition

Our mission is to enable prosperity for future generations by supporting professional investors to successfully invest, and connect them to the financial markets. Our ambition is to be the leading specialist in the field of safekeeping and administration services. We put our clients at the centre of everything we do, we are in control, continuously improve and are agile and decisive. We focus on generating sustainable value creation for all our stakeholders - clients, employees, shareholders, regulators and society.

Stakeholders

Clients
We work with our clients to create lasting added-value for the improvement and development of their organisations.

Employees
The knowledge, dedication, and ownership of our people make us specialists in our field of business.

Society at large
We aim to be a sustainable bank by contributing to building a sustainable society for future generations.

Investors
Our investors' input is vital to increase the quality of our management approach and to improve sustainability.

Regulators
We are thoroughly committed to collaborating closely with our regulators.

What we promise

- ✓ To listen to our clients to understand their needs and respond to their changing environments.
- ✓ To help our employees develop their expertise and competences, so that they can utilize their potential.
- ✓ To our investors: sustainable growth and performance optimization within our low risk profile.
- ✓ Our data is always transparent, to provide clients and regulators with the necessary openness.
- ✓ The best for our society and support the local community around us.

Our ambition

Enabling prosperity for future generations

Investing succesfully

We connect institutional investors with the financial markets. As a Dutch bank with an international profile, we offer them worldwide coverage. Our knowledge of the business, enables us to implement unique and sustainable administration and banking solutions for clients. Our service is based on three important principles: integrity, transparency and independence. We use our balance sheet to meet the needs of our clients. As a result, the banking activities support our clients and do not conflict with their core activities.

Quality and expertise

Our specialists are the core of our company. Their quality and expertise is crucial for our success. We strive to create a culture in which continuous improvement, flexibility and risk awareness are the standard. We always follow our standards of conduct and principles, and our clients can keep us accountable to it. Because we believe that responsibility leads to better performance.

Continuous improvement

We understand the changing circumstances and wishes of clients and strive to continuously adapt to their needs. Our specialised employees do this by improving our services, putting the client first, devising unique safekeeping and administration solutions and allowing customers more control over their assets. We respond quickly and agile to the trends of our time. Our strategic priorities are structured accordingly; operational excellence, client empowerment, data driven and unique specialist.

Our competitiveness

Every year we assess our competitiveness. Part of this process is our SWOT analysis, which we use to enhance our competitiveness wherever we can. We gather our input for this process from a variety of stakeholders, competitors and other relevant market sources (such as regulators and industry representative bodies).

SWOT

Strengths

- Market knowledge
- Client satisfaction
- Independence and neutrality
- Trustworthy and solid reputation

Weaknesses

- Geographically & sectorial concentrated client base
- Dependency of the profit on the interest rate
- Efficiency ratio currently higher than target
- Scale of our organisation

Opportunities

- Fintech / Blockchain
- Develop the most advanced investment and administration platform
- Innovate and accelerate governance solutions
- Digitise and transform client interaction

Threats

- Custody margins are expected to remain under pressure
- Continued low and/or negative interest rate environment
- More complex regulatory environment and rapidly changing requirements
- Brexit

Culture & Strategic Priorities

We support professional investors to invest successfully and to connect them efficiently to the financial markets. Their changing needs are the basis for our strategic priorities. Within our culture and strategic priorities, we aim to address our goals, our strengths and weaknesses, and the opportunities and threats we see.

Culture

In 2017, we initiated a culture awareness programme. Within this programme a great deal of attention is being paid to improving internal communication, transparent decision-making and our core values. The programme is set up around four themes':

1. ***Leadership and change capacity***: the ability to change and continue to improve within the organization. Wherein the focus lies on the consistent development of self-knowledge through reflection and problem-actions.
2. ***Client focus***: achieving joint results and agreements with an eye on clients' interest.
   The aim is to create a network culture, so employees look beyond the boundaries of the chain and listen to the voice of the client. In which, teams and employees challenge each other's performance, visible through all kinds of dashboards, to improve our client satisfaction.
3. ***Transparent decision-making:*** the aim is to follow the rules & procedures and stick to agreements made. Agreements made are feasible, are fulfilled and monitored.
4. ***Risk awareness & in control:*** risk awareness and the design and implementation of controls within the risk appetite boundaries are important topics that support the trust of our clients.

Our people strive to live by these three core values: committed, connected and competent. We strongly believe that by living up to our core values, we create a culture that is beneficial not only to our employees, organisation and shareholders but also to the way we partner with our clients and our position in society.

Connectivity of material topic 14
Culture & Core Values

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		Page 23

Strategic priorities

Our core values are the foundation for realising our strategic priorities and are entwined to reach the goals we set for our organisation. Our goals are realistic and aligned with our strategy and core values. Each goal has a key performance indicator for us to measure our performance and to make sure we are on the right track.
Each month the key performance indicators are reported in the Business Committee meetings to manage the performance of the goals set under the strategic priorities.

Committed
We are aware of the bank's role in society and consider the long-term interests of our customers. This includes taking ownership of our responsibilities as individuals and the team results.

Connected
We bring parties together in addressing social issues. As an administration bank we build long-term relationships based on trust. We know the importance of strong mutual commitment.

Competent
We are skilled specialists with in-depth knowledge of financial markets. We offer high-quality innovative solutions.

Strategic priorities

Client Empowerment

By listening to our clients carefully, we understand their needs and we adapt our business to a changing environment. Through partnership, personalisation, unique administration and banking solutions and our independent position, we empower clients to change when needed. We work with supervisory institutions to optimally support our clients with their reports and data requests. Our support will strengthen our client's governance. From our independent role we carefully perform the necessary controls.

- We enable the client to achieve their business objectives and to
- Grow their business opportunities
- We enhance client experience and make it unique
- We develop products and services on the basis of client needs
- Through our independent support, we enforce and accelerate our
- Client's governance capability.

Data Driven

A flexible and reliable IT infrastructure and high-quality services are paramount to enable growth for our clients.

The adaptability of our organisation, the digitisation of society and the high standards of asset and client data security underline the importance we place on this.

Based on data and information, we develop sustainable governance and market solutions to enable clients to meet the information needs of their regulators and society's expectations. Our data is always available, up-to-date and secure.

- Data is always safe, available and relevant with us
- We enrich data for our clients, providing care and convenience.

Unique Specialist

We have been active in the European financial sector for over 200 years. We use our unique and valuable knowledge to create sustainable value for our stakeholders and to develop advanced solutions for our clients.

In addition, our multi-disciplinary collaboration and clear communication contributes to an optimal client experience.

- Our entire organisation cares about the client experience
- We are fast and adaptable
- Our commitment is based on passion for the client, leading to
- An enhanced outcome.

Operational Excellence

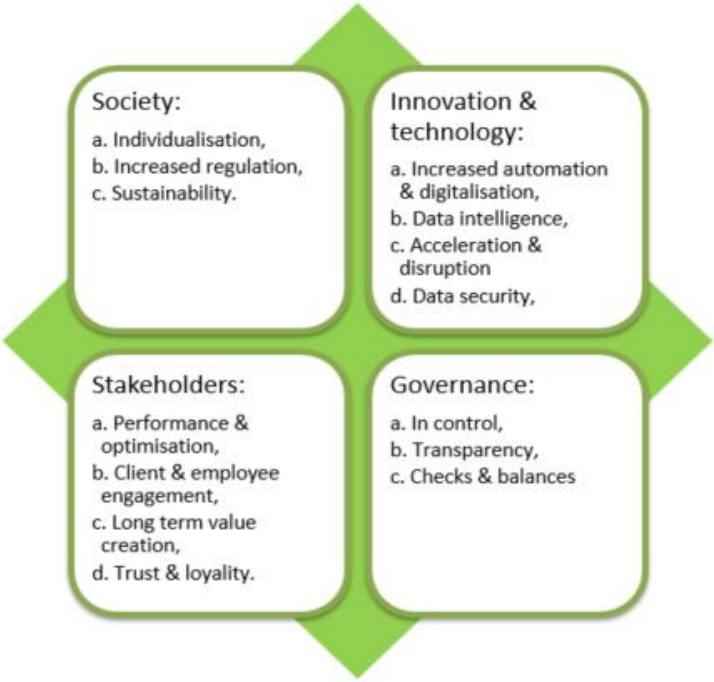
We provide appropriate support to each client in managing their collective assets. The best decisions are made on the basis of relevant and reliable information. Clients must be able to fully trust our information and reports. For this, we use a very rigid control model.
We continuously strive to improve the quality of our services. We listen carefully to the feedback of our clients and from the market. In our pursuit of Operational Excellence, we continuously invest in the expertise and potential of our employees.

- Clients must be able to fully trust our information and reports
- Information and reports are available at any relevant moment
- The work entrusted to us must always be transparent and demonstrably in control
- The bank of tomorrow is better than the bank of today.

Trends & Market Developments

We work on our strategic priorities and monitor the present-day issues. Thinking about today, tomorrow and the future forms the basis for our strategic agenda for the coming years. It is our responsibility to respond to trends and market developments and to prepare for the future as effectively as possible. To do so, we identify key trends and market developments and map out our path to respond to the changes we foresee.

The active monitoring of our environment is based on our long-term experience with change. We recognize four major trend themes of our time:



To adapt to the trends and market developments, we have formulated three objectives:

Develop the most advanced investment and administration platform

Simplifying, improving and enhancing our IT and business processes will strengthen our core business for a sustainable future. By implementing Robotics, integrating our custody and investment administration platform and professionalisation of data governance, we provide our clients with a state-of-the-art investment and administration platform. The client will have the necessary information and reports at any moment relevant to them.

Innovate and accelerate governance solutions

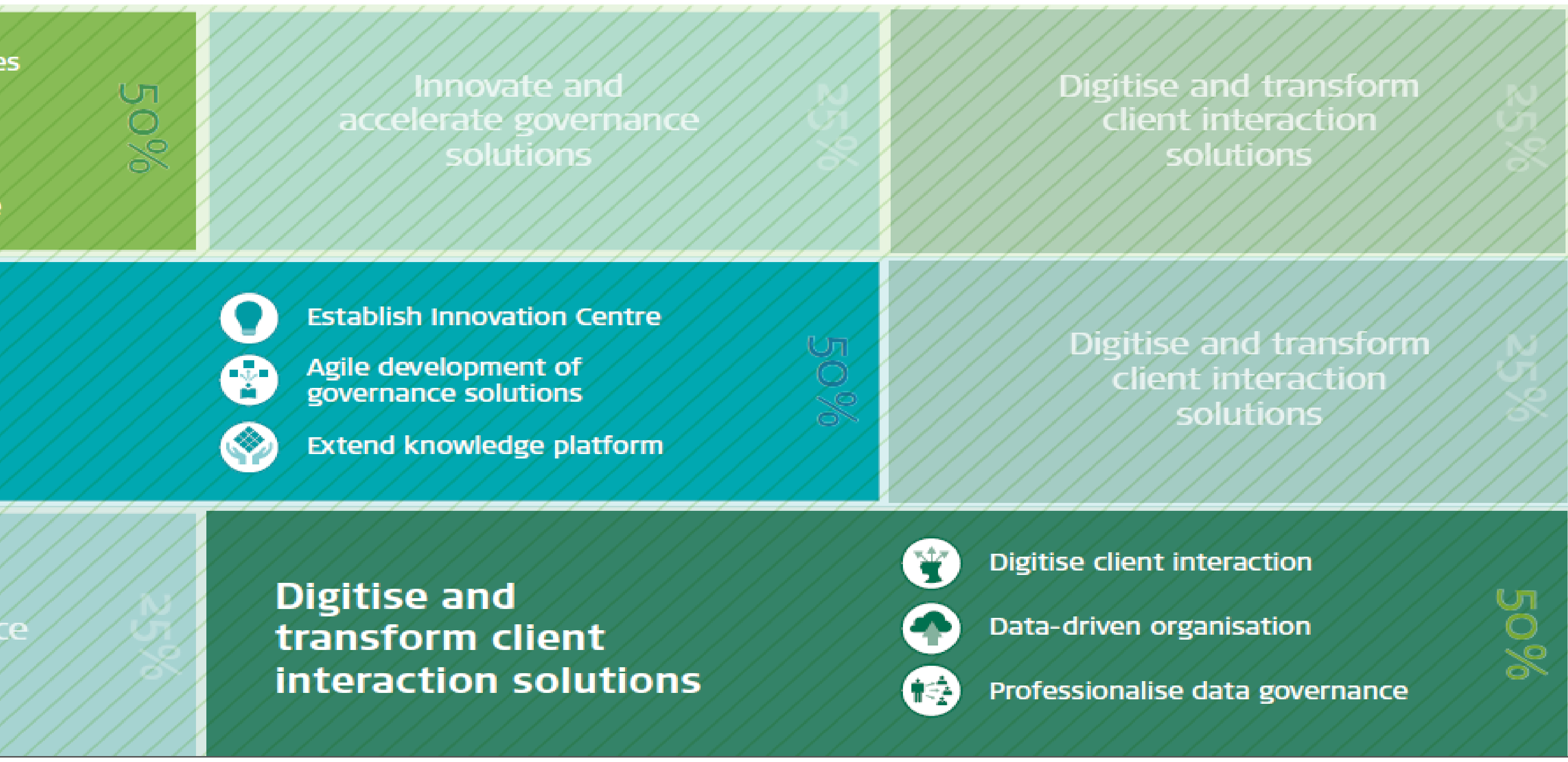
We closely monitor changes in the financial sector and combine it with the needs and wishes of the client. As a smart custodian, we consider it our duty to continuously develop new services that are relevant to the client and the market. Our innovative solutions are part of a corporate culture focused on action, flexibility, viability and efficient collaboration. New initiatives are encouraged by providing space for experiments and fast validation and scaling of workable solutions.

Digitalise and transform client interaction

Digital client communication is essential for a 24/7 service. That is why we are committed to digitalising and transforming the interaction with our clients. Our clients should always be able to connect online with our employees whenever they request service. They should also place confidence in the speed and reliability of our systems. Nevertheless, in an extensive digitalised client environment personal contact with our clients will always remain a core element of our service.

Connectivity of material topic 8
Strategy & Execution

Link to our strategy	*Important to our stakeholders*	*See material topics and connectivity on*
		Page 23



Materiality Assessment

We listen to our stakeholders and respond accordingly to their interests and concerns. The input that we receive from our stakeholders is vital for the development of the whole organization. The interests and concerns of our stakeholders are a high priority in our daily business. To recognize these issues in combination with long term value creation for our stakeholders, KAS BANK has executed an extensive materiality assessment for the whole organization.

Materiality assessment

In 2015, KAS BANK started with organizing a materiality assessment to identify the key priorities of our stakeholders and their potential impact on KAS BANK. This year, we further improved this assessment to keep this in line with priorities and wishes from the stakeholders as well as keeping the trends and innovations in mind.

Connectivity of material topic 17

Stakeholder Engagement

Link to our strategy	*Important to our stakeholders*	*See material topics and connectivity on*
		Page 23

Identification of the material topics

The first step that KAS BANK took in the process of the materiality assessment was identifying the material topics that we will use. This was done by identifying the most material topics in relation to KAS BANK by looking at our strategy, our ambition, core values, strategic priorities, current trends, and innovations. Out of this analysis, a shortlist of 17 material topics were included in a survey, which helped us in identifying and prioritizing the most relevant topics for our stakeholders.

The survey

This survey was sent to KAS BANK's key stakeholders which are our clients, shareholders, employees, regulators and suppliers/partners. The group that we approached consisted of 172 stakeholders of which 44 responded and filled in the survey. Within the survey the stakeholders were asked to rank the topics on a scale from 1 (unimportant) to 4 (very Important). Furthermore, they were given some open questions for them to give more elaborate answers.

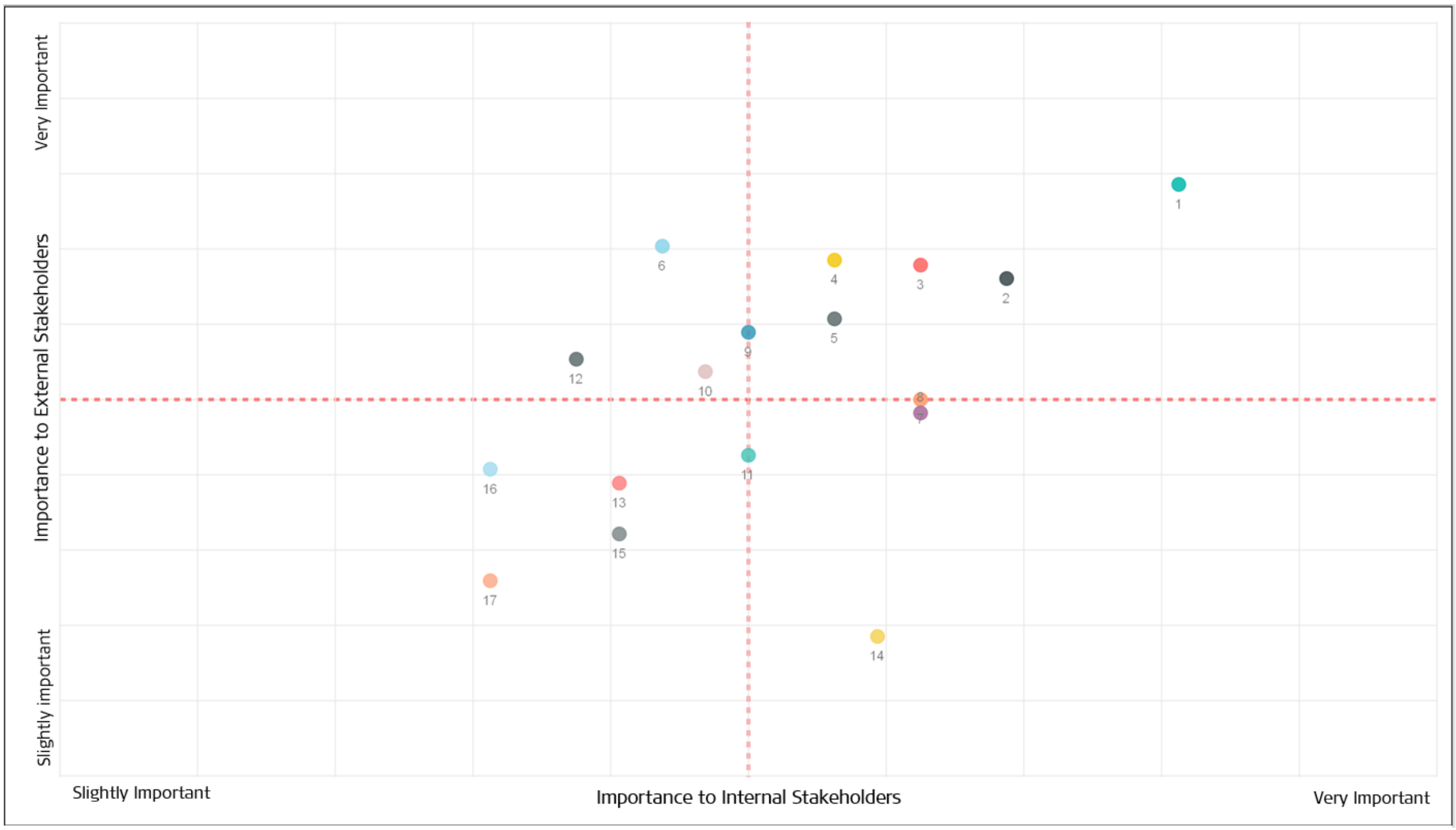
Prioritisation of relevant topics

The results of this survey are visible in the matrix below (Internal stakeholder prioritization on the horizontal axis; external stakeholders on the vertical axis). The position of the material topic on the matrix is based on a weighted average of the answers of both internal and external stakeholders. In the top right corner are the topics that both the internal and external stakeholders see as most important.

When comparing the materiality assessment and matrix of 2016 with the results of 2017, we see a slight change of importance placed by our stakeholders on the topics. The topics, client empowerment, sustainable value creation, innovation and risk management seem to have become more important in the eyes of the stakeholders. However, topics like economic performance and responsible investment have become of less importance to our stakeholders.

Although the response rate was a mere 25%, we recognise the outcome of the survey and importance of the mentioned materiality topics.

Materiality matrix



Nr.	Topic
1	Privacy & Data Protection
2	Client Empowerment
3	Valuable Data & Transparent Communication
4	Innovation
5	Sustainable Value Creation
6	Risk Management
7	Regulatory Compliance
8	Strategy & Execution
9	Corporate Governance
10	Remuneration
11	Quality Education
12	Responsible Investment
13	Decent Work and Economic Growth
14	Culture & Core Values
15	Economic Performance
16	Gender Equality
17	Stakeholder Engagement

Material topics and connectivity

MATERIAL TOPIC	DESCRIPTION	STRATEGY	STAKEHOLDERS	REFERENCE
1. Privacy & Data Protection	Protecting data, particularly that of clients, is essential now that more data is being shared and stored online. KAS BANK has an internal control framework to protect data and to minimize risks posed by cybercrime. The adaptability of our organisation, the digitalisation of society and the setting of a high standard of security on assets and customer data underline this important theme.			See page 39
2. Client Empowerment	We do not only want to provide a customer experience that focuses on efficiency, speed and quality, but also personal attention, short business lines and accessibility. This is done by listening carefully to our customers to understand where their needs lie and to respond appropriately to their changing environment.			See page 47
3. Valuable Data & Transparent Communication	Our system landscape supports our customers in achieving their goals, with transparency playing a central role. It is important that the system landscape is flexible, reliable and allows our clients to grow. By combining reliable data with transparent communication in the form of reports, data insights and cost transparency, we aim to achieve this for our clients.			See page 42
4. Innovation	We engage in innovative processes and collaborates with startups to develop new services to adapt to the changing market conditions.			See page 44
5. Sustainable Value Creation	We focus on generating sustainable value for all its stakeholders - clients, employees, shareholders, supervisors and society. This is done by listening to stakeholders, supporting development, focusing on sustainable growth and optimisation of performance within a low risk profile.			See page 47
6. Risk Management	We have a low risk strategy and profile that is reflected in its internal policies and procedures.			See page 74
7. Regulatory Compliance	The financial sector is characterised by the increasing amount of new laws and regulations. We do not only strive to comply with all applicable regulations to guarantee the integrity of our organisation, but also support clients in this complex field.			See page 38
8. Strategy & Execution	We focus on improving financial results by developing new products, new sources of revenue, and cost saving initiatives. The ambition is to enable prosperity for future generations.			See page 19
9. Corporate Governance	To maintain good governance and a robust decision-making structure we aim for transparent and fair decision-making, led by the interests of our stakeholders.			See page 66
10. Remuneration	With our remuneration policy, we aim to retain and recruit qualified employees and experts. Furthermore, the variable reward depends on the realisation of predefined financial and non-financial targets.			See page 68

MATERIAL TOPIC	DESCRIPTION	STRATEGY	STAKEHOLDERS	REFERENCE
11. Quality Education	We want to offer our employees a challenging work environment with an emphasis on developing individual talent, knowledge and skills. The development and training of our employees is of vital importance within the organisation.			See page 48
12. Responsible Invest-ment	We became the first custodian bank that signed the UN Principles of Responsible Investment in 2009. In addition, we have an ESG (Environ-mental, Social & Governance) policy that is fully integrated and implemented in our business. Therefore, it is important to us that our stakeholders invest in companies that recognise the UN Global Compact Principles when monitoring their investment perfor-mance.			See page 48
13. Decent Work & Economic Growth	Our ambition is to enable prosperity for future generations. We support professional investors with their custody and administration services in order for them to focus on the investment results.			See page 49
14. Culture & Core Values	Our core values are competent, connected, and committed. The core values are the foundation for realising our ambitions and the culture of the organisation.			See page 16
15. Economic Performance	Our economic performance is about the products and services offered to achieve solid financial results.			See page 52
16. Gender Equality	We believe that through a balanced mix of employees, better decisions can be made and more long-term value can be created. Diversity is based on age, sex, knowledge, experience and social background. The bank specifically endorses the importance of a healthy relationship between the number of female and male specialists, management and board members in the organisation.			See page 48
17. Stakeholder Engagement	We aim to take the interests of all stakeholders into account in the decision-making process. The focus is on generating sustainable value creation for all stakeholders - customers, employees, shareholders and society.			See page 20

Strategy

Client Empowerment

Data Driven

Unieke Specialist

Operational Excellence

Stakeholders

Clients

Employees

Regulators

Society at Large

Shareholders

Business value model

Input

Financial Capital

The financial capital is obtained through the business activities. We use the financial capital to invest in our activities, technology and paying dividend to our shareholders.

Manufactured Capital

The manufactured capital consists of tangible and intangible infrastructures supporting our business activities. We are dependent on our IT infrastructure and system landscape for the continuity of our business. Therefore flexible and reliable IT infrastructures are of utmost importance.

Intellectual Capital

Our specialists are skilled with in-depth financial skills and expert knowledge of securities and local regulations & requirements as well as product development. We use our innovative capabilities to develop and implement unique and sustainable administration and banking solutions for clients.

Human Capital

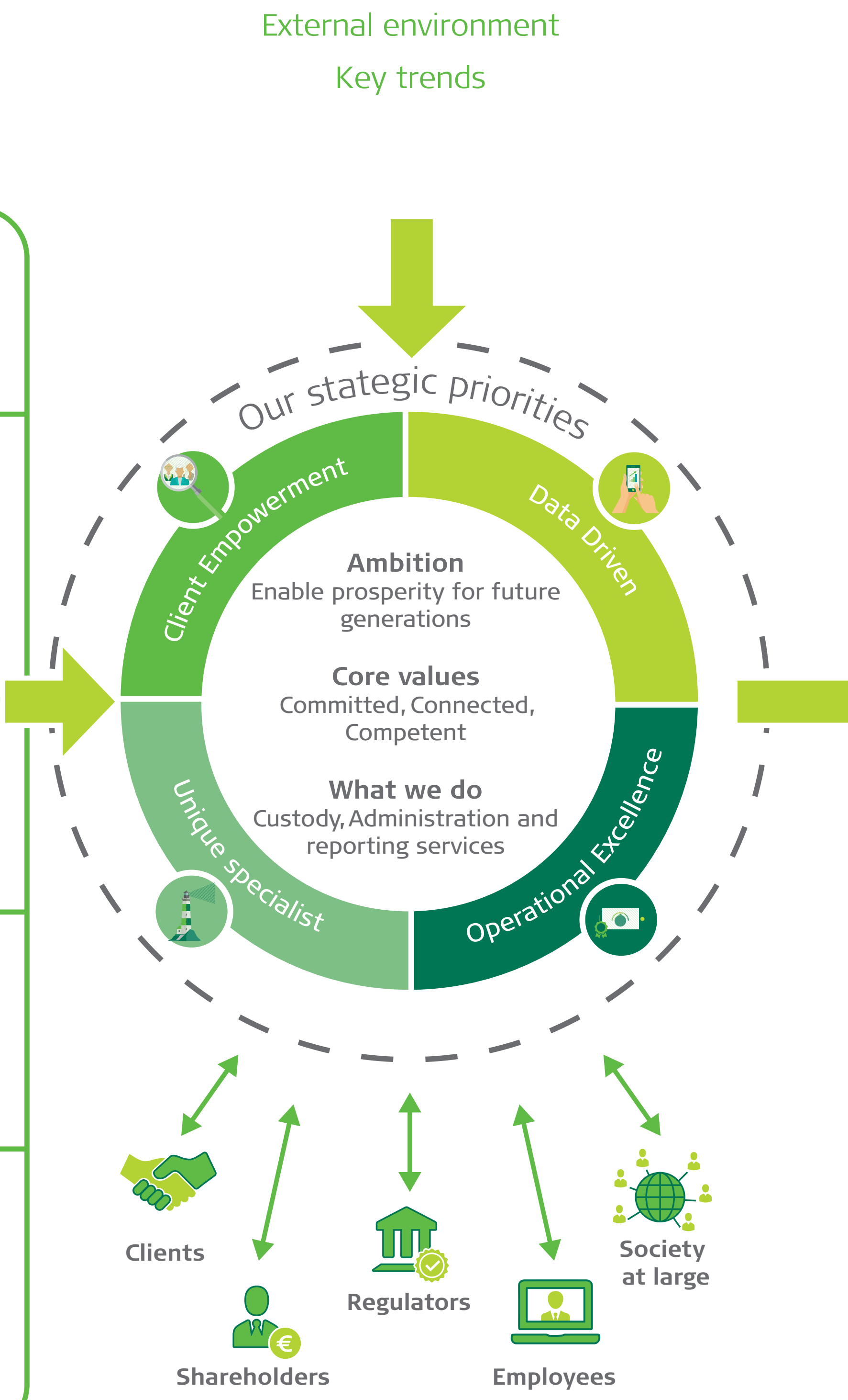
Our 500 in- house specialist are the core asset of our bank. The quality and expertise of our people is crucial for our continued success.

Social and Relation Capital

Our stakeholders are equally important for us. We listen carefully to our stakeholders – clients, shareholders/investors, employees, regulators and the society at large – and continue cooperative relationships to consider all their interest and concerns in our day-to-day decisions and activities.

Natural Capital

Our carbon footprint consists mainly of energy, Co2 emission and waste. The direct environmental impact of our business activities is minimal.



Main output

- **ROE:** 6.8%
- **Efficiency ratio:** 81%
- **Capital ratio:** 34%
- **Dividend per share:** 0.64
- **Profit per share:** 1.02

- **Availability of our digital services:** 99%
- **Investment in technology:** EUR 8,378,828

- **Personnel training expenses:** 1.2% of total salary
- **Quality education scholarships:** EUR 16,881

- **Employee engagement score:** 6.9
- **Gender diversity Topmanagement:** 75% male /25% female

- **Contributions to study fund:** EUR 17,432
- **Client satisfaction score:** 7.2

- **CO_2 emissions:** 103
- **ESG-module:** EUR 634,206

How we create value

Financial Capital

Our ambition is to enable prosperity for future generations. Integrity, transparency and independence are important values for our bank. Our key activities are custody, administration and reporting services while differentiating with our low risk attitude and profile.

Manufactured Capital

Our aim is a stable, secure IT landscape providing safe, relevant and available data. The digitalization of client processes, enable us to be more agile and ready for the future. By implementing robotics, integrating our custody and investment administration platform and professionalizing the data governance. Our data is always available, up-to date and secure.

Intellectual Capital

We are continuously expanding our digital offering to respond to the changing client needs. We respond quickly and agile to the trends. We listen to our clients and society and keep developing our expertise and knowledge to offer high-quality innovative solutions. Through partnerships with external parties, personalisation and our independent position, we empower clients to change when needed and innovative solutions. Our innovative solutions are part of our company culture wherein continuous improvement, flexibility and risk awareness are the standard.

Human Capital

We aim to attract and develop the most qualified people by our core values, which are the foundation for realizing our ambitions. We strongly believe in personal and professional development in the profession and knowledge of the mark. We continue to focus on attaining a more diversified composition of our specialists and management in gender and education. We steer these objectives through the SDGs.

Social and Relation Capital

One of our strategic priorities is client empowerment by giving them the best experience. We actively engage with other stakeholders through dialogues and acting on material issues. As an administration bank, we build long-term relationships based on trust. We know the importance of strong mutual commitment.

Natural Capital

We are aware of the bank's responsibility and role in society. Therefore, our priority is to reduce our carbon footprint. We do this by making our company more sustainable and decrease our usage of energy, waste, and emission. Moreover, we focus on responsible investment.

The Global Goals

United Nations Sustainable Development Goals (SDGs) are a set of 17 Sustainable Development Goals adopted by world leaders at the United Nations Sustainable Development. Summit on September 25, 2015 to eradicate poverty by 2030, fight inequality and injustice, and combat climate change.

The SDGs relate to our material topics and strategy. Our aim is to meaningfully contribute to achieving the SDGs by setting KPIs and actively monitoring them. KAS BANK supports the following Sustainable Development Goals: Quality education and Gender Equality,

KAS BANK distinguishes itself as a custodian who continues to develop in the profession and in knowledge of the market. The development and training of our own employees is therefore of enormous importance within the organization. KAS BANK also provides with the KAS BANK study fund financial support to talented young people without their own resources in their development and education.

Moreover, KAS BANK believes that through a balanced mix of employees, better decisions are made and long-term value is created for the organization and its environment. The diversity is based on age, gender, knowledge, experience and social background. The bank specifically endorses the importance of a healthy relationship between the number of female and male specialists, management, management and supervisory directors within the organization.

Business Value Model

We want to create value for all our stakeholders and enable prosperity for future generations. Our value creation model shows the chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium, and long term for our stakeholders.

The six inputs are a pre-condition for our business value model, as we focus on our ambition, strategic priorities, core activities and values. The input influences the external environment and the most important trends for our business model. This has resulted in our unique profile in the banking and financial sector. The outputs in the value creation model - our targets - we mainly steer through KPI's (Key Performance Indicators, which we set on an annual basis as part of our strategic plan).

Our outcome is divided per capital and financially as well as socially oriented in the form of contribution to the Sustainable Development Goals (SDG's). This ultimately results in our role and impact within the capital markets which is much wider and indirectly concerns ensuring sufficient pensions and supporting discussions with institutional investors about issues such as Responsible Investment and Business Principles.

"The essence of what I have encountered in 35 years with the bank is that wonderful things in business are never done by one person; they are done by a team of people. The secret of success is working together and trying to be a little bit better every day"

Henk Brink, Senior Market Intelligence Officer

Our Business Environment

Our Business Environment
Our Markets

We are a leading European provider of custodian and fund administration services to institutional investors and financial institutions. We view the market from the perspective of our clients – tailor-made services and complete transparency are paramount in helping them meet their business objectives.

We are a European specialist for custody, securities administration, and high-quality risk- and reporting services. Our focus lies in securities services for professional investors from the pensions and securities industry.

Our core markets are the Netherlands, United Kingdom and Germany. We successfully serve our clients in more than 90 markets across the globe, with over 450 specialists available to provide the very best support.

We aim to excel in back-office support for all our clients. We offer modern, reliable, safe and client-centric custody; accounting, reporting- and data services. We provide our clients with the safety of a traditional custodian through technology-driven, data based solutions that enable our clients to remain in control of their fiduciary responsibilities.

This way we help safeguard the future wealth of over 5 million consumers in the Netherlands, UK and Germany.

"'A good relationship with our clients is one of the most important things to me "

Siegna Lochem, Senior employee Treasury Operations

Voice of the client

8
Client Service Review

"Good trustworthy party, with dedicated people."

TESLIN
GROEN INVESTERINGEN

"KAS BANK is an established name as administrator and custodian for pension funds."

7
Client Service Review

Grontmij Pensioenfonds

6
Client Service Review

"Specialised in the Dutch market, with a lot of knowledge and insight."

Stichting Pensioenfonds TNO

"KAS BANK has a strong focus on customer service. They have a good understanding of our business and offer flexible solutions to assist with developments in our process."

P-Solve

8
Client Service Review

10
Client Service Review

"KAS Bank provide efficient and effective safe custody of our client's assets. Their excellent systems allow us to manage client assets on a real-time basis, which is essential. KAS Bank staff are approachable and knowledgeable on all issues affecting the industry and are a pleasure to work with."

Blue Planet®

Dutch Market

The Dutch market is serviced from our brand-new head office in Amsterdam Zuid-Oost. With over 450 staff and more than 10 nationalities we are the leading securities services provider in The Netherlands. Our teams have extensive knowledge, are highly educated and dedicated specialists. Our new head-office is a great place to meet, challenge, work and have fun.

Our market

KAS BANK has grown to become the leading service provider for Dutch financial institutions. But we do not stop at the border. Our Amsterdam team services a broad range of international, predominantly European, financial institutions. Our clients invest globally and across all possible asset classes.

We are unconflicted, do not trade for our own books and, therefore, do not compete with trading activities of our clients. Giving us a strong position to service asset owners and intermediaries with the best possible service. Their success is our success. This means that we must understand their business and what drives them. Our clients are (typically) Pension Funds, Insurance Companies, (private) Banks, Family Offices, Fund Managers and a broad range of professional investors.

We do not offer asset management services nor do we distribute our own funds or “special products”. This means that we are truly unconflicted when it comes to asset management and the investment process.

The financial industry is changing rapidly. Recent technologies, transparency and regulation are drivers of consolidation and are changing business models. KAS BANK has positioned itself to become the partner of choice. We can help absorb complexity, bring efficiencies of scale, become a knowledge provider or even insource entire mid- and back offices.

Our culture

Our strategy is built on our core values. Committed, connected and competent are important values for our bank, as are risk aversion and our low-risk profile. Our independent and neutral position in the market ensures that no conflicts of interest arise with our clients' core activities. For us, focusing on the client means that we are constantly developing customer-oriented and market-oriented solutions to support our clients’ activities. This means that we work with our clients to create lasting added-value for our client’s continuity.

Our goals

It is our ambition to become the best administration bank. To become the best, you need to focus. What is important to your clients and how do you want to service them now and in the future? The need for high quality data is still growing. We have established a data governance board to guarantee that data quality will be at the heart of every decision we take. We empower our clients by making them centric in every decision we take. This is where we differentiate from the rest and this is what makes KAS BANK unique and makes us stand out from the competition.

Our successes

We have successfully participated in many RFP’s. This does not mean that market conditions are easy. Consolidation is ongoing and brings its own dynamics.

We have however been able to focus on our key growth markets and deliver results. We have onboarded many clients as a result of this. They have awarded us with an ‘excellent’ score in our client intake satisfaction survey. We have introduced several new services like ESG, tax and regulatory reporting. Our investment accounting platform has shown robust growth year over year. We expect this to continue and aim to enhance and integrate our solutions even further in the upcoming coming years.

Our outlook for 2018

In the coming years, we shift our focus towards growth and continue our change program. Market developments will bring momentum and new opportunities to KAS BANK. We expect an increased demand by institutional clients for outsourcing of non-core activities. Complexity and regulatory pressure will drive the need for KAS BANK's services. We also see continued consolidation in our markets which we expect to impact both topline and our client portfolio.

Client empowerment

Our focus lies on providing our clients with the tools to be in control of their needs and ambitions. We aim to develop with our clients to create the best products and solutions possible to match their ambitions. For 2018, we are working towards a renewed KAS Web that can service our clients better.

Data Driven

We see a clear trend where clients are looking for their data flows to be managed by a professional organisation, like KAS BANK. Our clients are dependent on our processes, which makes it utmost important to us to make sure all the data is up to date and we work conform regulations and procedures.

Unique specialist

We find it important to share our extensive knowledge of trends and developments and the pitfalls and opportunities related to (sustainable) investment in the sectors in which our clients operate. We have in-depth knowledge of our client's business and will focus more on sharing our knowledge through round tables and seminars in 2018.

Operational Excellence

Through the further implementation of Lean and Robotics, we create more efficient and effective client processes. Our results should always be first time right and on time. Our plans for 2018 are to continue with the automation to offer our clients the best possible service.

"By listening to our clients carefully, we understand our clients' needs and we adapt our business to a changing environment. Through partnership, personalisation, unique administrative and banking solutions and our independent position, we empower clients to change when needed.
We work with supervisory institutions to optimally support our clients with their reports and data requests.
Our support will strengthen our client's governance. From our independent role, we carefully perform the necessary controls."

Mark van Weezenbeek, Managing Director Netherlands

German Market

The German office of KAS BANK is located in the heart of Frankfurt am Main. As a EU pass-ported branch of KAS BANK N.V. we are a local German bank fully licensed and subject to German law. The diverse local team consists of Dutch and German employees focusing on servicing institutional investors from the pension industry.

Our market

The German Pension market is undergoing massive reforms, with the new Pension Law (Betriebsrenten-stärkungsgesetz) being introduced on the 1st of January 2018. The new envisaged structure resembles in many ways the established Dutch system, with an even stronger focus on Defined Contribution structures bundled with a ban on guarantees. We are well positioned as the pension market in the Netherlands is seen by the German pension industry as the leading and role-model market in Europe. Trends and services that will become relevant for the German market in the next 2-5 years are often already standard in the Netherlands today. This allows for an easier transfer of services and a strong first mover advantage. Our expert knowledge combined with our Dutch heritage makes us a unique specialist in the German market.

Our culture

The general business relationship and cultural fit between Germany and the Netherlands is very strong. Our “Dutchness” combined with the market leading position in the Dutch pension market is interesting, when we manage to use it in a convincing way.

The institutional investors also follow in both countries the same trends, often driven by increased regulatory pressure, which has in recent years moved from local to European wide regulation. A result of that movement is a more equal playing field with a Dutch and German client base developing the same needs.

We have created a cost-efficient organization suitable to the size of our branch, to be well equipped to grow the local franchise further. The flat hierarchy established underlines our Dutch approach of being flexible and pragmatic in the eyes of the clients. The combination of Dutch and German team members working hand in hand for our clients makes us “clearly different” in the market.

Our goals

We continue to strictly follow our goal to become “the leading specialist for German pension assets”. Success proves us right that this focus allows for unique differentiation in the market and deepens our footprint in the pension industry.

In recent years, we have already built our reputation as a trusted adviser in the industry. We continue actions to support this by providing expert articles with value for our client base to the market. This also includes active participation in the leading pension committees and being front-runner in bringing innovative new products to the German market. Hereby we follow the strict principle to listen to the clients and understand their needs and then develop services together with them.

Our successes

We are looking back at a successful 2017, where assets under administration have grown by 26% and several new pension related mandates could be onboarded.

By strictly adhering to our pensions strategy market participants value our expert opinion on developments in the German pension market. Our initiative to establish the Pension-Akademie e.V. as a neutral “think Tank” for industry experts has proven to be a real success. The senior roundtables and conferences regularly attract more than 100 participants and underline our dedication to the pension industry.

Our outlook for 2018

2018 will be a pension reform year in Germany. Discussions will circle around the successful implementation of the first pension vehicles under the newly established legislation (Betriebsrentestärkungs-gesetz). Our goal is to be the partner of choice for these discussions and successfully transfer our Dutch services to the German market.

Client empowerment

Empowering our clients will play a strong part in successfully transferring our Dutch services. We must continuously monitor the market and be conscious of and understand the German environment. What are the long-term and short-term challenges in Germany, what are the current trends?

Data Driven

The challenges our clients face are very complex and often go beyond our current service offering, but offer ample opportunities. Many of these challenges are derived from the need to provide data for their own use – e.g. being in control through stricter governance and external use – e.g. regulatory changes and reporting requirements. There is a clear demand in the market for a data driven KAS BANK to provide value add services based on data enhancement and data consolidation.

Unique specialist

The strategic goal to be the unique specialist is at the heart of our German pension strategy. We continue with our ambition to be seen as the recognized and trusted adviser who thinks about the needs of the clients. The challenge remains to then successfully transfers these needs into solutions that add value for the clients and growth opportunities for KAS BANK.

Operational Excellence

Critical to all of this is a solid foundation based on operational excellence. “Germanizing” the current “Dutch” services is the prerequisite for our long term success.

Voice of the client

Client satisfaction is of the utmost importance to us. With the high-score of 7.7 in our annual Client Service review we have laid a solid foundation for our strategic goal in achieving operational excellence. The team wants more and unanimously accepted the challenge to increase our client satisfaction.

We are grateful for the trust given to us by our clients and greatly appreciate the work we can do every day to contribute to the business of our clients.

"Our local team in Frankfurt sits right in the middle of what is considered one of the biggest pension reforms in Germany! Working together with our colleagues in all three locations, positions us very well for thought leadership in our local pensions industry"

Frank Vogel, Managing Director Germany

United Kingdom

Our ambition is "To become the governance partner of choice for UK pension funds. We will help them make more informed decisions through delivery of more accurate, efficient, timely data and innovative solutions. We will enable better member outcomes (increased and more secure retirement income)". Our ambition is underpinned by the Group ambition "Enabling prosperity for future generations" Our office is a dynamic and enjoyable working environment, with strong teamwork and a commitment to delivering to a high standard.

Our activities

The key activities of the UK branch are to act as the local and specialist point of contact for our clients and prospects.
Our principal focus is on delivering a high-quality service to our UK clients, to help them meet their short and long-term goals. We understand that each client has different needs and, as such, we will endeavour to tailor our services to meet those requirements.

We are also the sales representatives for the UK, with a clear objective to grow a pure specialist pension business over the coming years.

Our market

The UK pension fund market is the second largest in the world (behind the US) and the largest European market.

The UK industry (across all sectors) is facing a period of significant change and unpredictability with Brexit on the horizon, political unrest and the continued challenging economic environment. Additionally, the UK pension industry is under ever increasing pressure with significant scheme deficits, ever increasing policies and regulations, the pressure to consolidate and growing demands for better transparency and governance from the policy makers and the regulator (e.g. The 21st Century Trustee initiative). Trustees are increasingly required to take on more responsibility and have a growing need of support from trusted partners.

We believe there is a gap in the market for a custodian supporting small-to-medium-sized pension funds. Accordingly, there is an excellent opportunity for KAS BANK to become the provider of choice for these funds.

The launch of our Cost Transparency & Benchmarking service is unique in the UK and has opened the door to a diverse range of pension funds. This approach will both grow and enhance our brand and provide us with opportunity to develop long term trusted relationships.

There is no other pure player securities services provider or a specialist in pension funds in the UK. We are unique which we believe presents an exciting opportunity for KAS BANK.

Brexit

As the United Kingdom is preparing to leave the EU, we have filed a contingency plan with the regulators on how we will adjust to the situation. KAS BANK will continue its focus and dedication to the United Kingdom unchanged.

Our culture

The UK team is energetic and highly motivated about servicing the pension fund market. We have developed a deep understanding of their challenges and requirements. The customer is at the heart of everything we do.

We have a strong teamwork ethic, and our core values include trust, commitment and delivering on all promises made.

Our successes

Grow the business

To succeed in this highly competitive market we need to ensure we deliver unique and innovative solutions to the UK pension industry.
We became the first to the UK market with a pioneering cost transparency & benchmarking tool, designed to shine a light on the many costs and charges paid by UK occupational pension schemes.

The cost data is delivered via an innovative dashboard and App, providing trustees with better visibility of their total cost of ownership.

We won our first cost transparency & benchmarking client shortly after launch, and have a healthy pipeline of prospect pension clients.
The service has demonstrated to the industry that we want to drive better governance through innovative and unique data solutions to support the UK pension funds.
We have also won several other mandates across the KAS BANK service range.

We have made considerable progress over the first two years of our five-year plan. We have established strong relationships with pension consultants, professional trustees and advisors, established a strong working relationship with the Pension and Life Saving Association (PLSA), refreshed the UK branch branding ("Clearly Different"), begun to develop a thought leadership profile, built and launched a unique service (Cost Transparency & Benchmarking) and won several new pension clients.

We have also boosted our client management team with experienced pension fund professionals, in addition to improving the quality and governance of our client service.
The development of a new online accounting solution for UK pension funds was implemented in Q1 2018.

Our outlook for 2018

What are the challenges?

The challenges remain very similar as mentioned above in 2017, with a period of meaningful change with both Brexit on the horizon and changes within the UK pension industry, which can also be an opportunity.

Client Empowerment

We will continue with our focus on our partnership approach with our clients, coupled with the further development of innovative solutions to support them with their challenges now and for the future.

Data Driven

We now want to take innovation to the next level and focus on building more pioneering data services for UK pension funds, to drive better governance through more informed decision making.

Unque Specialist

We are pension people and with our focus on providing securities services and governance solutions to pension schemes we understand the challenges pension schemes face. With our long-standing experience in this market we're on the inside looking at things from our client's perspective.

Operational Excellence

We are focused on delivering accurate, transparent and timely information and will ensure the necessary checks and controls are in place. We will build a formidable reputation for operational excellence.

"We have the ambition in the UK to become the governance partner of choice for UK pension funds. We will enable better member outcomes through more informed decision making. We are building a specialist team and innovative solutions to achieve this ambition"

Patricia Sherman, Managing Director UK

Our Economic Environment

The developments within the global economic environment are relevant for the success of KAS BANK. The visible trend is that global economies are recovering from the problems that they have experienced the last decade.

Current economic environment

Economic growth

In 2017, the economic growth for the Netherlands is projected to increase compared to the previous year for the fifth consecutive year. The economic growth is expected to reach a peak of 3.3% in 2017, a figure that has not occurred since 2007. This strong economic performance is due to the increase in world trade, as well as the recovery of business investments.

Global economic growth is picking up thanks to a strong growth in the developed economies and the reduction of deep recessions in commodity-exporting economies. The ECB anticipates global growth (excluding eurozone) of an average of 3.7% in 2017-19. The growth of the United States is increasing due to the tighter labour market, higher housing prices, higher share prices, weaker dollar, and expected expansion of the government spending. China is continuing its gradual adjustment to a slower, more sustainable growth path. The economy of the Eurozone is expected to grow above the potential rate in the coming years with an average of 2.4% in 2017. This is mainly due to the ECB monetary policy, realized balance sheet recovery of the households/businesses, and the recovery of the labour market.

Due to this improving global economy, the growth with regards to the Dutch world trade grew from 2.9% in 2016 to 4.6% in 2017. However, there are some uncertainties with regards to the world trade. For example, the expected fiscal easing in the US may not come through congress as well as possible chaotic development of the settlement of financial imbalances in China. Furthermore, the financial conditions for the emerging economies may deteriorate faster than expected due to a possible tighter monetary policy of the US.

Inflation

The inflation of 2017 will be an average of 1.3%, which is a significant increase compared to 2016 when inflation averaged only 0.1%. This increase can largely be pointed to the higher oil prices which contribute for a large portion to the inflation. This contribution was 0.5% in 2017 compared to -0.5% in 2016. The core inflation (without the contribution of energy or food) will only be 0.7% for 2017 (De Nederlandsche Bank, 2017).

Interest Rate

One of the ways to influence price stability within the eurozone is by altering the interest rates. The interest rates that are mainly influenced by these changes are the short-term interest rates. Therefore, to establish price stability, the ECB has lowered this interest rate in the past couple of years. In 2017 the interest rate on the main refinancing operations, marginal lending rate, and the deposit rates remained unchanged at 0.00%, 0.25% and -0.40% respectively (European Central Bank, 2017).

Outlook for 2018

Dutch economic environment

The positive global and local economic developments that were visible in 2017 will continue in 2018. With regards to the Netherlands, the expectations are a slowly decreasing but still above trend economic growth around 3.1% for 2018. The growth of the Dutch world trade will slowly decrease but will be compensated by stimulating government policies. Furthermore, a budget surplus of 0.5% of the GDP is expected in 2018, despite the budget extension that is contained in the coalition agreement.

The government debt is expected to decrease from 61.8% in 2016 to 50.8% in 2019. This sharp decline is driven by the budget surplus and the strong economic growth. With regards to inflation, it is expected to grow to 1.4% in 2018. This is especially due to the tightening labour market, which will cause wages to rise quicker than the labour productivity. Beyond 2018, the inflation is expected to rise even more due to the new VAT rules that will be implemented in 2019. Lastly, the expectations of interest rates are highly uncertain. However, we do know that an increase of 1% of the interest rate will have consequences.

According to the Dutch Central Bank, this will cause a depressing effect on the GDP growth of an average of 0.4% per year in the first four years.

Global economic growth

The global economic growth (excluding eurozone) will further increase to 3.9% in 2018. This growth is caused by the expected strong recovery of Brazil and Russia as well as the robust growth of China. The growth of the eurozone will slightly decrease to 2.3%, but this is still an above average growth (De Nederlandsche Bank, 2017). In October 2017, the ECB announced a reduction of its buy-back program due to the growing confidence in the Eurozone's economic recovery. They will reduce the monthly pace of asset purchases from 60 billion euro to 30 billion euro starting January 2018. However, the ECB remains very accommodative and will continue the asset-buying bank program until at least September 2018 (and it could go longer if deemed necessary) (European Central Bank, 2017).

Brexit

The 23th of June 2016 was the day that the British citizens choose to leave the EU and the Brexit was born.

The Brexit will have implications not only for the UK but also for the EU and the Netherlands. The Brexit puts the rights acquired by the European citizens and the trade interest of the European companies at stake. It is not yet clear what the implications will be for the EU and specifically for the Netherlands. This will depend on the outcome of the negotiations between the EU and UK.

The Dutch government has been advised that the impact for the existing 73,000 Dutch citizens that work and life in the UK are limited. But the expectation is that it will have a negative impact on trade and employment within the EU (and especially to the Dutch open economy). Trading relations between the EU and the UK are close and intense, with the EU exporting more to the UK than vice versa. The UK is the most important trading partner of the Netherlands after Germany. Any restriction on the free trade with the UK will certainly come at the expense of Dutch exports, prosperity and employment. Therefore, the Netherlands has a lot to lose from a BREXIT and will actively contribute with the BREXIT talks (Tweede Kamer Der Staten-Generaal, 2017).

Protectionisme

Although world trade is currently gaining momentum, there is a risk that international trade policies due to a protectionist stance may slow down the world trade and global economic growth and may have profound consequences for the relatively open Dutch economy.

A good example is the newly announced trade policy of the United States to protect the domestic companies and promote the export of American products and services. This is done by increasing the import tariffs and the offering of export subsidies. Without countermeasures from other countries, the damage to the Dutch economy remains limited. If other countries decide to implement countermeasures, the global economic consequences will be much greater (also for the United States).

Although only 4.4% of the Dutch export had the United States as their final destination in 2015, the Dutch economy could suffer considerable damage as a result of American protectionist policies through indirect negative trade effects on other countries.

Uncertainties

Besides the concerns about protectionism, there are other uncertainties that influence economic outlook. One of these uncertainties is the macro-economic effects of the new US tax plan. It is not clear what effect this will have on the global economic growth. In addition, a hard landing of the Chinese transition to a slower, more sustainable, growth path cannot be ruled out (De Nederlandsche Bank, 2017).

Our Regulatory Environment

Regulatory requirements for financial organisations will continue to grow. These regulations are often imposed internationally, but interpreted and applied differently across individual countries, which can be challenging. KAS BANK's market focus include the Netherlands, the United Kingdom and Germany. We translate regulations to local circumstances and support our clients to make sure they meet these growing demands and responsibilities. Our knowledge also helps to create the reports they need – reports to financial regulators, for example, must meet different criteria than ones for international regulators worldwide. Given the increasing demands being made upon financial organisations, we anticipate an increase in local demand for these types of services in the coming years.

Monitoring trends & future regulations

The process of 'monitoring future trends and regulations' requires constant vigilance. Aside from investing in our people and their tools, we will continue to invest in increasing the awareness of all our employees within the bank.

KAS BANK is, and remains, very active in relevant external industry bodies, fulfilling the role of specialist and an 'informed and knowledgeable partner'. After all, it is important that our clients meet all relevant legal frameworks. Aside from an increased focus on laws and regulations, we also place a great deal of importance on the identification of relevant trends, such as 'Big Data' and its associated privacy concerns.

Connectivity of material topic 7
Regulatory Compliance

Link to our strategy	*Important to our stakeholders*	*See material topics and connectivity on*
		Page 23

Compliance

In 2017, we continued to strengthen our compliance organisation by expanding the compliance function. We have made improvements regarding procedures related to client due diligence, the Anti-Money Laundering and Anti-Terrorist Financing Act and the Sanctions Act. A renewed Code of Conduct was implemented and published on our corporate website. If breaches regarding external or internal codes are identified, appropriate measures will be taken.

During 2017 we have implemented several new or adjusted laws and regulations. One of these being MiFID II. To comply with MiFID II as of January 3, 2018 a multidisciplinary project group was set up in the beginning of January 2017.

The preparations to comply with amongst others GDPR, Anacredit, PSD II and SFTR are also in full progress and running according to plan.

In accordance with the Management and Supervision Act (in Dutch: Wet Bestuur en Toezicht), KAS BANK has the ambition to hire female (senior) managers with the potential of becoming a member of the Managing Board in the future.

The responsibilities of the Managing Board are anchored in the principles of the Dutch Financial Supervision Act and other regulations. These responsibilities include compliance with relevant legislation, and responsibility for the implementation of risk management and control systems. The management and control systems aim to ensure reliable financial reporting and to control downside risk to the operational and financial objectives of KAS BANK.

Modern Slavery and Human Trafficking Statement

KAS BANK is aware of its obligations under the Modern Slavery Act 2015. In the context of our business we have assessed the risks to be minimal. We adhere to the Act in so far as it is relevant and applicable.

General Data Protection Regulation (GDPR)

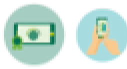
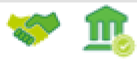
The General Data Protection Regulation (GDPR) takes effect on 25 May 2018. In the Netherlands, these European regulations relating to the protection of individuals with regard to the processing of personal data are laid down in the General Data Protection Regulation (AVG).

The aim of GDPR/AVG is to give natural persons more transparency and control over their personal data. Organisations are therefore expected to provide more security and controls to protect the use of personal data.

Multidisciplinary GDPR project team

The Directive has a major impact on European institutions, including KAS BANK. As part of our preparations we have set up a special GDPR project team. Our GDPR team consists of compliance, IT, marketing specialists and lawyers and has been working on the various project streams that have been identified in the gap analysis. With this integrated and multidisciplinary approach, our services will be fully in line with the GDPR/AVG as of 25 May 2018.

Connectivity of material topic 1
Privacy & Data Protection

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		*Page 23*

"Based on data and information, we develop sustainable governance and market solutions to enable clients to meet the information needs of their regulators and society's expectations. Our data is always available, up-to-date and secure."

Frank Lurling, Managing Director Compliance

Our Dilemmas

This chapter elaborates on the dilemmas we faced during 2017, discusses the direction chosen, and how this benefitted our stakeholders and the long-term value creation for the organisation.

Efficiency versus client satisfaction

Our work is to ensure our clients can be successful. This requires uninterrupted, error-free, always-available systems and operational processes. Our operations motto is that tomorrow's bank is a better version of today's bank: our ambition to improve is continuous. Every day we work on achieving new efficiency, better quality and higher reliability. This is a critical objective for KAS BANK: it enables us and our clients to be successful. Also for KAS BANK efficiency means realising financial stability and continuity, which in turn is important to our stakeholders as well. Our stakeholders want a strong and reliable partner.

In 2017, we realised that being efficient does not guarantee client satisfaction. We invested in modern technology to obtain a higher degree of efficiency, while aiming to improve the quality and reliability of our operations. The modern technology lead to a higher degree of efficiency, and we were able to do more with less employees. But it led to the following dilemma: we achieved the efficiency before our clients saw any improvements in the quality and reliability, which lead to a decrease in client satisfaction.

How to resolve this dilemma? How do we find the right balance between being an efficient partner to our stakeholders and delivering the quality our clients expect? What should our priorities be to support a balance between efficiency and quality? This lead to a revaluation of the set priorities and budgets, in which was decided that a stronger focus on client satisfaction was necessary. A client satisfaction program was set up to maintain a strong hold of the balance between efficiency and client satisfaction.

Transparancy over the operational performance of asset managers

Our clients select an asset manager to manage their investments. For several services, KAS BANK relies on the information provided by these Asset managers for the reporting to our clients. Obviously, our clients demand the reports to be on time and reliable. Therefore, KAS BANK needs to receive the information on time, correct and in the right format from the clients' asset managers, in order to deliver to our clients.

Asset managers want to adhere to their own process and standards. This process may prevent them from delivering the client information on time and in the right format, and, therefore, leads to late and unreliable delivery to KAS BANK. This leads to the dilemma that we have to chase the asset managers to deliver on time and correctly on behalf of our clients.
This was also one of the Dutch Central Bank's findings in their on-site visit to review the reporting process at KAS BANK, together with the Dutch Central Bank, KAS BANK organised a seminar and informed asset managers and clients about this important operational issue.

How can we obtain the client information on time for the reporting, while maintaining our good relationship with the asset managers? We have set up an asset manager rating, which rates asset managers on timeliness and quality of the information as it is delivered to KAS BANK, to share with our asset managers. By showing them the asset manager rating, it gave them insight on how they were rated in comparison to their competitors. Although we have not yet been able to share the asset manager rating yet with all of the asset managers, the asset manager that we have discussed the rating with are interested and invested to work towards a higher rating by improving their current processes.

Determining the balance between internal and external control information

The regulations concerning the outsourcing of the back-office operations and the related controls, are continuously increasing. The regulators expect companies to be in control of their outsourcing risks and they require that these risks be reported on regularly. Where an ISAE report of our operations used to be enough, nowadays clients want more information in their reports about the operations they outsourced to KAS BANK to control their outsourcing risks.

The dilemma that arises is that the information clients request, are reports written mainly for internal use as they include the performance on our KPI's and KRI's. These reports give insight into every, even small, disturbance of our operations, which could give an incorrect picture of the actual operations that KAS BANK performs for that client. The misconception could lead to a lower confidence in the performance of KAS BANK, and damage the relationship with our clients.

Finding a balance between the internal and external control reports shared with clients, is needed to solve this dilemma. As simple as this sounds, it has been proven to be complex, as sharing such sensitive information requires there to be a significant amount of trust.
In 2017, KAS BANK and its clients started to develop a standard and more detailed report about its operations, which gives clients more control over its outsourcing risks. moreover, it gives our clients the opportunity to determine the content of the report, creating client empowerment.

"'The customer's perception is our reality. Within KAS BANK, customer service is not a department, it is our entire company "

Monique Rabou, Managing Director Operations

Our Technology

As for most (financial) companies the role of IT has become more important to the company and its clients. The role has changed from a supplier that supports efficient solutions, towards an enabler that brings new and modern services to clients. In this world of rapidly changing demands and modern technological developments, we have a need for an IT partner that can help fulfil the client needs and translates technological possibilities into solutions. KAS BANK has selected ATOS as it's IT-partner. The partnership started in 2016. In 2017, we transitioned our systems and data to ATOS, to maximise the benefits of this partnership.

Developments regarding the outsourcing objectives

Support the business strategy: the size and speed of Technological developments make it possible to stay up-to-date and make maximum usage of all possibilities that scalable, dedicated IT-firm can bring. To create more client-focus within our company and leverage technological opportunities we decided to outsource and use the scale and efficiency of a specialist in this field of business.
A good example of how this worked in 2017 is the move to the new building and the introduction of 'Het Nieuwe Werken'. This has provided us with a quick and easy way to achieve benefits for all our staff, which would have been very complicated to facilitate purely by ourselves. This way we were able to support the move to the new building, and setup a modern workplace (Laptop, Windows 10) that supports flexible seating and working from home.

Increase cost efficiency: the majority of the IT-costs were generated by the day-to-day running of the system infrastructure. In 2017, KAS BANK has moved its complete IT infrastructure to the ATOS datacentres, to make use of the scale and related costs of the ATOS in infrastructure. We already see the first benefits of this transition.

Continuity of service and increased security levels: the KAS BANK infrastructure is now hosted and supported by a professional and dedicated organization on a 7 x 24 basis. This means that stability and availability will improve, although we regret that the immigration may have had difficulties. Also, KAS BANK recognizes the increasing threats of cybercrime. ATOS is helping KAS BANK to safeguard its IT-environment and actively prevents against cyber-attacks. Both these objectives enable KAS BANK to simplify and strengthen its IT-controls.

Increase flexibility and scalability: it is essential that KAS BANK has the flexibility to up- and downscale the IT-development teams not only from a size but also from a knowledge perspective. After finalizing the transition phase this is key to become more agile and make maximum use of technological possibilities to the benefit of our clients.

Connectivity of material topic 3
Valuable Data & Transparent Communication

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		*Page 23*

Other key initiatives

Much effort has been put in market initiatives and new or change regulations to meet the requirements of our clients and regulators. Target2Securities, Swift changes, CRS (Common Reporting Standards), EMIR-changes, MiFiD II: all changes that we have successfully implemented.

Client developments

For our clients, we have put a lot of effort in improved functionality and security of our Client Web-portal: KasWeb. By investing in this environment, we enable clients to further optimize their interaction with KAS BANK.

We are also investing in cross-country development like UK cost-transparency. This extension of the KAS BANK Monitor tool is a very powerful add-on for the UK Pension market, and we are also bringing this to the Dutch pension market.

Process improvement: operational management and Robotics

To improve our processes from a quality and efficiency perspective we have 'leaned' several key processes. To able this and measure our processes, operational management tooling was implemented. This tooling now enabled operational managers to monitor their team and process performance daily, which will result in a more in control and reliable client process.

As one of the first financial institutions in the Netherlands, in 2017 we implemented Robotics. In this initiative, a RPA (Robotics Process Automation) solution was implemented, and about 15 processes we 'robotized'. This means that with this solution we are now daily are executing standardised and repeatable tasks, at much higher quality levels and lower costs. Because of the good results so far, this initiative will continue in 2018. Due to our ability to move fast, we are more and more experiencing an advantage of scale related to process of optimisations.

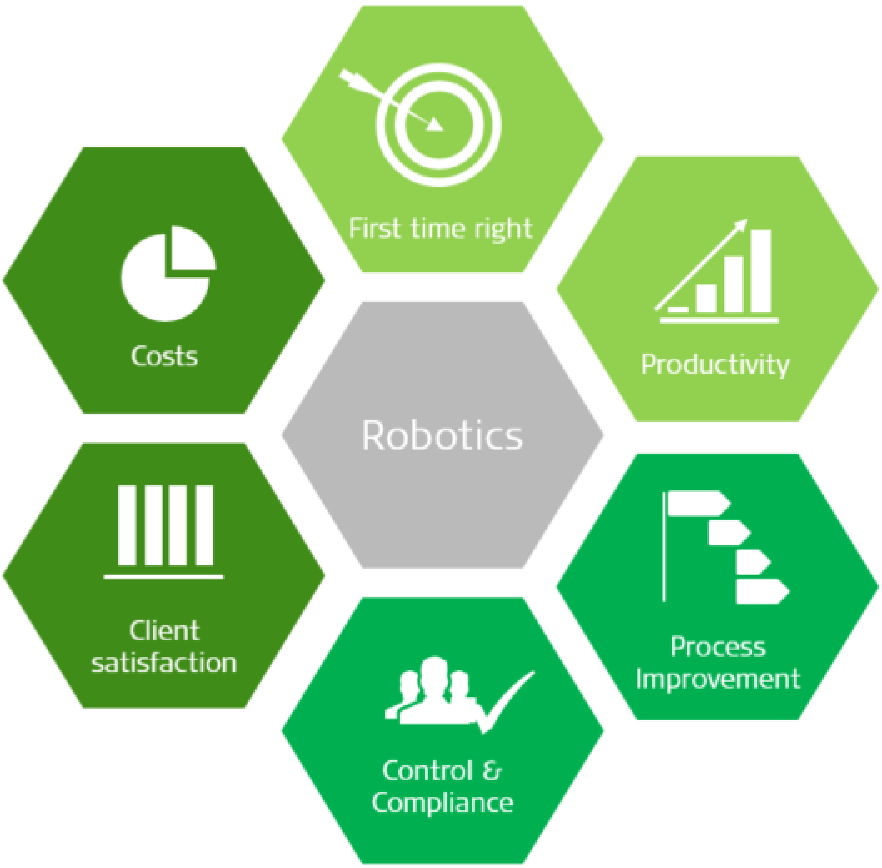
Looking ahead - stability and agility

After the transition year in 2017, 2018 will be the year of transformation, which means that KAS BANK can rely on the performance and security levels of ATOS, so availability of the IT infrastructure is guaranteed. This transformation will also simplify and modernize our services and bring these in a digital format to our clients. In parallel we will change our way of working to increase our agility. This will not be limited to IT but will affect the complete KAS BANK organization and will be embedded in our approach to cultural change.

Agility is also key to fully leverage the results of KAS Lab. KAS Lab is expected to deliver several successful innovation experiments. Once proven and scalable. these initiatives need to be embedded in our system landscape in a flexible, agile but also controlled way.

From a client perspective, in 2018 we will create new digital solutions. This means that we will focus on data, data quality and implementing new reporting solutions. Further we will continue to improve our Client Web-solutions.

We will continue to work on our strategic roadmap, where we strive to further simplify and modernize our system-architecture. For the longer term, this will enable KAS BANK to maintain high service and security levels and will also bring new and modern solutions to our clients.



KAS Lab – our innovation centre

We have been reinventing ourselves ever since our first days as a start-up in 1806. And we aspire to keep on doing so. New and fast technological developments make way for many new opportunities. These developments will provide new technological revolutions. To ensure that we timely respond to new opportunities and develop new products that work for the benefit of our clients, we now use an entirely different approach. KAS Lab has been established to achieve this.

Our goal is to enable the transition of a traditional info-driven bank to a high-tech client-driven bank that's ready for the future. Our most important task executed is shaping the innovative agenda and eventually making that valid ideas, relevant to clients and their needs, will be realised.

Multiple multidisciplinary teams are working on different topics of the innovation agenda. The daily management is in hands of the Lab's co leads. Finally, our innovation board oversees the performance of KAS Lab.

In 2017 KAS Lab started with two initiatives: Index Tracking and Blockchain

Index Tracking is not new. But our approach is. We believe we can offer a superior product with attractive benefits that rely on the expertise of KAS BANK. We will be the first custodian to introduce an index-safekeeping depot. Currently the team is testing the proposition and working on a minimum viable product.

Another team is exploring the possibilities for a blockchain application for KAS BANK and their clients. We want to fully understand the possibilities of the technology to determine if it can help solving important problems.

The blockchain team has developed a technology scan and a market scan. These scans delivered the back boon of the Business Opportunity Matrix. With this Business Opportunity Matrix we pointed out where blockchain has the most potential. In 2018, we will start with a Design Sprint to test our assumptions with our clients. Until this stage, we focused on experimenting and changed the concepts to what is the best for our clients and KAS BANK.

In 2017, KAS BANK kicked off its focus on innovation through the successful launch of KAS Lab. We created a “free-thinking zone”, attracted teams and have successfully launched innovation initiatives.
In 2018, we will continue this, with more effect, rigour and initiatives. In 2018, we also aim to deliver our first viable product.

Connectivity of material topic 4
Innovation

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		Page 23

Co-creation
Multidisciplinary teams consist of our own industry experts and experienced innovators and entrepreneurs. Besides this, we work with several innovation experts stemming from the constantly growing financial ecosystem.

Inspiration
To inspire other people, KAS Lab hosts corporate innovation events and new technology talks. Also, KAS Lab will help others by sharing experiences. Without failure, it is impossible to innovate. Therefore, KAS Lab wants to inspire others and collaborate to find the best results.

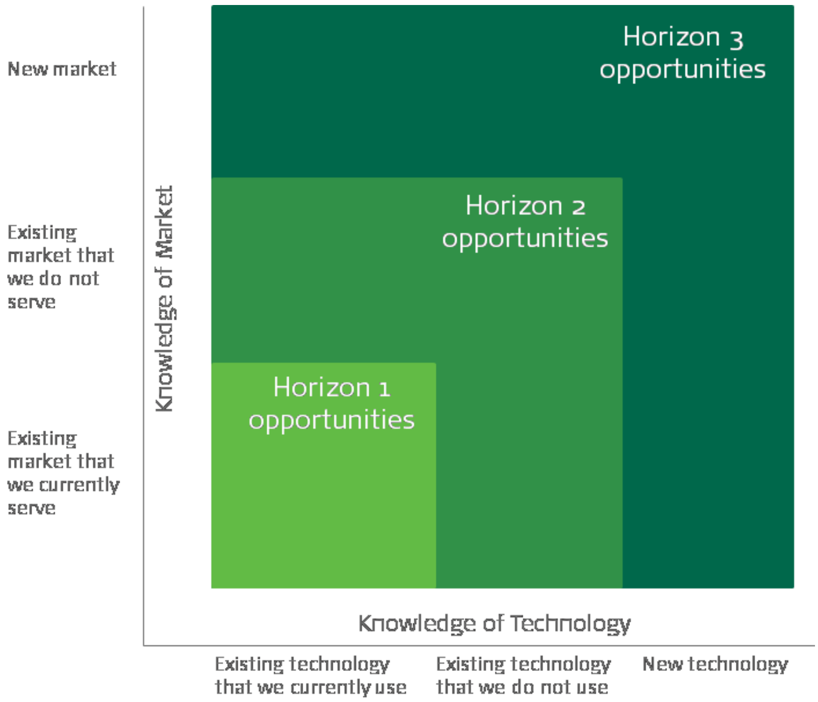
Education
You are never too old to learn. With newsletters, events and results from the teams, KAS Lab aims to educate colleagues, clients and other stakeholders.

The KAS Lab Method

Innovation and creativity is not an 8 to 5 thing. That's why we created a dedicated innovation space where our specialists can fully concentrate on exchanging ideas and working together with innovators. In KAS Lab, we facilitate freethinking between our specialists and those that are willing to work with us. KAS Lab hosts events and workshops with internal and external experts to inspirer, co-create and educate.

Three-horizon-model

For accelerating change and innovation, KAS BANK uses the three-horizon-model of McKinsey and then implemented this in our own organization. The initiatives in Horizon 1 are based on bottom line growth, the daily improvements and some regulatory must-do's, of which the activities are mainly defensive. In KAS Lab we are focussing on Horizon 2 and 3 opportunities, which are explorative and more offensive, if not disruptive. We look at initiatives based on new technologies that will deliver top line growth and new business models. The initiatives started in 2017 are Index Tracking (horizon 2) and Blockchain (horizon 3).



Our Sustainability

KAS BANK values sustainability and corporate social responsibility; we believe we have to do our part to make this world a better place for now and for tomorrow. The focus areas of our corporate social responsibility policy are an extension of our ambition, to enable prosperity for future generations, as our social impact is an extension of our business activities.

In this report, we pay special attention to sustainability, as we are finalising the Corporate Social Responsibility policy. In 2018, we intend to implement our renewed policy and share our goals with our stakeholders.

Core values

The identity of KAS BANK is based on three core values: Committed, Connected and Competent. These three core values form our basis to realise our ambitions. Subsequently, they form the link to our corporate social responsibility:

- We are aware of the bank's responsibility and role in society;
- As a network bank, we bring parties together to address social issues;
- We listen to our clients and society and keep developing our expertise and knowledge to offer high-quality innovative solutions.

Reporting

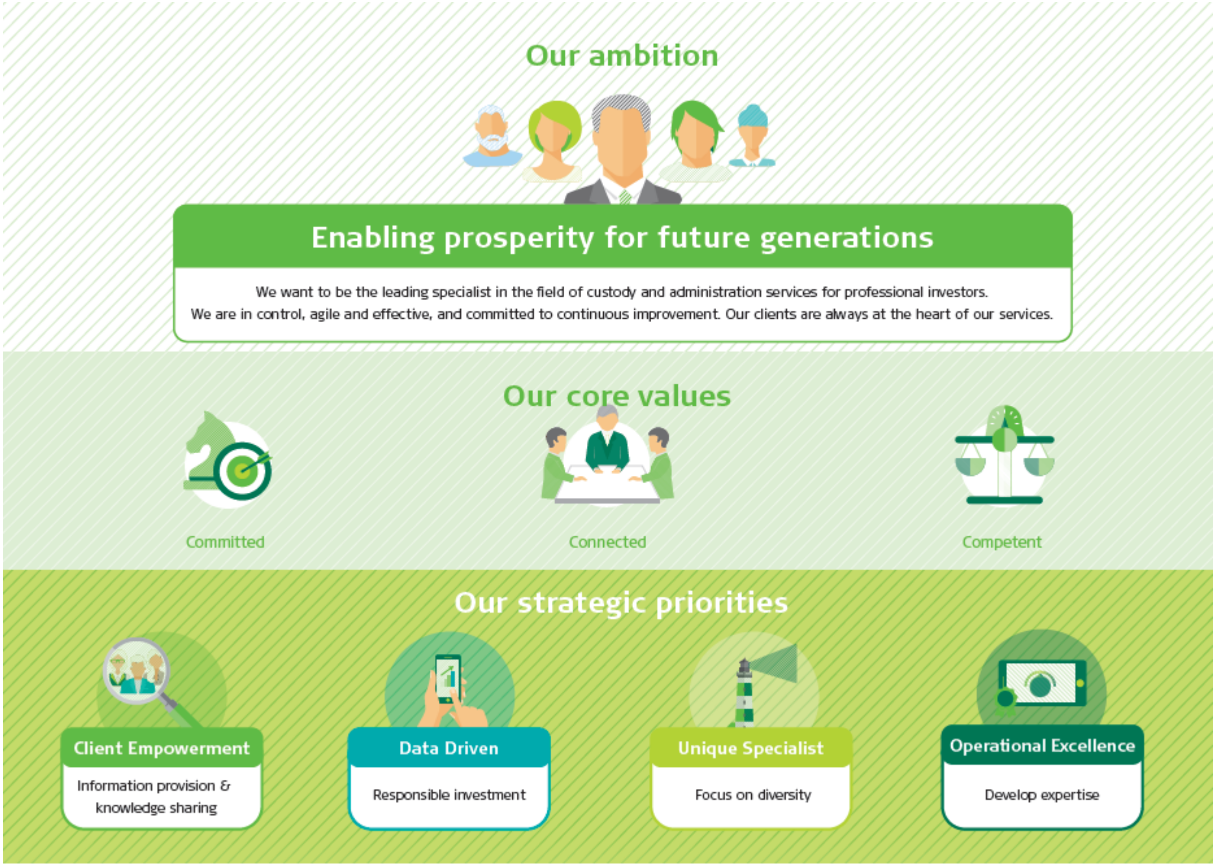
We are constantly striving to improve the quality and transparency of our reporting. The past year we have taken further steps in reporting according to the Integrated Reporting standards. We performed another materiality analysis in 2017, in line with Integrated Reporting guidelines, the results of which determined the most important content addressed in this annual report, demonstrating our growing corporate social responsibility. As such, the professionalization of our annual report resulted in a score above expectations on the Dutch Transparency Benchmark (the Transparency Benchmark is a yearly review of the content and quality of the societal reporting by Dutch companies). For the Annual Report of 2016 the goal was to achieve a score of 80 - 100 points on the benchmark, but the annual report managed to obtain an assessment score of 146 points out of 200.

Corporate social reponsibility policy

We have defined strategic priorities that convey our ambition and core values. Our strategic priorities help us with our commitment to enabling prosperity for future generations, we actively monitor these priorities. Our strategic priorities and core values form the basis for an active corporate responsibility policy. In line with our ambition to make prosperity possible for future generations, our CSR policy is focused on our social contribution.

We see our added value in the relationship we have with our stakeholders and society. Our strategic priorities form our pillars within which we have an effect and in which we have defined the focus areas of our CSR policy.

Our Corporate Social Responsibility Model

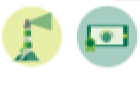
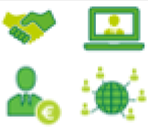


Corporate social responsibility model

The past year, we developed our CSR policy even further in line with our renewed strategy. Our CSR policy and its focus areas are directly linked to the strategic priorities. Each focus area has a defined set of KPIs for 2018, but also long term KPI's for 2022. These KPIs provide insight into our effect of each focus area and enable management to achieve the desired impact.

In 2018, we will focus on the further implementation of the CSR policy within our organisation and share what we stand for with our other stakeholders.

Connectivity of material topic 5
Sustainable Value Creation

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		*Page 23*

Client Empowerment

Information provision & knowledge sharing

We have extensive knowledge of trends and developments and the pitfalls and opportunities related to (sustainable) investment in the sectors in which our clients operate. It is therefore important that we share our knowledge and create awareness among our clients with, among other things, sustainable investment opportunities. KAS BANK informs its customers (pro) actively.

KAS BANK is represented in various (international) committees and interest groups and constantly consults with market parties and social and political organizations about developments inside and outside the bank. We also share information via our online platform for publications about the financial sector: TenTalks. KAS BANK wants to develop further as Thought Leader by focusing on trends and market developments.

Connectivity of material topic 2
Client Empowerment

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		*Page 23*

Data Driven

Responsible investment

KAS BANK has a responsibility within the financial supply chain. Next to compliance with laws and regulations related to responsible investment, we regularly review companies in which our clients invest. We also actively monitor whether we remain within our low risk profile which KAS BANK pursues to ensure both maximum safety for our clients.

KAS BANK signed the climate statement. KAS Bank has developed a product for its clients, such as pension funds, that monitors whether their investments comply with the UN Global Compact Principles (the list of guidelines drawn up by the United Nations in the areas of human rights, labour, the environment and the fight against corruption). This helps clients to implement and maintain their sustainability policy. In 2018, we intend to renew our ESG proposition.

Connectivity of material topic 12
Responsible Investment

Link to our strategy	*Important to our stakeholders*	*See material topics and connectivity on*
		Page 23

Unique Specialist

Focus on diversity

We believe that through a balanced mix of employees, better decisions are made and long-term value is created for the organization and its environment. The diversity is based on age, gender, knowledge, experience and social background.

The bank specifically endorses the importance of a healthy relationship between the number of female and male specialists, management, Board of Directors and Supervisory Board.

Connectivity of material topic 16
Gender Equality

Link to our strategy	*Important to our stakeholders*	*See material topics and connectivity on*
		Page 23

Operational Excellence

Develop expertise

KAS BANK's specialists have in-house in-depth knowledge and extensive experience. To maintain the enthusiasm, motivation and further personal development of our people, it is important that employees can continue to develop themselves and we continue to focus on their well-being.

We encourage the development of individual talent and increasing their knowledge and skills to ensure sustainable employability and income security within and outside our organisation.

Connectivity of material topic 11
Quality Education

Link to our strategy	*Important to our stakeholders*	*See material topics and connectivity on*
		Page 23

Our impact

Carbon footprint

We continuously try to adapt our ways to lower our carbon footprint. In 2017, we moved to a more sustainable building. This led to a significant decrease in our carbon footprint (decrease in usage of energy, materials, water, emissions, and garbage).
Bi-yearly KAS BANK is audited by the environment governmental body, (in Dutch: Omgevingsdienst Noordzeekanaalgebied/ ODNZKG). In 2016, KAS BANK successfully passed the Energy Efficiency Directive audit.

Providing financial assistance for those who need it

KAS BANK's Welfare Fund welcomed several applications in 2017. These applications have been assessed by the advisory committee. From this, 13 initiatives have been selected that meet the criteria of the welfare fund.

The KAS BANK Welfare Fund supports projects aimed at stimulating young people from socially disadvantaged circumstances in their personal development, so that their chances in society are increased in the longer term. In addition, the Welfare Fund invests in local communities as it supports charities and volunteer work within (non-profit) organizations, associations and institutions with a social interest in which KAS BANK employees are actively involved. Projects are nominated by employees of the bank, looking at input from the Amsterdam, Frankfurt and London offices.

In 2017, an amount of EUR 16,881 was awarded over thirteen applications. The advisory committee donated a total of EUR 15,000 to a, among other things, malnutrition project in Tanzania, sport association for people with a physical disability, theatre society, project that support cancer research and a foundation that supports underprivileged youth in Madagascar.

The KAS BANK Study Fund supports initiatives aimed at stimulating scientifically talented young people up to 30 years of age. The fund supports young people whose education specializes in financial services and / or European Security Services. In 2017, the KAS BANK Study Fund did not receive any application. As a result, the Study Fund did not make any donation in 2017. For 2018, we will actively target potential students for the scholarships to make the impact we want to achieve.

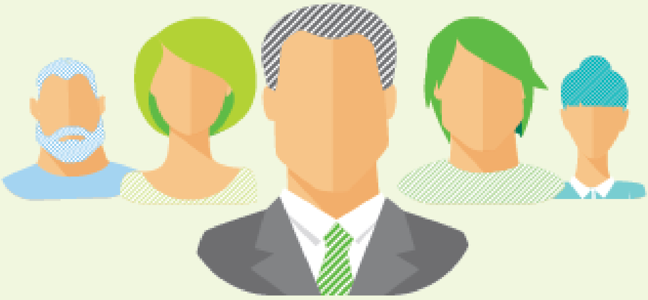
Connectivity of material topic 13
Decent Work & Economic Growth

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		Page 23

"Within the organization we received a lot of room to develop ourselves and our competencies. KAS BANK encourages self-development and hands you the tools to be successful."

Rida Zemouri & Maartje de Keijzer, Interns Corporate Development

Importance of Corporate Social Responsibility
according to our clients and investors



People

The most important CSR is equal opportunities for everyone and at which recognizable control is carried out on investment policy and the influence on this based on the norms and values that apply to a better living environment for every-one regardless of the place.

Planet

The integrity of the organization is an important aspect as well as the support an organization gives to their clients in the complex area of legislations and regulations.

Profit

Make the change from "Responsible" to "Impact" investing, ensure that the capital you manage can have a positive impact (instead of "do no harm").

In our journey to enable prosperity for future generations, we use the SDG's to achieve this in a sustainable manner. We strive for gender equality and quality education as means to achieve a social and sustainable impact.

Gender equality

In 2017, KAS BANK continued our focus for a more diversified composition of our management and specialists. As we believe that through a balanced mix of employees, better decisions can be made and more long-term value can be created. Diversity is based on age, sex, knowledge, experience and social background. The bank endorses a healthy relationship between the number of female and male specialists, managers and board members in the organization.

In 2017, KAS BANK became more divers throughout the organization. When looking at the male to female ratio of the supervisory board it is visible that there is an increase of 7% in the female participants, resulting in a total of 40% of females in the board. When looking at all the managers within the organization the ratio of females grew from 9% in 2016 to 17% in 2017. The biggest increase we achieved in 2017 was with female participants in the Management Committee. This ratio grew from 20% in 2016 to 43% in 2017. The number of female specialists and Managing Board members stayed the same at 34% and 0% respectively.

Our aim is to have a ratio of minimum 30% male/female employees at specialist or top managements positions. If we look at the overall numbers described above KAS BANK is making real progress towards meeting this goal. KAS BANK aims to continue its focus on creating the appropriate mix of employees and executives, always selecting the best available person for the job.

Quality education

Employee education

We distinguish ourselves as an organisation that invests in developing professional knowledge of custodial and market knowledge. To uphold this standard, KAS BANK offers its employees a challenging work environment with an emphasis on developing individual talent, knowledge and skills. The development and training of our employees is of vital importance to us. Employees get the opportunity and freedom to study besides their work or follow one of the many workshops that are held within our organisation. This makes KAS BANK unique specialist firm.

Study fund

We offer financial support to talented young people, who lack financial resources. We support them with our study fund (with assets invested by the Ars Donandi foundation). The annual return of these assets is the money that is available in the study fund. With these returns, our study fund supports initiatives that are aimed at encouraging scientifically talented young people up to 30 years of age who need the money to study. This is another form how we are enabling prosperity for future generation by offering them financial support for their study.

Financial Performance

In 2017, we achieved a stable operating income and a considerable decrease of the operating expenses. Our net operational result doubled to EUR 16.5 million (2016: EUR 8.2 million). Including non-recurring items, the net result 2017 was slightly higher than in 2016.

In 2017, we continued the shift from more traditional core services, like custody, clearing and settlement, to more administrative and governance services like fund accounting and (regulatory) reporting. The current capital markets with low interest rates and high volumes of liquidity resulted in a continuous pressure on interest income and securities lending commission. Our strong focus on cost discipline and cost reduction programs resulted in a decrease of 14% of our level of operating expenses, mainly due to a strong decrease in the number of FTEs during 2017.

Capital and liquidity ratios remain stable at high levels, emphasizing the solid position of the bank.

Connectivity of material topic 15
Economic Performance

Link to our strategy	*Important to our stakeholders*	*See material topics and connectivity on*
		Page 23

Results

IN MILLIONS OF EUROS	2017	2016	CHANGE	%
Operating income	104.6	106.0	-1.4	-1%
Operating expenses	-82.8	-95.8	13.0	-14%
Impairment results	0.1	0.5	-0.4	-80%
Tax	-5.4	-2.6	-2.8	107%
Net operational result excluding non-recurring items	**16.5**	**8.2**	**8.3**	**102%**
Sale of office building	-	21.2		
Harmonization IT personnel	-	-3.0		
Restructuring provision	-1.9	-9.3	7.4	
Tax	0.5	-2.2	2.7	
Net result – non-recurring items	-1.4	6.7	-8.1	
Net result for the period, including non-recurring items	**15.1**	**14.9**	**0.2**	**1%**

Other items

In 2017, we added EUR 1.9 million to the restructuring provision. Investments in robotics, digitalization and continuous improvement (Agile, Lean) will further reduce the number of FTEs during 2018.

Operating income

IN MILLIONS OF EUROS	2017	2016	CHANGE	%
Net interest result	12.9	15.8	-2.9	-18%
Net commission result	67.8	69.9	-2.1	-3%
Result on investment	22.9	19.8	3.1	15%
Share of result of associates	0.1	-	0.1	
Other income	0.9	0.5	0.4	80%
Total Income	**104.6**	**106.0**	**-1.4**	**-1%**

Interest

IN MILLIONS OF EUROS	2017	2016	CHANGE	%
Loans and deposits	2.2	5.3	-3.1	-58%
Bonds and non-trading derivatives (hedge)	10.7	10.5	0.2	2%
Total net interest result	**12.9**	**15.8**	**-2.9**	**-18%**

Net interest decreased by 18% to EUR 12.9 million (2016: EUR 15.8 million), mainly relating to our loans and deposit portfolio. The decrease of the euro interest result is partly caused by a more favourable interest climate outside the Eurozone. Therefore, clients transferred their money into foreign currencies, resulting in a decrease of interest result and an improvement of the FX results (included in results on investment).

Commission

IN MILLIONS OF EUROS	2017	2016	CHANGE	%
Asset Servicing	37.4	37.3	0.1	0%
Transaction Servicing	21.5	21.1	0.4	2%
Treasury	8.9	11.5	-2.6	-23%
Total net commission result	**67.8**	**69.9**	**-2.1**	**-3%**

Commission income modestly declined by EUR 2.1 million to EUR 67.8 million (2016: EUR 69.9 million). We further expanded our commission result in services relating to value-added products as (regulatory) reporting, AIFMD, tax reclaim and fund accounting. Due to low margins, our clients were cautious participating in our securities lending program and, as a consequence, the treasury commission declined.

Results on investments

IN MILLIONS OF EUROS	2017	2016	CHANGE	%
Trading – foreign exchange transactions	15.7	14.8	0.9	6%
Trading - Securities and derivatives	4.1	0.8	3.3	407%
Investments – Investment portfolio	3.1	4.2	-1.1	-26%
Total result on investments	**22.9**	**19.8**	**3.1**	**15%**

The result of trading securities and derivatives mainly related to the closing of swap transactions. The result on forex transactions increased with EUR 0.9 million. This increase was driven by client activities and transfers of client monies from euros to foreign currencies. Results relating to the investment portfolio decreased by EUR 1.1 million. This decrease mainly related to the decline in sales out of the investment portfolio. The revaluation reserve relating to the investment portfolio increased during 2017 with EUR 7.3 million net of tax to EUR 25.1 million at the end of 2017 (ultimo 2016: EUR 17.8 million).

Share of result of associates

The share of result of associates relates to KAS BANKs 20% holding in BTN Forvalting (formerly known as Neonet AB). The result was based on the application of equity accounting of this associate.

Other income

Other income included rental revenue of office space and an additional gain relating to the sale of an investment which was sold in 2013.

Operating expenses

IN MILLIONS OF EUROS	2017	2016	CHANGE	%
Personnel expenses	46.8	60.9	-14.1	-23%
General and administrative expenses – IT	24.1	18.1	6.0	33%
General and administrative expenses – other	10.4	14.0	-3.6	-26%
Depreciation and amortization	1.5	2.8	-1.3	-46%
Total operating expenses	**82.8**	**95.8**	**-13.0**	**-14%**

Personnel expenses

Personnel expenses decreased by 23% to EUR 46.8 million (2016: EUR 60.9 million). The substantial decrease in the number of FTEs (about 75 FTEs) was the main driver behind this downward trend, mainly caused by the outsourcing of IT and the implementation of Robotics, digitalization and continuous improvement (Lean). In addition, the number of external employees further decreased during 2017.

General and administrative expenses, including depreciation and amortization

The general and administrative expenses, including depreciation and amortization increased by EUR 1.1 million. The IT-expenses increased by EUR 6.0 million to EUR 24.1 million (2016: EUR 18.1 million) mainly as a result of the outsourcing of our IT function to Atos.

However, this expense was more than compensated by lower personnel expenses of IT employees. Another driver of the increasing IT expenses was the increased data costs.

The other general and administrative expenses, including depreciation and amortization decreased by EUR 4.9 million to EUR 11.9 million (2016: EUR 16.8 million). The decrease resulted from a lower contribution to the resolution fund, lower housing expenses and lower depreciations due to the outsourcing of IT and the relocation to our new office in Amsterdam-Zuidoost.

Tax expenses

The effective tax rate of 24.6% was just below the notional tax rate of 25%. Non-deductible items mainly affected this deviation.

Implementation of IFRS 9

In July 2014, the IASB issued IFRS 9 “Financial Instruments” which replaced IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 essentially covers three topics: Classification and Measurement, Impairments and Hedge Accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Although the implementation of IFRS 9 was a significant project for KAS BANK, the impact on our balance sheet, income statement and equity is limited. In our annual report we further elaborate on the impact of IFRS 9 as per 1 January 2018.

Quality of the investment portfolio

The table below shows the investment portfolio Financial instruments classified as available for sale according to credit rating (Moody's Investor Services):

IN MILLIONS OF EUROS	31 DECEMBER 2017	PERCENTAGE OF INVESTMENT PORTFOLIO	31 DECEMBER 2016	PERCENTAGE OF INVESTMENT PORTFOLIO
AAA – AA-	654	87%	401	75%
A+ - A-	24	3%	86	16%
BBB+ - BBB-	70	9%	40	7%
BB+ - BB-	5	1%	8	1%
<B	-	0%	1	0%
Total bonds	**753**	**100%**	**536**	**100%**
Mortgage fund	340		337	
Shares	33		4	
Total	**1,126**		**877**	

KAS BANK invests in a high-quality mortgage fund without an external credit rating. This mortgage fund consists considerably of mortgages guaranteed by the Dutch government (in Dutch: Nationale Hypotheek Garantie, NHG) and therefore KAS BANK considers the investment as having a high credit rating.

Solvency

The high capital ratios support our low risk appetite. The capital ratio, the qualifying capital as percentage of risk-weighted assets, amount to 35% (2016: 30%). The average capital ratio in 2017 was 33% (average 2016: 26%). KAS BANK's capital solely consists of common equity tier 1 capital.

The capital requirements are implemented in phases since 2014 up to and including 2018. From 2019 onwards, reporting is exclusively based on the Capital Requirements Regulation (also called 'fully loaded' or 'fully phased in'). When applying this Capital Requirement Regulation (fully loaded capital ratio) to 2017, the risk-weighted assets would be EUR 618.2 million (2016: EUR 659.7 million), the capital would be EUR 218.4 million (2016: EUR 206.2 million) and the capital ratio would be 35.3% (2016: 31.3%).

IN MILLIONS OF EUROS	31 DECEMBER 2017		31 DECEMBER 2016	
	Carrying amount	Risk-weighted value	Carrying amount	Risk-weighted value
Due from banks	116.9	26.4	232.2	42.6
Loans	682.8	38.7	779.7	41.4
Reverse repurchase agreements	448.4	-	662.4	-
Derivative financial instruments	271.2	22.8	413.2	45.0
Financial investments available -for-sale	1,126.1	206.7	877.6	201.8
Other assets	1,553.8	58.9	1,433.4	47.5
	4,199.2	**353.3**	**4,398.5**	**378.3**
Other off-balance sheet risk	-	264.9	-	281.4
Total of the risk-weighted items		**618.2**		**659.7**
Capital and ratios	**Capital**	**Ratio**	**Capital**	**Ratio**
Common equity tier 1	213.4	35%	199.2	30%
Capital ratio	**218.4**	**35%**	**206.2**	**31%**

As from 2018 the leverage ratio is applicable to KAS BANK. The leverage ratio measures the unweighted assets versus the tier 1 capital. At the end of 2017 the leverage ratio of KAS BANK amounted to 4.9% (2016: 4.3%). The minimum level of the leverage ratio is 3%.

In December 2017, the Basel Committee on Banking Supervision (BCBS) and the Group of Central Bank Governors and Heads of Supervision (GHOS) published the Basel IV accords. These Basel IV accords mainly focus on the calculation of the risk-weighted assets. KAS BANK uses the standardized approach for the calculation of the risk-weighted assets. Based on our first analysis, we expect the impact of Basel IV on our risk-weighted assets to be limited. Our first calculations are based on the Basel IV rules as published, these rules may differ from the final implementation in European legislation.

"Our Finance department produces and works with data, that we convert in reliable & predictable information and reports to thereby enabling better steering of the bank"

Wafae Benamar, Reporting Specialist

Liquidity

The table below shows in percentages the cash flows (undiscounted) for the financial assets based on the contractual maturity date (excluding shares):

MATURITY CALENDAR AS OF 31 DECEMBER 2017 IN PERCENTAGES	ON DEMAND	<= 3 MONTHS		<= 1 YEAR	<= 5 YEAR	>5 YEAR	TOTAL
Banks, loans and other financial assets	82%	18%		0%	0%	0%	100%
Financial investments available-for-sale	0%	3%		3%	85%	9%	100%
Total financial assets	**58%**	**14%**		**1%**	**25%**	**3%**	**100%**

MATURITY CALENDAR AS OF 31 DECMBER 2016 IN PERCENTAGES	ON DEMAND	<= 3 MONTHS		<= 1 YEAR	<= 5 YEAR	>5 YEAR	TOTAL
Banks, loans and other financial assets	74%	25%		1%	0%	0%	100%
Financial investments available-for-sale	0%	3%		3%	72%	22%	100%
Total financial assets	**58%**	**21%**		**1%**	**15%**	**5%**	**100%**

The high level of liquidity of the bank is shown above. 72% (2016: 79%) of the financial assets have a maximum maturity of three months.

The prudential (regulatory) liquidity is measured by the Liquidity Coverage Ratio. The Capital Requirement Regulation requires financial institutions to hold an amount of high quality liquid assets equal to or exceeding their outflow within a time frame of 30 days. The minimum outcome must be 100%. The table below shows the amount of qualifying High-Quality Liquid Assets of KAS BANK as at 31 December 2017 and the estimated cash outflow during 30 days. As an outcome of both numbers the Liquidity Coverage Ratio as at 31 December 2017 amounts to 221% (31 December 2016: 225%).

IN MILLIONS OF EUROS	2017	2016	CHANGE	%
High quality liquid assets	2,150	2,135	15	1%
Net cash outflow < 30 days	971	948	23	2%
Liquidity Coverage Ratio	221%	225%	(0)	-2%

Taxes

KAS BANK acts in accordance with applicable laws at all times and we are guided by relevant international standards. For years, we have had an agreement in place with the Dutch tax authorities on horizontal supervision. This agreement, which is based on transparency and mutual trust, ensures that the Dutch tax authorities receive current and up-to-date information about KAS BANKs tax strategy and tax controls. Based on this information, the Dutch tax authorities adjust the form and intensity of their supervision, and restrict their activities solely to those required to validate horizontal monitoring. This results in more efficient and effective processes, as well as clarity at early stages for both the tax authorities and KAS BANK.
We pay our fair share of taxes in the countries in which KAS BANK has a local presence. To address this objective, KAS BANK has increased transparency by providing country-by-country reporting.

We aim to report an appropriate portion of taxable income for subsidiaries or branches in which value is created within the normal course of business. Any transfer pricing is always based on the arm's-length principle. KAS BANK pays tax at statutory tax rates in the countries which we operate as a financial services provider. KAS BANK publishes an effective underlying tax rate, which is currently 24.6% (2016: 24.4%) and almost equal to statutory tax rates. Products offered by KAS BANK that have potential tax advantages for client are only acceptable if these products fully meet the regulations in force, are transparent, and or not contravene the intended purpose of these regulations.

Dividend

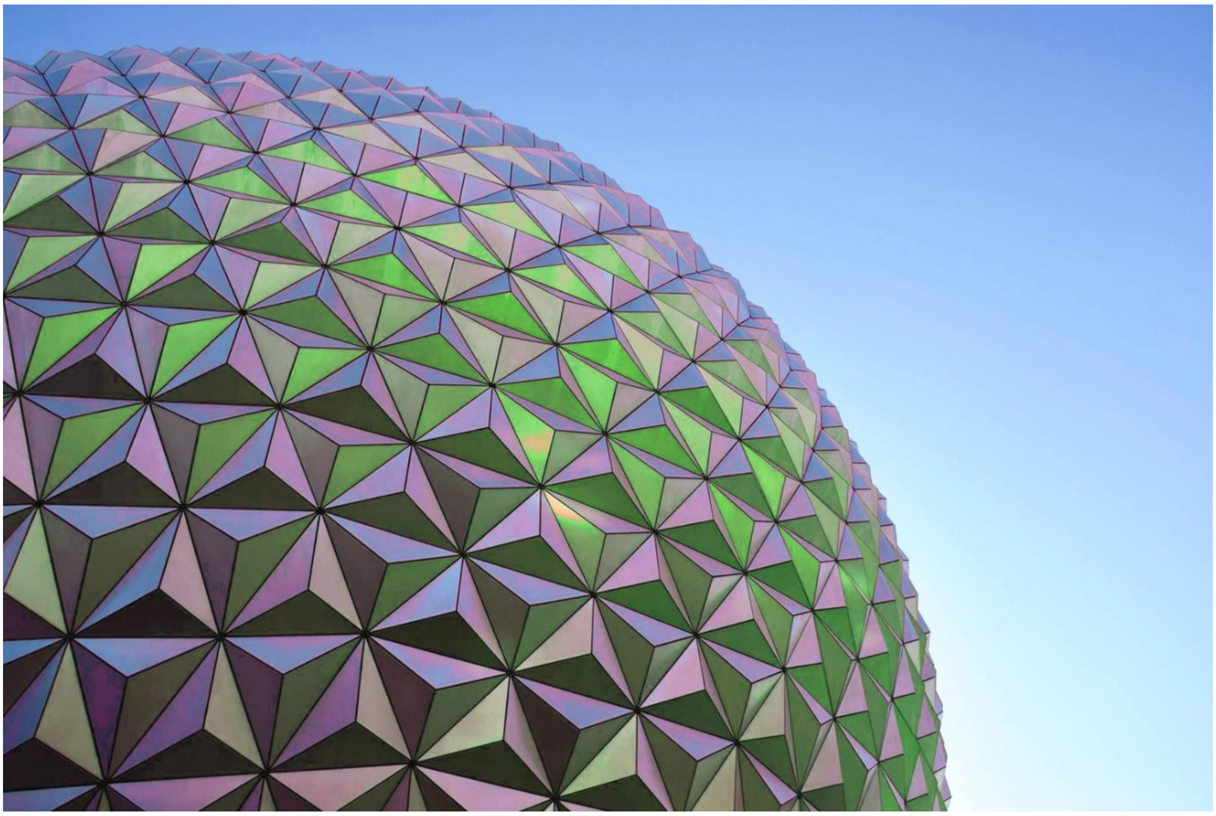
KAS BANK will propose to the General Meeting of Shareholders a total cash dividend for 2017 of EUR 0.64 for each ordinary KAS BANK share (2016: EUR 0.64). This is in line with our policy of distributing a dividend of 60-80% of the total net result under normal market conditions. EUR 0.33 for each ordinary share has already been distributed as interim dividend for 2017.

Outlook

After the first half of 2016, we set a target for a structural annual cost reduction of EUR 20 million to be implemented in the period up to and including 2019. We have now planned to realize the full benefits by the end of 2018.

In the coming years, we shift our focus towards growth and continue our change program. Market developments will bring momentum and new opportunities to KAS BANK. We expect an increased demand by institutional clients for outsourcing of non-core activities. Complexity and regulatory pressure will drive the need for KAS BANK's services. We also see continued consolidation in our markets which we expect to impact both topline and our client portfolio.

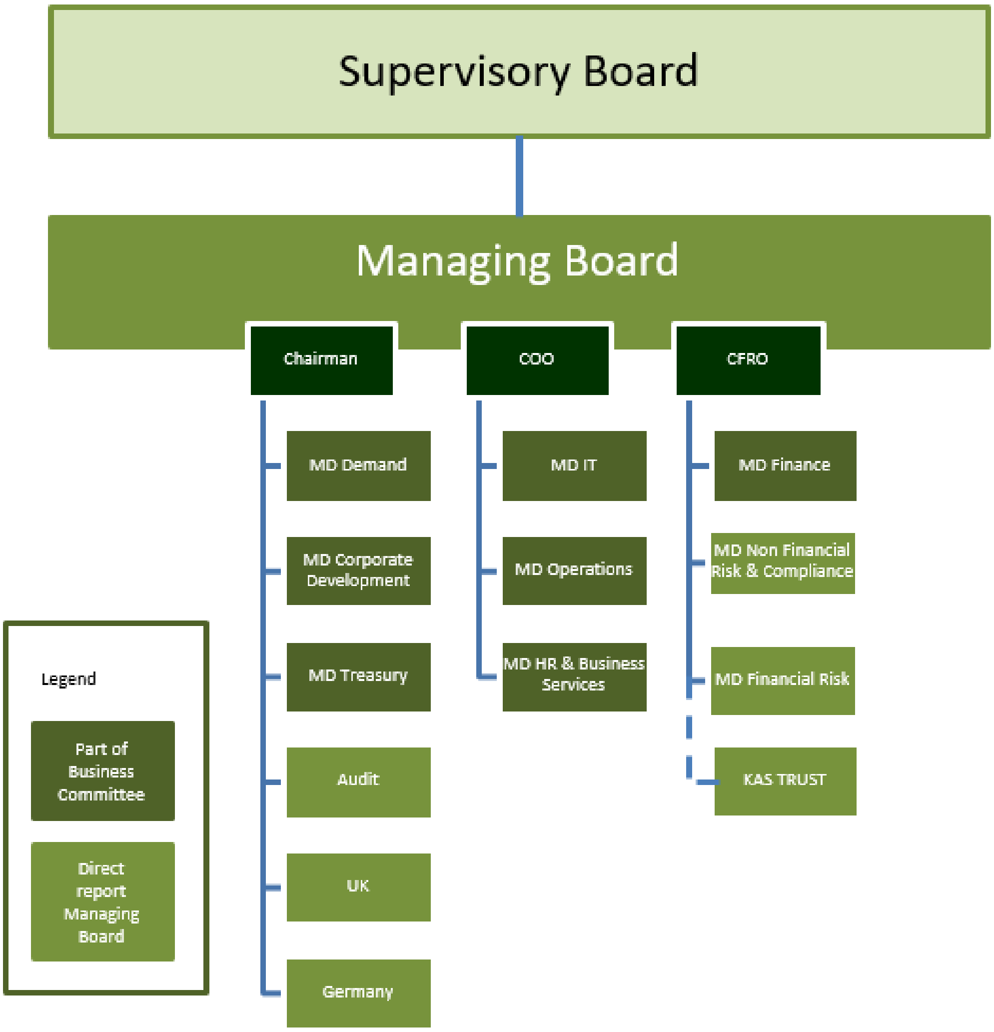
We continue our efforts to generate new business in all three home markets and to diversify our product range. In the UK and Germany, we expect to seize business opportunities by providing fintech- and governance solutions.



Corporate Governance

Corporate Governance
Corporate Structure

KAS BANK is a public limited liability organisation incorporated under Dutch law. We have a two-tier board consisting of a Managing Board and a Supervisory Board. As a two-tier organisation, we are subject to the provisions of Book 2, Title 4, Section 6, of the Dutch Civil Code (in Dutch: structuurvennootschap). The organisation is managed by a Managing Board consisting of two or more members. In the performance of its duties the Managing Board is guided by the interests of the oranisation and the business associated therewith, taking into due consideration the interests of all (internal and external) stakeholders of the organisation. Their powers, obligations and responsibilities are included in the organisation's Articles of Association (in Dutch: statuten) and the by-laws of the Managing Board (in Dutch: reglementen) – which are published on the organisation's website.



Managing Board

The members of the Managing Board are appointed and may be dismissed by the Supervisory Board. The Supervisory Board is required to notify the General Meeting of Shareholders of a proposal to appoint a Managing Board member, and shall consult the General Meeting of Shareholders of a proposal to dismiss a Managing Board Member. The Works Council is given an opportunity to state its position on a proposal to appoint or dismiss a member of the organisation's Managing Board. Certain management decisions are subject to the prior approval of the Supervisory Board or the General Meeting of Shareholders.

Like all employees at KAS BANK N.V., all newly-appointed Managing Board members must take the bankers' oath immediately following their appointment. A member of the Managing Board shall be appointed for a term of four years each.

The Managing Board has instated a Business Committee consisting of the members of the Management Committee and the Managing Board members.

The Management Committee is mandated by the Managing Board to run the day-to-day operations of the organisation. The Business Committee is responsible for decision making on a more strategic and tactical level.

The organisation seeks to avoid any kind of conflict of interest between the organisation and the members of its Managing Board. Prior approval from the Supervisory Board is for example required for transactions that could potentially lead to (material) conflicts of interest between the organisation and a member of the Managing Board. If a (potential) conflict of interest arises between the organisation and a member of its Managing Board, the organisation shall act in accordance with the 'best practice' provisions as included in the Corporate Governance Code (2.7.1).

No conflicts of interest arose between the organisation and Managing Board members during the year to which this report relates.

The Managing Board has been authorised by the General Meeting of Shareholders to issue shares up to a maximum of 10% of the organisation's issued share capital. This includes granting rights to acquire shares, and issuing an additional 10% of the organisation's issued share capital if such issue relates to a merger or acquisition, subject to the approval of the Supervisory Board.

The Managing Board has also been authorised by the General Meeting of Shareholders to repurchase the organisation's own shares, subject to the approval of the Supervisory Board.

The General Meeting of Shareholders is requested each year to renew these authorisations, each for a period of 18 months.

The Managing Board

Jaap Witteveen, Chief Operations Officer

Sikko van Katwijk, Chairman of the Managing Board

Mark Stoffels, Chief Financial & Risk Officer

Supervisory Board

KAS BANK's Supervisory Board is charged with supervising (the execution and implementation of) the strategy of the Managing Board, as well as the ordinary course of business of the organisation, and is guided by the interests of the organisation and the business associated therewith. It also assists the Managing Board in an advisory capacity. In the absence of the Managing Board (or if the Managing Board members are unable to act), the Supervisory Board is charged with the temporary management of the organisation.

In the performance of their duties, Supervisory Board members are guided by the interests of the organisation and the business associated therewith, taking into due consideration the relevant interests of the stakeholders. Applicable procedures are included in the organisation's Articles of Association and the Supervisory Board's by-laws.

The Supervisory Board has formulated a (membership) profile, which sets out the Supervisory Board's ideal size and composition. The Supervisory Board is composed in such a way that its members can operate independently of – and may adopt a critical attitude towards – one another, the Managing Board and any other relevant parties.

A permanent education programme is organised for the Supervisory Board to maintain the required level of expertise and knowledge for its members, and to improve such expertise and knowledge where necessary. An introduction programme is organised for new Supervisory Board members, who will also take the bankers' oath immediately upon their appointment.

Members of the Supervisory Board are appointed by the General Meeting of Shareholders upon nomination by the Supervisory Board itself. The Managing Board, the General Meeting of Shareholders and the Works Council may nominate individuals for appointment to the Supervisory Board. The Works Council may also object to an appointment proposed by the Supervisory Board. The Works Council has an 'enhanced' right of recommendation with respect to certain Supervisory Board members (i.e. they are authorised to appoint certain members, unless the then current Supervisory Board members object to such appointment).

A member of the Supervisory Board may be appointed twice for a term of four years each, and (with additional explanations) for two additional terms of two years each. In certain instances (such as neglect of duties, or material changes to relevant circumstances) the Supervisory Board may request one of its members to be suspended or dismissed by the Enterprise Division (in Dutch: Ondernemingskamer) of the Court of Amsterdam.

The organisation seeks to avoid any kind of conflict of interest between the organisation and the members of its Supervisory Board. Prior approval from the Supervisory Board is for example required for transactions that could potentially lead to (material) conflicts of interest between the organisation and a member of the Supervisory Board. If a (potential) conflict of interest arises between the organisation and a member of its Supervisory Board, the organisation shall act in accordance with the 'best practice' provisions from the Corporate Governance Code (2.1.7 – 2.1.10).

No conflicts of interest arose between the organisation and Supervisory Board members during the year to which this report relates.

General Meeting of Shareholders

KAS BANK encourages full shareholder participation at the General Meeting of Shareholders. KAS BANK actively invites shareholders and depositary receipt holders to attend the General Meeting of Shareholders, and minimises voting right restrictions. Subject to certain conditions, a holder of shares or depositary receipts representing one per cent (1%) of the then issued capital can have an item placed on the agenda of the General Meeting of Shareholders. This approach is in keeping with a general elimination of the principle that shareholders may have voting rights, while depositary receipt holders may only address the General Meeting of Shareholders. At least one General Meeting of Shareholders is held each year.

General Meeting of Shareholders and Shareholder Structure

Depositary receipt holders attending the General Meeting of Shareholders in person or represented by a proxy are, if requested, granted unrestricted and unconditional voting rights automatically by KAS BANK Registrar's Office (in Dutch: Stichting Administratiekantoor Aandelen KAS BANK - 'Registrar's Office'). This means that voting rights will also be granted in time of 'unrest' (for example, in the event of a hostile bid, or in the event of a threat to the interests of the organisation). Depositary receipt holders are free to vote as they see fit. They may also issue binding instructions to the Registrar's Office to vote on their behalf.

The powers of the General Meeting of Shareholders are set out in Dutch law and in the Articles of Association. Its principal powers include:

- Approving decisions that result in a material change to the identity or character of the organisation or its operations;
- Adopting (a change to) the remuneration policy and approving the share and option scheme for the Managing Board;
- Approving the appointment and remuneration of members of the Supervisory Board;
- Casting a vote of no confidence in the Supervisory Board;
- Adopting the organisation's financial statements;
- Approving that the profit remaining after allocation to the reserves is distributed to the shareholders, or added to the reserves;
- Discharging the Managing Board of liability resulting from the performance of its management duties;
- Discharging the Supervisory Board of liability resulting from the performance of its supervision duties;
- Appointment/discharge of external auditors;
- Authorising the Managing Board to issue and repurchase shares; and
- Resolving to amend the organisation's Articles of Association, to undertake a legal merger or demerger, or to wind up the organisation (on the joint proposal thereto from the Managing Board and the Supervisory Board).

The organisation's Articles of Association impose no restriction on the transfer of ordinary shares, or depositary receipts for shares issued with the cooperation of the organisation, or the exchange of depositary receipts for ordinary shares in the organisation.

Remuneration policy

The Managing Board's remuneration policy is adopted by the General Meeting of Shareholders based on a Supervisory Board proposal.

The Supervisory Board's remuneration report describes how the remuneration policy has been applied in practice during the past financial year. The remuneration report, the principles of the remuneration policy and the calculation of the various components of the salaries of individual Managing Board members are included in the remuneration chapter in this annual report. The remuneration policy and the remuneration report are also posted on our website.

Financial reporting

The organisation's financial statements are audited by the external auditor 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 a positive confirmation from the Supervisory Board, to the General Meeting of Shareholders for adoption and to the Works Council for discussion.

The Managing Board submits a written report on the general course of affairs of the organisation and its management, together with a presentation of the financial statements, to the General Meeting of Shareholders. The meeting of the Supervisory Board in which the financial statements are discussed and approved is attended by the organisation's external auditor.

At the annual General Meeting of Shareholders, the Managing Board renders account for its management of the organisation over the past financial year and the Supervisory Board renders account for its supervision of the organisation.

The resolution at the General Meeting of Shareholders to approve the organisation's financial statements is followed by a resolution that, with respect to the financial statements and related matters dealt with by the General Meeting of Shareholders, the Managing Board should be discharged of liability resulting from its management of the organisation and the Supervisory Board should be discharged of liability resulting from its supervision of the organisation, in the past financial year.

Amendment of the Articles of Association

Resolutions amending the organisation's Articles of Association must be jointly proposed by the Supervisory Board and the Managing Board. They must then be passed by a General Meeting of Shareholders, during which at least two thirds of the issued share capital is represented. If the required share capital is not represented at the General Meeting of Shareholders, a new meeting must be organised, taking place not less than three and not more than five weeks after the first meeting. At this new General Meeting of Shareholders, a resolution can be passed regardless of the represented share capital. The notice of the General Meeting of Shareholders will mention the 'Amendment of the Articles of Association' as the subject of the meeting. A copy of the proposed amendments will be published and made available for inspection at the organisation's office, and copies are made available free of charge.

Capital Structure

Our organisation's share capital consists of ordinary shares and cumulative preference shares. All shares are registered and no share certificates are issued. At year-end 2017, 15,699,017 KAS BANK ordinary shares were issued (i.e. unchanged from year-end 2016). In addition, 25 cumulative preference shares were issued to Stichting Preferente Aandelen KAS BANK.

Most of the ordinary shares in the organisation's issued capital (approximately 99.3% at year-end 2017) are managed and administered by KAS BANK Registrar's Office, which has issued the same number of registered depositary receipts in exchange. The nominal value of KAS BANK shares and depositary receipts is one Euro (EUR 1.00). Each share and depositary receipt entitles the holder to cast one vote. No special controlling rights are attached to the shares or depositary receipts. No voting rights are attached to KAS BANK shares or depositary receipts held by the organisation itself.

The ordinary shares are listed on the Official Market of the stock exchange of Euronext Amsterdam in the form of depository receipts for shares. This listing started in 1986.

Stichting Administratiekantoor Aandelen KAS BANK

Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office) administers and manages almost all ordinary shares in the organisation's issued capital. With the cooperation of the organisation, KAS BANK Registrar's Office exchanges ordinary shares for depositary receipts with limited exchangeability.

KAS BANK Registrar's Office itself exercises voting rights only with respect to 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. It prevents a chance majority of those entitled to exercise voting rights from unduly influencing the decision-making process during the Meeting of Shareholders.

The KAS BANK Registrar's Office Executive Committee consists of three independent members:

- Mr. J.J. Nooitgedagt (chairman),
- Ms. M.R. van Dongen
- Mr. J.C.M. van Rutte.

Executive Committee members are appointed by the Executive Committee itself, in consultation with the Managing Board and Supervisory Board.

Stichting Preferente Aandelen KAS BANK

The purpose of Stichting Preferente Aandelen KAS BANK (KAS BANK Registrar's Office for preference shares) is to protect the interests of the organisation, the business associated therewith, and all stakeholders. This includes safeguarding against influences which might impair the independence, continuity and/or identity of the organisation.

A right has been granted to KAS BANK Registrar's Office for preference shares to subscribe for cumulative preference shares in the capital of the organisation 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 (call option) will be exercised by KAS BANK Registrar's Office for preference shares at the discretion of its Executive Committee, for reasons which may include to safeguard the organisation against influences as set out above. KAS BANK Registrar's Office for preference shares cannot be compelled to subscribe for preference shares (no put option).

KAS BANK Registrar's Office for preference shares' Executive Committee consists of three independent members:

- Mr. H.G. van Everdingen (chairman),
- Mr. R.P Voogd,
- Mr. T. Nelissen

The Executive Committee members are appointed by the Executive Committee itself, in consultation with the Managing Board and Supervisory Board.

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

Corporate Governance
Codes & Regulations

KAS BANK is required to comply with applicable (governance) codes and regulations, which includes the Dutch Corporate Governance Code, the Banking Code and CRD IV. This section explains how KAS BANK applies these codes and regulations.

Corporate governance statement

The organisation has published a corporate governance statement on its website, pursuant to Section 2a of the Decree on additional requirements for annual reports of 1 April 2009 organisation https://www.kasbank.com/en/about-us/investor-relations/corporate-governance/ The corporate governance statement is deemed to have been inserted and repeated in this annual report.

Connectivity of material topic 9
Corporate Governance

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		Page 23

Corporate governance code

On 8 December 2016, the Dutch Corporate Governance Code Monitoring Committee (the "Committee") presented the amended Dutch Corporate Governance Code (the "2016 Code") to the Dutch Minister of Economic Affairs. The 2016 Code includes certain important changes compared to the Corporate Governance Code from 2008 (the "2008 Code"). The most important changes included in the 2016 Code are the focus on long-term value creation and the introduction of 'culture' as an element of good corporate governance.

It is KAS BANK's philosophy to report and comply with this code of conduct, therefore we have assessed the requirements of the revised Corporate Governance Code in 2017 and implemented the necessary changes in its own relevant policies and procedures to comply with the new rules.
We have published a report on our website on how we apply the 2016 Code, indicating compliance (or explaining why it does not comply) for each best practice provision. The organisation applies all the best practice provisions except two.

The first exception concerns best practice III.5.10/14 (the organisation has a combined Appointments and Remuneration Committee). The Supervisory Board has appointed an Appointments & Remuneration Committee, which is a combination of the Remuneration Committee and the Selection and Appointment Committee referred to in the 2016 Code. For a small cap organisation such as KAS BANK, little value is added by appointing two separate committees. The duties referred to in this best practice provision are performed by the Appointments & Remuneration Committee, consisting of three members. The duties and responsibilities of the Appointments & Remuneration Committee are highlighted in the 'Report of the Supervisory Board'.

The second exception concerns best practice 4.4.2, which refers to the appointment of Managing Board members and which also applies to Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office). According to the Articles of Association of KAS BANK Registrar's Office their Managing Board members are appointed for 8 years with the possibility of re-appointment for one additional term. In a future amendment of the Articles of Association of KAS BANK Registrar's Office this will be adjusted to meet this best practice.

The report (in Dutch: Toepassing door KAS BANK van de Nederlandse corporate governance code) can be found at
https://www.kasbank.com/en/about-us/investor-relations/corporate-governance/

Dutch Banking Code

The Dutch Banking Code (in Dutch: Code Banken) published by the Dutch Banking Association came into force on 1 January 2010 and applies to all banks in the Netherlands. A revised version applies as of 2015.

The Dutch Banking Code aims to strengthen corporate governance within the banking system, improve risk management and auditing, and to limit excessive remuneration. As such, it is a form of self-regulation and can be seen as an assumption of responsibility by Dutch banks following the financial crisis. The Dutch Banking Code can be found on the Dutch Banking Association website (www.nvb.nl). KAS BANK supports the self-regulation of this code and strives to meet and respect all aspects of it.

The organisation has published a report on its website which sets out the way in which it applies the Dutch Banking Code and indicating its compliance for all principles. The report (in Dutch: Invulling Code Banken) can be found at
https://www.kasbank.com/en/about-us/investor-relations/corporate-governance/

Banker's Oath, Moral and Ethical Declaration

Under the new bankers' oath regulation, otherwise known as the 'Regulation on oath or solemn affirmation for the financial sector (Financial Supervision Act 2013)', bankers must take an oath confirming that they will carry out their jobs with integrity, put their clients' interest first, and thus ensure confidence in the banking sector. All new employees and the newly appointed members of both the Supervisory Board and the Managing Board have all taken the bankers' oath this year.

Self-assessments

Self-assessment by the Supervisory Board

Every year, the Supervisory Board evaluates its own performance and that of its committees. At the end of the year the organisation discussed and evaluated the findings. The main conclusions of the self-assessment can be found in the Report of the Supervisory Board.

Self-assessment by the Managing Board

In 2017, the Managing Board evaluated its own performance with the assistance of an external expert. The outcome of this evaluation was discussed and shared in detail with both the Supervisory Board and the Managing Directors. The Managing Board addressed action points to delegate certain activities within the organisation in order to focus more on clients and strategy.
Also in 2017, the Managing Board emphasized the importance of good conduct and the culture within the organisation.

Actions to further improve the conduct and culture were taken regarding items such as decision-making, internal communication and internal culture. For example, the interests of all involved stakeholders are now explicitly identified and weighed during important decision-making processes.

Remuneration

The primary objective of our remuneration policy is to enable KAS BANK to recruit and retain highly qualified and expert employees, thereby enforcing our specialist role. The remuneration policy forms an integral part of KAS BANK's strategy and maintains a sustainable balance between short-term and long-term value creation, considering the interest of all the stakeholders.

Remuneration policy

The remuneration policy is aimed at helping to create positive results for the organisation – in line with its objectives in terms of risk and returns, client satisfaction, operational excellence and innovation. It also aims to help employees develop and maintain the competencies necessary to achieve good results. Finally, the remuneration policy aims to demonstrate commitment to improving the results of the organisation.

Connectivity of material topic 10
Remuneration

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		Page 23

Managing Board

The Supervisory Board compares the remuneration of the Managing Board every four years against developments in the market. The remuneration package for the Managing Board consists of the following components:

- Annual base salary;
- Annual variable remuneration (limited to 20% of the base salary) (with deferred pay-out, if applicable);
- Contribution to the pension scheme;
- Other entitlements.

Performance of the members of the Managing Board is measured during a one year performance period by means of both individual indicators and organisation financial and non-financial performance indicators.

In accordance with the Dutch Banking Code, the remuneration of the Managing Board is set below the median of the peer group and provides for a balanced mix between fixed and variable remuneration.

Senior Management

KAS BANK has applied the Korn Ferry (formerly Hay Group) job evaluation system to the Senior Management functions. This method considers the necessary knowledge and skills, complexity and accountability, and categorises the jobs into job levels. The maximum salaries for each job level is benchmarked at the median level of the financial institutions market.
The remuneration package for Senior Management consists of the following components:

- Annual base salary;
- Annual variable remuneration (with deferred pay-out, if applicable);
- Contribution to the pension scheme;
- Other entitlements.

Performance of the members of Senior Management is measured during a one year performance period by means of both individual indicators and organisation financial and non-financial performance indicators.

Other employees

The organisation also applied the Korn Ferry job evaluation method for other roles in the organisation. All jobs are evaluated and categorised into job levels. Each job level is linked to a salary range. The ranges are properly balanced and aligned with the salary of the Managing Board. A typical remuneration package for other employees consists of the following components:

- Annual base salary;
- Annual variable remuneration (with deferred pay-out, if applicable);
- Contribution to the pension scheme;
- Other entitlements.

Performance of other employees is measured during a one year performance period by means of both individual indicators and organisation financial and non-financial performance indicators.

Details on identified staff

We continue to adhere to all relevant remuneration restrictions. These rules apply not only to the Managing Board, but also to those staff whose professional activities could have a material impact on the organisation's risk profile (i.e. Identified Staff). Within the organisation the group of Identified Staff consists of:

- Members of the Managing Board;
- Senior Management;
- Other employees – staff responsible for independent control functions;
- Other employees – operational management within the business lines, who directly report to Senior Management.

Remuneration policy for the Managing Board

The current remuneration policy for the Managing Board was adopted by the General Meeting of Shareholders on 23 April 2014. According to the Managing Board remuneration policy, remuneration of the Managing Board consists of base salary, variable remuneration (capped at 20% of base salary), pension arrangements and some other arrangements (e.g. a leasing scheme and a mortgage scheme).

The Supervisory Board compares the remuneration of the Managing Board every four years against developments in the market and receives advice from the Supervisory Board's Appointments Remuneration Committee.

In principle, the remuneration package is assessed by a remuneration expert once every four years. The benchmark is broadly based and consists of the two reference groups listed below, based on similar positions within and outside of the financial sector. They are:

- A financial/specific reference group consisting largely of companies in the financial sector, including the international context and reference group of (parts of) European financial institutions, which are comparable to the organisation in terms of services provided and/or size;
- A cross-industry reference group, consisting of companies included in the AScX Index at the time of the determination of the remuneration policy.

The reference groups have been classified into two parts to assess conformity with comparable positions within and outside of the financial sector in accordance with the Dutch Banking Code.

In accordance with the Dutch Banking Code, the remuneration of the Managing Board is below the median of the peer group and provides for a balanced mix between fixed and variable remuneration.

In 2017 the remuneration package was assessed against the cross-industry reference group by an external reward consultant (Focus Orange). The assessment does not provide a direct reason for adjusting the remuneration policy, given that the fixed salary is in line with the market and the total remuneration is slightly behind the market.

Variable remuneration – increased focus on non-financial peformance

The performance criteria are aligned to long-term value creation for all stakeholders by containing strategic development, risk appetite, financial goals and operational development. The performance criteria are linked to three targets. The weight of all elements is equal:

- Meeting the budget requirements: this target is determined every year based on two quantitative criteria; return on equity and an efficiency ratio. Both criteria are given equal weight.
- Strategic progress: this target is determined every year based on several quantitative and qualitative criteria. These are related to the sustainable development of the market position and progress in risk management, administrative organisation, client satisfaction, etc.
- Operational progress: this target is determined every year based on several quantitative and qualitative criteria. These are related to the operational development and progress in employee satisfaction, ISAE 3402, reports of regulators, etc.

Depending on the degree of achievement of the performance criteria, the Supervisory Board sets the variable remuneration accordingly:

- Achieving less than 66.7% of the performance criteria: no variable remuneration;
- Achieving the performance criteria in full (100%): variable remuneration is 16% of the base salary;
- Surpassing the performance criteria (133.3%): variable remuneration is a maximum of 20% of the base salary.

The total variable remuneration will be fully paid in shares. Members of the Managing Board may sell shares granted to them to comply with tax obligations with respect to these shares. If the variable remuneration does not exceed EUR 10,000 the shares will be fully paid at once. If the variable remuneration exceeds EUR 10,000 the shares will be vested. The first vesting will be 60% of the granted shares. Thereafter, a three-year *pro rata* deferral period applies. A retention period of two years after the vesting period applies.

Pension scheme

The pension scheme for the Managing Board is based on a defined contribution system. The scheme is in line with market practice and is based on the scale of defined contribution tax offset. The contribution is determined based on net contributions, considering cost and contribution mark-up. Costs and contribution mark-ups are paid by the organisation. The scale of the defined contribution tax offset remains applicable to the Managing Board.

The members of the Managing Board receive compensation because of new legislation, pursuant to which pension premiums on salaries that exceed the maximum fiscal threshold are no longer exempt or deductible from (wage) tax.

Tenure

Members of the Managing Board have a commission contract. The commission contract for members of the Managing Board provides for an appointment for a period of four years and allows reappointment by the General Meeting of Shareholders. In the case of an involuntary exit, members of the Managing Board are eligible for a severance payment limited to one year of their respective base salary.

A change-of-control clause was agreed with the Managing Board, under which a member of the Managing Board may claim one year's gross salary if dismissed as the consequence of a change of control.

Malus and clawback

The Supervisory Board has discretionary power to lower (*malus*) any variable compensation to a suitable amount if, in its opinion, payment of the compensation would be unacceptable under the principle of reasonableness and fairness. The Supervisory Board has the authority to impose a clawback on (a part of) the variable remuneration allocated to a member of the Managing Board if it has occurred without legal basis. This may include where variable remuneration turns out to have been awarded based on inaccurate data (including in relation to achieving underlying objectives or other circumstances on which the variable remuneration depends).

"KAS BANK reward level is following market levels, we distinguish ourselves by offering opportunities to make a difference and develop yourself in an informal setting"

Rimane Brons, Development & Reward Manager

2017 Remuneration Managing Board

The Managing Board remuneration is in accordance with the remuneration policy. Note 44 of the Financial Statements 2016 shows the figures related to the remuneration of the Managing Board.

Base salary

The base annual salary for the chairman, Sikko van Katwijk, is EUR 350,000. For the other members of the Managing Board the base annual salary is EUR 325,000. Mark Stoffels was appointed in 2016 with a base salary of EUR 275,000 and will reach the abovementioned base annual salary in two equal steps. In February 2018, the last step has been completed.

To obtain a representative view in relation to current market levels, the base salary for Managing Board members was related to and measured against a selection of two market reference groups. These groups were carefully selected and analysed by an external specialist on board remuneration according to three criteria: revenue, number of employees and market cap. This resulted in a representative reference group of 15 companies. The base salary remains within the boundaries set out in the remuneration policy as approved by the General Meeting of Shareholders. The total remuneration is below the median level for the reference group.

Variable remuneration

Variable remuneration is linked to three objectives with respect to the annual budget and the achievement of strategic and operational targets. In the event of an 'at target' performance, the variable remuneration for members of the Managing Board is 16% of their respective base salary. The maximum short-term variable remuneration is 20% of the base salary, which applies if 133% of the 'at target' performance is achieved. The variable remuneration is zero if less than 66.7% of the set targets have been achieved.
In 2017, the Managing Board achieved a score of 108.5% of their targets related to quantitative criteria (annual budget). The qualitative criteria for 2016 focused principally on strategic targets (of which the Managing Board achieved 44.4%) and operational targets (of which the Managing Board achieved 30.3%), and quantitative targets (of which the Managing Board achieved 86.0%). The quantitative targets counted for one-third, while the qualitative targets counted for two-thirds. Based on the above, more than 50% of the variable remuneration is based on non-financial performance criteria.

In 2017, no clawback was applied to vested variable remuneration from any of the members of the Managing Board. The Supervisory Board decided that there was no reason to apply a collective or individual *malus* with respect to the vesting of previous tranches of deferred variable compensation.

Pay ratio

In the remuneration policy of the Managing Board pay-ratios within the organisation are considered.

Hereunder you will find the development of the pay-ratio of the chairman of the board versus the average wage of other employees in the Netherlands excl. members of the Management Board) over the last three years (total remuneration allocated):

IN THOUSANDS OF EUROS	2017	2016	2015
Chairman of the Managing Board	390	350	397
Average salary of all employees	63	60	60
Pay ratio	6.2	5.8	6.6

The amounts in the table above, include the fixed salary and variable remuneration. The fixed salary is based on a 40 hours workweek, reference date 31 December of year. The variable remuneration is based on the amount related to the remuneration year.
The pay of the Chairman of the Managing Board includes the fixed salary and the performance based variable pay.

Remuneration policy for identified staff (excluding Managing Board)

The salary for Identified Staff is based on the Korn Ferry job evaluation method by which jobs are evaluated and categorised into job levels. Each job level is linked to a salary range. These ranges are properly balanced and aligned with the salary of the Managing Board.

Benchmark surveys are periodically conducted by remuneration experts in which jobs within the organisation are compared with similar positions at other banks. All salary proposals for senior managers are prepared by Human Resources (both during recruitment and the annual (remuneration) evaluation) and are approved by the Managing Board.

Variable remuneration for identified staff

The variable remuneration of Identified Staff is aligned with the targets of the Managing Board and based on achieving both individual and organisation targets. More than 50% of the variable remuneration is based on non-financial performance criteria and cannot exceed 20% of the annual base salary. The remuneration is paid half in shares and half in cash, in cases where the individual variable remuneration for

Identified Staff exceeds an amount of a monthly base salary or EUR 10,000. If the variable remuneration does not exceed both criteria the amount will be fully paid in cash at once. The first vesting will be 60% of the granted shares and the granted cash. To the extent that the variable remuneration is paid out in shares, it takes the form of registered shares in the company.

Thereafter, a three-year *pro rata* deferral period applies. After the vesting period, a retention period of one year applies. The Identified Staff may sell shares vested to comply with tax obligations with respect to these shares. Variable remuneration may be reclaimed if it has been based on inaccurate data (including in relation to achieving underlying objectives or other circumstances on which the variable remuneration depends).

Considering applicable legislation, the variable remuneration awarded to employees with control functions (Risk Management, Compliance, and Finance) is based on the achievement of the objectives that are linked to their control functions. This is independent of the results of the business units they oversee. The remuneration of employees with control functions is such that they should not be exposed to stimuli that may conflict with their independent advisory role.

Clawback and malus

The Managing Board has the discretionary power to lower any variable remuneration to a suitable amount if, in its opinion, the remuneration would be unacceptable under the principle of reasonableness and fairness. This may include where variable remuneration turns out to have been awarded based on inaccurate data (including in relation to achieving underlying objectives or other circumstances on which the variable remuneration depends).

The *malus* assessment is conducted by Human Resources, Risk Management and Compliance and any outcome is subject to the approval of the Managing Board. During this *malus* assessment, it is assessed whether any new information is available which should lead to a lower variable remuneration. Such information may include evidence of misconduct or a serious error which can be attributed to the employee (e.g. a breach of the code of conduct or other internal rules, especially concerning risks), and as a result of which:

- the organisation subsequently suffered a significant downturn in its financial performance (specific indicators are to be used);
- the organisation and/or the business unit in which the employee works suffers a significant failure of its risk management processes.

2017 Remuneration for identified staff (excl. Managing Board)

In 2017, there were 25 employees that classified as Identified Staff (excluding members of the Managing Board). These employees received in total a base salary of EUR 3.0 million and a variable remuneration of EUR 189,000, of which 17% will be paid in shares. The total variable remuneration for all employees (excluding members of the Managing Board) related to the year 2017 amounts to EUR 1.3 million or more. In 2017, no employee received a remuneration of EUR 1 million or more.

The Managing Board decided that, based on the reassessment as performed by Human Resources, Risk Management and Compliance, there was no reason to apply a collective or individual *malus* with respect to the variable remuneration in 2017, or to the vesting of previous tranches of deferred variable compensation.

Risk Management

Risk Management

At KAS BANK, risk management is an integral part of doing business. It helps us define the scope and boundaries of our activities in accordance with our low risk appetite as defined by the Managing Board and approved by the Supervisory Board.

Low risk profile

Not only is KAS BANK a unique specialist operating in a (geographical) niche, it also has a distinctive character due to its low risk appetite and profile. We manage risk pro-actively to protect, secure and improve clients' assets and data. The organisation aims to improve and modernize wherever it can, respecting the priorities we have set. One of these priorities is maintaining a much lower risk profile than other banks. This started in 1806 and remains a key characteristic for now and the future.

Connectivity of material topic 6
Risk Management

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
		Page 23

Risk appetite

The organisation's risk appetite is directly linked to its dedication to enable prosperity for future generations as a trusted partner to its clients. This risk appetite is aligned with the organisation's strategy and is embedded in the organisation through a combination of qualitative and quantitative risk tolerances (thresholds). The low risk appetite and linked tolerances apply to all risk categories. These tolerances represent the downward variation in profit or value (per risk type) that the organisation is willing and able to take in order to continue to meet our targets under normal, as well as stressed market and macro-economic conditions. The clear risk appetite ensures that limits and thresholds can be defined, implemented, and enforced.

RISK CATERGORY	KEY RISKS	GENERAL RISKS	KEY RISK APPETITE
Business	Strategic	Business model	Low
Financial	1. Credit 2. Market 3. Liquidity	1a Counterparty credit 1b Investment 1c Portfolio 1d Concentration 2a Currency risk 2b Interest rate risk 2c Market volatility 3a Liquidity mismatch 3b Asset quality 3c Asset encumbrance	Low Low Low
Non-Financial	Operational (incl. Legal) IT Outsourcing		Low Low Low
Compliance	Compliance		Low

Key Risks

Risk appetite and key risks

Establishing clear and consistent risk limits, thresholds and definitions throughout the organisation is a key step in implementing an effective risk management framework.

This approach to risk, it fosters a broader risk-return culture as it stimulates (senior) management to evaluate our day-to-day activities and promotes a healthy risk management culture, by proactively monitoring and managing risks.

Given the nature of our services and history, our stakeholders have the following expectations with regards to the risk appetite of their activities and processes:

- The safekeeping of assets and data / Asset and data safety;
- Maintaining continuous access to cash and securities;
- Receiving services with a high operational excellence standard;
- Business continuity for these services; and
- Being transparent on all activities.

In our risk appetite statement, we address how we relate to these expectations.

Top and emerging risks 2017

Despite macro-economic, geopolitical, climatological and social commotion, and contrary to expectations, over 2017 witnessed a relatively calm year for the financial markets and industry. Notwithstanding the foregoing, the financial industry and its environment are moving at an unprecedented pace. Changes are occurring in economic, geopolitical, environmental and technological systems.

The interconnectedness of these changes implies enhanced and systemic risks that will keep redefining the future landscape of banking and associated risk management issues. The organisation has a solid process in place to identify, prioritize and monitor the relevant developments in the banking industry, our clients' industries, and the field of risk management. If needed a project will be started to manage any necessary changes. Being a compact and agile bank, the organisation sets itself apart by being able to act swiftly.

In 2017, persistently low interest rates further posed a challenge to financial institutions, including KAS BANK. The policy of the ECB to keep its key rate at 0.00%, and a 0.40% negative level deposit facility continued the downward pressure on the profitability of European financial institutions. Quantitative easing demonstrated the need to keep interest rates low to stimulate economic growth. The market keeps a close watch on the interest rates policy of the ECB. The organisation's interest rate risk is mitigated by its contract structure and its wholesale client base.

At KAS BANK, the potential impact of changing and accumulating rules and regulations is a constant focal point with all financial institutions. It calls for an active dialogue with market participants and regulators. CRRii/CRD V, the Bank Resolution and Recovery Directive (BRRD), the Single Supervisory Mechanism (SSM), EMIR (Refit), MiFIDII, GDPR and IFRS are all examples of global or European initiatives for strengthening banks and further reforming the industry. The accelerating changes and new regulations set by the ECB, the European Commission and local regulators may also limit financial institutions in their day-to-day business. We continuously monitor these regulatory changes, proposals and best practices and reacts accordingly. Impact can be expected for both financial and non-financial aspects.

For financial institutions like the organisation, IT network quality and information security is crucial for day-to-day business. Virtually all of the organisation's processes depend on the robustness and reliability of the infrastructure. Banks must therefore be aware of the risks related to infrastructure dependence, and should have the appropriate risk mitigating tools in place.

We have a dedicated IT and IT risk management function that manages IT risks and external changes related to upcoming technological changes such as 'Blockchain' and automation (e.g. robotics), as well as (cyber) threats. In 2017, we completed the outsourcing of our IT to Atos, which helps to address, control and mitigate the numerous challenges and risks within the IT environment and makes the organisation more risk sensitive and resilient. Outsourcing furthermore mitigates the risks, and reduces the efforts, related to keeping the knowledge of new IT-specialists up-to-date. The use of a specialised partner that provides scalable services also reduces the risk of resource limitations, especially with respect to cyber resilience. Outsourcing the IT has increased the outsourcing risk, which is duly controlled by a dedicated department, strict procedures and legal arrangements.

KAS BANK has opened an innovation hub called KAS Lab. KAS Lab is a meeting place where internal and external innovators work together to transform innovative ideas into concrete products and solutions. Setting up KAS Lab emphasizes the organisation's strategic priorities and enables it to better respond to changes in the financial sector. Due to the agile approach of working in multidisciplinary teams, where clients and other partners are also invited to participate, KAS Lab is able to gain faster results. KAS Lab provides new chances and creates new risk-related challenges for the organisation's, we are closely involved in all developments and will adapt our risk management to them whenever required.

In the banking industry, the risk of a client or counterparty not being able to meet its contractual or other agreed obligations (credit risk) remains a focal point. The organisation has a strict policy concerning counterparty credit risk. Special attention is paid to shadow banking entities. Although credit risk may be reduced by organisations such as central counterparties that take over counterparty-risk, a close monitoring of counterparties, including concentration risk, and the continuous improvement of the credit risk monitoring process remain essential. The organisation has a strict and dynamic process of accepting clients and counterparties and setting appropriate credit risk limits.

MAIN DEVELOPMENTS 2017	ACTIONS KAS BANK
Risk Management and risk types integrated on different levels of the organisation.	KAS BANK upgraded to a more effective Integrated Risk Monitoring Report, furnishing decision makers with better tailored and more integrated reporting.
Increased scrutiny in the investment portfolio	Increased attention to quality and diversification of investments and collateral.
Revision of the risks within the risk appetite	Revision of the Integrated Risk Framework, increased attention to outsourcing risk and IT risk
Strengthening of the Risk Appetite Process and risk awareness	Perform risk self-assessments and strengthen the Risk Appetite Process and operational excellence within the organisation.
Risk Management function and structure better aligned with the new organisational structure	Stricter application of three lines of defence model.
Better in-control by higher monitoring efficiency	Reduced manual interference by more straight though processing (STP) and standardization.
Revision ISAE framework	ISAE framework updated and aligned with environment.
Focus on integrated risk	Risk management is an integrated part of all processes and increased focus on strategic initiatives and projects, including the outsourcing of IT.
Updated client due diligence and client review procedure	Client information centralized and harmonized for consistent monitoring.
Continuous improvement of the maturity level of Risk Management	Keeping risk management developments, skills and knowledge in line with market standards by keeping an eye on external developments in the field of risk management.
Restructuring the risk department	Sharper focus on the different risk types.
Move to the new office	A new building that enhances our adaptability, transparency, connection between employees and fits our strategic priorities and goals and focuses on innovation. The building contributes to the organisation's ability to move with the changing trends and promotes transparency and connection. The move itself was well structured and prepared and planned into detail, including the migration of the IT infrastructure.
Reorganisation	Risk Management is closely involved in monitoring the restructuring and reorganisation of KAS BANK and the operational risk team critically investigated the continuing level of operational service and key man risk.
Completion of outsourcing the IT to a specialised partner	Creating a dedicated and specialized team to manage the partnership and control the risks for KAS BANK. Outsourcing leads to a transition period, in which KAS BANK keeps a close watch on its outsourcing partner and outsourced activities.

General Risk Events

General Risk events

In 2017, the most prominent risks were related to economic and geopolitical tensions, including the (threat of) terrorism and the turmoil regarding North Korea. For the Eurozone, the most prominent risks included the uncertainty about the Quantitative Easing program which could impact interest rates and liquidity. Furthermore, the formation of the Dutch government, the elections in France and Germany, and the referendum in Catalonia could have had an impact on the stability of the Eurozone and EURO. Credit risk arose from instability and the resolution of some southern European banks. Other risks were related to the follow-up of the Brexit procedure and the Greek government-debt crisis. The organisation kept a close watch on these events and our counterparties, and took adequate actions when and where needed.

These actions included the adjustment of applicable limits, advancements, haircuts and/or collateral eligibility. These events did not give rise to special additional actions.

We also continued our increased scrutiny of sovereign and banking exposures in the investment portfolio, still not permitting direct sovereign exposure to the GIIPS countries (Greece, Ireland, Italy, Portugal and Spain). We strictly enforced our credit policy (collateralized loans only, high quality investments), paying special attention to the quality and diversification of collateral. We performed scenario analyses and simulations with respect to undesirable events within sovereign, (macro)economic and financial intermediary contexts. Additional internal stress tests were performed again.

IDENTIFIED RISKS	DESCRIPTION	MITIGATES
Macro-economic and geopolitical risks and developments		
Low interest rates	Downward pressure on profitability due to low interest rates and negative deposit facility. Uncertainty on ECB policy.	Amongst others mitigated by the short duration of the balance sheet, due to contract structure and hedging together with contacts which facilitates negative interest to be charged to clients.
Market Volatility	Volatility in currency rates, stock prices and commodities influence investment portfolios and the business model.	Continuously assess the impact of market events and actively manage and monitor exposure.
Geopolitical risks	- Tension regarding North Korea - (threat of) terrorism - Formation of Dutch government - French elections - German elections - Catalonia referendum	Continuously assess the impact of market events and actively manage and monitor exposure.
Economical risks	- Follow-up of the Brexit procedure and Greek government-debt crisis. - Instability and resolution of some southern European banks	Continuously assess the impact of market events and actively manage and monitor exposure.
Macro-prudential, regulatory and legal risks to our business model		
Regulatory developments (CRRii/CRD IV, BRRD, SSM, EMIR (Refit) and AIFMD, MiFIDII, GDPR, IFRS, etc.)	New regulations may limit financials in their day-to-day business.	Continuously monitor and react to amendments to relevant regulations.
Risks and Developments related to our business operations, governance and internal control systems		
Increasing dependence on IT infrastructure and developments	An increased dependence on IT (infrastructure) comes with risks.	Work with partners to manage IT developments in a timely and efficient fashion. Dedicated departments manage the partnerships with dedicated IT risk managers.

Top risks 2018

On the geopolitical and economical side, we foresee risks for the Eurozone with the upcoming Italian elections and the reduction of the Quantitative Easing program from the ECB, which could impact interest rates and liquidity. We also keep a close watch on (the aftermath of) the Brexit, and the resolution and stability of some southern European banks.

Actions of the Trump administration and developments in the Middle East may also give rise to uncertainty in the markets.

General risks for 2018 include cyber threats, disruptive fintech technology that could impact the business model of banks, cryptocurrency volatility, (the threat of) terrorism, fake news, enforcement of legislation (GDPR, MiFID2, Benchmark regulation, AnaCredit, IFRS9, PSD2, etc.), financial crime, a broad (housing)market correction and reorganizations due to automation and the strive for cost efficiency in the banking industry. These general risks can affect both the organisation and its clients financially and non-financially. Being aware of them and anticipating in actions, is part of the organisation's risk management framework.

Our Risk Management 2017

Our low risk Profile

Our risk appetite is annually restated by the Managing Board and reconfirmed by the Supervisory Board. The risk appetite and risk profile reflects the interest of our stakeholders, and it therefore applies throughout all of the organisation's domestic and international legal entities. In fact, it is a key aspect of how we safeguard the assets and data of our clients. Risk management procedures are aimed at protecting shareholder value.

Managing our risk profile includes compliance with all relevant regulatory requirements. We organisation strives to apply all relevant and common best practices (e.g. Basel committee, ISO, EBA, COBIT, ITIL, etc.).

We monitor and manage risk tolerance on complementary levels:

- On an Integrated Risk Management level through an overall risk appetite, tolerance, monitoring and reporting;
- On a strategic level through disciplined management of the business model and mix;
- Through disciplined management of capital and liquidity.

The risks associated with our business model are managed through the involvement of Risk Management and the broader Risk Management function (including risk coordinators) as we assess new ventures, products, and projects. This is facilitated by the operation of the Project Portfolio Management Committee.

"'Only taking risks you understand is the best form of risk management. With its access to all portfolio data and its state of the art tools, KAS BANK is uniquely positioned to support clients in understanding and managing their financial risk "

Monique Jager Smeets, Dept. Manager IRM

Risk Governance Structure

The organisation's risk governance is structured around three lines of defence. The allocation of responsibility for risk management is structured accordingly, with the Managing Board bearing ultimate responsibility for the organisation and oversight of the (integrated) risk management framework. To ensure a focus on all material risk categories that the organisation is exposed to, it distinguishes between three separate categories:

- Business risk, including strategic risk;
- Financial Risks, consisting of credit risk, market risk and liquidity risk;
- Non-financial risks, including operational risk, outsourcing and IT risks and responsible for the network of risk coordinators (first line/business).

Committee structure

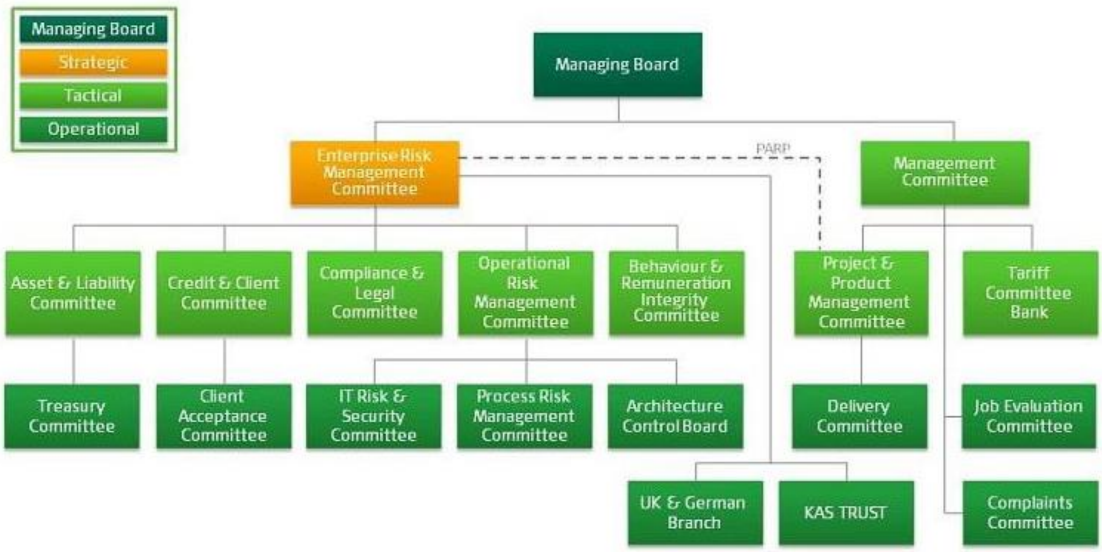
We have established committees for risk management purposes and to support effective decision-making.

These committees operate within the mandate granted by the Managing Board, with the latter remaining ultimately responsible for structuring and supervising the overall risk management framework.

At the Supervisory Board level, the Audit Committee and the Risk Committee monitor the Managing Board's compliance with the organisation's risk management policy and procedures. The Risk Committee focuses on aspects of internal risk management and control systems within the organisation from a banking operations perspective. This includes credit-, liquidity- and market risks. The Audit Committee focuses on aspects of internal risk management and control systems within the organisation from a financial perspective, including operational and compliance risks.

Meetings of the Audit Committee are attended by a delegation consisting of members from the Managing Board, the Managing Director Financial Control & Reporting, the internal auditor and usually the external auditor. Meetings of the Risk Committee are attended by a delegation from the Managing Board, the CFRO, COO and the Managing Directors of Risk Management.

Committee Structure



Governance and remuneration

In 2017, we fine-tuned our Integrated Risk Monitoring Report (IRMR). The IRMR gives a holistic foundation to ensure the organisation's risks remains within our risk appetite. It gives an integrated overview of all main risk categories as described in the risk appetite statement and helps monitoring the overall actual risk profile and soundness of the organisation.

We strengthened our monitoring process as part of the Integrated Risk Management Framework (IRMF), and reviewed the effectiveness of our committee structure. In the areas of operational risk management and governance, we perform risk self-assessments resulting in a confirmation of realised improvements, as well as recommendations and new improvements. Efforts were made to improve internal controls and risk awareness, by including governance documents and a stricter application of the three lines of defence model (risk ownership) to improve the structure and control of our organisation.

Review & Evaluation Process (SREP) were produced for discussions both internally and with the regulator.

We continued the recording of risks and operational loss data in our GRC tool (Governance Risk and Compliance) for better monitoring and reporting.

As in previous years, we checked our remuneration policy and individual employee performance contracts for consistency with our risk appetite. We also checked the new remuneration proposal for the Managing Board, whereby both risk and compliance functions were closely involved in these discussions. From a risk perspective, no unacceptable incentives were found.

Three lines of defence

WHO		RESPONSIBILITY
The first line of defence (risk owners)	The Operational and Commercial departments	Managing day-to-day risks in their operating processes: whoever bears first line responsibility for obtaining results is also responsible for the risks associated with obtaining these results.
The second line of defence	Risk Management, Compliance, and Legal departments, as well as Finance and various committees	Risk analysis, policy preparation and the coordination of efforts to control the bank's risks. It also bears the responsibility for monitoring the first line risk owners, with a remit that generally extends across the entire bank. The Managing Board is responsible for formulating risk policy about the objectives. This policy is used as the basis for setting a series of limits and guidelines for managing market, liquidity, credit, operational and compliance risks throughout the bank.
The third line of defence	Internal Audit	Conducting operational, IT, compliance and audits as a means of independent and objective assessments of the effectiveness of internal controls.

Special attention was paid to culture and conduct, including risk awareness courses for all employees. We followed-up on thematic, sector-wide investigations by DNB and/or in the context of the European Single Supervisory Mechanism (SSM), such as those in the areas of credit risk, strategy/business model risk, operational and IT risk and liquidity risk. This follow-up has resulted in a strengthening of our control framework.

The functioning of the Risk Management department was evaluated and updated to better align with the new organisational structure and best practices, resulting in a functional division of the department in (i) financial risk management and (ii) non-financial risk management, for a stronger focus on both risk categories.

Updated versions of Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) and the Recovery Plan in the context of the Pillar 2 Supervisory

Risk policies

Risk policies are approved by the bank's Enterprise Risk Management Committee. A balance sheet policy is implemented by the Asset and Liability Committee (ALCO). The Audit and Risk Committees of the Supervisory Board monitor compliance with the organisation's risk management policy and risk procedures.

We updated our Risk Management policies in 2017. This update was based on a commitment to continuous improvement, regulatory developments, and best practices developed in the aftermath of the financial and banking crisis, leading to publications from the Basel Committee, the European Banking Association and Financial Stability Board.

Financial risk

The organisation's main financial risks are (counterparty) credit risk, market risk and liquidity risk. A more comprehensive qualitative and quantitative description of these risk areas is included in the financial statements on page 133.

Credit risk

Credit risk is defined as the risk that a client or counterparty may fail to meet its contractual or other agreed obligations. The organisation's credit risk is in line with our risk profile. In principle, no credit facility is granted without sufficient collateral of superior quality (credit on securities). Credit positions of clients are strictly limited. A dynamic system of advance conditions and haircuts is in place, which takes into consideration relevant market developments. Credit quality, concentration risk and counterparty monitoring is based on market factors (where applicable) and soft factors (e.g. information obtained in meetings and other dealings with clients and counterparties). Credit risk may also arise from our available for sale' (AFS) portfolio. A strict mandate is applicable to the investments in this portfolio, so that only investments are allowed which are investment grade, have an appropriate duration and a high liquidity.

Market risk

Market risk refers to the current and prospective volatility in the organisation's financial positions (which include purchases and investments that are included on the organisation's balance sheet – such as the AFS portfolio). In 2017 market risk remained within the limits of the relevant Value-at-Risk (VaR), stress testing limits and scenario analysis limits. The organisation has a strict market risk policy resulting in a set of controls and checks performed before entering a position.

Interest rate mismatch related to the balance sheet was kept at levels below the Price Value of a Basis Point (PV01) limit, with no stress limit breaches and duration of the equity in the order of one year. We keep our interest rate mismatch very low, in line with our risk appetite. In 2017 the organisation charged negative interest rates to deposits of its clients.

Our currency risk is very limited and monitored strictly by applying, amongst others, a Value at Risk limit.
Because of our limited currency exposure and risk, we have a very low sensitivity to EUR/GBP and EUR/USD volatility. In the case of a relevant event with an impact on currency rates regarding (e.g. as a result of the Brexit or developments in the USA), our currency risk is mitigated properly.

Liquidity risk

Liquidity risk is defined as the risk that the organisation will not be able to meet both expected and unexpected current and future cash flows and collateral needs, without affecting either daily operations or the financial condition of the organisation.

The organisation strives to maintain a comfortable liquidity position at all times. Liquidity buffers are managed by treasury balance sheet management, under the responsibility of the Assets and Liability Committee, and such buffers are maintained well above internally set levels. Charging negative interest rates have had no direct effect on the liquidity buffer. The liquidity surplus is considered sufficient – i.e. to be within the organisation's risk appetite – to cover day-to-day (intraday) events. The Basel III Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are monitored according to the most recent market practices in the Asset & Liability Committee. We are continuously refining the tools we use to manage liquidities and these new ratios.

Non-financial risk

The organisation's key principles for operational risk management is being 'in-control', thereby offering our clients maximum security. We focus on operational excellence attained by activities in areas such as an improved risk self-assessment process and the use of risk coordinators for all processes, resulting in fewer errors and claims and an increased efficiency. Additional efforts were made to enhance accountability and risk ownership in the first line. These will lead to further governance improvements.

The second and third lines of defence were strengthened in their specific areas of responsibility. We updated our integral integrity analysis and implemented a revised customer due diligence procedure.

In 2017, risk self-assessments continued to play a central role in the organisation's (operational) risk management. The risk self-assessments were prepared and reviewed by the operational risk management team. We improved process effectiveness by further focussing on the role and risk awareness of our risk coordinators within the first line.

In IT risk management, special attention was paid to cyber security. Being prepared for threats from hackers and other cybercrimes, we performed hacker tests and strengthened response plans to cybercrime. Furthermore, we participated in sector- and system wide tests. The areas of cyber security and IT remain high on our internal agenda, with regular reports to the Managing Board. Our Chief Operating Officer has a vast knowledge and skills concerning IT security. The also benefitted from our partnership with Atos, who have at their disposal a vast source of knowledge, experience and resources with respect to IT-operations.

The risk management team was closely involved in monitoring the organisation's restructuring and reorganisation, and the operational risk team critically investigated the continuing level of operational service. We adapted the Business Continuity

Management process and plans to take account of recent developments (such as outsourcing of IT). In 2017 a disaster and recovery test was successfully organised – and led to a positive result.

Operational risk

Operational risk is defined as the risk that losses will occur due to weaknesses or failures in internal processes and/or systems, human errors, or outside events. Examples of operational risks include IT problems, shortcomings in the organisational structure, the absence of (or inadequate) internal controls, human error, fraud and external threats.

Awareness and management commitment is fundamental to identifying and analysing operational risks and implementing adequate internal control measures. Risk Management is supported by first line experts in the field of systems organisation processes and internal control, as well as risk managers within the Risk Management department. The Internal Audit department performs a monitoring role involving operational audits and also audits the performance of Risk Management.

Operational risk framework

The organisation's operational risk function is based on the principles of the operational risk framework.

Operational loss data collection

Systematic records are kept in an operational loss database of events attributable to operational risks. These recorded events are analysed for organisational learning purposes and process improvements.

Risk and control self-assessment

Each process has a control structure in place which documents the process, inherent risks, control objectives, control measures and the remaining risk. These control structures are evaluated via risk self-assessments. These assessments are performed under the guidance of the Risk Management department. Operational audits are performed under the guidance of the Internal Audit department.

Risk self-assessment is an important instrument for identifying, quantifying and evaluating operational risks in the organisation's internal processes. It is also used to manage such risks by implementing adequate internal control measures. The preparation and execution of risk self-assessments involves collaboration between the risk coordinator for the relevant process and the operational risk manager. These employees are also responsible for resolving the issues identified in the self-assessment leading to measures that minimise risks. We continuously review the risk coordinator role and improve the overall risk self-assessment process.

Scenario analysis

We examined a variety of stress testing scenarios to evaluate the hypothetical effects that operational risks may have on the organisation's capital and liquidity. Exceptional but still plausible scenarios, based on extrapolated losses and publicly known external events, were selected and examined. The organisation reassesses the stress testing framework at least once every year and makes appropriate changes where applicable. The conclusions from this stress testing is that our capital position is sufficient to absorb expected losses, including operational risks under the various stress scenarios.

ISAE 3402

The organisation has published an ISAE (International Standard on Assurance Engagements) 3402 Type 2 report. This report was compiled to indicate the extent to which internal control measures have been effective in achieving process objectives. The report was audited by an external auditor. We took measures to further improve internal control structurally, and we found that breaches in the effectiveness of internal control that were identified had no financial impact for our clients.

Key risk identification, monitoring and reporting

Our three internal lines of defence, a fourth independent line of defence – i.e. the external auditor – and the regulators, report any shortcomings identified in the design, existence and operating effectiveness of internal controls. This reporting is made to the organisation's Enterprise Risk Management Committee, the Managing Board and/or the Audit Committee. The relevant committee assesses each risk and decides on actions to be taken in the form of temporary and/or structural measures.

Internal Audit evaluates the control, risk management and overall management processes, and reports its findings to the Enterprise Risk Management Committee, the Managing Board and the Audit Committee. The Operational Risk Manager and Internal Audit report to the ERMC on the follow-up of the chosen measures. Operational risks are monitored through Risk Management's Quality Dashboard.

Best practices and awareness

Risk- and compliance awareness is recognised as an important element in staff performance. We continued our attention to enhancing risk- and quality awareness through training and professional staff development.

Business Continuity Management

The organisation has a business continuity function for managing continuity risk. It is responsible for operational recovery and resolution plans, and the Business Continuity Manager has a reporting line to the Managing Director Risk Management and the ERMC. Continuity is of great importance in the context of financial services. It is essential for the operation of payment and securities systems that banks are able to continue their core operational activities at all times. Continuity is therefore not merely an internal business objective. Our clients, regulators and applicable legislative bodies also require us to operate a clear continuity management. Business continuity management is therefore an integral part of the organisation's business model. The Managing Board, which holds ultimate responsibility for business continuity, has appointed a Risk Steering Committee to manage related issues as described in the organisation's Business Continuity Policy. We follow the best practice guidelines recommended by the Business Continuity Institute when implementing and fulfilling business continuity management.

We have appointed a Business Continuity Manager to ensure that up-to-date recovery plans are always in place. This manager also monitors and supports the testing and evaluation of these recovery plans. As every year, the organisation maintained all necessary aspects of its business continuity management implementation (e.g. business impact analyses, the availability of these analyses on a system, and application level). The organisation uses the business continuity management lifecycle to manage its business continuity.

Financial Core Infrastructure assessment framework

DNB developed a business continuity management assessment framework for Financial Core Infrastructure institutions. The starting point of this framework is that organisations must demonstrate their business continuity management control. The organisation has adopted the framework and had it tested by external auditors. The quality of the organisation's business continuity management and crisis management proved to be at a sufficiently maturity level, evidenced by successful disaster and recovery tests.

We will continue to raise business continuity management to higher levels where possible to safeguard core activities and financial stability.

IT Risk

IT risk is defined as the business risk associated with the use, ownership, operation, involvement, influence and adoption of Information Technology within the organisation, or related to its outsourcing partners or suppliers. IT risk management, as a part of non-Financial Risk Management, advises operational management about internal control, and assists in the identification and analysis of IT risks. IT risk management monitors relevant risks and reports to the Risk Steering Committee and senior management. Internal Audit has a monitoring role with IT audits.

We monitor and improve our IT processes and systems to minimise our exposure to risk. We also identify IT risks through qualitative and quantitative risk analyses as executed within risk self-assessments or IT audits.

Information Security

Information Security includes all the measures aimed at the effective management of risks relating to the quality, availability of and access to information. This is achieved through a risk-based assessment of information security measures. Corporate strategy, risk appetite, legislation and regulations are all parameters in this context. The objectives are laid down in the organisation's Information Security Policy.

Managing Security

The Information Security Officer is responsible for coordinating all the organisation's security-related activities. This security officer formulates the Information Security Policy and monitors its implementation, maintenance and reporting. A governance structure has been defined to translate policies into a hierarchical set of architecture principles and guidelines.

By visualising interdependencies, this hierarchy simplifies maintenance and eliminates the need for dedicated, detailed policy documents. Monitoring and reporting is achieved through the Risk Management Framework.

Information Security Framework

Our internal control framework is in line with the DNB Information Security Framework. Further implementation and execution of the controls as required by the DNB Framework are part of the responsibility of the line management. Actions are taken to ensure that all controls are executed in compliance with the required maturity level.

We also made progress in ensuring IT business alignment. Designated system and application owners now define their requirements regarding Confidentiality, Integrity and Availability (CIA) for all of the organisation's applications. The organisation evaluates the assigned CIA categories every year, including the maintenance of CIA scores as part of the change management process.

Cyber security

Cybercrime is recognised as an important source of non-financial risk. The organisation operates within a network of institutions and companies, resulting in an increasing dependency on new communication techniques and internet developments. At the same time, our clients demand ever-increasing performance and ease of access in the way that they communicate with us, use our services, and access their funds. Last year, disruptions of the internet payment infrastructure in the Netherlands made dependency on new techniques and their vulnerability apparent. Processes have been implemented to detect such events as soon as possible and mitigate their impact should they occur.

The organisation is committed to providing convenient access to our services without compromising our safety standards. We have also tightened our monitoring and control activities to mitigate possible security breaches and reduce the risk of loss.

Risk management

Risk Management is an integral part of our daily work and responsibilities at KAS BANK. The organisation of the Risk Management department reflects the main categories of risks to which the organisation is exposed, as outlined above:

- Counterparty credit risk;
- Operational risk including IT risk, IT compliance, security and BCM;
- Market risk, investment risk and balance sheet mismatch, including liquidity risk.

The Risk Management department has dedicated risk managers for each category of risk. Policy frameworks are in place for the relevant risk areas such as Integrated Risk Management, Risk Appetite Statement, credit risk, market risk and operational risk. The applicable limits are set by the ERMC. The organisation uses an internal network of risk coordinators with links to the more than 50 processes into which the organisation's activities can be divided as part of the operational risk management effort.

Compliance risk

The organisation's compliance function provides support in managing compliance risks (including integrity risks) by embedding and improving compliance arrangements at all levels and throughout all structures. The objective of the compliance function is to promote compliance, assurance standards and management for external and internal legislation, regulations, best practices and codes of conduct that serve to control integrity risks while ensuring the integrity of management, the Supervisory Board and employees.

Together with Risk Management, the Compliance department forms the organisation's second line of defence. The Managing Director Compliance and Non-Financial Risk reports to the CFRO, and can escalate to both the Chairman of the Managing Board and the Chairman of the Supervisory Board. The Managing Director Compliance and Non-Financial Risk is a member of the Enterprise Risk Management Committee.

The organisation strengthened its compliance organisation by extending and restructuring the compliance function:

- Governance relating to issues such as compliance risk appetite, roles and responsibilities of the Managing Board, the Managing Director Compliance and Non-Financial Risk and the department;
- Policies, controls and infrastructure relating to issues such as compliance controls within business processes;
- People and Culture relating to issues such as encouraging compliance awareness, training employees and Compliance department staffing;
- Monitoring and reporting relating to issues such as executing the compliance monitoring programme;
- Performance of an annual systematic integrity risk analysis. The outcome of this analysis resulted in improved detection systems regarding money laundering detection and transaction screening (terrorist financing).

The responsibilities of the Managing Board are anchored in the principles of the Dutch Financial Supervision Act and other applicable regulations. These responsibilities include compliance with relevant legislation, and responsibility for the implementation of risk management and control systems. The management and control systems aim to ensure reliable financial reporting and to control downside risk to the operational and financial objectives of the organisation.

Risk Management and control

The Managing Board relies on the risk management and control framework, and is supported by senior management. We also perform risk- and control self-assessments. Our risk management and control systems are based on a risk identification process, combined with a set of detection, prevention and control measures. This provides assurance that the organisation's financial reporting does not contain errors of material importance and that the internal risk management and control systems regarding financial reporting risks worked properly in the year under review.

Responsibility Statement

The responsibilities of the Managing Board are anchored in the principles of the Dutch Financial Supervision Act (in Dutch: Wet op het financiële toezicht) and other regulations. These responsibilities include compliance with relevant legislation and the implementation and operation of risk management and control systems. These management and control systems aim to ensure reliable financial reporting and to control downside risk to the operational and financial objectives of KAS BANK.

Risk management and control

The Managing Board has assessed the effectiveness of KAS BANK's internal control and risk management systems. Based on this assessment to the best of its knowledge, the Managing Board states that:

- The report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems, as evidenced in chapter Risk Management;
- The aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies, as evidenced in chapter Risk Management;
- There is a reasonable expectation that KAS BANK N.V. will be able to continue in operation and meet its liabilities for at least twelve months, as evidenced in the chapter Financial Performance. Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
- The report states that there are no material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report, as evidenced in chapters Our Strategy and Our Dilemma's.

In view of the above, the Managing Board of KAS BANK N.V. believes it is in compliance with the requirements of best practice provision 1.4.3 of the Dutch Corporate Governance Code.

Responsibility statement

In respect to Article 5:25c, Section 2 (c) (1 and 2) of the Dutch Financial Supervision Act, the members of KAS BANK's Managing Board hereby confirm, to the best of their knowledge, that:

- The annual financial statements provide a true and fair view of the assets, liabilities, financial position and profit or loss of KAS BANK and its consolidated group companies;
- The annual report provides a true and fair view of the situation on the balance sheet date and developments during the financial year of KAS BANK and its consolidated group companies; and
- The annual report describes the material risks that KAS BANK faces.

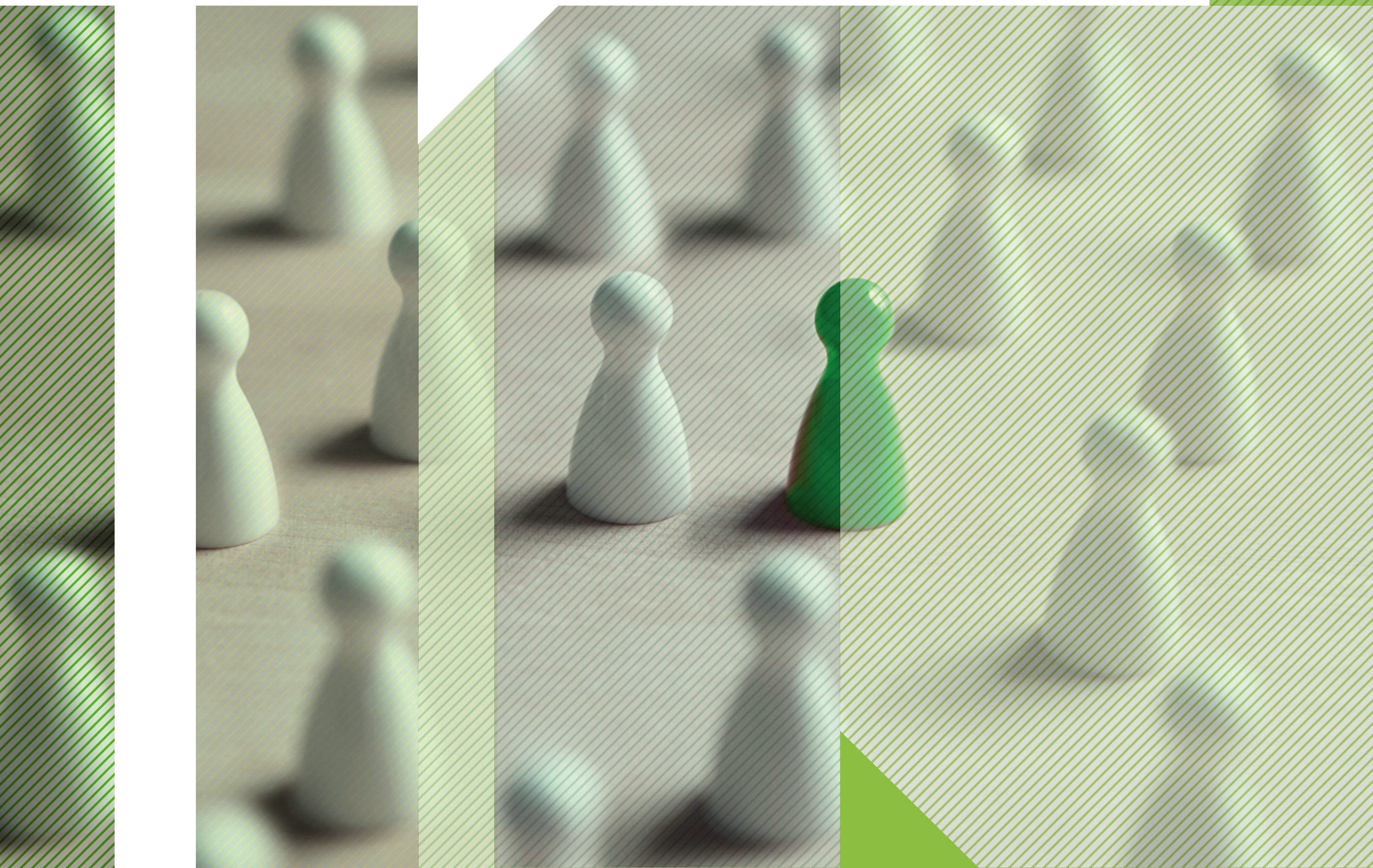
Amsterdam, 13 March 2018

Sikko van Katwijk, Chairman

Mark Stoffels, Chief Financial & Risk Officer

Jaap Witteveen, Chief Operations Officer

Leadership



Leadership

Personal details of the Managing Board

S. (Sikko) A.J. van Katwijk (1963), Chairman

Current principal position	Chairman of the Managing Board
Previous principal position	Various management roles Transaction Banking Citigroup; Managing director KAS BANK UK branch; Chief Commercial Officer of KAS BANK.
Responsibilities	Commerce, Treasury, Corporate, Internal Audit, UK and German branch
First appointed	2009
Current term of office expires	2019

M. (Mark) R. Stoffels (1972), Chief Financial & Risk Officer

Current principal position	Member of the Managing Board, Chief financial & Risk Officer
Previous principal position	Various management roles Operations, Investment Management Services & Internal Audit Department; Managing Director Finance & Control KAS BANK
Responsibilities	Finance, Risk Management, Compliance and KAS Trust
First appointed	2016
Current term of office expires	2020

J. (Jaap) Witteveen (1967), Chief Operating Officer

Current principal position	Member of the Managing Board and Chief Operating Officer
Previous principal position	Director and COO ABN AMRO Insurance; Managing Director and COO ABN AMRO Functions; Member of the Transition Management Committee; Member of the board and CFO/COO/CRO Theodoor Gilissen Bankiers
Responsibilities	IT, Operations, Human Resources and Works Council
First appointed	2014
Current term of office expires	2018

Supervisory Board

Personal details of the Supervisory Board

Mr. P.J.C. (Peter) Borgdorff (1953), Chairman

Current principal position	Managing Director of Pensioenfonds Zorg en Welzijn (Pension fund for the care and welfare sector, PFZW)
Previous principal position	Managing Director of the Association of Industrywide Pension Funds (VB)
Other positions	Non-Executive Member of the Supervisory Board of Nibud; Executive Lecturer at Nyenrode Business University; Member of the Central Complaints Committee Stichting De Opbouw
First appointed	2014
Current term of office expires	2019

Ms. P. (Pauline) J.E. Bieringa (1959), Vice-Chairman

Current principal position	Managing Director Public Finance at BNG Bank N.V.
Previous principal position	Managing Director ING BHF Bank AG
Other positions	Chairman of the Supervisory Board of LSP Life Sciences Fund N.V.; Member of the Board Stichting Berenschot Beheer
First appointed	2013
Current term of office expires	2021

Mr. R. (Ron) Icke (1957)

Current principal position	None
Previous principal position	Chief Executive Officer (CEO) of USG People N.V.
Other positions	Member of the Supervisory Board and Chairman of the Audit Committee of Heijmans N.V.; Chairman of the Supervisory Board of DPA Group N.V.; Chairman of the Supervisory Board of Domus Magnus Holding; Advisor of the Supervisory Board of Partou B.V.; Chairman of the Supervisory Board of the Dutch Land Registry and VvAA Groep B.V.; Chairman of the Supervisory Board of Ormit Holding B.V.; Board Member Stichting Administratiekantoor V.O.Zee; Advisor of Star OPG; Observer of Dental Clinics
First appointed	2010
Current term of office expires	2018

Ms. P. (Petri) H.M. Hofsté (1961)

Current principal position	None
Previous principal position	Chief Financial and Risk Officer of APG Groep N.V.; Division Director Banking Supervision of the Dutch Central Bank; Chief Financial Officer of RBS N.V., Deputy Chief Financial Officer of ABN AMRO Group N.V.; Partner at KPMG Netherlands
Other positions	Member of the Supervisory Board of Achmea B.V.; Member of the Supervisory Board and chair of the Audit Committee of Achmea Investment Management; Member of the Supervisory Board of Fugro N.V.; Member of the Supervisory Board of Rabobank; Member of the Board and chair of the Audit Committee of the Nyenrode Foundation
First appointed	2014
Current term of office expires	2019

Mr. J. (Hans) H.G. Snijders (1956)

Current principal position	None
Previous principal position	CEO Achmea Investment Management
Other positions	Chairman of the Supervisory Board Syntrus Achmea Real Estate & Finance; Chairman of the Supervisory Board Rabobank PeelNoord; Boardmember Pensionfund Bouwnijverheid; Chairman Supervisory Board Commanderij College
First appointed	2016
Current term of office expires	2021

Mr. R. (Robert) A.H. van der Meer (1949) (until April 2017)

Current principal position	General Manager of P&C B.V.; Deputy Member of the Enterprise Section of the Amsterdam Court of Appeal
Previous principal position	Endowed Professor of Investment Theory at VU University, Amsterdam; Chief Investment Officer and Member of the Management Board of Pensioenfonds ABP
Other positions	Chairman of the Supervisory Board of FMO; Member of the Board of Directors of JP Morgan Funds (Luxembourg)
First appointed	2008
Current term of office expires	2017

Report of the Supervisory Board

As Supervisory Board, we supervise and advise the Management Board with respect to the policy, strategy and general course of affairs of KAS BANK. Furthermore, we fulfil the role of employer of the Management Board. We are guided by the interests of the company and considering the relevant interests of all stakeholders. In this report, we account for the fulfilment of our responsibilities and tasks in the past year.

Developments in 2017

Recovery of profits

In 2017 KAS BANK posted a recovery of profits following disappointing results in the year before. The recovery was the result of an ongoing reduction of costs and an increase in operating income. Main drivers behind the cost reduction are the results of the restructuring, outsourcing of IT activities and implementation of efficiency programmes. Investment in robotics and the move to a new office building slowed down the pace of cost savings. The proposed final dividend of EUR0.64 is in line with the dividend policy and will be paid from the operating profits.

Challenging environment

KAS BANK is acting in a challenging and rapidly changing business environment with ongoing consolidation of the Dutch Pension Fund Market, historically low interest rates, technological developments with changing client needs and wishes, and increasing regulation. In this market, it is a challenge to realise a steady growth of the topline. The Managing Board has taken important measures to address these challenges, such as the IT-outsourcing to Atos, a thorough cost reduction programme, moving to a new office building, as well as investing in a strong cultural awareness programme, a new management structure and a new organization. Innovation, Robotics and new strategic initiatives are part of a new approach and ambition of the bank. The Supervisory Board was involved in all these measures and initiatives, as will be discussed in more detail below.

Relocation

In October 2017, the bank moved to a new office building in Amsterdam Zuidoost after 211 years of different locations in the center of Amsterdam. The Supervisory Board warmly supports the relocation to this modern and transparent building. The relocation supports the steps taken to change the bank and to transition the bank. Innovation, KAS Lab, Robotics and blockchain will be the new focus areas for the years to come and need an adequate environment. The new offices suit a bank where the vaults are replaced by data driven systems and an innovation lab.

Prior to the relocation the KAS BANK systems were successfully transitioned to the datacenter of Atos. Thanks to the unwavering support and dedication of our management and staff, this transition was performed without disturbance to the business. The Internal Accountant monitored the transition and risk management and regularly reported its findings to the Supervisory Board.

Priority areas for 2017

At the start of the year, the Supervisory Board adopted three priorities for its supervision in 2017: more focus on the clients' needs, firm implementation of the programme 'K2' and minimizing operational risk in view of the reorganisation.

More focus on the clients' needs is important for client retention, winning new clients and evaluating in case of losing a client, as an important tool for better understanding client satisfaction and proactively act where necessary.

The Supervisory Board regularly and actively discusses the K2 programme and its progress in a separate working group.

It is the bank's policy to minimize operational risk by raising the operational risk awareness among its management and staff, strengthening the internal control framework and organizing a clear and bank-wide programme on risk identification. The Managing Board decided to integrate compliance and non-financial risk functions as a logical step for more efficiency and an integrated approach of similar departments. The Supervisory Board discussed the potential effect of the integration proposal of these two departments given the specific knowledge and know-how of the departments, and the importance of equal and adequate attention for both functions. In view of the reorganization and the importance of compliance and operational risk awareness, the Supervisory Board will keep a close eye on the compliance and risk management developments within the bank.

Strategie

Strategy meetings

In June 2017, the Supervisory Board held its annual meeting on KAS BANK's strategy. The results of the previous year and the income and expense levels were discussed with the Managing Board, including an update of steps taken following a report of an external consulting firm on the review of our strategy in 2015. KAS BANK's strategy from 2015 onwards is to focus on growth in its core institutional markets in the Netherlands, the United Kingdom and Germany and to develop, next to traditional custodial services, its investment administration and advisory services. Successful execution of this new strategy was monitored by Supervisory Board's committees set up for the 'KAS BANK 2 The Next Level' change programme, in 2016 followed by the 'K2' programme as well as in the Supervisory Board.

The Supervisory Board concluded that good progress was made on these areas and that the strategic transition is on track. KAS BANK's strategy is to become the best administration bank for institutional investors. The core segments of the bank are purely institutional: pension funds, insurance companies, investment funds and wealth management and in the UK and Germany focus is now on the institutional markets. Advisory services are being developed. The Supervisory Board supports the Managing Board's view to seek out, where necessary, partnerships that contribute to the bank's growth strategy. The Supervisory Board confirmed the support to KAS BANK's strategy.

KAS Lab

The creation of KAS Lab, KAS BANK's innovation platform, is an important strategic priority to allow the bank to adequately act on expected developments and actual changes in the financial sector in an innovative way. It is a new step in the transition of the bank towards a high-tech client-driven bank. KAS Lab focuses on future technologies that offer solutions for current client problems. These solutions shall result in new business models and topline growth for the bank. The Supervisory Board participated in a permanent education session in the Lab and experienced the agile and dynamic approach of new ideas and different topics for the innovative agenda of KAS BANK.

'K2' Programme

The execution of the strategy was monitored in a separate committee of the Supervisory Board for the strategic programme 'K2'. Good progress is made on fundamental elements such as cost discipline culture, IT-outsourcing, investment in talent and in the new strategic areas. The Supervisory Board is concerned about the high number of projects and regularly discusses with the Managing Board the priorities in the various streams (i.e. operational excellence, continuously in control).

Risk appetite

Every year the Supervisory Board discusses KAS BANK's risk appetite policy with the Managing Board and Risk Management. The Supervisory Board reaffirmed the risk appetite for 2017. In its meetings, the Supervisory Board discusses the developments and shifts in the different risk areas such as business risk, financial risk and non-financial risk and monitors the actual risk profile by means of a dashboard. It is the Supervisory Board's opinion that a low risk appetite protects the bank's reputation, safeguards the continuity of the bank (even under stress) and guarantees the interests of all stakeholders and their long-term relationship with KAS BANK. A low risk appetite is paramount for the long-term success of our company.

In this respect, the Supervisory Board is pleased that the ISAE 4302 Type 2 report on 2017 was issued with an assurance report from our auditor PwC with an unqualified opinion.

Conduct and culture

In the October meeting, the cultural programme and the HR vision were presented to the Supervisory Board. The organization's talent review and quality of staff were discussed. The Supervisory Board asked specific attention for additional training budget, 'Corporate Wellness' and especially a limit to the reduction of staff given the ambitions and initiatives for the growth of the bank. The Supervisory Board regularly discusses cultural issues with the Managing Board, such as progress on the core values, the Pulse surveys, 'Het Nieuwe Werken' and the departure/turnover of employees.
A delegation of the employees discussed the relocation, the outcome of the Pulse survey and other cultural and social issues with a delegation of the Supervisory Board. The employees appreciated the increased transparency and accessibility of the management and Supervisory Board, but were concerned about the increased workload because of the reorganization, decreased job related training possibilities and the clarity of the strategy. The Supervisory Board welcomed the openness of the

employees and discussed the employee's concerns with the Managing Board.

Corporate governance

The Supervisory Board discussed the Corporate Governance Code and the impact analysis regarding the implementation of the new code. Comprehensive information on how the bank has applied the principles of the Corporate Governance Code can be found in the 'Corporate governance' chapter, which also explains the bank's corporate governance structure. The Supervisory Board supports the way in which the bank applies the principles of the new code.

Permanent Education

In June 2017, the Supervisory Board visited KAS BANK London Office, allowing it to get a better understanding of the bank's UK business activities and how these relate and contribute to KAS BANK's strategy. Presentations included trends and developments in the UK financial market, opportunities and challenges in the UK Pension Market, and possible implications and scenarios of the Brexit. The Supervisory Board also met with management and employees of the London office and with the Dutch ambassador.

In 2017, the Supervisory Board and the Managing Board followed a programme of permanent education, including the following topics: conduct and culture, monitoring future trends and regulations, IFRS 9, Robotics and KAS Lab and new strategic initiatives. These topics were discussed in depth with a combination of internal and external specialists. Senior management of the bank regularly gives presentations in the various meetings of the Supervisory Board and its sub-committees.

Supervisory Board Meetings

During 2017 the Supervisory Board held seven meetings with the Managing Board. Six meetings were in accordance with the adopted meeting schedule, one extra meeting was held regarding a possible new strategic development. In June, the Board held its annual full day strategy session with the Managing Board.

Once a year, the Supervisory Board meets without the Managing Board to discuss its own functioning, Managing Board functioning, the cooperation between the Boards, and the functioning of its members. Once a year, there is also a meeting between the Supervisory Board, the internal auditor and the external auditor. Supervisory Board members participated twice in the Works Council's consultative meeting to discuss the general affairs of the company. Attendance at the meetings of the Supervisory Board was close to 100%. Two members of the Supervisory Board each missed one meeting in 2017 due to illness. The attendance in the Risk Committee, Audit Committee and Appointments & Remuneration Committee was 100%.

Profile of the Supervisory Board

The Supervisory Board has formulated a membership profile that defines its size and composition. This profile is revised in 2017 and posted on our company's website. The Supervisory Board members should have specific education, background, expertise and experience relating to entrepreneurship, banking, IT/operations and innovation, risk management and control systems, financial accounting and control, remuneration, human resources management, sustainability and corporate social responsibility, the workings of institutional investors and financial institutions and the (European) securities services industry and investment management. The Supervisory Board has at least one financial expert.

To ensure that the required expertise and skills are adequately covered, the Supervisory Board has prepared a suitability matrix. This matrix provides an analysis of experience, competence and knowledge for each Supervisory Board member. The matrix is reviewed periodically. In case of vacancy in the Supervisory Board, an individual job profile based on the suitability matrix is drawn up.

Supervisory Board Composition

As of 26 April 2017, the Supervisory Board consists of five members. In 2016, the Supervisory Board decided to reduce its size from six to five members. A brief curriculum of the Supervisory Board members is enclosed at the end of this report. All members of the Supervisory Board are independent within the meaning of provision 2.1.8 of the Dutch corporate Governance Code 2016. There are no former members of the Managing Board in the Supervisory Board. The members of the Supervisory Board receive no profit-related remuneration. None of the members of the Supervisory Board hold KAS BANK shares or options.

The members of the Supervisory Board retire by rotation. In 2017, Mr. Robert van der Meer and Ms. Pauline Bieringa were due to retire by rotation. Mr. Van der Meer served the company for twelve years as a member of the Supervisory Board and was not available for reappointment due to the maximum term. As of his appointment in 2005 Mr. Van der Meer was chairman of the Risk Management Supervision Committee. The Supervisory Board expresses its gratitude to Mr. Robert van der Meer for his valuable contribution and dedication to the company during his term of service. Ms. Pauline Bieringa has been a member of the Supervisory Board for four years and was available for reappointment. The Annual General Meeting of Shareholders, following the proposal of the Supervisory Board, reappointed Ms. Pauline Bieringa as of 26 April 2017 for a period of four years.

According to the rotation schedule, Mr. Ron Icke will retire in 2018. Mr. Icke will then be a member of the Supervisory Board for eight years and will not be available for reappointment. The Supervisory Board prepared a job profile for the vacancy in 2018, focussing on knowledge and expertise in business development, B2B, and sales and marketing. The Supervisory Board is pleased to nominate Ms. Tanja Nagel for appointment in the Annual General Meeting of Shareholders to be held on 25 April 2018.

The full rotation schedule is published on the company's website kasbank.com.

The size and composition of the Supervisory Board, as well as the combined education, experience, competence and diversity in terms of gender, expertise, nationality, age and background, is designed to best fit KAS BANK's profile and strategy. Our goal is to find the best fit – in combination with qualifying candidate availability – that results in a Supervisory Board in which at least two members are female. This objective has been achieved.

Supervisory Board Committees

The Supervisory Board has formed three committees: Risk Committee, Audit Committee and Appointments & Remuneration Committee. The duties and the working method of the Supervisory Board and the Committees are set down in regulations which can be found on the company's website.

Risk Committee

The Risk Committee is responsible for supervising the The Risk Committee is responsible for supervising the Managing Board regarding all banking-related aspects of the company's internal risk control and monitoring systems. This includes credit risks, liquidity risks, market and balance-sheet risks, operational risks and business continuity management.

On 26 April 2017 Mr. Hans Snijders succeeded Mr. Robert van der Meer as Chairman of the Risk Management Supervision Committee. The name of the Commission was changed to Risk Committee. The Supervisory Board has decided to reduce the size of the Committee from four to three members. On 31 December 2017, the members of the Risk Committee were Mr. Hans Snijders (chairman), Ms. Petri Hofsté and Ms. Pauline Bieringa. The other members of the Supervisory Board have a standing invitation to participate in the Committee's meetings.
The Risk Committee met seven times in 2017. All meetings were attended by all committee members. The Managing Director Compliance and Non-Financial Risk and the Managing Director Financial Risk are participants in the meetings of the Committee. The Risk Committee devoted a great deal of attention to management's assessment of the major risks, and the translation of the risk appetite into concrete risk limits and measures to monitor and mitigate the different types of risk such as business risk, financial risk (e.g. credit, market and liquidity risk) and non-financial risk (e.g. operational, IT and outsourcing risks). The Risk Committee also strengthened its supervisory activities by using better aligned and integrated risk reports based on the risk management framework. The Committee discussed the strengthening of the risk management function resulting a.o. in the integration of the compliance and non-financial risk departments. Subjects relating to compliance with laws and regulations were transferred from the Audit Committee to the Risk Committee.

Annually recurring important items that were discussed in the Risk Committee meetings were risk appetite, IT-outsourcing, ISAE 3402 report, amended legislation and regulations, information security, internal liquidity adequacy assessment process (ILAAP), internal capital adequacy assessment process (ICAAP) and stress testing. Operational, compliance, IT and outsourcing risks were also high on the agenda of the Supervisory Board.

Audit Committee

The Audit Committee is responsible for the oversight on the financial reporting, the internal risk management and internal control systems of the bank. The Audit Committee is also responsible for the supervision of the board with respect to the implementation of recommendations and findings of the internal and external auditor, the financial structure of the bank, the application of ICT within the bank and the tax policies of the bank. The priorities with respect to this supervision are the quality and integrity of – and decisions made in relation to – the financial reporting, the role and functioning of the Compliance department, the role and functioning of Internal Audit and the relationship with the external auditor, especially its independence.

The Supervisory Board has decided to reduce the size of the Committee from four to three members. On 31 December 2017, the members of the Audit Committee were Ms. Petri Hofsté (chairman), Mr. Ron Icke and Mr. Hans Snijders. The other members of the Supervisory Board have a standing invitation to participate in the Committee's meetings.

In 2017 the Audit Committee held seven meetings. All meetings were attended by all committee members, the external auditor and internal auditor. The Managing Directors Finance, Compliance and Non-Financial Risk, and Financial Risk are participants in the meetings of the Committee for relevant agenda items. Two private sessions were held with the external auditor and one private session with the internal and external auditor.
Annually recurring important items that were discussed in the Audit Committee meetings were the

quarterly management information, interim and annual financial reporting, the capital and liquidity ratio's and the attached audit reports, the ISAE 3402 report, the audit plan of the external auditor PwC, the audit plan of the Internal Audit Department, the Compliance program, the Board Report of the external auditor, the Management Letters of the Internal Audit Department, the follow-up regarding findings and recommendation of both internal and external audit, the compliance monitoring reports, the operational loss analysis and the minutes of the three party meeting with DNB, PWC and IAD.

The Committee discussed relevant accounting matters, i.e. the valuation of financial instruments including derivatives, hedge accounting and the impact of the implementation of IFRS9. The Committee has evaluated the judgements, estimates and valuations made by the management in connection to these matters.

During 2017 the Audit Committee discussed the budgeting, the financial reporting and external auditing processes. Attention has been given to follow up on findings and streamlining the different reporting processes e.g. the prudential reporting to DNB and the development of the financial results. The Committee discussed the next steps for the 2017 annual report with respect to integrated reporting. Other topics included developments in new legislations and regulations (e.g. GDPR).
The Audit Committee discussed the updated compliance policies and compliance monitoring program and has witnessed a growing compliance function both in quantity as well as in maturity.

The Audit Committee approved the updated mandates and year plans 2018 for both Compliance and Internal Audit.

Appointments & Remuneration Committee

The Appointments & Remuneration Committee is responsible for defining the selection criteria and appointment procedures for members of the Supervisory Board and Managing Board. It also conducts preliminary work relating to appointments and reappointments to the Managing Board and Supervisory Board. The Appointments and Remuneration Committee submits proposals to the Supervisory Board relating to the remuneration policy and the remuneration of the individual members of the Managing Board. The Appointments and Remuneration Committee consists of Supervisory Board members Mr. Ron Icke (chairman), Ms. Pauline Bieringa and Mr. Peter Borgdorff.

The Appointments and Remuneration Committee met four times in 2017. All meetings were attended by all committee members. The Chairman of the Managing Board and the Managing Director Human Resources are participants in the meetings of the Committee. The Committee assessed individual Managing Board member performance and prepared the determination of the variable remuneration for Managing Board members. Preliminary work was undertaken to fulfil the upcoming vacancies in the Supervisory Board for 2017 (Ms. Pauline Bieringa and Mr. Robert van der Meer) and 2018 (Mr. Ron Icke), prepared the job profiles and started the recruitment and selection procedure to fulfil the vacancy in 2018 because of the stepping down of Mr. Ron Icke. A new membership profile was prepared and discussed with the Works Council and the Annual General Meeting in April 2017. The Committee prepared the upcoming vacancy in the Managing Board in 2018 and the reappointment of Mr. Jaap Witteveen. The Committee also tested the remuneration policy for the bank and for Identified Staff – as well as the way the policy is implemented – against the Regulations on Sound Remuneration Policy ('Regeling beheerst beloningsbeleid Wft 2014'). Various HR developments, including the topic of conduct and culture, relocation, employee surveys, workload, talent review, variable remuneration and the Management Committee were discussed. The Committee also evaluated the Remuneration policy of the Managing Board.

Cooperation with the Managing Board

The Supervisory Board is closely involved, in its advisory role, in the company's business, especially regarding the bank's strategy review and the supporting programmes. The Supervisory Board intensified and put more effort in interaction with the bank's senior management through lunches, group meetings and one-on-one conversations, formal as well as informal.

The Chairmen of the Supervisory Board and Managing Board regularly have contact outside of formal meetings. The other Supervisory Board members and Managing Board members also meet frequently outside the meetings. Supervisory Board members regularly met Managing Committee members and attended presentations by the Managing Board to the employees, the bank's seminars for its clients and other formal and informal occasions.

Remuneration policy Managing Board

The 2017 remuneration report is incorporated in this Annual Report and will also posted on the company's website. This report explains how the remuneration policy for the Managing Board has been applied over the past year and provides an overview of the proposed remuneration for the coming years. This report is prepared by the Supervisory Board and in the Annual General Meeting of Shareholders the Chairman of the Appointment and Remuneration Committee will provide detailed information on the implementation of the remuneration policy for the Managing Board in 2017.

Dialogue with Works Council

The Supervisory Board seeks active and open dialogue with the Works Council. The Supervisory Board members attend the meetings of the Managing Board with the Works Council twice a year in different composition. In addition to these meetings, ad hoc bilateral contacts also occur between Works Council and Supervisory Board representatives to discuss issues such as the change in composition of the Managing Board or Supervisory Board. The Supervisory Board attaches great value to a good relationship with the Works Council.

Self-evaluation of the Supervisory Board

Every year, the Supervisory Board evaluates its own performance. At the end of 2017, this self-evaluation was conducted and the conclusions were discussed and evaluated in a meeting of the Supervisory Board without the Managing Board.

The main conclusions of the self-evaluation 2017 were:

- Overall conclusion was that the Supervisory Board members are proud of the bank and of the improvements that have been realized in the past year. The execution power of the Business Committee has been improved as it has its own and collective responsibility on more and more subjects. Succession planning will be given more attention.
- Besides the formal meetings, the Supervisory Board has a need for regular informal discussions on strategic subject with the Managing Board.
- The information provision enables the Supervisory Board to adequately fulfil its supervisory and advisory role.
- Since the Supervisory Board was reduced from six to five members, the size and composition and the working methods of the committees of the Supervisory Board were successfully adjusted.

Aside from an advisory and supervisory duty, the Supervisory Board's responsibilities as the employer of the Management Board are well developed. In this respect, the Board determines the size, composition and structure of the Management Board, appoints and dismisses members, determines the terms and conditions of their employment and reviews the performance and assessment of the Managing Board members collectively as well as individually.

Priorities 2018

At the start of the year, the Supervisory Board adopted four priority areas for its supervision in 2018: house in order in a sustainable way, strategic improvements with a focus on topline and client satisfaction, culture and conduct to improve, and innovative solutions for clients.

Adoption of financial statements, dividend proposal and discharge from responsibility

We hereby present the annual report and financial statements for the 2017 financial year, as prepared by the Managing Board. The Supervisory Board has discussed the 2017 financial statements with the Managing Board and the independent auditor, PricewaterhouseCoopers Accountants N.V., who issued an unqualified opinion. The Supervisory Board members have signed the financial statements in conformity with their statutory obligation under Section 2:101 (2) of the Dutch Civil Code. We recommend that the General Meeting of Shareholders adopt the financial statements for 2017, including the proposed profit appropriation and the dividend proposal for 2017, at the General Meeting of Shareholders to be held on 25 April 2018. Furthermore, we propose that the General Meeting of Shareholders discharge the members of the Management Board from responsibility for their management and the Supervisory Board from responsibility for their supervision in the 2017 financial year.

Conclusion

We would like to thank our clients for their trust and loyalty to KAS BANK, our shareholders for their support and commitment, and our management and employees for their hard work, continued efforts and unwavering commitment to the company in 2017.

Amsterdam, 13 March 2018

The Supervisory Board,

Mr. Peter Borgdorff, chairman

Ms. Pauline Bieringa, vice-chairman

Mr. Ron Icke

Ms. Petri Hofsté

Mr. Hans Snijders

Report of stichting Administratiekantoor Aandelen KAS BANK

Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office) administers and manages almost all ordinary shares of the issued capital of KAS BANK N.V. and, in exchange issues exchangeable depositary receipts.

The Registrar's Office itself exercises voting rights only with respect to 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 majority of those entitled to exercise voting rights influencing the decision-making process of the General Meeting of Shareholders.

The Executive Committee hereby reports on its activities in the financial year in accordance with Article 15 of its Administration Conditions.

The Executive Committee held its annual meeting in April 2017, prior to the Annual General Meeting of Shareholders. The chairmen of the Managing Board and of the Supervisory Board were invited as guests at this meeting. Members of the Executive Committee attended the analyst meetings and presentations of the company in March and September regarding the publication of the company's year results 2016 and half year results 2017 respectively. The Executive Committee regularly kept in touch by telephone and e-mail and attended the Annual General Meeting of Shareholders on 26 April 2017. During the year, the Executive Committee was well informed by the company and received all relevant information.

In the annual meeting of the Executive Committee, the Managing Board gave a presentation to the Executive Committee based on the analyst meeting. The Executive Committee discussed with the Managing Board the general state of the company's affairs, the strategic focus on the institutional business and strategic projects, the IT-outsourcing, the financial performance and the recent developments regarding the new corporate governance code. All topics on the agenda for the Annual General Meeting of Shareholders were discussed, especially the specific resolutions tabled by the Managing Board and Supervisory Board, such as the amendment of the company's articles of association. Following the discussions in the meeting and based on the information of the Managing Board in the meeting and during the year, the Executive Committee decided to vote in favour of all the resolutions on the agenda, considered the interests of depositary receipt holders, the company, its related enterprise and all other stakeholders. The committee did not seek external advice.

For the Annual General Meeting of Shareholders on 26 April 2017, the Registrar's Office issued proxies to 71 depositary receipt holders and/or their proxies, compared to 94 the previous year. Shareholders and depositary receipt holders in attendance represented 24.8% of the voting capital in the meeting, compared to 27.7% in the previous year. The Registrar's Office therefore represented 75.2% of the voting right, compared to 72.3% in the previous year.

The total number of ordinary shares in the issued capital of the company remained unchanged in 2017 at 15,699,017. At year-end, the Registrar's Office had 15,574,889 ordinary shares under administration, in exchange for which the same number of depositary receipts had been issued. Depositary receipts were issued for approximately 99.2% of the total issued share capital.

The actual administrative procedures regarding the Registrar's Office are performed by the company. The Registrar's Office expenses for 2017 amounted to approximately EUR 25,000. These expenses were mainly related to the remuneration of the members of the Executive Committee. The company has undertaken to make an annual sum available to the Registrar's Office from which it can defray these and other expenses incurred by the Registrar's Office.

In 2017, it was the turn of Mr. Scheffers and Mr. Nooitgedagt to retire by rotation. Mr. Scheffers, first appointed in 2010, has not offered himself for reappointment. Mr. Nooitgedagt, first appointed in 2013, has offered himself for reappointment. The Executive Committee advised the holders of depositary receipts regarding the vacancies arising on the Executive Committee in a notice posted on the website of the Registrar's Office, inviting them to put forward the names of candidates for appointment to the Executive Committee. The Executive Committee announced that, if no nominations were received, it would appoint Ms. Miriam van Dongen and reappoint Mr. Nooitgedagt. Since no nominations were received, the Executive Committee appointed Ms. Van Dongen as its new member and reappointed Mr. Nooitgedagt, both with effect from 1 July 2017, and for a four years term. Ms. Van Dongen is professional supervisory director. Her previous principal position was CFO Division Care at Achmea/Eureco. Mr. Nooitgedagt is also professional supervisory director. His previous principal position was CFO and Member of the Executive Board of Aegon N.V.

In 2018, there will be no retirement by rotation and in 2019 Mr. Van Rutte will retire by rotation.

The members of the Executive Committee receive an annual fee of EUR 6,000 excluding VAT for their services to the Registrar's Office. As of January 2018, the amount will be adjusted and the chairman of the Executive Committee will receive a remuneration of EUR 10,000 and the other members will receive a remuneration of EUR 7,500. This is in conformity with the market and adequately reflects the responsibilities and tasks of the Executive Committee.

A list of positions held by the members of the Executive Committee is available for inspection on the Registrar's Office dedicated website (http://www.stichtingadministratiekantoor.kasbank.com). The members of the Executive Committee are all independent and not associated with the company within the meaning of Article 4, paragraph 1 of the Constitution of the Registrar's Office.

Amsterdam, 13 March 2018

Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar 's Office)

Executive Committee,

J.J. Nooitgedagt, chairman (2021)

J.C.M. van Rutte (2019)

M.R van Dongen (2021)

Annual Financial Statements

Consolidated
Financial statements

Consolidated income statement

IN THOUSANDS OF EUROS	NOTE	2017	2016
Income			
Interest income	1	32,254	32,904
Interest expense	2	19,368	17,144
Net interest result		12,886	15,760
Commission income	3	83,139	84,898
Commission expense	3	15,296	15,041
Net commission result		67,843	69,857
Net trading income	4	19,741	15,639
Result from financial transactions	5	3,099	4,181
Share of result of associates	6	65	32
Other income	7	925	21,762
Total operating income		**104,559**	**127,231**
Expenses			
Personnel expenses	8	48,719	73,241
General and administrative expenses	9	34,453	32,095
Depreciation and amortisation	10	1,496	2,810
Total operating expenses		**84,669**	**108,146**
Impairment losses (recovery)	11	-129	-519
Total expenses		**84,540**	**107,627**
Result before tax		**20,019**	**19,604**
Tax expense	12	4,920	4,750
Net result for the period		**15,099**	**14,854**
Earnings per share	13		
- basic (in euros)		1.02	1.01
- diluted (in euros)		1.02	1.01

The notes on pages 116 to 155 are an integral part of these consolidated financial statements.

Consolidated Statement of comprehensive income

IN THOUSANDS OF EUROS	2017	2016
Net result	15,099	14,854
Items that may ***be reclassified subsequently to profit or loss***		
Gains and losses on financial investments available-for-sale	11,863	8,335
Gains and losses on financial investments available-for-sale recognised in the income statement	-2,086	-1,433
Items that may be reclassified subsequently to profit or loss before tax	**9,777**	**6,902**
Income tax relating to items that may **be reclassified to profit or loss**	-2,444	-1,726
Items that may be reclassified subsequently to profit or loss after tax	**7,333**	**5,176**
Net total other comprehensive income	**7,333**	**5,176**
Net total comprehensive income	**22,432**	**20,030**

The notes on pages 116 to 155 are an integral part of these consolidated financial statements.

Consolidated balance sheet

IN THOUSANDS OF EUROS	NOTE	31 DECEMBER 2017	31 DECEMBER 2016
Assets			
Cash and balances with central banks	14	1,504,060	1,387,886
Due from banks	15	116,941	232,205
Loans	16	682,759	779,721
Reverse repurchase agreements	17	448,417	662,378
Derivative financial instruments	18	271,238	413,168
Financial investments available-for-sale	20	1,126,126	877,577
Investments in associates	21	157	92
Current tax assets		966	6,579
Other assets	22	34,756	27,910
Property and equipment	23	1,994	761
Intangible assets	24	3,361	2,398
Deferred tax assets	25	8,414	8,007
Total assets		**4,199,190**	**4,398,682**
Equity and liabilities			
Due to banks	26	172,789	267,103
Due to customers	27	3,454,966	3,438,065
Repurchase agreements	17	196	454
Derivative financial instruments	18	274,701	403,822
Current tax liabilities		161	12,182
Other liabilities	28	55,187	46,176
Deferred tax liabilities	25	8,097	5,895
Total liabilities		**3,966,097**	**4,173,697**
Issued capital	30	15,699	15,699
Treasury shares	31	-21,866	-21,980
Share premium		21,569	21,569
Revaluation reserve	32	25,096	17,763
Other reserves (including profit for the period)	33	192,594	191,934
Total equity		**233,092**	**224,985**
Total equity and liabilities		**4,199,190**	**4,398,682**
Contingent liabilities	35	2,205	19,129
Irrevocable facilities	36	12,147	11,100

The notes on pages 116 to 155 are an integral part of these Consolidated financial statements.

Consolidated statement of changes in equity

IN THOUSANDS OF EUROS	ISSUED CAPITAL	TREASURY SHARES	SHARE PREMIUM	RE-VALUATION RESERVE	OTHER RESERVES (INCL. PROFIT FOR THE PERIOD)	TOTAL EQUITY
Balance as at 1 January 2016	15,699	-22,444	21,569	24,733	169,957	209,514
Comprehensive income	-	-	-	5,176	14,854	20,030
Dividend 2015	-	-	-	-	-4,569	-4,569
Purchase/sale of treasury shares	-	464	-	-	-464	-
Share based payments	-	-	-	-	-	-
Other movements	-	-	-	-12,146	12,156	10
Balance as at 31 December 2016	15,699	-21,980	21,569	17,763	191,934	224,985
Comprehensive income	-	-	-	7,333	15,099	22,432
Dividend 2016	-	-	-	-	-9,434	-9,434
Interim dividend 2017	-	-	-	-	-5,181	-5,181
Purchase/sale of treasury shares	-	114	-	-	-114	-
Share based payments	-	-	-	-	109	109
Other movements	-	-	-	-	181	181
Balance as at 31 December 2017	15,699	-21,866	21,569	25,096	192,594	233,092

The notes on pages 116 to 155 are an integral part of these consolidated financial statements.

IN THOUSANDS OF EUROS	NOTE	2017	2016
Cash flow from operating activities			
Net result		15,099	14,854
Adjustments for non-cash items included in net result			
Share of result of associates	6	65	32
Depreciation and amortisation	10	1,496	2,810
Impairments	11	-129	-518
Tax expense	12	4,920	4,750
Addition to restructuring provision	28	1,948	9,293
Change in provision relating to legal procedures	28	-250	-
Unrealised gains / (losses)		-936	-3,733
Changes in operating assets and liabilities			
Due from banks (not on demand) and due to banks	15, 26	-96,827	13,623
Loans	16	96,962	-218,411
(Reverse) repurchase agreements	17	213,703	428,870
Financial assets and liabilities designated at fair value	19	-	-2,224
Derivative financial instruments	18	12,809	-18,100
Due to customers	27	16,901	257,919
Other movements		--8.084	-8,006
Use of restructuring provision during the year	28	-5.134	-
Taxes		-8,407	-3,600
Total cash flow from operating activities		**244,136**	**477,558**
Cash flow from investing activities			
Investments in financial investments available for sale	20	-629,180	-360,606
Divestments and redemptions of financial investments	20	393.398	256,780
Purchases of property and equipment	23	1,576	-298
Sale of property and equipment		-	52,750
Purchases of intangible assets	24	3,084	-1,647
Total net cash flow from investing activities		**-231,122**	**-53,021**
Cash flow from financing activities			
Dividend paid		-14,615	-4,569
Total net cash flow from financing activities		**-14,615**	**-4,569**
Net cash flow		**-1,601**	**419,968**
Cash and cash equivalents at 1 January		1,602,934	1,182,965
Net cash flow		-1,601	419,969
Cash and cash equivalents at 31 December		**1,601,333**	**1,602,934**
Reconciliation of cash flow statement with balance sheet items			
Cash and balances with central banks	14	1,504,060	1,387,886
Due on demand from banks	15	97,273	215,048
Cash and cash equivalents at 31 December		**1,601,333**	**1,602,934**
Additional disclosure of operating cash flow			
Cash received as interest		34,414	32,098
Cash paid as interest		19,371	16,560
Cash received as dividends		76	75

Accounting Policies

KAS BANK N.V. is a public limited liability company, incorporated under Dutch law and registered in Amsterdam, the Netherlands (Registration Chamber of Commerce: 33001320). KAS BANK, founded in 1806, is listed on the stock exchange of NYSE Euronext Amsterdam. KAS BANK's statutory seat is Amsterdam, De Entrée 500. KAS BANK's consolidated financial statements for the period ending 31 December 2017 include the parent company and all its subsidiaries, together referred to as 'KAS BANK'. An overview of the principal subsidiaries is included in these notes.

KAS BANK is a leading European provider of custodian and fund administration services to institutional investors and financial institutions. We provide tailor-made services to our clients in helping them to meet their business objectives.

Our core focus is on keeping assets safe and secure. KAS BANK operates as a "pure player", maintaining integrity through our neutral approach. We stay independent; working directly for institutional clients, avoiding conflicts of interest. We concentrate on providing value-added services to national and international organisations active in the pensions and securities industries.

KAS BANK has branches in Amsterdam, London and Frankfurt am Main and is listed at Euronext Amsterdam.

The annual financial statements have been drawn up by the Managing Board. The Supervisory Board advises and proposes that shareholders adopt the 2017 financial statements at the General Meeting of Shareholders on 25 April 2018

Basis of preparation

Statement of compliance

The consolidated financial statements of KAS BANK are prepared in accordance with IFRS as adopted by the EU and with Part 9 of Book 2 of the Dutch Civil Code.

Basis of consolidation

The financial statements have been prepared on a historical cost basis except for the following items:

- Fair value is used for:
  - derivative financial instruments;
  - financial assets and liabilities designated at fair value;
  - financial investments available-for-sale.
- Amortised cost is used for:
  - due from banks;
  - loans;
  - (reverse) repurchase agreements;
  - due to banks;
  - due to customers.
- Fair value based on a mix of valuation methods is used for:
  - share-based payments;
  - land and buildings held for own use (classified within the balance sheet as 'Property and equipment').
  - equity method is used for investments in associates and joint ventures.

The financial statements are presented in euros, which is the functional currency of KAS BANK, rounded to the nearest thousand (unless stated otherwise). The amounts presented in the notes are computed using numbers which are not rounded. As a result, differences might occur due to the effects of rounding.

The consolidated financial statements comprise the financial statements of KAS BANK and its subsidiaries for the year ended 31 December 2017. Subsidiaries are entities which are controlled by KAS BANK. Control of an entity exists if KAS BANK is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its influence over the company. In general, control is presumed to exist where KAS BANK owns more than 50% of the voting power of an entity. Subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.
As at 31 December 2017, the major subsidiaries and their statutory seats are:

MAJOR SUBSIDIARIES	STATUTORY SEATS
KAS Trust & Depositary Services B.V.	Amsterdam
KAS Servicing B.V.	Amsterdam
KAS Participatiemaatschappij B.V.	Amsterdam
KAS BANK OG NZVW B.V.	Amsterdam
KAS Europe BVBA	Brussels
KB Deutschland Holding GmbH (in liquidation as per 14 January 2015)	Wiesbaden
KAS Investment Servicing GmbH (in liquidation as per 2 January 2015)	Frankfurt am Main
KAS Securities Ltd	London

All subsidiaries are 100% are owned both legally as well as economically. The full list of subsidiaries has been filed with the Trade Register of the Amsterdam Chamber of Commerce.
All intra-group balances, transactions, income and expenses are eliminated in full.

Critical accounting estimates and judgements

The preparation of the financial statements requires management judgements and estimates which affect the items reported and disclosed. These estimates and judgements are based on past experiences and take into account recent trends, environmental factors and statistics. Actual outcomes may differ from estimates and judgemental decisions. The applied estimates are reviewed every reporting period. The most significant areas requiring estimates and judgemental decisions are measurement of:

- Deferred tax assets and liabilities – including an estimate of the period in which the asset is recoverable, an estimate about taxable income in the future and the timing of the in- or outflows.
- Provisions, among which restructuring provisions – including a judgement about the timing, nature and amount of the potential outflow. Inputs relating to restructuring provisions are for example the number of FTE covered by the plan and compensation arrangements.
- Impairments and recovery of former impairments – estimate focuses on potential recovery rates of outstanding exposure. Inputs included within the estimation are the assessment of collateral, the value in use. Further reference is made to the accounting policy relating to Impairments.

Recently adopted accounting pronouncements

The accounting policies applied in preparing these financial statements are consistent with the previous year except for the following non-significant adjustments

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses;
Amendments to IAS 7 Disclosure initiative.
These changes had no impact on the relevant comparative figures.

Future accounting developments

In July 2014, the IASB issued IFRS 9 “Financial Instruments” which replaces IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 essentially covers three topics: Classification and Measurement, Impairments and Hedge Accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The standard has been endorsed by the EU.

Implementation

The implementation of IFRS 9 is a significant project for KAS BANK, involving substantial resources from especially Finance, Risk Management, Treasury and IT. During the project, the multidisciplinary project team reported the progress and realization of milestones of the adoption of IFRS 9 to the bank’s senior management. The project team also reported important judgements and implications to senior management.

Adoption of IFRS 9 as per 1 January 2018 has amongst others resulted in revisions to accounting policies, changes in risk models, including the incorporation of additional forward looking information and the establishment of an Expert Board reviewing the impairment procedures and outcomes of KAS BANKs internal impairment assessment models. KAS BANK has performed an assessment of the population of financial instruments and has completed the assessment of classification and measurement by performing a business model and SPPI (“solely payments of principal and interest”) test on all financial instruments as included within the various portfolios of the opening balance as per January 1, 2018.

Changes in accounting policies resulting from the adoption of IFRS 9 will be applied retrospectively. KAS BANK will not restate comparative information with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities will be recognized in retained earnings (Other reserves) as at 1 January 2018. The next paragraphs provide a quantitative and qualitative assessment of the impact of IFRS 9 on the bank’s financial statements as of 1 January 2018.

The Dutch Central Bank has issued guidelines on transition requirements for the implementation of IFRS 9. KAS BANK choose to recognize directly the full impact of IFRS 9 on regulatory capital. The impact of

IFRS 9 on KAS BANK's regulatory capital will be very limited.

IN MILLIONS OF EUROS	CARRYING AMOUNT AS PER 31 DECEMBER 2017	CLASSIFICATION & MEASUREMENTCL		IAS 39 REVALUATION RESERVE (NET OF TAX)	CLASSIFIED AS PER 1 JANUARY 2018	
		IAS 39	IFRS 9		OCI	Retained Earnings
Cash and balance with central banks	1,504,060	Amortized cost	HTC - Amortized cost			
Due from banks / loans	799,700	Amortized cost	HTC - Amortized cost			
Due to banks / customers	(3,598,574)	Amortized cost	HTC - Amortized cost			
(Reverse) repurchase agreements	448,221	Amortized cost	HTC - Amortized cost			
Available for sale:						
Bonds - passed SPPI	723,886	AFS	HTC&S - FVOCI	3,901	3,901	-
Bonds - failed SPPI	29,641	AFS	HTC&S - FVTPL	(134)	-	(134)
Mortgage fund	339,590	AFS	HTC&S - FVOCI	19,074	9,854	9,220
Money Market Fund	30,015	AFS	HTS - FVTPL	-	-	-
Equity	2,994	AFS	FVOCI	1,956	1,956	
Derivatives (net)	(3,861)	FVTPL	FVTPL			
Total	**275,672**			**24,797**	**15,711**	**9,096**

This table shows the impact of the adoption of IFRS 9 on the classification and measurement of KAS BANK's financial instruments.

Classification and measurement

IFRS 9 requires that an entity's business model and a financial instrument's contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition, each financial instrument is classified as either fair value through profit or loss ("FVTPL"), amortized cost, or fair value through Other Comprehensive Income ("FVOCI"). A financial instrument is measured at amortized cost or FVOCI if it meets both the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows (HTC) or is achieved by both collecting contractual cash flows and selling financial assets (HTC&SI); and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

As the requirements under IFRS 9 are different compared to the assessments under IAS 39 some of KAS BANK's financial instruments will have a different accounting a treatment as per January 1, 2018. The financial instruments with a different accounting treatment are all part of the Available for sale portfolio. The accounting treatment of all the other financial instruments remain unchanged.

Based on the analysis of KAS BANK's financial instruments we conclude that only a few items of the current Available for sale portfolio will be reclassified or will have a different accounting treatment. Below a brief summary of the financial instruments within the Available for sale portfolio:

- The investment in the mortgage fund is divided into a part which passed the SPPI test and a part that failed the SPPI test. As per 1 January 2018 the accumulated revaluation result of the mortgage fund amounted to EUR 19.1 million. An amount of EUR 9.2 million will be transferred to retained earnings (Other reserves) at 1 January 2018. The remaining part of the revaluation result of EUR 9,9 million will be part of OCI and will be recycled in the Income Statement after (part of) the investment will be sold.
- A small number of interest-earning securities (bonds) and the investment in Money Market Funds did not pass the SPPI test. These positions will be classified as FVTPL. As a result, the unrealized revaluation as part of the revaluation reserve in own equity as per 31 December 2017 will be transferred to retained earnings (Other reserves) and will not be recycled through the Income Statement in 2018 or in later years.
- The investments in equity will be designated at FVOCI. Both the unrealized and realized gains will be recorded through OCI, with no recycling to the Income statement.

Impairments

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI (except equity instruments), and off-balance sheet items as contingent liabilities and irrevocable facilities. The determination of impairment losses and allowance will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected credit loss model under IFRS 9, where provisions are taken upon initial recognition of the financial instrument, based on expectations of potential credit losses at that time. Expected credit losses (ECL) reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months (Stage 1) or (ii) over the expected life of a financial instrument depending on credit deterioration from inception (Stage 2). In determining expected credit losses, KAS BANK applies a model based calculation with three main components: probability of default (PD), loss given default (LGD) and the exposure at default (EAD). The assessment of the expected credit loss is performed by Risk Management. The outcomes and the parameters as included within the expected credit loss model are evaluated and discussed within the new established Expert Group. The Expert Group is chaired by KAS BANK's Chief Financial & Risk Officer and includes experts from Finance, Risk Management, Treasury and Sales.

To assess whether the credit risk of a financial instrument has increased significantly since initial recognition, KAS BANK compares the risk of default occurring over the expected life of the financial instrument at the reporting date to the corresponding risk of default at initial recognition, using several key risk indicators. In 2017, KAS BANK tested, as part of the IFRS 9 implementation project, the expected credit loss model including stress testing and methodology implications. Based on the outcomes of these tests the amount of Impairment based on the expected credit loss model are very limited. This outcome is in line with KAS BANK's limited credit risk exposure. The low appetite for credit risk resulted in fully collateralized credit facilities and high rated investments. Except for the investment securities portfolio (debt instruments) the maturity of 95% of the outstanding amounts is less than one year. KAS BANK expects that all KAS BANK's financial assets in scope of IFRS 9 impairment model will be assessed almost fully for impairment within stage 1 because there has been no significant increase in credit risk or a default. The table below shows the financial instruments and its Expected Credit Loss (ECL) as per 31 December 2017 classified into the three impairment stages.

'Financial Instruments: Disclosures' as the accounting policy decision does not provide an exemption from these new disclosure requirements.

Total impact on equity

The requirements relating to classification and measurements do not have an impact on the amount of equity as per 1 January 2018. The impact of impairments of EUR 0.2 million shall be recognised in equity on 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which specifies how and when revenue is recognized. IFRS 15 replaces several other IFRS standards and interpretations that currently govern revenue recognition under IFRS and provides a single, principles-based five-step model to be applied to all contracts with customers. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. The new standard does not impact income recognition related to financial instruments in scope of IAS 39/IFRS 9, lease and insurance contracts.

IN MILLIONS OF EUROS	EXPOSURE AT DEFAULT	ECL STAGE 1	ECL STAGE 2	ECL STAGE 3
Cash and balances with central banks	1,504.1	-	-	-
Due from banks	116.9	0.1	-	-
Loans	682.8	-	-	-
Reverse repurchase agreements	448.4	-	-	-
Investment securities - debt instruments	723.9	0.1	-	-
Off balance sheet items	14.4	-	-	-
Total	**3,490.5**	**0.2**	**-**	**-**

At 1 January 2018, the total amount in stage 1 (EUR 0.2 million) and stage 2 (nil) as per 31 December 2017 will be included in retained earnings (Other reserves). The total amount in stage 3 (nil) equals the amount in the period before IFRS 9 and has no additional impact on the financial position as per 1 January 2018.

Hedge Accounting

IFRS 9 also includes new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. KAS BANK has decided to continue to apply IAS 39. However, KAS BANK will provide the expanded disclosures on hedge accounting introduced by IFRS 9's amendments to IFRS 7

The new standard will therefore have very limited impact on the majority of KAS BANK's revenue including interest income, trading revenue and results from financial transactions. KAS BANK currently investigates the IFRS 15 standard.

The area where the impact is most relevant are commission revenues from custody and accounting services. KAS BANK has identified and reviewed customer contracts within the scope of the new standard. While the assessment is not fully completed, the timing of KAS BANK's revenue recognition of fees and commissions within the scope of this standard is not expected to materially change.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 is endorsed by the EU.

IFRS 16 Leases

In 2016 the IASB issued IFRS 16 “Leases”, which introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. As a result of IFRS 16 KAS BANK expects to recognize on the balance sheet the rented office building and some leased equipment as company cars and office supplies. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. KAS BANK is currently assessing the impact of IFRS 16. The standard has yet to be endorsed by the EU.

Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheet when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are not offset unless related to hedging or to assets and liabilities which are off set in accordance with the foregoing.

Foreign currency translation

Transactions in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at closing rate. Foreign exchange gains and losses resulting from the translation at closing rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as ‘Net trading income’. KAS BANK has no non-monetary assets and liabilities denominated in foreign currencies.

Financial assets and liabilities

Recognition and de-recognition

All financial assets and liabilities are initially recognised on trade date, i.e. when KAS BANK becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if KAS BANK’s contractual rights to the cash flows from these financial assets expire or if KAS BANK transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities¬ are derecognised when KAS BANK’s obligations specified¬ in the contract expire or are discharged or cancelled.

Measurement on initial recognition

The classification of financial instruments at initial recognition depends on their purpose and characteristics and management’s intention in acquiring them. The classification determines the measurement and the recognition of results. On initial recognition, financial instruments are measured at fair value plus, in the case of instruments not subsequently carried at fair value through profit or loss, any directly attributable transaction costs.

Measurement at fair value

Measurement at fair value especially relates to derivative financial instruments, financial assets and liabilities designated at fair value and financial investments available-for-sale. Additional disclosures relating to fair value measurement are presented in note 34 of this annual report.

Measurement at amortised cost

Measurement at amortised cost relates to exposures due from/to banks, loans, due to customers and (reverse) repurchase agreements.
The interest of debt instruments is calculated using the effective interest method and is recognised as ‘Interest income’ in the income statement.

Measurement at cost

Cash and balances with central banks are measured at nominal value. The interest is recognised as ‘Interest result’ in the income statement.

Derivative financial instruments

KAS BANK uses derivative financial instruments such as interest rate swaps, futures, exchange traded options/futures and forward foreign exchange contracts. These instruments are used for hedging strategies, including hedge accounting and trading activities. All derivative financial instruments are recognised at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Counterparty credit risk (Credit Valuation Adjustment, CVA) and own credit risk (Debit Valuation Adjustment, DVA) are included in the determination of the fair value.

The fair value of interest rate swaps is calculated using a discounted cash flow model in which the contractual cash flows are discounted using a risk-free rate as these derivatives are collateralised. The fair value of swaptions is calculated using an option pricing model considering market based inputs (interest rate volatility, swap rates and interest spot rates). Exchange traded options and futures are valued using quoted prices from recognised market data providers. Forward foreign exchange contracts are valued using an implied forward rate and discounted using a risk-free rate. Gains or losses arising from changes in the fair value of derivative financial instruments are included in ‘Net trading income’ (trading activities) or in ‘Interest income’ (hedge accounting) in the period in which they arise.

In addition to derivative financial instruments used for hedging strategies and trading activities, KAS BANK also recognises derivative financial instruments which the bank engages in with clients. These derivative financial instruments are classified within the derivative financial instruments as derivatives on behalf of clients. All risks of these positions are fully covered by collateral posted by the client and by back-to-back transactions with other financial institutions. In these cases, KAS BANK acts as General Clearing Member. In addition, KAS BANK also guarantees the obligations towards the clearing institution of the relevant derivatives exchange. These derivatives are also recognised in the balance sheet as 'Derivative financial instruments'.

Financial assets and financial liabilities designated at fair value

A financial asset or financial liability is classified in this category if on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. These assets and liabilities are recognised at fair value and include debt securities. Gains or losses arising from changes in fair value are recognised as 'Net trading income' within the income statement in the period in which they arise. The interest of debt instruments is calculated using the effective interest method and is recognised as 'Interest income' in the income statement.

Financial investments available-for-sale

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in one of the other categories and include debt securities and equity investments in which KAS BANK has no significant influence. After initial recognition, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses – except for impairments – are directly recognised within other comprehensive income. In the event that the investment is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement as 'Result from financial transactions'.

Results arising from impairment of available-for-sale investments are recognised in the income statements as 'Impairment losses (recovery)' and removed from other comprehensive income.

The interest of debt instruments is calculated using the effective interest method and is recognised as 'Interest income' in the income statement. Dividends received on equity instruments are recognised in the income statement as 'Result from financial transactions' on the date KAS BANK's right to receive payment is established.

(Reverse) repurchase agreements

Securities sold under agreement to repurchase at a specified future date are not derecognised from the balance sheet as KAS BANK retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the balance sheet as an asset with a corresponding obligation to return it.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the balance sheet. The amount paid is recognised in the balance sheet as ‘Reverse repurchase agreement’. The interest on (reverse) repurchase agreements is calculated using the effective interest rate and is amortised over the term of the agreement and recognised as ‘Interest income’ or ‘Interest expense’ in the income statement.

Hedge accounting

KAS BANK uses derivative financial instruments to manage exposure to interest rate risk. In order to manage this particular risk, KAS BANK applies fair value hedge accounting for transactions which meet specific criteria. In such transactions, KAS BANK designates a derivative as an instrument to hedge the fair value movements resulting from interest rate risk in the hedged item.

At the inception of a hedging relationship, KAS BANK documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge and performs prospective effectiveness testing. KAS BANK also requires a documented assessment, both at hedge inception and on an ongoing basis, whether they are highly effective in offsetting changes attributable to the hedged risk in the fair value of the hedged items. Interest on designated qualifying hedges is included in net interest.

Retrospective effectiveness is tested quarterly, by comparing the cumulative clean fair value movement (since inception) of the hedged item, due to changes in benchmark interest rates, to the total clean fair value movement of the hedging instrument. Ineffectiveness within the 80% - 125% bandwidth is recognised in the income statement through the actual hedge adjustment. Ineffectiveness outside the 80%-125% bandwidth is recognised by not posting a hedge adjustment to the hedged item. In this case, the micro hedge relationship is designated and it is re-designated at the beginning of the next period if expected to be highly effective prospectively.

Investments in associates

Associates are entities in which KAS BANK has significant influence (in generally assumed between 20% and 50% of the voting rights) but in which it has no control over the governance and management of the company. KAS BANK has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are contractual agreements whereby KAS BANK and other parties have an economic activity which is subject to joint control. Both associates and joint ventures are accounted based on the equity method. An equity accounted investment is initially recognised at cost and subsequently changed by the share of KAS BANK in the net results after acquisition. The share in the net result (net of corporate tax) is recognised in the income statement of KAS BANK.

Property and equipment

Land and buildings held for own use is measured at fair value according to the revaluation model. This fair value is determined by an external appraiser once every four years. If an asset’s carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Depreciation is recognised in the income statement and calculated on a straight-line basis over the estimated useful life. The estimated useful life of the buildings is fifty years. Land is not depreciated.

Equipment is initially measured at cost, and subsequently measured at cost less accumulated depreciation and impairment losses. Depreciation is recognised in the income statement and calculated on a straight-line basis over the estimated useful life. Computer equipment is depreciated over three years, fixtures and fittings over five years, technical installations over ten years and alterations to leased property over the term of the lease.

Intangible assets

Computer software

Purchased software and software development costs are capitalised if directly related to the development of identifiable software which will probably generate economic benefits for KAS BANK for more than one year.
The capitalised development costs concern directly attributable costs, including the costs of staff employed on the development of the software. Capitalised development costs and purchased software are recognised at cost less accumulated depreciation and impairment losses. Depreciation of the capitalised development costs and purchased software is recognised in the income statement over the estimated useful life, which is three years.

Other intangible assets

Other intangible assets mainly relate to separately identified assets deriving from acquisitions, and currently relate to client portfolios and licences. At the time of acquisition, these intangible assets are measured at fair value. Client portfolios and licences are subsequently carried at cost less cumulative amortisation and impairment losses. Amortisation is recognised in the income statement over the estimated useful life. The estimated useful life depends on management estimates. The estimated useful life of the client portfolios is between five and fifteen years. The estimated useful life of licences is five years.

Impairment

Impairment of financial assets

KAS BANK assesses at each reporting date whether there is objective evidence that a financial asset must be impaired. In case of debt instruments, KAS BANK assesses individually whether there is objective evidence of impairment. Indications of objective evidence of impairment are amongst others:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract, such as a default or delinquency in interest or principal payments by the issuer; or
- Disappearance of an active market for the related financial asset.

Objective evidence of impairment of equity investments is provided by a prolonged (longer than nine months) or significant (more than 20%) drop in the fair value below cost.

Financial assets measured at amortised cost

For financial assets carried at amortised cost, KAS BANK assesses individually whether objective evidence of impairment exists. 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 are recognised in the income statement. In the event that the financial asset is collateralised, account is taken of future cash flows that may result from foreclosure of the collateral.

If, in a subsequent period, the amount of the impairment loss decreases and this objectively relates to an event after the impairment was initially recognised, the recognised impairment loss is reversed and the recovery is recognised in the income statement.

Financial investments available-for-sale

If there is objective evidence of impairment of a financial investment available-for-sale, the difference between cost and current fair value, less any previously recognised impairment losses, is transferred from other comprehensive income to 'Impairment losses' in the income statement. If, in case of debt instruments, in a subsequent period, the amount of the impairment loss decreases and this objectively relates to an event after the impairment was initially recognised, the recognised impairment loss is reversed and the recovery is recognised in the income statement. If the change in the fair value of the impaired financial asset is not objectively related to the original impairment trigger on which the impairment was initially recognised, the value movement of the impaired debt instrument is recognised as 'Result from financial transactions' in the income statement. Recoveries of recognised impairment losses relating to equity instruments are recognised in other comprehensive income.

Impairment of non-financial assets

The carrying amount of KAS BANK's non-financial assets is reviewed at each reporting date to ascertain whether there is any objective evidence that an asset may be impaired. If any such evidence exists, an estimate is made of the recoverable amount of the asset. Impairment losses are recognised in the income statement.

The recoverable amount of an individual asset is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal is based on fair value hierarchy, costs of disposal are based on estimates. In measuring the value in use, the present value of the estimated future cash flows is calculated using a discount rate reflecting both the current market estimates of the time value of money and the specific risks relating to the asset concerned. An impairment loss is recognised if the carrying amount of an asset is higher than the estimated recoverable amount.

Previously recognised impairment losses are assessed on each balance sheet date for indications that the loss has diminished or no longer exists. An impairment loss is reversed if the impairment loss indication used as the basis for measuring the recoverable amount has changed. An impairment loss is only reversed if the carrying amount of the asset does not exceed the carrying amount of the asset net of depreciation or amortisation which would have applied if no impairment loss had been recognised.

Provisions

A provision is recognised in the balance sheet when KAS BANK has a present obligation (legal or constructive) as a result of a past event, a reliable estimate can be made of the amount of the obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The amount added to provisions is recognised in the income statement and the carrying amount is recognised in the balance sheet under 'Other liabilities'.

A provision for restructuring costs is recognised only when there is a constructive obligation to restructure. A constructive obligation arises only when KAS BANK has a detailed formal plan and has raised a valid expectation that it will carry out the restructuring.

Lease agreements

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

Assets acquired as 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 the interest rate implied in the lease. Capitalised finance lease assets are depreciated in accordance with the criteria stated in relation to property and equipment. Lease payments made under an operating lease agreement 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.

Shareholders' equity

Issued capital

KAS BANK's authorised capital comprises ordinary shares and cumulative preference shares. The cumulative preference shares are recognised in the balance sheet as 'Other liabilities'. These cumulative preference shares are classified as debt instrument as, pursuant to Article 25 of the Articles of Association, annual dividend distributions are independent of the annual results of KAS BANK. Dividends on these shares are recognised as 'Interest expense' in the income statement.

Treasury shares

KAS BANK's own equity instruments which are acquired by the company or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at cost.

Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the General Meeting of Shareholders. Interim dividend is deducted from equity when declared and no longer at the discretion of KAS BANK.

Retirement benefit plan

Pension obligation

KAS BANK sponsors three pension plans in the Netherlands and the United Kingdom. The Managing Board's plan is a defined contribution plan. The plan for the UK employees is a defined benefit plan. The Dutch pension plan qualifies as a Collective Defined Contribution plan. The Dutch pension plan is carried out by the company pension fund 'Stichting Pensioenfonds van de KAS BANK'. The UK pension plan is carried out by a Trust.

(Collective) Defined Contribution plans

Relating to (Collective) Defined Contribution plans KAS BANK pays annual contributions determined by a fixed method. KAS BANK does not have a legal or constructive obligation to pay any further contributions. Contributions are recognised directly in the income statement in the year to which they relate. Actuarial and investment risk are for the account of the participants of the plan.

Defined benefit plans

The pension obligations of defined benefit plans are determined individually. Defined benefit plan pension commitments are calculated using estimates of the rights vested in employees in exchange for their services in the reporting period and previous periods. These pension commitments are discounted at the yield on high grade corporate bonds that have maturity dates matching those when the benefits become payable. The calculation is performed annually by an actuary. The net benefit expense is recognised in the income statement as 'Personnel expenses'. The net benefit obligation or receivable is recognised in the balance sheet as part of 'Other assets' or 'Other liabilities'. 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 recognised in other comprehensive income.

Other long-term employee benefits

KAS BANK's net liability in respect of long-term employee benefits other than post-employment benefit plans 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 as 'Other liabilities'. Expenses are recognised in the income statement as 'Personnel expenses'.

Share-based payment transactions

A part of the remuneration to members of the Managing Board and identified staff in exchange for services rendered could be paid in share-based payments. The cost of the service received is measured at the fair value of the shares granted on the grant date. The fair value is recognised in the income statement as 'Personnel expenses' and allocated over the vesting period, with a corresponding movement in 'Other reserves'.

The value of the shares granted is calculated considering the share price at grant date, market conditions and the expected dividend yield. In case of performance shares which are granted conditionally, terms and conditions without a market basis are taken into account by adjusting the number of shares used to measure the cost of the service rendered so that the cumulative amount recognised in the income statement reflects the number of shares ultimately becoming vested.

Short-term employee benefits

Short-term employee benefits relate to periodically paid remuneration and variable remuneration accounted for in 'Personnel expenses' in the income statement as and when the related service is rendered. A liability is recognised in the balance sheet for the amount expected to be paid under a variable-remuneration or a profit-sharing plan if KAS BANK has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably.

Taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities.

Deferred tax assets and liabilities

Deferred tax assets and liabilities relate to differences between the carrying amounts and tax bases of certain assets and liabilities. The deferred tax asset or liability is determined based on the current tax rate and is recognised at nominal value. A deferred tax asset is recognised if it is probable that future taxable profits will become available against which it can be set off. The carrying amount of the deferred tax assets is assessed on each balance sheet date. 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 and borrowing transactions

Securities lending and borrowing transactions are usually collateralised by securities or cash. The related securities in the borrowing or lending transaction are not recognised (borrowing transactions) or derecognised (lending transactions) on the balance sheet.

Collateral received or paid as cash is recognised in the balance sheet as cash advanced (included in due from banks and loans) or received (due to banks or due to customers). Interest received or paid are recognised on an effective interest basis and recorded as interest income or interest expense.

Collateral

KAS BANK pays and receives collateral in the form of cash or securities in respect of credit instruments, such as derivative contracts and loans, in order to reduce credit risk. Collateral paid or received in the form of cash together with the underlying is recorded on the balance sheet. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Fiduciary assets

KAS Trust & Depositary Services B.V. ('KAS Trust') – a consolidated subsidiary of KAS BANK – provides trust and fiduciary services that result in the holding or investing of assets on behalf of clients. Assets held in a fiduciary capacity are not recognised in the balance sheet of KAS BANK, as they are not the assets of the bank.

Assets under Custody

The majority of the non-derivative securities in custody at KAS BANK are pursuant to the Securities Giro Act (in Dutch: Wet giraal effectenverkeer). The Securities Giro Act protects the ownership of custody clients in case of default of KAS BANK. Assets under Custody are not recognised in the balance sheet of KAS BANK, as the risks and rewards of these assets are not for the account of KAS BANK.

Clearing and settlement activities

KAS BANK offers clearing and settlement activities to their clients.

Clearing and settlement – securities

KAS BANK takes care of the clearing and settlement of clients' (on-exchange related) securities transactions. In addition, KAS BANK also guarantees the clients' obligations towards the clearing institutions. The securities are not recognised in the balance sheet (see 'Assets under Custody').

Clearing – derivatives

KAS BANK acts as General Clearing Member (GCM) and takes care of the financial and administrative settlement of derivatives transactions. KAS BANK administers the financial and administrative settlement of the traded derivatives. In addition, KAS BANK also guarantees the obligations towards the Clearing institution of the relevant derivatives exchange. The derivatives are recognised in the balance sheet as 'Derivative financial instruments'.

Recognition of income and expenses

Revenues and expenses are recognised to the extent that it is probable that economic benefits will flow to or out of the bank and these revenues or expenses can be reliably measured. Interest is recognised based on an accrual basis using the effective interest rate method. Fees earned for the provision of services over a period of time are accrued over that period.

Statement of cash flows

The consolidated statement of cash flows is based on the indirect method. Cash flows are classified as cash flows from operating, investing and financing activities. The cash flow from operating activities is based on the result after tax. This result is adjusted for those items in the income statement and changes in the balance sheet which do not result in actual cash flows during the year. Cash and cash equivalents comprise balances which are callable on demand.

Segment information

KAS BANK discloses segment information for the operating and geographical segments. An operating segment is a strategic business segment on which internal reports are regularly submitted to the Managing Board, based on which the Managing Board evaluates the performance of the segment and allocates resources to it. KAS BANK distinguishes the operating segments: Core segments, Treasury and Other.

Segment information is based on the same accounting principles as applicable for KAS BANK's consolidated balance sheet and income statement.

Notes to the consolidated income statement

1. Interest income

IN THOUSANDS OF EUROS	2017	2016
Due from banks and loans	16,729	16,115
Reverse repurchase agreements	-	81
Derivative financial instruments	302	1,498
Ineffectiveness on fair value hedges	-271	-442
Financial assets designated at fair value	-	12
Financial investments available-for-sale	15,455	15,490
Impaired available-for-sale assets	37	150
Total	**32,254**	**32,904**

2. Interest expense

IN THOUSANDS OF EUROS	2017	2016
Due to banks and customers	11,075	6,157
(Reverse) Repurchase agreements	3,461	4,636
Derivative financial instruments	4,832	6,246
Financial liabilities designated at fair value	-	105
Total	**19,368**	**17,144**

3. Commission

Commission include the net result of services as custody, clearing, settlement, securities borrowing and lending, fund accounting and other added-value services. These activities are classified as 'Asset Servicing', 'Transaction Servicing' and 'Treasury' in the table below.

IN THOUSANDS OF EUROS	2017	2016
Asset Servicing	45,168	44,804
Transaction Servicing	28,316	27,954
Treasury	9,655	12,140
Total commission income	**83,139**	**84,898**
Asset Servicing	7,753	7,500
Transaction Servicing	6,834	6,857
Treasury	709	684
Total commission expense	**15,296**	**15,041**

4. Net trading income

IN THOUSANDS OF EUROS	2017	2016
Foreign exchange transaction results	15,682	14,767
Change in fair value of assets/liabilities designated at fair value	-	187
Change in fair value of derivative financial instruments (non-hedge)	4,059	685
Total	19,741	15,639

Change in fair value of assets and liabilities designated at fair value relates to financial assets which are impaired in previous years.

5. Result from financial transactions

IN THOUSANDS OF EUROS	2017	2016
Fair value movement of impaired available-for-sale assets	936	2,673
Sale of financial investments available-for-sale	2,086	1,433
Dividends	77	75
Total	3,099	4,181

6. Share of result of associates

IN THOUSANDS OF EUROS	2017	2016
BTN Förvaltning AB (formerly known as Neonet AB)	65	32
Total	65	32

Neonet AB sold its subsidiary Neonet Securities on 27 July 2016 to Knight Capital Group (KCG). KAS BANK holds 20% of Neonet AB. In the second half of 2016 Neonet changed its name into BTN Förvaltning AB. KAS BANK still holds a stake of 20%.

7. Other income

IN THOUSANDS OF EUROS	2017	2016
Rental revenue of office space	294	274
Sale office building	-	21,245
Other	631	243
Total	925	21,762

In December 2016 KAS BANK sold the former office building located at the Nieuwezijds Voorburgwal in Amsterdam to Kroonenberg Groep. The gross proceeds exceeding the book value at the moment of sale are recognised in the income statement as Other income in 2016.

8. Personnel expenses

IN THOUSANDS OF EUROS	2017	2016
Salaries	28,551	35,977
Pension charges	6,769	8,731
Social security costs	4,583	5,521
Fringe benefits	2,457	3,347
Addition to Restructuring provision	2,038	9,292
Harmonization cost relating to outsourcing	-	3,068
Temporary staff	3,460	5,836
Share based payments	109	-
Other	754	1,469
Total	48,721	73,241

AVERAGE NUMBER OF EMPLOYEES	2017	2016
Full-time equivalent basis		
Netherlands	451	592
Germany	15	18
United Kingdom	9	14
Total	475	624

The Harmonisation cost relates to the transfer of former KAS BANK employees to the insourcer Atos.

9. General administrative expenses

IN THOUSANDS OF EUROS	2017	2016
Information technology	24,077	18,126
Advice	2,146	2,848
Housing	2,131	2,777
Contribution to resolution funds and deposit guarantee scheme	1,329	1,719
Traveling expenses	791	883
Marketing	155	368
Insurance	588	571
Audit fees	447	685
Other	2,789	4,118
Total	34,453	32,095

As from 1 October 2016 KAS BANK has outsourced a main part of their IT activities. The cost of this outsourcing contract is classified in General and administrative expenses as Information technology. 2017 is the first year that the outsourcings contract was fully operational; in 2016, the outsourcing contract costs related to the last three months of the year.

10. Depreciation and amortisation

IN THOUSANDS OF EUROS	2017	2016
Land and buildings held for own use	-	399
Other property and equipment	387	1,028
Intangible assets	1,109	1,383
Total	**1,496**	**2,810**

11. Impairment losses (recovery)

IN THOUSANDS OF EUROS	2017	2016
Due from banks and loans	-129	-519
Total	**-129**	**-519**

In 2017, the impairments on due from banks and loans of EUR 0.1 million (recovery) relate to credit facilities with former clients (2016: EUR 0.5 million).

12. Tax expenses

The calculation of the tax expense is based on existing tax facilities which include tax-exempt profit components and non-deductible items.

IN THOUSANDS OF EUROS	2017	2016
Tax expense		
Current tax expense for the year	5,573	9,398
Deferred tax	-653	-4,648
Total	**4,920**	**4,750**

13. Earnings per share

The calculation of the basic and diluted earnings per share is based on the result attributable to holders of ordinary shares.

IN THOUSANDS OF EUROS	2017	2016
Net result attributable to KAS BANK shareholders	15,099	14,854
Issued capital	15,699	15,699
Treasury shares	-931	-937
Weighted average number of ordinary shares outstanding	14,768	14,762
Effect of stock options and share plans	-	-
Weighted average number of ordinary shares outstanding (diluted)	14,768	14,762
Basic earnings per share (in euros)	1.02	1.01
Diluted earnings per share (in euros)	**1.02**	**1.01**

Notes to the consolidated balance sheet

14. Cash and balances with central banks

This balance sheet item includes cash on hand and demand deposits with central banks. The mandatory reserve deposit with the Dutch central bank is also included within cash and balances with central banks. As per year-end 2017 and 2016 KAS BANK meets the requirements related to the mandatory reserve deposit. At the end of both years this reserve amounted to nil. The fair value of this balance sheet item does not materially deviate from its carrying amount, due to the short-term nature of its related assets.

15. Due from banks

The amount due from banks mainly relates to direct placements (including money market funds) and loans and advances with other banks. The table below shows the amount due from banks split by maturity.
The fair value of this balance sheet item does not materially deviate from its carrying amount, due to the short-term nature of its related assets.

IN THOUSANDS OF EUROS	2017	2016
Money Market Funds (due on demand)	-	949
Due on demand	97,271	214,099
Not due on demand (maturity less than one year)	19,670	17,157
Balance as at 31 December	**116,941**	**232,205**

16. Loans

The table below shows the outstanding amount of loans by maturity. The current accounts, granted credits and mortgage loans are collateralised by customer securities or individual properties (see note 38).
The fair value of this balance sheet item does not materially deviate from its carrying amount, due to the short-term nature of its related assets. The mortgages are all floating rate mortgages, as a result the fair value does not materially differ from the notional amount.

IN THOUSANDS OF EUROS	2017	2016
Due on demand	653,698	665,672
Not due on demand (maturity less than five years)	24,852	108,923
Mortgage loans	4,209	5,126
Balance as at 31 December	**682,759**	**779,721**

The amount of Loans decreased with approximately EUR 0.9 billion (2016: EUR 0.6 billion) as a result of the offsetting of deposits and entrusted funds for a number of clients (see note 38).

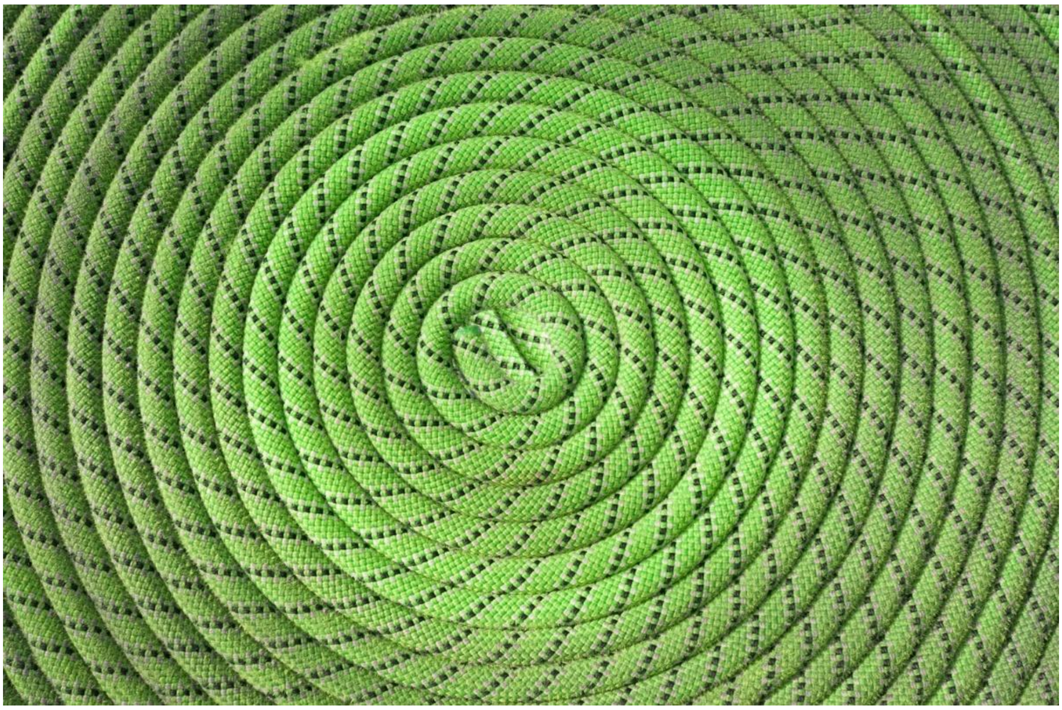
The table below presents the movement schedule of the provision for doubtful debt. This provision is included within the total balance of loans.

IN THOUSANDS OF EUROS	2017	2016
Balance as at 1 January	15,259	15,795
Additions	102	-
Releases	-226	-536
Balance as at 31 December	**15,135**	**15,259**

17. (Reverse) repurchase agreements

The outstanding reverse repurchase agreements are covered by received collateral. All (reverse) repurchase agreements have a maturity of less than one year (see note 38).

The fair value of this balance sheet item does not materially deviate from its carrying amount, due to the short-term nature of its related assets.



18. Derivative financial instruments

Derivative financial instruments are used for both hedging strategies and trading or are held on behalf of clients. The following tables show the fair value of derivative financial instruments, recognised as asset or liability, together with their notional amount.

IN THOUSANDS OF EUROS	31 DECEMBER 2017	31 DECEMBER 2016
Assets	271,238	413,168
Liabilities	-274,701	-403,822
Total	**-3,463**	**9,346**

AT 31 DECEMBER 2017 IN THOUSANDS OF EUROS	NOTIONAL AMOUNT	FAIR VALUE ASSETS	FAIR VALUE LIABILITIES
Derivatives held for trading			
Foreign exchange contracts			
- Forward contracts	1,225,328	2,325	13,908
- Swaps	5,912,028	41,378	33,669
Total foreign exchange contracts	**7,137,356**	**43,703**	**47,577**
Interest contracts			
- Swaps	1,832,000	151,883	149,446
Total interest rate contracts	**1,832,000**	**151,883**	**149,446**
Derivatives used as fair value hedges			
Interest contracts	787,600	6,455	8,481
Derivatives held on behalf of clients			
Exchange traded derivatives	-	69,197	69,197
Total	**9,756,956**	**271,238**	**274,701**

AT 31 DECEMBER 2016 IN THOUSANDS OF EUROS	NOTIONAL AMOUNT	FAIR VALUE ASSETS	FAIR VALUE LIABILITIES
Derivatives held for trading			
Foreign exchange contracts			
- Forward contracts	848,686	9,364	5,674
- Swaps	9,778,380	131,353	118,123
Total foreign exchange contracts	10,627,066	140,717	123,797
Interest contracts			
- Swaps	2,590,000	213,115	210,764
Total interest rate contracts	2,590,000	213,115	210,764
Derivatives used as fair value hedges			
Interest contracts	636,732	5,500	15,425
Derivatives held on behalf of clients			
Exchange traded derivatives	-	53,836	53,836
Total	**13,853,798**	**413,168**	**403,822**

For the exchange traded derivatives no notional amounts have been disclosed, because the notional amounts are back-to-back positions.

19. Financial assets and liabilities designated at fair value

IN THOUSANDS OF EUROS	31 DECEMBER 2017	31 DECEMBER 2016
Financial assets designated at fair value	-	-
Financial liabilities designated at fair value	-	-
Total	-	-

The movement of the financial assets and liabilities designated at fair value during the financial year is presented below.

IN THOUSANDS OF EUROS	2017	2016
Carrying amount as at 1 January	-	-4,194
Purchases	-	59,925
Sales	-	-57,701
Redemptions	-	-
Movements in fair value	-	1,970
Balance as at 31 December	-	-

20. Financial investments available-for-sale

The table below shows the movement of the financial investments available-for-sale divided by type of instrument.

2017 IN THOUSANDS OF EUROS	DEBT INSTRUMENTS	EQUITY INSTRUMENTS	TOTAL
Balance as at 1 January	873,503	4,074	877,577
Purchases	599,165	30,015	629,180
Sales	-239,502	-355	-239,857
Movements in fair value	13,492	-725	12,767
Redemptions	-153,541	-	-153,541
Balance as at 31 December	**1,093,117**	**33,009**	**1,126,126**

2016 IN THOUSANDS OF EUROS	DEBT INSTRUMENTS	EQUITY INSTRUMENTS	TOTAL
Balance as at 1 January	757,440	2,319	759,759
Purchases	360,606	-	360,606
Sales	-67,438	-	-67,438
Movements in fair value	12,237	1,755	13,992
Redemptions	-189,342	-	-189,342
Balance as at 31 December	**873,503**	**4,074**	**877,577**

At 31 December 2017, EUR 5 million (2016: EUR 475 million) of the financial investments available-for-sale is pledged as collateral (see note 38). As at 31 December 2017, EUR 591 million (2016: EUR 458 million) of the debt instruments is included as a hedged item in a fair value hedge relationship.

21. Investments in associates

The investment in associates relates to an investment in BTN Förvaltning AB (formerly known as Neonet AB). BTN Förvaltning AB is a company incorporated and organised under the laws of Sweden and registered in Stockholm, Sweden. See also note 6.

22. Other assets

IN THOUSANDS OF EUROS	2017	2016
Receivables	12,191	15,762
Accrued income and prepaid expenses	22,565	12,148
Balance as at 31 December	**34,756**	**27,910**

In 2017, the prepaid expenses did not include any amounts related to a period of more than one year (2016: nil).
The fair value of receivables, accrued income and prepaid expenses does not materially deviate from its carrying amount, due to the short-term nature of its related assets.

23. Property and equipment

2017 IN THOUSANDS OF EUROS	LAND AND BUILDINGS	COMPUTER EQUIPMENT	FIXTURES AND FITTINGS	TECHNICAL INSTALLATIONS	TOTAL
Acquisition costs at 1 January	-	2,559	575	1,174	4,308
Revaluation	-	-	-	-	-
Investments	-	174	962	440	1,576
Divestments	-	-910	-124	-	-1,034
Acquisition costs at 31 December	-	1,823	1,413	1,614	4,850
Accumulated depreciation as at 1 January	-	-2,415	-339	-269	-3,023
Depreciation for the year	-	-129	-134	-124	-387
Divestments	-	910	120	48	1,078
Accumulated depreciation as at 31 December	-	-1,634	-354	-345	-2,333
Impairments as at 1 January	-	-	-2	-522	-524
Impairments for the year	-	-	-	-	-
Impairments as at 31 December	-	-	-2	-522	-524
Balance as at 31 December	**-**	**189**	**1,058**	**747**	**1,994**

2016 IN THOUSANDS OF EUROS	LAND AND BUILDINGS	COMPUTER EQUIPMENT	FIXTURES AND FITTINGS	TECHNICAL INSTALLATIONS	TOTAL
Acquisition costs at 1 January	42,530	4,129	1,452	6,395	54,506
Revaluation	-	-	-	-	-
Investments	-	55	36	207	298
Divestments	-42,530	-1,625	-913	-5,428	-50,496
Acquisition costs at 31 December	-	2,559	575	1,174	4,308
Accumulated depreciation as at 1 January	-11,894	-3,692	-792	-3,030	-19,408
Depreciation for the year	-399	-341	-247	-440	-1,427
Divestments	12,293	1,618	700	3,201	17,812
Accumulated depreciation as at 31 December	-	-2,415	-339	-269	-3,023
Impairments as at 1 January	-1,230	-	-2	-522	-1,754
Impairments for the year	1,230	-	-	-	1,230
Impairments as at 31 December	-	-	-2	-522	-524
Balance as at 31 December	**-**	**144**	**234**	**383**	**761**

In December 2016 KAS BANK sold the office building located at Nieuwezijds Voorburgwal 225, Amsterdam to Kroonenberg Groep. The sale resulted in a gross profit of EUR 21.2 million. As from 13 December 2016 the office building is divested.
The proceeds of the sale exceeding the book value are recognised within the income statement as other income (see note 7).

24. Intangible assets

2017 IN THOUSANDS OF EUROS	PURCHASED SOFTWARE	INTERNALLY DEVELOPED SOFTWARE*	TOTAL
Acquisition costs at 1 January	5,704	2,547	8,251
Additions	1,768	443	2,211
Divestments	-321	-787	-1,108
Acquisition costs at 31 December	**7,151**	**2,203**	**9,354**
Accumulated amortisation as at 1 January	-4,207	-1,559	-5,766
Amortisation charge for the year	-1,081	-28	-1,109
Divestments	294	675	969
Accumulated amortisation as at 31 December	**-4,994**	**-912**	**-5,906**
Impairments as at 1 January	-87	-	-87
Impairments for the year	-	-	-
Impairments as at 31 December	-87	-	-87
Balance as at 31 December	**2,070**	**1,291**	**3,361**

Internally developed software includes purchased software components which are reclassified to 'purchased software' after completion of the additional internal development and implementation.

2016 IN THOUSANDS OF EUROS	PURCHASED SOFTWARE	INTERNALLY DEVELOPED SOFTWARE*	TOTAL
Acquisition costs at 1 January	5,433	3,349	8,782
Additions	1,520	127	1,647
Divestments	-1,249	-929	-2,178
Acquisition costs at 31 December	**5,704**	**2,547**	**8,251**
Accumulated amortisation as at 1 January	-4,024	-1,935	-5,959
Amortisation charge for the year	-1,230	-153	-1,383
Divestments	1,047	529	1,576
Accumulated amortisation as at 31 December	**-4,207**	**-1,559**	**-5,766**
Impairments as at 1 January	-87	-	-87
Impairments for the year	-	-	-
Impairments as at 31 December	-87	-	-87
Balance as at 31 December	**1,410**	**988**	**2,398**

Internally developed software includes purchased software components which are reclassified to 'purchased software' after completion of the additional internal development and implementation.

25. Deferred tax and liabilities

IN THOUSANDS OF EUROS	31 DECEMBER 2017	31 DECEMBER 2016
Deferred tax assets	8,414	8,007
Deferred tax liabilities	-8,093	-5,895
Net	**321**	**2,112**

2017 IN THOUSANDS OF EUROS	1 JANUARY	INCOME STATEMENT	EQUITY	31 DECEMBER
Financial investments available-for-sale	-5,649	-	-2,444	-8,093
Buildings held for own use	-	-	-	-
Other property and equipment	494	-148	-	346
Internally developend software	-246	246	-	-
Tax loss carryforwards	7,497	557	-	8,054
Other	16	-2	-	14
Total	**2,112**	**653**	**-2,444**	**321**

2016 IN THOUSANDS OF EUROS	1 JANUARY	INCOME STATEMENT	EQUITY	31 DECEMBER
Financial investments available-for-sale	-3,923	-	-1,726	-5,649
Buildings held for own use	-4,040	4,040	-	-
Other property and equipment	646	-152	-	494
Internally developend software	-353	107	-	-246
Tax loss carryforwards	6,847	650	-	7,497
Other	13	3	-	16
Total	**-810**	**4,648**	**-1,726**	**2,112**

Equity and Liabilities

26. Due to banks

IN THOUSANDS OF EUROS	2017	2016
Due on demand	166,448	262,290
Not due on demand	6,341	4,813
Balance as at 31 December	172,789	267,103

The fair value of this balance sheet item does not materially deviate from its carrying amount, due to the short-term nature of its related assets.

27. Due to customers

IN THOUSANDS OF EUROS	2017	2016
Saving deposits	2,106	3,090
Time deposits	152,764	179,487
Other deposits	3,300,096	3,255,488
Balance as at 31 December	3,454,966	3,438,065

The fair value of this balance sheet item does not materially deviate from its carrying amount, due to the short-term nature of its related assets.

The presented amount of ‘Due to customers’ decreased with approximately EUR 0.9 billion (2016: EUR 0.6 billion) as a result of the offsetting of deposits and entrusted funds for a number of clients (see note 38).

An amount of EUR 28 million relating to group companies is eliminated in the consolidated balance sheet under ‘Due to customers’.

28. Other liabilities

IN THOUSANDS OF EUROS	2017	2016
Accrued expenses and deferred income	18,992	19,658
Long-term employee benefits	978	1,225
Restructuring provision	6,448	9,634
Cumulative preference shares	-	-
Other liabilities	28,770	15,659
Balance as at 31 December	55,188	46,176

At 31 December 2017 KAS BANK has issued 25 (2016: 25) of the authorised 12,500,000 cumulative preference shares. These shares are registered in the name of Stichting Preferente Aandelen KAS BANK, and have a nominal value of EUR 1.00 per share. Furthermore, KAS BANK granted a right to Stichting Preferente Aandelen KAS BANK to subscribe for cumulative preference shares in the capital of KAS BANK up to a nominal amount corresponding to 50% of the nominal value of the ordinary shares in issue at the time of subscription.

The cumulative preference shares rank before the ordinary shares in entitlement to dividend and to distribution upon liquidation of KAS BANK. The dividend on the cumulative preference shares will be equal to a percentage, calculated on the amount compulsory paid up or yet to be paid up. This percentage shall be equal to the average return on the five-government bond with the longest maturity. If and to the extent that the profit available for distribution is not sufficient to pay the dividend referred in full, the shortfall will be made up from the reserves insofar as possible. If, and to the extent that, the dividend distribution cannot be made from the reserves, the profits earned in subsequent years shall first be used to make the shortfall before any distributions may be made on ordinary shares.

In relation to legal proceedings arising from operational activities we recognized a provision in the amount of EUR 3.3 million as at 31 December 2017 (2016: EUR 3.5 million) of which the outcome is not expected to materialize within one year.

At the end of 2017 an addition of EUR 1.9 million to the restructuring provision was recognised. The table below shows the changes in the restructuring provision in 2017:

IN THOUSANDS OF EUROS	2017	2016
Balance as at 1 January	9,634	1,154
Additions	1,948	9,293
Used during year	-5,134	-813
Balance as at 31 December	6,448	9,634

29. Retirement benefit plan

KAS BANK sponsors pension plans in the Netherlands and the United Kingdom. The plan of the Managing Board is a defined contribution plan. The plan of the UK employees is a defined benefit plan. As of 1 January 2016, the Dutch pension plan qualifies as a (collective) defined contribution plan, before 2016 the plan qualified as a defined benefit plan. As from 1 January 2016 KAS BANK pays annual contributions determined by a fixed method and has no legal or constructive obligation to pay any further contributions.

The Dutch pension plan is carried out by the company pension fund 'Stichting Pensioenfonds van de KAS BANK' and the UK defined benefit plan in a Trust.

Pension scheme in the United Kingdom

The UK pension scheme has the characteristics of a defined benefit plan due to a minimum guarantee level. The scheme prohibits refunds to the employer. In 2017, the net pension expense recognised in the income statement amounts to EUR 0.1 million (2016: EUR 0.1 million).

The present value of the benefit obligation is EUR 8.6 million (2016: EUR 8.4 million). The plan assets show a surplus after funding the minimum guarantee level. In the financial statements, the fair value of plan assets is equal to the present value of the benefit obligation.

The table below summarises the assumptions used to determine the present value and movements in the pension obligation and plan assets and the components of net benefit expenses recognised in the consolidated balance sheet and the consolidated income statement:

ACTUARIAL ASSUMPTIONS	2017	2016
Discount rate	2.50%	2.80%
General wage inflation	2.65%	2.65%
Price inflation	2.65%	2.65%
Indexation	2.00%	2.00%
Life expectancy	22 / 25	22 / 24
-65 year old male/female at end of year	24 / 26	24 / 26
Duration	31	31

30. Issued capital

NUMBER OF SHARES	2017	2016
Authorised	25,000,000	25,000,000
Non-issued	9,300,983	9,300,983
Issued and fully paid	15,699,017	15,699,017

The main part (15,589,012 shares) of the issued capital is registered in the name of Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office).

The Registrar's Office has issued stock certificates for them with a nominal value of EUR 1.00 each.
On pages 96 and 97 of this annual report, a more comprehensive description of the objectives and activities of the Registrar's Office can be found.

31. Treasury shares

NUMBER OF SHARES	2017	2016
Opening balance at 1 January at average of EUR 23.41 (2015: EUR 23.37)	936,742	958,898
Granted as share-based payments	-5,451	-22,156
Closing balance at 31 December at EUR 23.48 (2016: EUR 23.41)	931,291	936,742

The treasury shares are reserved for issuance under share and options plans (note 45). The company has the right to re-issue these shares at a later date.

32. Revaluation reserve

IN THOUSANDS OF EUROS	LAND AND BUILDING RESERVE	AVAILABLE-FOR-SALE RESERVE	TOTAL
At 1 January 2016	12,146	12,587	24,733
Unrealised results	-	8,335	8,335
Release due to sales and redemptions	-	-1,433	-1,433
Reclassified to other reserves	-12,146	-	-12,146
Reclassified to deferred tax	-	-1,742	-1,742
Reclassified to current tax	-	16	16
At 31 December 2016	-	17,763	17,763
Unrealised results	-	11,863	11,863
Release due to sales and redemptions	-	-2,086	-2,086
Reclassified to other reserves	-	-	-
Reclassified to deferred tax	-	-2,444	-2,444
Reclassified to current tax assets	-	-	-
At 31 December 2017	-	25,096	25,096

The revaluation reserve relates to unrealised fair value movements of Available-for-sale instruments and before 31 December 2016 to unrealised value movements of the office building recognized within Property Plant and Equipment.

33. Other reserves (including profit for the year)

IN THOUSANDS OF EUROS	2017	2016
Balance as at 1 January	191,934	169,957
Result for the period	15,099	14,854
Final dividend previous year (distributed in April)	-9,434	-4,569
Interim dividend (distributed in September)	-5,181	-
Share-based payments	-	-
Transferred from/(to) revaluation reserves	-	12,146
Treasury shares	-114	-464
Share based payments	109	-
Other movements	181	10
Balance as at 31 December	**192,594**	**191,934**

Other reserves include retained earnings and statutory reserves for internal developed software. A statutory reserve is a non-distributable reserve. Reference is made to the company financial statements.

34. Fair value of financial assets and financial liabilities

The following table presents the financial instruments carried at fair value, broken down according to the fair value hierarchy. The fair value hierarchy distinguishes three levels of fair value:

- Level 1: Unadjusted quoted prices obtained in an active and liquid market;
- Level 2: Valuation techniques based on observable market data other than quoted prices included in level 1. This level includes quoted prices in less active markets and derivatives that are valued using inputs from observable market data;
- Level 3: Valuation techniques using variables other than observable market data. This level includes all instruments of where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation, these instruments are valued mainly by third parties.

Some equity instruments are measured at historical cost since no market data exists. There were no changes in valuation techniques during the period.

The fair value of a financial instrument is the price that would be received to sell or paid to transfer a particular asset or liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which KAS BANK has access at that date.

KAS BANK determines fair value either by reference to quoted market prices or dealer price quotations without adjustment for transaction costs for those financial instruments that are currently traded in an active market. The fair value measurement is based upon the bid price for financial assets and the ask price for financial liabilities. These financial instruments are reported as level 1 in the fair value hierarchy.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. If the above criteria are not met, the market is regarded as being inactive.

The fair value of financial instruments not quoted in an active market is determined using specific valuation techniques. These valuation techniques are applied using, where possible, relevant market observable inputs (level 2). Valuation techniques include:

- Use of quoted market prices or dealer tickets for similar instruments;
- Estimated future cash flows based on observable yield curves (fair value of interest rate derivatives and unlisted debt instruments);
- Use of forward exchange rates at the balance sheet data (fair value of foreign exchange derivatives).

31 DECEMBER 2017 IN THOUSANDS OF EUROS	LEVEL 1	LEVEL 2	LEVEL 3	COST	TOTAL
Derivative financial instruments (assets)	69,197	202,041	-	-	271,238
Available-for-sale debt instruments	567,792	174,712	349,779	-	1,092,283
Available-for-sale equity instruments	-	31,736	1,937	170	33,843
Total financial assets	**636,989**	**408,489**	**351,716**	**170**	**1,397,364**
Derivative financial instruments (liabilities)	69,197	205,504	-	-	274,701
Total financial liabilities	**69,197**	**205,504**	**-**	**-**	**274,701**

31 DECEMBER 2016 IN THOUSANDS OF EUROS	LEVEL 1	LEVEL 2	LEVEL 3	COST	TOTAL
Derivative financial instruments (assets)	53,836	359,332	-	-	413,168
Available-for-sale debt instruments	310,468	184,225	378,822	-	873,515
Available-for-sale equity instruments	-	833	3,227	2	4,062
Total financial assets	364,304	544,390	382,049	2	1,290,745
Derivative financial instruments (liabilities)	53,836	349,986	-	-	403,822
Total financial liabilities	**53,836**	**349,986**	**-**	**-**	**403,822**

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements see the table below. KAS BANKs policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Reconciliation of fair value at level 3

The movements in financial instruments measured using a level 3 method were as follows:

FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE IN THOUSANDS OF EUROS	31 DECEMBER 2017	31 DECEMBER 2016
Position as at 1 January	382,049	268,187
Reclassification to Level 1	-737	-
Reclassification to Level 3	-	168
Reclassification to Cost	-170	-
Redemptions	-	-
Purchases (sale) of assets	-31,380	100,000
Revaluation recognised in equity during the year	1,954	13,531
Total income and charges		
· Unrealised gains/losses	-	-
· Fair value movement recognised in the income statement	-	163
Level 3 assets at balance date	**351,716**	**382,049**

The instruments valued by a third party represent a fair value of EUR 349.8 million (2016: EUR 378.8 million), including the mortgage fund and Residential Mortgage Back Securities. The other investments are based on an internal analysis of the assets and liabilities and represent a fair value of EUR 1.9 million (2016: EUR 3.2 million).

As from 2014, KAS BANK invests in a high-quality mortgage fund, classified as financial instruments available-for-sale. The fund has a joint account structure in which the investor has a direct exposure to the underlying mortgages. Approximately 60% of the mortgages are guaranteed by the Dutch guarantee scheme (in Dutch: Nationale Hypotheekgarantie). The fund is long term in nature but given the size of the fund and the prepayment rate an early exit is a likely possibility. Redemptions occur at the prevailing Net Asset Value. Each month the fund manager calculates the Net Asset Value. The calculation is based on the discounted cash flows of the underlying assets (Dutch mortgages). As per 31 December 2017 the total commitment to the fund amounts to EUR 300 million (31 December 2016: EUR 300 million). As at 31 December 2017 the fair value of KAS BANK's investment in this mortgage fund amounts to EUR 339.6 million (at the end of 2016: EUR 337.2 million). As at 31 December 2017 the total value of this mortgage fund amounts to EUR 12.0 billion (at the end of 2016: EUR 9.2 billion).

A movement of 25 basis points in either direction of the discount rate applied in the calculation of the Net Asset Value results in a change of 1.9% (December 2016: 1.8%) of the Net Asset Value of the fund.

The equity instruments are valued based on internal models or historical cost if no market data is available.

Financial instruments for which carrying value approximates fair value

Certain financial assets and liabilities that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These financial assets and liabilities include cash and balances with central banks, due from other banks, loans, reverse repurchase agreements, due to banks, due to customers, and repurchase agreements.

35. Contingent liabilities

Guarantees

KAS BANK had given guarantees on behalf of clients in relation to the bank's direct connections to stock exchanges. Besides these guarantees additional guarantees have been granted to a number of clearing institutions.

36. Irrevocable facilities

Irrevocable facilities mainly comprise credit lines which have been agreed with clients but not yet drawn upon. The main part of these credit lines is based on collateral which will be provided after draw up.

37. Operating lease commitments and long-term rental and maintenance contracts

The operating lease commitments and long-term rental and maintenance contracts fall due as follows:

IN THOUSANDS OF EUROS	2017	2016
Within one year	14,306	14,383
After one year but within five years	52,789	48,266
After five years	14,710	19,751
Balance as at 31 December	81,805	82,400

The operating lease commitments and long-term rental and maintenance contracts mainly relate to hardware, software, cars and premises. An amount of EUR 15.2 million (2016: EUR 10.8 million) relating to these contracts is included in the income statement as 'General and administrative expenses'.

As from October 2016 the main part of KAS BANK's IT activities are outsourced to an IT provider. The outsourcing contract has duration of seven years and the associated lease commitments are included in the table above.

38. Credit risk

Credit risk is the risk that counterparty fails to meet contractual or other agreed obligations.

The credit risk arising from loans is in principle related to facilitate settlement and clearing activities and covered by collateral. Loans are based on applicable internal credit limits and prudent haircuts apply.
The credit risk relating to treasury activities mainly relates to:

- Investment portfolios held for own account;
- Securities borrowing and lending and (reverse) repurchase transactions;
- Exposures in money market instruments and derivatives.

The Treasury department as first line of defence is in charge of managing the credit risk arising from treasury activities. The Back Office is responsible for measuring and monitoring KAS BANK's credit risk. The Risk Management department monitors KAS BANK's credit risk. Treasury reports to the Risk Management department.

KAS BANK's credit policy is structured to limit the bank's credit risks by ensuring that credit is covered by collateral. The Managing Director Risk Management advises the Enterprise Risk Management Committee on setting guidelines and limits for each counterparty. The approval of KAS BANK's Enterprise Risk Management Committee is required to finalise guidelines and limits.

KAS BANK uses as much as possible external information such as credit rating, credit default curves to assess credit risks. If such information is not available or deemed not sufficient an internal rating system for monitoring credit risks on counterparties is used.

The internal ratings are reassessed periodically, depending on the risk classification and developments on the markets or at client's activities. The rating system is based on an analysis of the financial position of the client and also on the operational and business risks associated with the client's activities.

The internal ratings are an important factor for setting limits and determining the level of margin required in respect of security transactions. Other factors include regulatory requirements, e.g. the Large Exposure regime.

Exposure relating to security transactions

The monitoring of outstanding settlement positions is based on a credit risk information system which quantifies the risks and performs a check on the collateral posted by the client. The monitoring system also includes the financial and market position of the client.

Internal authorisation of client instructions is also part of this monitoring system. The settlement of security transactions includes a counterparty risk in cases KAS BANK delivers securities and/or cash, but does not receive cash or securities from the counterparty.

Delivery versus payment is a standardised method, meaning securities are transferred at the same time as the funds of the counterparty are received. Settlement is not finalised until the adequacy of funds and/or securities is verified.

Exposure based on collateral

Exposure related to settlement and clearing facilities is always covered by collateral with a pledge on the securities and cash account for KAS BANK. Client withdrawal of the facilities is in accordance with a policy as established by the Credit Management Group and approved by the Enterprise Risk Management Committee. A basic requirement is that advance conditions only apply to securities matching KAS BANK's low risk profile.

Exposure based on internal limits

An exposure based on internal limits is applicable in addition to an exposure based on collateral. The purpose of internal limits is to facilitate settlement transactions. Operational management submits a request for a limit. Risk Management will perform a credit analysis based on the policy set by the bank's Enterprise Risk Management Committee.

IN THOUSANDS OF EUROS	31 DECEMBER 2017	31 DECEMBER 2016
Banks	2,490,800	5,483,130
Other parties	80,795	39,863
Receivables in respect of securities lending	**2,571,595**	**5,522,993**
Securities	2,683,547	6,381,055
Cash	65,013	37,530
Collateral received	**2,748,560**	**6,418,585**
Banks	40,845	39,585
Other parties	2,366,906	5,225,115
Liabilities in respect of securities lending	**2,407,751**	**5,264,700**
Borrowers' repledged securities	2,544,015	5,570,548
Reverse repurchase agreements	27,394	122,474
Collateral paid	**2,571,409**	**5,693,022**

Collateral pledged and received includes both cash and non-cash positions.

Exposures relating to treasury activities

The main exposure of treasury activities concerns the investment portfolio. In addition, a credit exposure arises from securities borrowing and lending transactions, (reverse) repurchase transactions, exposures in money market instruments and derivatives.

Securities borrowing and lending

KAS BANK mainly acts as a principal in securities borrowing and lending transactions. The borrower of the securities is obliged to post collateral equivalent to the effective value plus a mark-up depending on the quality of the collateral received.

The following table shows the amounts receivable and payable in respect of securities borrowing and lending, including the received collateral.

(Reverse) Repurchase transactions

KAS BANK sells securities under agreements to repurchase ('repos') and purchases securities under agreements to resell ('reverse repos'). The securities lent or sold under agreements to repurchase are transferred to a third party and the bank receives cash or other financial assets in exchange. The counterparty is allowed to sell or repledge those securities lent or sold under repurchase agreements in the absence of default by the bank, but has an obligation to return the securities at the maturity of the contract. KAS BANK has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them.

In addition, KAS BANK recognises a financial liability for cash received as collateral. Similarly, KAS BANK may sell or repledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the bank, which instead records a separate asset for the cash collateral given.

IN THOUSANDS OF EUROS	2017	2016
Reverse repurchase agreements	448,417	662,378
Repurchase agreements	-196	-454
Net	**448,221**	**661,924**
Government bonds	198,417	463,171
Central counterparty - non ECB-eligible	200,000	100,000
Central counterparty - ECB eligible	50,000	100,000
Total collateral received	**448,417**	**663,171**
Exposure	-	-

Exposures in money market instruments and derivatives

The Enterprise Risk Management Committee assigns limits for money market transactions and foreign currency positions for all counterparties. Excesses on money market and currency limits have to be approved by the Asset & Liability Committee. KAS BANK uses derivatives to hedge the interest rate risk in the balance sheet.

Derivative transactions are in majority entered into under master agreements of the International Swaps and Derivatives Association (ISDA). Master agreements provide that, if the master agreement is being terminated as a consequence of an event of default or termination event, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

In addition, the Credit Support Annex (CSA) is used for daily cash margining. In these cases, the credit risk related to the fair value is mitigated by the collateral received.

Own securities portfolios

KAS BANK limits the exposure to credit risk in its own security portfolio by investing in marketable, highly liquid, securities with an investment grade credit rating from both Moody's Investors Service and Standard & Poor's (S&P). The Asset & Liability Committee may approve exemptions of these minimum requirements.

KAS BANK invests in a high-quality mortgage fund which is valued by a third party. This mortgage fund consists mainly (at least 75%) of new mortgages guaranteed by the Dutch government (in Dutch: NHG hypotheken) and therefore has the characteristics of an investment with a high credit rating. For further details, refer to note 34.

The following table shows the credit rating (based on S&P) of the investment and designated fair value portfolios:

IN THOUSANDS OF EUROS	31 DECEMBER 2017	31 DECEMBER 2016
Government / government-guaranteed	62,467	10,718
Other AAA - AA-	591,149	390,933
Total AAA - AA-	653,616	401,651
A+ - A-	24,198	85,578
BBB+ - BBB-	70,424	39,564
BB+ - BB-	5,289	7,990
< BB-	-	1,479
Mortgage fund	339,590	337,243
Shares	33,009	4,072
Total	**1,126,126**	**877,577**

Maximum credit risk

The maximum amount of credit risk (without taking into account the effects of credit risk mitigation provided by set-off agreements and the collateral received) for all financial assets is equal to the carrying amount as included in the consolidated balance sheet. The carrying amount of the assets includes impairment losses.

Provisions and impairments

Clients with financial problems or uncollateralised debt positions past due are transferred to special credit monitoring and are actively monitored by Risk Management in order to ensure the relationship with the client is properly managed and to minimise KAS BANK's risk. KAS BANK does not have forborne assets at 31 December 2017.

In 2017 and 2016 KAS BANK did not utilise pledged collateral and has no assets that were past due. In both years received collateral mitigated credit risks. Even without collateral we expect no additional impairments.

As a response to the public statement of the European Securities and Markets Authority (ESMA) related to forbearance practices issued on 20 December 2012, KAS BANK applies a forbearance policy, including renegotiated terms, for clients experiencing financial difficulties and who consequently are unable to meet the original terms and conditions of the contract. In 2017 and 2016, KAS BANK did not any provide forbearance measures to clients.

IN THOUSANDS OF EUROS	CASH AND BALANCE WITH CENTRAL BANKS	DUE FROM BANKS AND LOANS	REVERSE REPURCHASE AGREEMENTS	DERIVATIVE FINANCIAL INSTRUMENTS	FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE
31 December 2017					
Carrying amount	1,504,060	799,700	448,417	271,238	1,126,126
Assets not impaired, not past due	1,504,060	799,700	448,417	271,238	1,126,126
Individually impaired assets (gross carrying amount)	-	15,028	-	-	-
Accumulated impairment	-	15,028	-	-	-
31 December 2016					
Carrying amount	1,387,886	1,011,926	662,378	413,168	877,577
Assets not impaired, not past due	1,387,886	1,011,926	662,378	413,168	877,577
Individually impaired assets (gross carrying amount)	-	15,259	-	-	4,642
Accumulated impairment	-	15,259	-	-	4,754

Financial assets and liabilities subject to offsetting and enforceable master netting arrangements

2017 IN THOUSANDS OF EUROS	GROSS AMOUNTS	AMOUNTS THAT ARE SET OFF	NET AMOUNTS IN THE BALANCE SHEET	RELATED AMOUNTS NOT SET OFF IN BALANCE SHEET*	NET AMOUNTS
Financial assets					
Due from banks	116,941	-	**116,941**	1,850	115,091
Loans	1,629,212	946,453	**682,759**	424,456	258,303
Reverse repurchase agreement	448,417	-	**448,417**	448,417	-
Derivative financial instruments	271,238	-	**271,238**	270,115	1,123
	2,465,808	**946,453**	**1,519,355**	**1,144,838**	**374,517**
Equity and liabilities					
Due to banks	172,789	-	**172,789**	-	172,789
Due to customers	4,401,419	946,453	**3,454,966**	-	3,454,966
Repurchase agreement	-	-	-	-	-
Derivative financial instruments	274,701	-	**274,701**	237,218	37,483
	4,848,909	**946,453**	**3,902,456**	**237,218**	**3,665,238**

As a response to the public statement of the European Securities and Markets Authority (ESMA) related to forbearance practices issued on 20 December 2012, KAS BANK has developed a forbearance policy, including renegotiated terms, for clients experiencing financial difficulties and who consequently are unable to meet the original terms and conditions of the contract. In 2017 and 2016, KAS BANK did not provide forbearance measures to clients.

IN THOUSANDS OF EUROS	CASH AND BALANCE WITH CENTRAL BANKS	DUE FROM BANKS AND LOANS	REVERSE REPURCHASE AGREEMENTS	DERIVATIVE FINANCIAL INSTRUMENTS	FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE
31 December 2017					
Carrying amount	1,504,060	799,700	448,417	271,238	1,126,126
Assets not impaired, not past due	1,504,060	799,700	448,417	271,238	1,126,126
Individually impaired assets (gross carrying amount)	-	15,028	-	-	-
Accumulated impairment	-	15,028	-	-	-
31 December 2016					
Carrying amount	1,387,886	1,011,926	662,378	413,168	877,577
Assets not impaired, not past due	1,387,886	1,011,926	662,378	413,168	877,577
Individually impaired assets (gross carrying amount)	-	15,135	-	-	4,642
Accumulated impairment	-	15,135	-	-	4,754

Financial assets and liabilities subject to offsetting and enforceable master netting arrangements

2017 IN THOUSANDS OF EUROS	GROSS AMOUNTS	AMOUNTS THAT ARE SET OFF	NET AMOUNTS IN THE BALANCE SHEET	RELATED AMOUNTS NOT SET OFF IN BALANCE SHEET*	NET AMOUNTS
Financial assets					
Due from banks	116,941	-	**116,941**	1,850	115,091
Loans	1,629,212	946,453	**682,759**	424,456	258,303
Reverse repurchase agreement	448,417	-	**448,417**	448,417	-
Derivative financial instruments	271,238	-	**271,238**	270,115	1,123
	2,465,808	**946,453**	**1,519,355**	**1,144,838**	**374,517**
Equity and liabilities					
Due to banks	172,789	-	**172,789**	-	172,789
Due to customers	4,401,419	946,453	**3,454,966**	-	3,454,966
Repurchase agreement	-	-	-	-	-
Derivative financial instruments	274,701	-	**274,701**	237,218	37,483
	4,848,909	**946,453**	**3,902,456**	**237,218**	**3,665,238**

2016 IN THOUSANDS OF EUROS	GROSS AMOUNTS	AMOUNTS THAT ARE SET OFF	NET AMOUNTS IN THE BALANCE SHEET	RELATED AMOUNTS NOT SET OFF IN BALANCE SHEET*	NET AMOUNTS
Financial assets					
Due from banks	232,205	-	**232,205**	5,109	227,096
Loans	1,362,622	582,901	**779,721**	473,163	306,558
Reverse repurchase agreement	662,378	-	**662,378**	659,925	2,453
Derivative financial instruments	413,168	-	**413,168**	351,866	61,302
	2,670,373	**582,901**	**2,087,472**	**1,490,063**	**597,409**
Equity and liabilities					
Due to banks	267,103	-	**267,103**	-	267,103
Due to customers	4,020,966	582,901	**3,438,065**	-	3,438,065
Repurchase agreement	454	-	**454**	-	454
Derivative financial instruments	403,822	-	**403,822**	219,775	184,047
	4,692,345	**582,901**	**4,109,444**	**219,775**	**3,889,669**

** Bank and loan exposure is mainly covered by securities pledged as collateral. Derivatives exposure is covered by netting arrangements of the International Swaps and Derivatives Association (ISDA) or by margins. Margins mainly relate to derivatives held on behalf of clients. Reverse repurchases agreements are covered by the arrangements of the International Capital Market Association (IMCA). The fair value amounts of the collateral of loans, due from banks and derivatives are presented in the column headed "Related amounts not set off in balance sheet".*

Concentration risk

Concentration risk arises from excessive amounts outstanding with a single party or a number of closely related parties. Concentration risk is managed by a system of internal limits and takes into account the large-exposure regime. Furthermore, concentration risk may occur in relation to a single country, segment or asset class. KAS BANK's credit risk is – though well diversified within the segment – concentrated within financial institutions.

Measures to mitigate this concentration risk are:

- the spread of risk within the bank's client base (and among our clients' clients);
- financials are excluded as acceptable collateral in several services;
- most of the exposure is secured by collateral;
- a good infrastructure with guarantees for the settlement of security transactions;
- effective supervision of our client groups and client acceptance.

Financial sector concentration risk

IN THOUSANDS OF EUROS	CENTRAL GOVERNMENT	FINANCIAL INSTITUTIONS	INSTITUTIONAL INVESTORS	OTHER	TOTAL
Concentration by segment 2017					
Cash and balances with central banks	1,504,060	-	-	-	**1,504,060**
Due from banks	-	116,941	-	-	**116,941**
Loans	-	-	657,281	25,478	**682,759**
Reverse repurchase agreements	-	248,417	200,000	-	**448,417**
Derivative financial instruments (assets)	-	109,480	158,029	3,729	**271,238**
Financial investments available-for-sale	18,162	395,837	710,589	1,538	**1,126,126**
	1,522,222	**870,675**	**1,725,899**	**30,745**	**4,149,541**
Concentration by segment 2016					
Cash and balances with central banks	1,387,886	-	-	-	**1,387,886**
Due from banks	-	73,991	158,214	-	**232,205**
Loans	-	-	724,520	55,201	**779,721**
Reverse repurchase agreements	-	462,378	200,000	-	**662,378**
Derivative financial instruments (assets)	-	215,759	189,316	8,093	**413,168**
Financial investments available-for-sale	10,718	864,260	-	2,599	**877,577**
	1,398,604	**1,616,388**	**1,272,050**	**65,893**	**4,352,935**

IN THOUSANDS OF EUROS	THE NETHERLANDS	REST OF EUROPEAN UNION	OTHER	TOTAL
Concentration by region 2017				
Cash and balances with central banks	1,504,060	-	-	**1,504,060**
Due from banks	8,326	20,330	88,285	**116,941**
Loans	512,777	112,124	57,858	**682,759**
Reverse repurchase agreements	-	448,417	-	**448,417**
Derivative financial instruments (assets)	168,056	81,195	21,987	**271,238**
Financial investments available-for-sale	509,180	341,244	275,702	**1,126,126**
	2,702,399	**1,003,310**	**443,832**	**4,149,541**
Concentration by region 2016				
Cash and balances with central banks	1,387,885	2	-	**1,387,887**
Due from banks	151,907	21,234	59,064	**232,205**
Loans	725,241	26,282	28,198	**779,721**
Reverse repurchase agreements	-	662,378	-	**662,378**
Derivative financial instruments (assets)	306,392	68,253	38,523	**413,168**
Financial investments available-for-sale	456,286	308,063	113,228	**877,577**
	3,027,711	**1,086,212**	**239,013**	**4,352,936**

39. Market risk

Market risk concerns the risk of a change in the value of a financial instrument as a result of changes in market variables. In the case of KAS BANK, this mainly relates to changes in the prices of securities, foreign currency rates, interest rates and movements in credit spreads. Market risk concentrates to our investment portfolios.

Managing market risk

KAS BANK's policy is designed to maintain a conservative approach to the exposure to market risks. The bank's Enterprise Risk Management Committee has adopted procedures and guidelines and set limits with regard to market risks.

The Asset & Liability Committee and the Enterprise Risk Management Committee monitor compliance with market risk policies and Treasury limits. Treasury is responsible for managing the bank's position in terms of cash and securities within the guidelines and limits established by the Enterprise Risk Management Committee.

KAS BANK uses a Value-at-Risk (VaR) model in combination with Stress Testing to monitor the risks in its securities, foreign currency and derivatives positions. The VaR is defined as the maximum loss that is likely to occur, with a certain statistical level of confidence, under normal circumstances as a result of changing risk factors over a predetermined time horizon. In calculating the VaR, KAS BANK employs the method of historical simulation based on weighted historical data over a period of approximately 12 months (using the ageing method), with a confidence level of 99.0% and a time horizon of ten working days. The Enterprise Risk Management Committee has set a VaR limit of EUR 1.5 million for the limited trading book positions. These positions include FX inventory, mainly arising from client activity. The VaR of the FX positions is monitored on a weekly basis with a VaR limit of EUR 1 million.

A signal VaR of EUR 5 million applies for the total hedged and unhedged positions of the available-for-sale portfolio of KAS BANK. This portfolio includes positions in central governments and financial institutions. If the calculated VaR exceeds this signal value, the breach will be discussed within the Asset & Liability Committee. The Asset & Liability Committee will decide what action to take in cases when the VaR shows a level above EUR 7 million. The Risk Management department monitors the VaR for the own security portfolios and submits a monthly report of the latest figures to the Asset & Liability Committee.

Model Limitations

Using the VaR to measure risk does, however, have some shortcomings. The VaR quantifies the potential loss only on the assumption of normal market circumstances. In practice, however, this assumption is not applicable in extreme conditions. This might result in potential losses being underestimated. The VaR calculation also uses historical data to predict the pattern of future price fluctuations. Future price fluctuations may differ substantially from those observed in the past. Finally, the use of a time horizon of two weeks assumes the possibility to sell the positions within two weeks, which is uncertain in periods of illiquidity or extreme events affecting the market conditions. Using a confidence level of 99.0% also means that the VaR takes no account of losses outside this level of confidence.

In order to compensate for the shortcomings of the VaR method outlined above, KAS BANK complements the VaR analysis with Stress Tests. The Stress Test is a scenario analysis which takes into account extremely unfavourable market conditions (such as huge price swings in a stock market meltdown or losses in Residential Mortgage-Backed Security tranches (RMBS)). These crisis situations do not often occur, but it is important to not disregard them.

Market risk exposure

The following table shows the internally reported VaR-figures in millions of euros.

IN MILLIONS OF EUROS		31 DECEMBER	HIGHEST	LOWEST	AVERAGE
VaR total	2017	2.8	3.3	2.5	2.9
VaR total	2016	2.4	3.8	2.3	2.7
VaR trading	2017	0.4	1.0	0.4	0.7
VaR trading	2016	0.3	0.9	0.3	0.6

The VaR trading consists of the ForeX positions and financial assets/liabilities designated at fair value. The VaR total relates to the whole investment and trading portfolio of KAS BANK

Currency risk

Currency risk concerns the risk that the fair value of future cash flows from a financial instrument fluctuate as a result of changes in exchange rates. The following table presents the amounts outstanding in foreign currencies.

A rise of 1% in the value of a foreign currency at balance sheet date would result in an equivalent increase/decrease in pre-tax income, depending on whether the particular position was a net asset or liability. Conversely any similar weakening of the foreign currency would have an opposite effect.

31 DECEMBER 2017 IN THOUSANDS OF EUROS	ASSETS	LIABILITIES	NET	DERIVATIVE FINANCIAL INSTRUMENTS	REMAINING EXPOSURE
USD	108,284	467,540	-359,256	364,458	5,202
GBP	164,814	437,254	-272,440	274,046	1,606
CHF	43,417	15,501	27,916	-28,287	-371
SEK	7,389	10,394	-3,005	2,102	-903
JPY	2,265	22,859	-20,594	20,944	350
AUD	2,113	6,823	-4,710	4,639	-71
CAD	2,244	10,823	-8,579	7,665	-914
Other	63,011	58,244	4,767	-1,407	3,360
Total	**393,537**	**1,029,438**	**-635,901**	**644,160**	

31 DECEMBER 2016 IN THOUSANDS OF EUROS	ASSETS	LIABILITIES	NET	DERIVATIVE FINANCIAL INSTRUMENTS	REMAINING EXPOSURE
USD	138,451	454,279	-315,828	311,473	-4,355
GBP	188,678	333,742	-145,064	211,510	66,446
CHF	52,861	12,033	40,828	-31,752	9,076
SEK	1,756	6,810	-5,054	5,051	-3
JPY	19,887	17,240	2,647	-2,780	-133
AUD	675	7,086	-6,411	6,437	26
CAD	1,100	10,424	-9,324	9,193	-131
Other	44,355	45,714	-1,359	3,042	1,683
Total	**447,763**	**887,328**	**-439,565**	**512,174**	

Interest rate risk

The interest rate risk concerns the risk that the fair value of future cash flows from a financial instrument fluctuate as a result of changes in the market rate of interest.

The interest rate risk in our ordinary banking operations is small, as interest rate terms are essentially floating and short-term. The main interest rate risk of KAS BANK relates to the available-for-sale (AFS) portfolio. The impact of interest rate fluctuations is determined on the level of the balance sheet using an interest rate model that predicts the effects for both the income statement and the market value of the shareholders' equity. The interest rate risk in the AFS portfolio is monitored using Value-at-Risk (VaR) calculations.

The basic principles on which our interest rate risk is managed are included in the balance sheet management guidelines and approved by the bank's Enterprise Risk Management Committee. KAS BANK uses an interest rate risk model to monitor the interest rate risk.

This model is used to perform scenario analyses, stress-testing scenarios and Monte Carlo simulations. The Risk Management department reports the results of the analyses to the Asset & Liability Committee on a quarterly basis.

A gradual increase of 200 basis points in the market rate of interest of each maturity band from balance sheet date onwards is expected to result in an increase of 25% (2016: 2% increase) in net interest income over a full year and a decrease in the market rate of interest of 200 basis points probably results in an increase of 13% (2016: 1% decrease) in net interest income over a full year. A sudden increase of 200 basis points in the market rate of interest probably results in a 2% decrease of equity (2016: 1% decrease), while a sudden decrease of 200 basis points in the market rate of interest probably results in an increase of 1% of equity (2016: 1% decrease).

40. Liquidity risk

The liquidity risk concerns the risk that the bank is unable to meet its financial obligations on time. The basic approach for managing the liquidity risk is to ensure that adequate liquidity is available to meet our financial obligations in normal and extreme circumstances (based on stress assumptions).

Managing liquidity risk

The operating systems and departments report to the Treasury department on the in- and outflows of funds, future financial assets and liabilities and requirements for collateral pledged with central banks and clearing institutions to facilitate settlement and payment processes on behalf of clients. Using this information, the Treasury department has a day-to-day overview of the bank's liquidity position and ensures that sufficient collateral is posted.

In 2016 KAS BANK has submitted and discussed its Internal Liquidity Adequacy Assessment Process report to De Nederlandsche Bank, which covers further liquidity measures in more detail. All stress events have been reviewed and updated where necessary to reflect current market conditions.

The Asset & Liability Committee advises the Enterprise Risk Management Committee on the liquidity policy and monitors compliance. In addition to the Liquidity Policy, a Liquidity Contingency Plan is established and adopted by the Asset & Liability Committee. A daily overview of the liquidity position is distributed to the relevant management within the bank.

The Capital Requirements Regulation introduced two new liquidity ratios to measure the level of liquidity: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR, which came onto force starting October 2015 by the Delegated Act, requires sufficient liquid assets to cover the net outgoing cash flow for thirty days. The objective of the NSFR is to ensure that banks fund their assets more with stable medium and long-term sources. These ratios are monitored in the Asset & Liability Committee.

Taking into account evolving regulatory proposals and requirements on liquidity and negative interest charged, KAS BANK had access to sufficient liquidity throughout the year.

The liquidity surplus is considered sufficient to cover the day-to-day events. The permanent high level was due to the stable character of the liquidity with a highly operational nature, the maintenance of the level of funds entrusted and the deliberate liquidity policy.

The table below shows the financial assets and liabilities of KAS BANK divided by maturity:

MATURITY CALENDAR AS OF 31 DECEMBER 2017 IN THOUSANDS OF EUROS	ON DEMAND	< = 3 MONTHS	= 1 YEAR	= 5 YEAR	>5 YEAR	NON-MATURITY	TOTAL
Assets							
Cash and balances with central banks	1,504,060	-	-	-	-	-	1,504,060
Due from banks	97,271	19,670	-	-	-	-	116,941
Loans	653,698	24,852	-	-	4,209	-	682,759
Reverse repurchase agreements	-	448,417	-	-	-	-	448,417
Financial investments available-for-sale	-	40,484	29,566	954,467	98,615	2,994	1,126,126
	2,255,029	533,423	29,566	954,467	102,824	2,994	3,878,303
Liabilities							
Due to banks	166,448	6,341	-	-	-	-	172,789
Due to customers	3,300,096	154,870	-	-	-	-	3,454,966
Repurchase agreements	-	196	-	-	-	-	196
	3,466,544	161,407	-	-	-	-	3,627,951
Derivative financial instruments							
Foreign exchange contracts							
· Incoming cash flow	-	7,063,355	35,175	-	-	-	7,098,530
· Outgoing cash flow	-	-7,062,137	-34,848	-	-	-	-7,096,985
Interest contracts							-
· Incoming cash flow	-	4,690	10,952	61,042	350,329	-	427,013
· Outgoing cash flow	-	-6,393	-13,941	-74,506	-366,129	-	-460,969
	-	-	-	-	-	-	-
Contingent positions							
Liquidity surplus/(deficit)	**-1,211,515**	**372,016**	**29,566**	**954,467**	**102,824**	**2,994**	**250,352**

MATURITY CALENDAR AS OF 31 DECEMBER 2017 IN THOUSANDS OF EUROS	ON DEMAND	< = 3 MONTHS	= 1 YEAR	= 5 YEAR	>5 YEAR	NON-MATURITY	TOTAL
Liabilities (undiscounted cash flows)							
Due to banks	166,448	6,341	-	-	-	-	172,789
Due to customers	3,300,097	154,869	-	-	-	-	3,454,966
Repurchase agreements	-	196	-	-	-	-	196
Current tax liabilities	-	-	-	-	-	-	-
Other liabilities	-	57,464	-	-	-	-	57,464
Deferred tax liabilities	-	-	-	8,093	-	-	8,093
Estimated contractual interest cash flows	-	-1,703	-2,989	-13,464	-15,800	-	-33,956
Total liabilities (excluding derivatives, including estimated contractual interest rate cash flows)	**3,466,545**	**217,167**	**-2,989**	**-5,371**	**-15,800**	**-**	**3,659,552**

MATURITY CALENDAR AS OF 31 DECEMBER 2016 IN THOUSANDS OF EUROS	ON DEMAND	< = 3 MONTHS	= 1 YEAR	= 5 YEAR	>5 YEAR	NON-MATURITY	TOTAL
Assets							
Cash and balances with central banks	1,387,886	-	-	-	-	-	1,387,886
Due from banks	215,048	17,157	-	-	-	-	232,205
Loans	665,673	95,757	8,665	4,500	5,126	-	779,721
Reverse repurchase agreements	-	662,378	-	-	-	-	662,378
Financial investments available-for-sale	-	21,788	27,334	629,582	194,800	4,073	877,577
	2,268,607	797,080	35,999	634,082	199,926	4,073	3,939,767
Equity and liabilities							
Due to banks	266,133	970	-	-	-	-	267,103
Due to customers	3,255,487	162,578	20,000	-	-	-	3,438,065
Repurchase agreements	-	454	-	-	-	-	454
Financial liabilities designated at fair value	-	-	-	-	-	-	-
	3,521,620	164,002	20,000	-	-	-	3,705,622
Derivative financial instruments							
Foreign exchange contracts							
· Incoming cash flow	-	10,257,134	242,688	-	-	-	10,499,822
· Outgoing cash flow	-	-10,240,703	-240,273	-	-	-	-10,480,976
Interest contracts							
· Incoming cash flow	-	18,104	4,631	90,503	547,230	-	660,468
· Outgoing cash flow	-	-21,192	-6,527	-102,472	-559,990	-	-690,181
	-	13,343	519	-11,969	-12,760	-	-10,867
Contingent positions							
Liquidity surplus/(deficit)	-	-	-	-	-	-	-
Liquidity surplus/(deficit)	**-1,253,013**	**646,421**	**16,518**	**622,113**	**187,166**	**4,073**	**223,278**

MATURITY CALENDAR AS OF 31 DECEMBER 2016 IN THOUSANDS OF EUROS	ON DEMAND	< = 3 MONTHS	= 1 YEAR	= 5 YEAR	>5 YEAR	NON-MATURITY	TOTAL
Liabilities (undiscounted cash flows)							
Due to banks	266,133	970	-	-	-	-	267,103
Due to customers	3,255,487	162,578	20,000	-	-	-	3,438,065
Repurchase agreements	-	454	-	-	-	-	454
Current tax liabilities	-	-	-	12,182	-	-	12,182
Other liabilities	-	45,908	-	-	-	-	45,908
Deferred tax liabilities	-	-	-	5,895	-	-	5,895
Estimated contractual interest cash flows	-	3,088	1,896	11,969	12,760	-	29,713
Total liabilities (excluding derivatives, including estimated contractual interest rate cash flows)	**3,521,620**	**212,998**	**21,896**	**30,046**	**12,760**	**-**	**3,799,320**

41. Capital management

It is KAS BANK's policy to maintain a strong capital base, to meet regulatory capital requirements at all times and to support the development of the business. This involves the management, planning and allocation of capital within KAS BANK. The ongoing assessment and monitoring of capital adequacy is embedded in the capital planning process of the Asset & Liability Committee. The Asset & Liability Committee also assesses the impact of new investments and new products on amongst others capital ratio and leverage ratio.

CRR/CRD IV regulatory capital

The Basel Committee on Banking Supervision issued new solvency and liquidity requirements, which superseded Basel II. In Europe, these requirements started to apply gradually as of 1 January 2014, with the full requirements being effective as of 1 January 2019. The objective of the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV) is to improve the capital adequacy of the banking industry by making it more responsive to risk. CRR/CRD IV is structured on three pillars:

- Pillar 1 describes the capital adequacy requirements for three risk types; credit risk, market risk and operational risk;
- Pillar 2 describes the additional Supervisory Review and Evaluation Process, which includes the internal analysis of the company to define its additional capital and liquidity for risks not capitalized as part of the Pillar 1 requirements. The internal analysis is reviewed by the regulator;
- In Pillar 3 the required risk reporting standards are displayed, supporting additional market discipline in the international capital markets.

Under CRR/CRD IV and subject to approval from the regulator, banks have the option to choose between various approaches, each with a different level of sophistication in risk management, ranging from 'standardised' to 'advanced'. For credit risk and operational risk, KAS BANK adopted the standardised approach. For market risk, KAS BANK adopted an internal model VaR approach.

The basis for Pillar 2 is KAS BANK's Internal Capital Adequacy Assessment Process, which is a self-assessment of risks not captured by Pillar 1. Pillar 3 is related to market discipline and complements the operation of Pillars 1 and 2, aiming to make banks more transparent. The pillar 3 requirement on disclosure are included in this annual report.

CRR/CRD IV also prescribes regular reporting on KAS BANK's capital ratios. The starting point for the risk-based ratio is KAS BANK's equity attributable to shareholders, from which regulatory adjustments are deducted. In accordance with CRR/CRD IV, the net result of 2017 is not reported in Common Equity Tier 1 as at 31 December 2017. The regulatory adjustments, and the unrealised gains and losses measured at fair value are applied gradually.

The following table displays the composition of regulatory capital (CRR/CRD IV):

CAPITAL (PHASED IN)		
in thousands of euros	31 December 2017	31 December 2016
Share capital	15,699	15,699
Share premium	21,569	21,569
Treasury shares	-21,866	-21,980
Eligible reserves	202,707	187,623
Regulatory adjustments	-4,683	-3,737
Common Equity Tier 1	**213,426**	**199,174**

As of 1 January 2019, banks have to report fully on the requirements from CRR/CRD IV. How the figures in the table above would be impacted by the fully phased in requirements is shown in the following table:

CAPITAL (FULLY PHASED IN)		
in thousands of euros	31 December 2017	31 December 2016
Share capital	15,699	15,699
Share premium	21,569	21,569
Treasury shares	-21,866	-21,980
Eligible reserves	207,726	194,653
Regulatory adjustments	-4,683	-3,737
Common Equity Tier 1	**218,445**	**206,204**

For regulatory purposes, the restriction on the distribution of equity of KAS Investment Servicing GmbH has no impact on total capital (see note 30).

42. Segmented information

KAS BANK's products and services primarily focus on the four core segments: pension funds, insurance companies, investment funds and wealth management. Another important activity within KAS BANK is Treasury. KAS BANK does not report assets and liabilities on a segment level to the Managing Board. This segmentation overview reflects the structure of the internal management information provided to the Managing Board.

2017 IN MILLIONS OF EUROS	CORE SEGMENTS	TREASURY	OTHER	TOTAL
Interest income and expenses[1]	9,6	2,7	0,6	**12,9**
Commission income and expense:				
Asset Servicing	36,8		0,6	**37,4**
Transaction Servicing	19,1		2,4	**21,5**
Treasury	6,8	1,7	0,4	**8,9**
Result on financial transactions and trading	6,1	16,7	0,1	**22,9**
Other Income			1,0	**1,0**
Total income	**78,4**	**21,1**	**5,1**	**104,6**
Operating expenses (direct)	-25,7	-1,4	-2,0	**-29,1**
Contribution	**52,7**	**19,7**	**3,1**	**75,5**
Operating expenses other			-55,5	**-55,5**
Result for the period before tax				**20,0**

2016 IN MILLIONS OF EUROS	CORE SEGMENTS	TREASURY	OTHER	TOTAL
Interest income and expenses[1]	10,6	4,1	1,1	**15,8**
Commission income and expense:				
Asset Servicing	36,7		0,6	**37,3**
Transaction Servicing	17,7		3,4	**21,1**
Treasury	7,5	3,5	0,5	**11,5**
Result on financial transactions and trading	7,0	12,6	0,1	**19,7**
Other Income			21,8	**21,8**
Total income	**79,5**	**20,2**	**27,5**	**127,2**
Operating expenses (direct)	-32,9	-1,8	-2,6	**-37,3**
Contribution	**46,6**	**18,4**	**24,9**	**89,9**
Operating expenses other			-70,3	**-70,3**
Result for the period before tax				**19,6**

[1] Interest income and expense is allocated to the financial institutions and institutional investors segments on the basis of the difference between the external interest rates and benchmarks. The benchmarks are based on interbank or central bank rates

The table below presents the country by country reporting:

IN MILLIONS OF EUROS	OPERATING INCOME	OPERATING RESULT BEFORE TAX	TAX EXPENSE
2017			
Netherlands	95.2	20.0	4.3
United Kingdom	5.1	-	-
Germany	2.3	-2.0	-
Belgium	2.0	2.0	0.6
Total	**104.6**	**20.0**	**4.9**
2016			
Netherlands	117.4	19.3	4.2
United Kingdom	5.3	-	-
Germany	2.4	-2.1	-
Belgium	2.0	2.0	0.5
Total	**127.2**	**19.2**	**4.7**

Concentration of income

The 25 largest clients of KAS BANK account for 41% (2016: 33%) of the total revenue. None of these clients (2016: none) account for more than 10% of the total revenue.

43. Related parties

KAS BANK identifies the members of the Managing Board (see note 44), the members of the Supervisory Board (see note 46), the company pension fund Stichting Pensioenfonds van de KAS BANK (see note 31) and the associate BTN Förvaltning AB (formerly known as Neonet) as related parties. Except for the transactions mentioned in these notes, there are no other significant related party transactions in 2017 and 2018.

44. Remuneration of the Managing Board

The table below presents the remuneration of the Managing Board:

IN THOUSANDS OF EUROS	BASE SALARY	PENSION COSTS	OTHER PAYMENTS	TOTAL REMUNERATION IN CASH	SHARES	TOTAL REMUNERATION
2017						
Sikko van Katwijk	350	22	116	488	40	528
Jaap Witteveen	325	17	61	403	37	440
Mark Stoffels	298	14	52	364	37	401
Total	**973**	**53**	**229**	**1,255**	**114**	**1,369**
2016						
Sikko van Katwijk	350	20	106	476	-	476
Jaap Witteveen	325	16	43	384	-	384
Mark Stoffels	262	13	32	307	-	307
Total	**937**	**49**	**181**	**1,167**	**-**	**1,167**

Mark Stoffels was appointed as Chief Financial & Risk Officer of the Managing Board as per 1 February 2016. The 2016 remuneration of Mark Stoffels relates to the period as from 1 February 2016 till 31 December 2016.

Base salary

The base annual salary for the chairman, Sikko van Katwijk, is EUR 350,000 and EUR 325,000 for the other Managing Board members. Mark Stoffels is appointed with a base salary of EUR 275,000 and will reach the base salary in two equal steps.

Pension costs

The pension plan of the Managing Board is a defined contribution plan. In 2015 the Dutch fiscal framework (Witteveen framework) changed and as a result of that the maximum salary in the Managing Board's defined contribution plan was capped at the fiscal maximum. To compensate the impact of this adjustment, the members of the Managing Board receive 'pension compensation'. This annual compensation is a percentage of their base salary minus the cap of EUR 100,000 and is subject to income tax. This compensation is presented in the table above as part of 'Other payments'.

Shares
The total variable remuneration is fully paid in shares. For further details see note 45.

Loans
KAS BANK has not granted loans or guarantees to members of the Managing Board.

Claw back
In 2017 and 2016 KAS BANK has not clawed back remuneration of the Managing Board.

Depositary receipts
The members of the Managing Board hold the following number of depositary receipts for shares in the company:

NUMBER OF SHARES	2017	2016
Sikko van Katwijk	6,836	8,020
Jaap Witteveen	1,745	1,435
Mark Stoffels	247	202

45. Share-based payments

Share and option plans

As part of the remuneration package KAS BANK has share plans for identified staff and members of the Managing Board. Identified staff is employees whose professional activities affect the risk profile of KAS BANK materially.

Identified staff

The variable remuneration for the identified staff is based on the achievement of individual and company targets and cannot exceed 20% of the annual base salary. The remuneration is paid half in shares and half in cash in case the individual variable remuneration for identified staff exceeds an amount of a monthly base salary or EUR 10,000. If the variable remuneration does not exceed both criteria the amount will be fully paid in cash at once.

The first vesting will be 60% of the granted shares and the granted cash and thereafter a three-year pro rata deferral period is applicable. After the vesting or deferral period, a retention period of one year is applicable. The identified staff may sell shares vested in order to comply with tax obligations in respect of these shares. Variable remuneration may be reclaimed if it has been paid on the basis of incorrect information regarding the achievements or the circumstances on which the remuneration depends.

The following table presents the characteristics of the outstanding shares granted to the identified staff. No shares have been granted to identified staff in 2017.

SHARES IDENTIFIED STAFF		
Grant date		February 2016
Fair value at grant date (in euros)		8.93
Share price at grant date (in euros)		10.01
Vesting period		1 year
Deferral period		1-3 years
Retention period after vesting		1 year
Expected dividend yield		7.0%
Risk-free interest rate		-0.07 - -0.18%

Managing Board

The variable remuneration for the Managing Board is capped to a maximum of 20% of the base salary and is based on the achievement of three performance criteria: budget, strategic progress and operational progress. The total variable remuneration will be fully paid in shares. The shares are granted conditionally, based on a decision of the Supervisory Board. The first vesting will be 60% of the granted shares and thereafter a three-year pro rata deferral period is applicable. After the vesting or deferral period, a retention period of two years is applicable.

The members of the Managing Board may sell shares vested in order to comply with tax obligations in respect of these shares. Variable remuneration may be reclaimed if it has been paid on the basis of incorrect information regarding the achievements or the circumstances on which the remuneration depends.

The table below presents the characteristics of the outstanding shares granted to the Managing Board:

SHARES MANAGING BOARD							
Grant date	March 2017	February 2016	February 2015[1]	February 2015[2]	April 2013	January 2013	January 2012
Fair value at grant date (in euros)	8.89	8.93	10.16	11.00	4.74	5.32	6.83
Share price at grant date (in euros)	9.41	10.01	11.64	11.64	7.56	8.84	8.38
Vesting period	1 year	1 year	1 year	1 year	1 year	3 years	3 years
Vesting condition	1 year performance	1 year performance	1 year performance	No conditions	No conditions	3 year performance	3 year performance
Deferral period	1-3 years	1-3 years	1-3 years	1-3 years	1-3 years	1-3 years	1-3 years
Retention period after vesting	2 years	2 years	2 years	2 years	2 years	2 years	2 years
Expected dividend yield	7.0%	7.0%	5.5%	5.5%			
Risk-free interest rate	0.023 - - 0.274%	-0.07 - -0.18%	0.13 – 0.25%	0.13 – 0.25%			

1. Related to the variable remuneration of 2015.
2. Related to the variable remuneration of 2014.

Fair value of shares granted

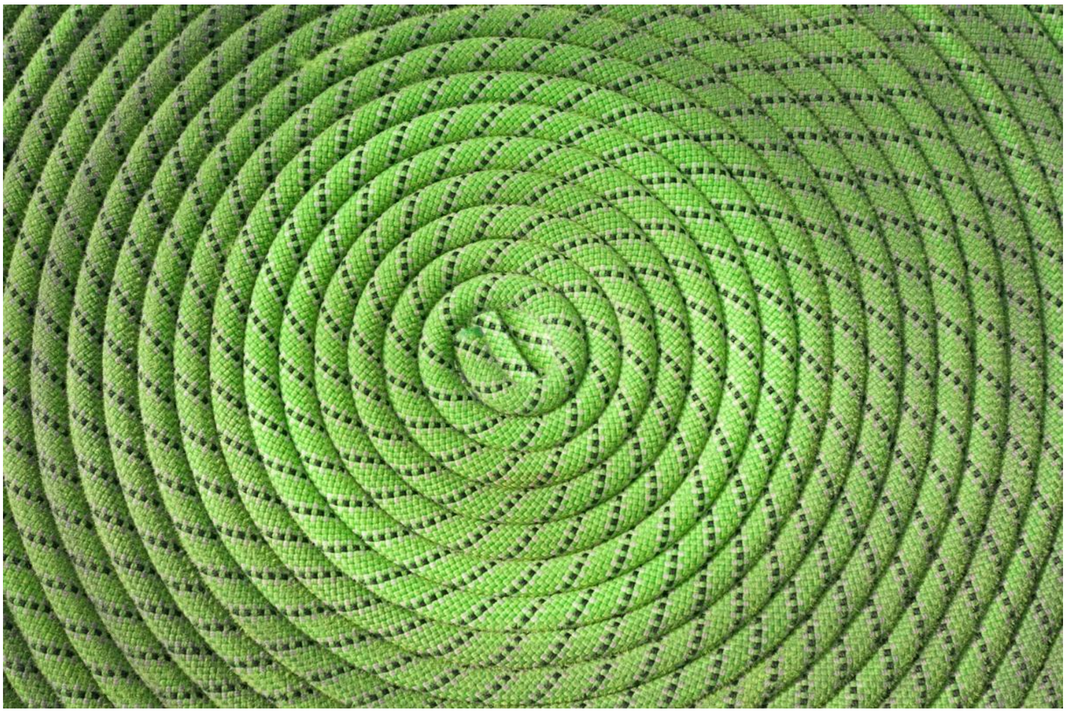
The fair value of the shares granted in the financial year is presented below:

IN THOUSAND OF EUROS	2017	2016
Share payments Managing Board	151	68
Share payments former Managing Board members	-	45
Share payments Identified staff	-	78
Total	**151**	**190**

Share-based payments in the income statement

The value of the share based payments is allocated to the income statement during the vesting period as 'Personnel expenses'. The amounts of share based payments as included in the income statement for the years are specified as follows:

IN THOUSAND OF EUROS	2017	2016
Share payments Managing Board	109	-
Share payments former Managing Board members	-	-
Share payments Identified staff	-	-
Total	**109**	**-**



Outstanding shares

The following statement presents outstanding shares of the Managing Board and Identified staff:

	GRANT DATE	OUTSTANDING AS AT 31/12/2016	CONDITIONALLY GRANTED	SETTLED	FORFEITED	OUTSTANDING AS AT 31/12/2017	STATUS
Managing Board							
Sikko van Katwijk	January 2012	1,013	-	507	-	506	Vested
	January 2013	4,288	-	1,429	-	2,859	Vested
	February 2015	503	-	251	-	252	Vested
	February 2015	1,600	-	533	-	1,067	Vested
	February 2016	5,594	-	-	5,594	-	
	March 2017	-	5,951	-	-	5,951	
Jaap Witteveen	February 2015	168	-	84	-	84	Vested
	February 2015	1,600	-	534	-	1,066	Vested
	February 2016	5,195	-	-	5,195	-	Vested
	March 2017	-	5,526	-	-	5,526	
Mark Stoffels	March 2016	272	-	91	-	181	Vested
	February 2016	5,195	-	-	5,195	-	
	March 2017	-	5,526	-	-	5,526	
Former Managing Board members	January 2012	5,116	-	2,558	-	2,558	Vested
Board members	January 2013	6,940	-	2,313	-	4,627	Vested
	February 2015	1,191	-	595	-	596	Vested
	February 2015	2,190	-	730	-	1,460	Vested
	February 2016	2,115	-	705	-	1,410	Vested
Identified Staff	March 2016	3,673	-	1,224	-	2,449	Vested
Total		**46,653**	**17,003**	**11,554**	**15,984**	**36,118**	

Outstanding options

As from 2010 and 2012, options are no longer part of the remuneration of the Managing Board respectively other staff. Below the outstanding options as per 31 December 2017, all granted options are vested. At expiration date the Volume Weighted Average Price of KAS BANK's shares over the previous 30 trading days is calculated. If the Volume Weighted Average Price is higher than the exercise price the excess amount will be paid in cash to the holders of the options.

GRANT DATE	EXPIRY DATE	EXERCISE PRICE IN EUROS	OUTSTANDING AS AT 31/12/2016	CONDITIONALLY GRANTED	EXERCISED	EXPIRED	OUTSTANDIN G AS AT 31/12/2017	VESTED
Managing Board								
Sikko van Katwijk	January 2017	9.90	14,580	-	-	14,580	-	Vested
	January 2018	14.05	24,716	-	-	-	24,716	Vested
Mark Stoffels	March 2017	13.55	500	-	-	500	-	Vested
	March 2018	11.82	633	-	-	-	633	Vested
Former Managing Board members	January 2017	9.90	150,177	-	-	150,177	-	Vested
	January 2018	14.05	90,213			-	90,213	Vested
	March 2017	13.55	4,000	-	-	4,000	-	Vested
	March 2018	11.82	3,333	-	-	-	3,333	Vested
Other staff	March 2017	13.55	23,000	-	-	23,000	-	Vested
	March 2018	11.82	47,932	-	-	-	47,932	Vested
Total			**359,084**	**-**	**-**	**192,257**	**166,827**	

46. Remuneration of the Supervisory Board

The table below presents the remuneration to the members of the Supervisory Board, including fees for membership of subcommittees formed by the Supervisory Board.

KAS BANK has not granted loans or guarantees to members of the Supervisory Board.

IN THOUSANDS OF EUROS	2017	2016
Peter Borgdorff	60	63
Jean Frijns (until 20 April 2016)	-	14
Pauline Bieringa	51	50
Petri Hofsté	51	51
Ron Icke	51	51
Robbert van der Meer (until 26 April 2017)	17	51
Hans Snijders (as from 24 April 2016)	48	21
Total	**278**	**301**

47. Independent auditors' fee

The following table presents the external independent auditor's fees recognised in the income statement as 'General and administrative expenses':

IN THOUSANDS OF EUROS	PWC AUDITORS	OTHER PWC NETWORK	TOTAL PWC NETWORK
2017			
Audit of the financial statements	380	-	380
Other audit assignments	153	-	153
Tax fees	-	-	-
Other non-audit assignments	-	-	-
Total	**533**	**-**	**533**
2016			
Audit of the financial statements	293	-	293
Other audit assignments	251	-	251
Tax fees	-	54	54
Other non-audit assignments	-	-	-
Total	**544**	**54**	**598**

The fees listed above relate to the procedures applied to the Company and its consolidated group entities by accounting firms and external auditors as referred to in Section 1, subsection 1 of the Audit Firms Supervision Act (In Dutch: 'Wet toezicht accountants-organisaties - Wta') as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups.

The audit fees relate to the audit of the 2017 financial statements, regardless of whether the work was performed during the financial year.
Summary of services rendered by the auditor, in addition to the audit of the financial statements (Section 10, subsection 2.g of the EU Regulation 537/2015)

Our auditor, PwC NL, has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements the following services to the company and its controlled entities:

Other audit services required by law or regulatory requirements

- Statutory audits of controlled and related entities
- Audit of the regulatory returns to be submitted to the Dutch Central Bank
- Agreed upon procedures on interest rate risk
- Agreed upon procedures deposit guarantee scheme

Other audit services

- Assurance engagement on the effectiveness of internal control over financial reporting (ISAE 3402)

48. Subsequent events

There were no subsequent events that have material impact on the consolidated or company financial statements.

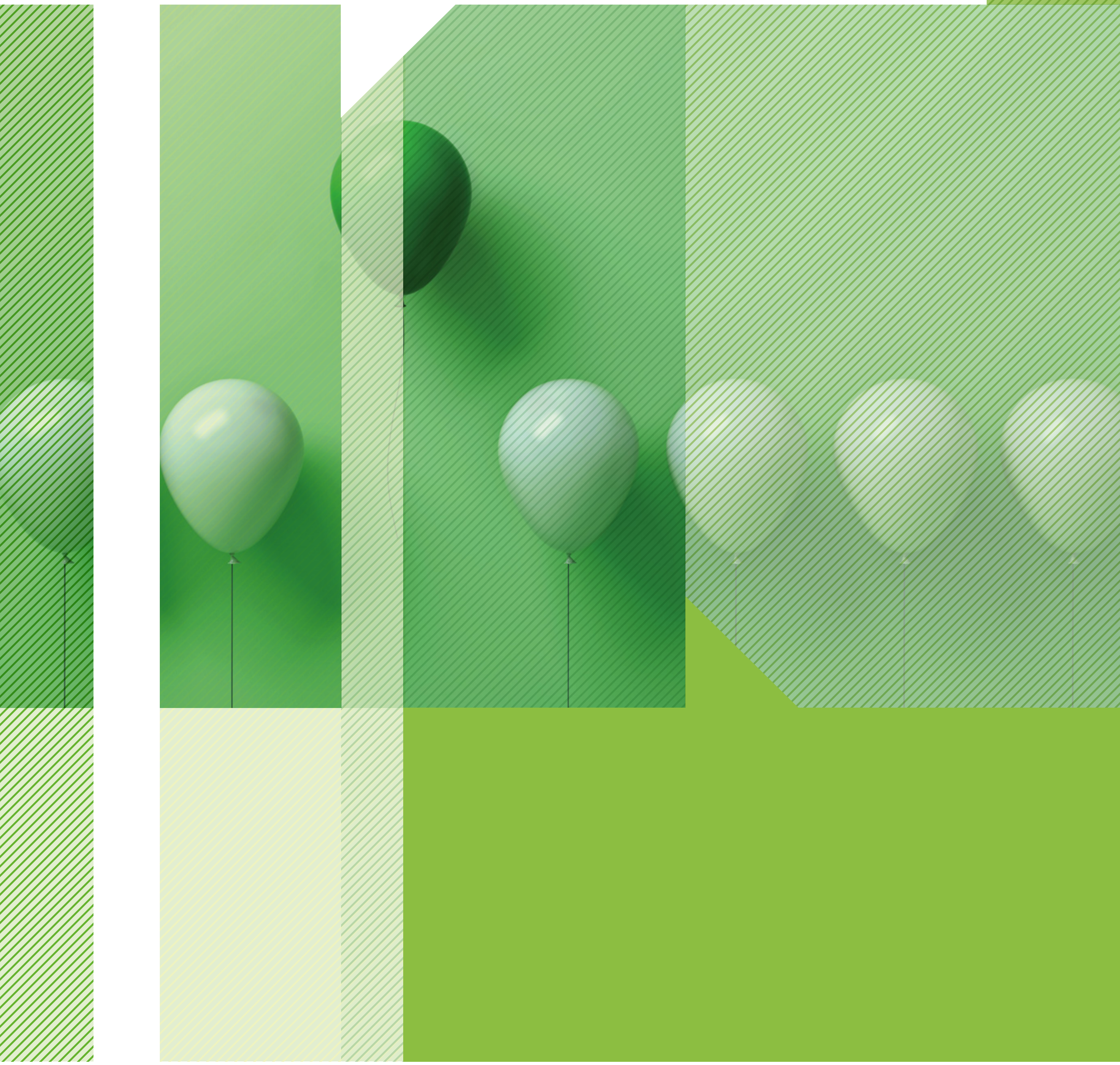
Appropriation of the result for 2017

The result is appropriated pursuant to Article 25 of the Articles of Association of KAS BANK N.V. This article stipulates that the Managing Board proposes, subject to approval of the Supervisory Board, to the General Meeting of Shareholders what part of the result is appropriated to the reserves and which part shall be distributed as dividend. The Managing Board, with the approval of the Supervisory Board, proposes to the General Meeting of Shareholders the following appropriation of the 2017 result:

IN THOUSAND OF EUROS	2017
Result for the period	15,099
Interim dividend	-5,181
Proposed final dividend	-4,253
Proposed addition to other reserves	**5,665**

KAS BANK annual report 2017

Company Financial Statements 2017



Company income statement

IN THOUSANDS OF EUROS	2017	2016
Income		
Interest income	32,013	32,904
Interest expense	19,065	17,144
Net interest result	12,948	15,760
Commission income	76,597	79,064
Commission expense	13,772	13,837
Net commission result	62,825	65,227
Results of subsidiaries	2,087	18,263
Net trading income	19,741	15,639
Result from financial transactions	3,099	4,181
Share of result of associates	65	33
Other income	807	528
Total operating income	**101,572**	**119,631**
Expenses		
Personnel expenses	47,574	72,130
General and administrative expenses	34,196	32,974
Depreciation and amortisation	1,495	2,260
Total operating expenses	**83,265**	**107,364**
Impairment losses (recovery)	-129	-518
Total expenses	**83,136**	**106,846**
Result before tax	**18,436**	**12,785**
Tax expense	3,337	-2,069
Net result for the period	**15,099**	**14,854**

Company Statement of comprehensive income

IN THOUSANDS OF EUROS	2017	2016
Net result	15,099	14,854
Items that will be reclassified subsequently to profit or loss		
Gains and losses on financial investments available-for-sale	11,863	8,335
Gains and losses on financial investments available-for-sale recognised in the income statement	-2,086	-1,433
Items that will be reclassified subsequently to profit or loss before tax	**9,777**	**6,902**
Income tax relating to items that will be reclassified to profit or loss	-2,444	-1,726
Items that will be reclassified subsequently to profit or loss after tax	**7,333**	**5,176**
Net total other comprehensive income	**7,333**	**5,176**
Net total comprehensive income	**22,432**	**20,030**

Company balance sheet

IN THOUSANDS OF EUROS	31 DECEMBER 2017	31 DECEMBER 2016
Assets		
Cash and balances with central banks	1,504,060	1,387,886
Due from banks	119,087	233,666
Loans	666,807	788,548
Reverse repurchase agreements	448,417	662,378
Derivative financial instruments	271,238	413,168
Financial investments available-for-sale	1,126,126	877,577
Investments in associates	157	92
Current tax assets	2,017	6,579
Other assets	34,352	29,884
Participating interest in group companies	41,188	81,487
Property and equipment	1,994	761
Goodwill and intangible assets	3,361	2,398
Deferred tax assets	8,404	7,997
Total assets	**4,227,209**	**4,492,421**
Equities and Liabilities		
Due to banks	172,789	267,103
Due to customers	3,483,438	3,542,476
Repurchase agreements	196	454
Derivative financial instruments	274,701	403,822
Current tax liabilities	161	1,427
Other liabilities	54,736	46,259
Deferred tax liabilities	8,097	5,895
Total liabilities	**3,994,118**	**4,267,436**
Share capital	15,699	15,699
Share premium	-21,866	-21,980
Treasury shares	21,569	21,569
Revaluation reserve	25,096	17,763
Statutory reserve	1,290	986
Other reserves (including profit for the period)	191,304	190,948
Total equity attributable to KAS BANK shareholders	**233,092**	**224,985**
Total equity and liabilities	**4,227,209**	**4,492,421**
Contingent liabilities	2,205	19,129
Irrevocable facilities	12,147	11,100

Company statement of changes in equity

IN THOUSANDS OF EUROS	ISSUED CAPITAL	TREASURY SHARES	SHARE PREMIUM	RE-VALUATION RESERVE (STATUTORY RESERVE)	STATUTORY RESERVE	OTHER RESERVES (INCL. PROFIT FOR THE PERIOD)	TOTAL EQUITY
Balance as at 1 January 2016	15,699	-22,444	21,569	24,733	1,960	167,997	209,514
Comprehensive income	-	-	-	5,176	-	14,854	20,030
Dividend 2015	-	-	-	-	-	-4,569	-4,569
Purchase/sale of treasury shares	-	464	-	-	-	-464	-
Other movements	-	-	-	-12,146	-974	13,130	10
Balance as at 31 December 2016	15,699	-21,980	21,569	17,763	986	190,948	224,985
Comprehensive income	-	-	-	7,333	-	15,098	22,431
Dividend 2016	-	-	-	-	-	-9,434	-9,434
Interim dividend 2017	-	-	-	-	-	-5,181	-5,181
Purchase/sale of treasury shares	-	114	-	-	-	-114	-
Share based payments					109		109
Other movements	-	-	-	-	195	-13	182
Balance as at 31 December 2017	15,699	-21,866	21,569	25,096	1,290	191,304	233,092

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Summary of accounting policies as applied for the company figures

The company financial statements have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, applying the same accounting policies as for the consolidated financial statements, as provided by Section 362, sub 8, Book 2 of the Dutch Civil Code except for those relating to participating interest in group companies and the statutory reserve.

Participating interest in group companies

The group companies of KAS BANK are classified within the company balance sheet as 'Participating interest in group companies'. Participating interests in group companies are accounted based on the equity method. The share in the net result is recognised in the income statement as 'Results of subsidiaries'. The table below shows the movement of the carrying amount during the financial year.

GROUP COMPANIES IN THOUSAND OF EUROS	2017	2016
Position as at 1 January	81,487	95,221
Result for the year	2,087	18,240
Dividend distribution to shareholder	-42,382	-
FX results	-4	-
Other	-	-31,974
Position as at 31 December	**41,188**	**81,487**

An overview of the group companies and an explanation of the definition of group companies are included in the consolidated accounting policies.

Statutory reserve

The Statutory reserve relates to the capitalisation of internal developed software and the revaluation reserve. The amounts recognized as statutory reserve are not distributable.

Guarantees

KAS BANK N.V. has issued statements of liability in connection with Section 403, Book 2 of the Dutch Civil Code for a number of group companies. KAS BANK N.V. forms a tax group with several subsidiaries for both corporate tax and VAT. The tax group is jointly and severally liable for taxation payable by the tax group.

Notes to the company financial statements

The company financial statements do not include all information and disclosures and should therefore be read in conjunction with the consolidated financial statements of KAS BANK in this annual report.

Amsterdam, 13 March 2017

The Managing Board:

Sikko van Katwijk, Chairman of the Managing Board

Mark Stoffels, Chief Financial & Risk Officer

Jaap Witteveen, Chief Operations Officer

The Supervisory Board:

Peter Borgdorff, Chairman of the Supervisory Board

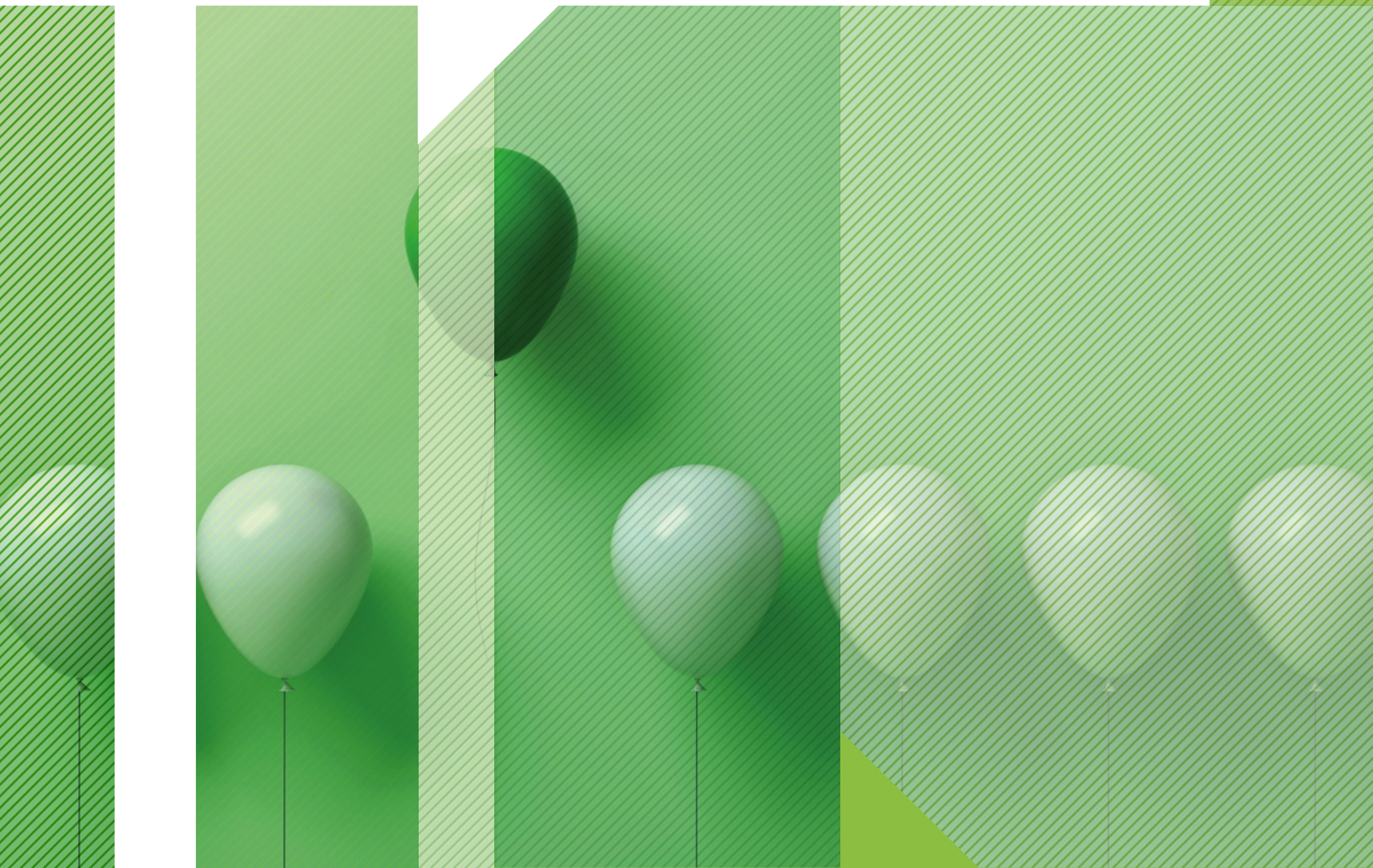
Pauline Bieringa, Vice-Chairman

Petri Hofsté

Ron Icke

Hans Snijders

Other Information



Independent auditor's report

To: the general meeting and supervisory board of KAS BANK N.V.

Report on the financial statements 2017

Our opinion

In our opinion:

- KAS BANK N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- KAS BANK N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2017 of KAS BANK N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of KAS BANK N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2017;
- the following statements for 2017: the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2017;
- the company income statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, the Netherlands
T: +31 (0) 88 792 00 20, F: +31 (0) 88 792 96 40, www.pwc.nl

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of KAS BANK N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

KAS BANK N.V. is a custodian bank that specialises in safekeeping and administration of securities and value-added risk and reporting services. KAS BANK N.V.'s business focus is on wholesale securities services to professional parties in the pensions, insurance and asset management industry. The bank's main activities and our audit focus comprise: the asset servicing and transaction servicing activities, treasury, risk management and the IT environment. As per management, KAS BANK N.V. continued its efforts to further digitise and automate their operational processes through investing in robotics and continuation of the reorganisation which had been announced in December 2016 and for which we included a key audit matter in last year's auditor's report. During this year, there haven't been any so called non-standard significant transactions which impacted KAS BANK's results which caused us to change the basis for determination of our materiality from a 3 year weighted average profit before tax to profit before tax for the year 2017.

The group is comprised of several components, consequently we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered those areas where the managing board made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events and their inherent uncertainty. In the paragraph 'Critical accounting estimates and judgements' on page 104 of the financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the fair value measurement of the level 2 and 3 financial instruments (available for sale investments and derivatives) we considered this to be a key audit matter as set out in the section 'Key audit matters' of this report.

Furthermore, we identified hedge accounting as a key audit matter following its detailed formal and technical requirements in relation to the application of hedge accounting. Inappropriate application of those requirements may lead to a material effect on the financial statements. Lastly we identified the introduction of IFRS 9 and the related disclosures, under the IAS 8 requirements, as a key audit matter. This new accounting standard is expected to have considerable impact on the financial statements as from 2018 onwards.

Another area of focus for this financial year was the outsourcing of the IT-infrastructure and parts of the Bank's IT-organisation to Atos SE. Although the outsourcing had a significant operational impact on the bank, we considered this not to be a key audit matter since the outsourcing to Atos remained to be an integral part of the bank's operation and the ISAE 3402 report on which we place reliance as part of our group audit as described in the section 'The scope of our group audit' of this report. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the managing board that may represent a risk of material misstatement due to fraud.

KAS BANK N.V.'s business activities, client base and investment portfolio remained relatively stable during the year, which resulted in the areas relevant for our audit remaining the same compared to prior year. As mentioned above; KAS BANK N.V. launched new initiatives around further digitalisation which we considered to have limited impact on our audit.

Other areas of importance to our audit work, that are not considered to be key audit matters were: commission income, share-based payments and the deferred tax position. We ensured that the audit team was staffed to assure the appropriate skills and competences which are needed for the audit of the bank. The audit team included financial instruments valuation specialists, hedge-accounting specialists, IT specialists, share-based payments specialists and tax specialists.

The outline of our audit approach was as follows:

Materiality

Overall materiality: €1,000,000.

Audit scope

- Since the accounting for all entities in the group is performed at KAS BANK N.V., the group audit team performed all audit work.
- We place reliance on the ISAE 3402 type II report of KAS BANK N.V. for the operating effectiveness of internal controls in relation to IT general controls for all systems that are relevant to our audit of the financial statements and some of the controls at operational process level.

Key audit matters

- Valuation of investments available for sale
- Valuation of derivative financial instruments
- Hedge accounting
- IAS 8 disclosure on the implementation of IFRS 9

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€1,000,000 (2016: €753,500).
Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment we used 5% of the profit before tax normalised for significant non-recurring transactions. In 2017 there have not been any significant non-recurring transactions that lead us to adjust the profit before tax benchmark. Results in the past were more volatile and therefore a three year weighted average profit before tax was used in prior year. Profit and loss before tax in 2017 is considered to be more stable which lead us to using the 2017 profit before tax as the materiality benchmark without applying weighted averages.
Rationale for benchmark applied	We used profit before tax normalised for significant non-recurring transactions as the (primary) benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €50,000 (2016: €37,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. For balance sheet reclassifications we agreed with the bank's supervisory board to report on misstatements amounting to €2,080,000.

The scope of our group audit

KAS BANK N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of KAS BANK N.V.

All accounting and bookkeeping is performed centrally at a KAS BANK N.V. group level. As a result, the group audit team performed the audit work for all selected KAS BANK N.V.'s entities with no involvement from other component auditors or scoping. In doing so, the audit team selected group entities and specific balances within the group for which an audit of financial information was considered necessary. Due to this approach, the material and relevant line items and transactions were in scope of our audit. By performing the procedures above, we have obtained sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

KAS BANK N.V. issues a ISAE 3402 type II report which includes internal controls which are evaluated and reported upon by an external auditor. KAS BANK uses a large part of the systems and some of the controls on operational process level, for which KAS BANK issues a ISAE 3402 type II report to its clients. As a result, we place reliance on this ISAE 3402 type II report of KAS BANK N.V. for the operating effectiveness of internal controls where it covers the IT general controls for all relevant systems for our audit of the financial statements and some of the controls relevant to our audit on an operational process level. The report comprises, amongst other matters, a description of

the design, existence and operating effectiveness of internal controls at KAS BANK N.V. and an assurance report thereon provided by an independent auditor based on generally accepted assurance standards. We obtained and read the relevant parts of the report.
Based on our risk assessment and understanding of the company we identified those internal controls in the ISAE 3402 type II report which were relevant to our financial statements audit. We applied professional judgement to determine the extent of testing required over each balance in the financial statements, including the need to perform additional testing in respect of the controls described in the ISAE 3402 type II report together with our substantive work. Based on our analysis of the ISAE 3402 type II report and the additional testing of controls described in the ISAE 3402 type II report, we found that we could rely on the controls included in the ISAE 3402 for the purpose of our audit. Furthermore, for the purpose of our audit of the financial statements we determined the necessity of testing controls that are implemented and not included in the ISAE 3402 type II report, with testing those when deemed necessary.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

Due to the nature of the company's business, we recognise that key audit matters we reported in our independent auditor's report on the financial statements 2016 may be long-standing and therefore may not change significantly year over year. As compared to last year we have included one new key audit matter following the IAS 8 disclosure on the implementation of IFRS 9, since the implementation of IFRS 9 is expected to have a substantial impact on KAS BANK's financial statements as from 2018 onwards. Given the size and subjectivity which remains in the outstanding balance of the reorganisation provision we decided to remove this key audit matter as part of this report.

Key audit matter	***How our audit addressed the matter***
Valuation of investments available for sale *See pages 105 to 109 of the accounting policies, note 20 on page 123 and note 34 on pages 130 to 132* Investments available for sale consist of a portfolio of debt and equity investments. These instruments are measured at fair value with the corresponding fair value change recognised in other comprehensive income. The valuation is performed by the company using a fair value hierarchy: • Level 1: valuations based on quoted prices (unadjusted) in active markets. • Level 2: valuations based on other than quoted prices included within level 1 that are observable	We performed the following substantive procedures to address the valuation of investments available for sale: • assessed the methodology and the appropriateness of the valuation models used by management to value investments available for sale. We found the methodology and models to be in line with market practices. • evaluated the company's assessment whether objective evidence of impairment exists for individual investments that are valued at amortised cost (0.1% of the available for sale

Key audit matter	How our audit addressed the matter
either directly or indirectly. • Level 3: valuations based on unobservable inputs for the asset. The level 2 and level 3 investments amount to €206,448,000 and €351,716,000 respectively as at 31 December 2017. The valuation of investments is inherently subject to management judgment – most predominantly for the level 2 and level 3 investments since these are valued using model valuations instead of quoted prices in an active market. Key inputs used in the model valuations of individual level 2 and level 3 investments are expected cash flows, risk-free rates and credit spreads. In addition, for the available for sale investments valued at amortised cost, the company determines whether objective evidence of impairment exists for individual investments with the impairment being recognised in the income statement. Given the level of judgment and the related estimation uncertainty involved in the valuation of level 2 and level 3 investments available for sale, combined with the magnitude of the amounts, any change in assumptions could have a considerable effect on the financial statements. Therefore we determined this to be a key audit matter for our audit.	portfolio). We found the company's assessment to be supported with available audit evidence. • tested the accuracy of key inputs used in the valuation, such as the expected cash flows, risk-free rates and credit spreads, by benchmarking them with external data and substantiating them with underlying contract data. We found the results to be consistent. • assessed the valuation of all individual available for sale investments by determining our own independent valuation based on external pricing data from various data vendors. We determined that, given the inherent estimation uncertainty involved in the valuation of financial instruments, management's valuation of these instruments fell within an acceptable range of outcomes.
Valuation of derivative financial instruments *See pages 109 and 110 of the accounting policies, note 18 on page 122 and note 34 on pages 130 to 132* The company holds derivative financial instruments resulting from transactions with clients, derivative financial instruments to hedge its own interest rate risk as well as derivative financial instruments on behalf of its clients. Derivative financial instruments resulting from transactions with clients comprise of foreign exchange contracts, consisting of forward contracts and foreign currency swaps, and interest rate swaps. Foreign exchange contracts amount to €43,703,000 (assets) and €47,577,000 (liabilities) as at 31 December 2017. Interest rate swaps amount to €151,883,000 (assets) and €149,446,000 (liabilities) as at 31 December 2017.	We, together with our valuation specialists, performed the following procedures to address the valuation of derivatives financial instruments: • tested the appropriateness of the methodology and the valuation models used by management to value derivative financial instruments through comparing these to generally accepted industry practices. We found the methodology and models to be in line with market practices. • tested on a risk based sample basis for each type of derivative financial instrument the accuracy of key inputs by taking a risk based sample and comparing the key inputs such as contractual cash flows, risk-free rates, interest rate volatility, swap rates, interest spot rates, implied forward rates and quoted prices from

Key audit matter	*How our audit addressed the matter*
Derivative financial instruments for own hedging purposes comprise interest rate swaps and amount to €6,455,000 (assets) and €8,481,000 (liabilities) as at 31 December 2017. We make reference the key audit matter on hedge accounting for an overview of work performed in relation to hedge accounting. Derivative financial instruments held on behalf of clients comprise of exchange traded derivatives and amount to €69,197,000 (assets) and €69,197,000 (liabilities) as at 31 December 2017. The client derivatives are back-to-back, and as a result the remaining net exposure is limited. All derivative financial instruments are measured at fair value. The fair value of interest rate swaps is calculated using a discounted cash flow model in which the contractual cash flows are discounted using a risk-free rate as these derivative financial instruments are collateralised. For swaptions an option pricing model is used which takes into account market-based inputs such as interest rate volatility, swap rates and interest spot rates. Forward foreign exchange contracts are valued using an implied forward rate and are discounted using a risk-free rate. Given the level of management judgment and complexity involved in determining the fair value of derivative financial instruments we determined this to be a key audit matter for our audit	market data providers with external market data sources we independently obtained. We found the results to be consistent. • Our valuation specialists performed an independent valuation on a sample of derivative positions. In some cases our independent valuation resulted in differences compared to those calculated by management. We have assessed those differences to fall within the range of reasonable outcomes, this in the context of the inherent uncertainties when using models and assumptions. • Through a risk based sample, and with support of legal agreements and other forms of supporting evidence, we assessed whether KAS BANK is entitled to the collateral received as part of derivative financial instrument transactions. We found no exceptions in our testing.
Hedge accounting *See page 111 of the accounting policies, note 1 on page 116 and note 18 on page 122* The company enters into interest rate swaps to hedge the interest rate risk in its portfolio of fixed rate debt investments. For accounting purposes the company applies fair value hedge accounting. In order to apply fair value hedge accounting, the company has to comply with a number of requirements in EU-IFRS, including: • documenting the hedge relation in formal hedge documentation; • performing prospective and retrospective (quantitative) effectiveness testing; and	We, together with our valuation specialists, performed the following procedures to assess the appropriateness of the application of hedge accounting: • tested, on a sample basis, whether the hedge documentation, as prepared by management, meets the requirements of IAS 39 Financial Instruments to assess whether both fixed rate debt instruments and interest rate swap instruments are eligible for hedge accounting. • assessed management's prospective and retrospective effectiveness testing to determine whether the hedge relationships are effective and that the hedge effectiveness has been calculated accurately. We found the

Key audit matter	How our audit addressed the matter
• recording any resulting ineffectiveness in the income statement. Given the detailed formal and technical requirements that are applicable to the application of hedge accounting and that incorrect application of these requirements can lead to a material effect on the income statement, we determined hedge accounting to be a key audit matter for our audit. For the year ended 31 December 2017 the company recorded a net hedge accounting ineffectiveness of €271,000 (loss).	outcome of the effectiveness testing to be consistent with our own calculations and the methodology applied in line with the technical requirements. Furthermore, we have reconciled the net amount of hedge accounting ineffectiveness to the hedge adjustment recorded in the income statement. We found the application of hedge accounting for the purpose of our audit of the financial statements to be appropriate and meeting the requirements of IAS 39 Financial Instruments.
Disclosure on estimated impact of IFRS 9 *Refer to the section 'Explanation of the consequences of IFRS 9' in the consolidated financial statements* IFRS 9 'Financial Instruments' becomes effective for annual reporting periods beginning on or after 1 January 2018. The impact of the application of IFRS 9 needs to be disclosed as required by IAS 8. As it is expected that IFRS 9 will have a considerable impact on the 2018 financial statements of financial institutions we believe that the disclosure will likely be important to stakeholders. Given the potential impact of this new accounting standard on the opening balance sheet as at 1 January 2018 and the accounting policy choices and assumptions to be taken by management on the implementation of IFRS 9, we consider this a key audit matter in our audit. The key judgements and estimation uncertainty specific to IFRS 9 is primarily linked to the following elements: • On classification and measurement of financial instruments, management has performed an assessment to conclude whether the financial instruments meet the 'solely payment of principal and interest'-criteria ('SPPI'). In particular, for structured interest-bearing securities classified as contractually linked or non-recourse, management has to apply judgement as IFRS 9 requires an entity to 'look through' a financial instrument to the underlying asset pool to conclude that it comprises of financial instruments that meet SPPI or includes financial instruments that align specified cash flow mismatches or reduce cash flow variability.	Regarding the accounting policy choices we reviewed the accounting policy to determine whether this has been set up in accordance with the requirements of IFRS 9. We challenged management on their accounting policy choices judgements and obtained reasonable explanations and evidence supporting these judgements. Our audit work comprised of the following procedures: • In connection with classification and measurement we paid specific attention to the SPPI test performed for KAS BANK's investment in the mortgage fund and the structured interest-bearing securities. We re-performed a sample of SPPI tests performed by management and in addition, we performed an independent SPPI test on a sample of financial instruments. Our sample was risk based and covered a range of different types of financial assets taking into consideration the various levels of complexity. As part of our testing we analysed supporting documents (mainly transaction documentation such as prospectuses and term sheets) to evaluate whether the SPPI requirements in IFRS 9 are met. • We assessed the governance over the impairment models used, including the model documentation prepared by management. • For impairments, we assessed, with the assistance of our specialists, the impairment methodology applied by KAS BANK against the requirements of IFRS 9. We assessed, amongst others, the validation procedures performed by management. • We assessed the appropriateness of the external credit information used by management to address the credit risk in their impairment assessment.

Key audit matter	How our audit addressed the matter
This makes the assessment complex and creates a considerable hurdle to demonstrate that an instrument meets the SPPI test. • The new impairment rules in IFRS 9 lead to an increase in complexity and in the degree of judgement required to calculate the expected credit losses. Amongst other things, this applies to the choices and judgements made in the impairment methodology, including the determination of the probability of default ('PD'), the loss given default ('LGD') and the exposure at default ('EAD'). With the introduction of IFRS 9, these calculations must also take into account forward-looking information ('FLI') of macro-economic factors considering multiple scenario's. The estimated impact of expected losses impairments on the opening balance sheet as at 1 January 2018 amounts to €0,1 million. This impact is limited primarily as a result of KAS BANK's business model and the composition of its financial instruments portfolio at amortised cost. • With respect to hedge accounting there are no implications for KAS BANK as IFRS 9 does not introduce new requirements for Macro Fair Value Hedge Accounting.	• Finally we assessed the PD and LGD applied by management in the impairment calculation. We assessed the adequacy of the IAS 8 disclosure as to the expected impact, the status of the implementation effort to date and the extent to which the entity has evaluated the possible impact. We also evaluated that the disclosures adequately reflect the significant uncertainties that exist around the application and implementation of IFRS 9. We found the IFRS 9 disclosure to be appropriate and meeting the requirements of IAS 8 Accounting Policies, Changes in Accounting. Estimates and Errors.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- KAS BANK at a glance;
- Introduction;
- Strategy;
- Business;
- Risk, funding & capital;
- Leadership;
- Governance;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The managing board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of KAS BANK N.V. on 23 April 2014 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 23 April 2014 representing a total period of uninterrupted engagement appointment of 4 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 47 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the managing board and the supervisory board for the financial statements

The managing board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the managing board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the managing board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the managing board should prepare the financial statements using the going-concern basis of accounting unless the managing board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The managing board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 13 March 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by C.C.J. Segers RA

Appendix to our auditor's report on the financial statements 2017 of KAS BANK N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managing board.
- Concluding on the appropriateness of the managing board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Definitions of important terms

Assets under administration
Assets which are entrusted by clients to KAS BANK purely for custody or for which solely administrative services are performed. Clients take their own investment decisions, over which KAS BANK has no influence.

Assets under management
Assets deposited with KAS BANK by clients, breaking down into assets under discretionary management and assets under non-discretionary management.

Basel II
The Basel II Framework offers a new set of standards for establishing minimum capital requirements for banks. It was prepared by the Basel Committee on Banking Supervision.

Basel III
The new framework drawn up by the Basel Committee on Banking Supervision, which introduces a stricter definition of capital and several new ratios and buffers with which banks must comply. The gradual transition from Basel II to Basel III is taking place over a period of five years and stared in 2014.

Basis point
One hundredth of 1 percentage point.

Capital adequacy
Measure of a company's financial strength, often expressed in equity as a percentage of balance sheet total.

Clearing
Refers to the clearing businesses of KAS BANK.

Credit rating
Assessment of a credit rating agency expressed in a combination of letters and/or figures indicating the

creditworthiness of a country, company or institution.

Credit Risk
The risk that loans are not repaid, not fully repaid, or not repaid on time. This is also including the settlement risk, i.e. the risk that counterparties do not fulfil their obligations in connection with, for instance, securities transactions.

Cryptocurrency
A cryptocurrency is a digital or virtual currency that uses cryptography for security.

CSR Policy
The policy where Corporate Social Responsibility goals are noted in extension of our mission

Defined benefit scheme
A scheme in which the company makes agreed contributions to a separate entity (a pension fund) to secure pension rights. The company is not obliged, either legally or effectively, to pay additional contributions if the pension fund does not have enough assets to cover all of its current and future obligations.

Earnings per share
Profit for the period excluding coupons attributable to AT1 capital securities (net of tax) and results attributable to non-controlling interests divided by the average outstanding and paid-up ordinary shares.

Effective interest rate
The rate that discounts estimated cash flows to the net carrying amount of the financial asset over the life of an instrument, or, where appropriate, over a shorter period.

Efficiency ratio
Operating expenses excluding impairments and result from the sale of private and public-sector loans and advances as a percentage of income from operating activities.

Employee engagement
A business management concept that describes the level of enthusiasm and dedication a worker feels toward his/ her job.

Energy Efficient Directive Audit
A four-yearly energy audit for companies with over 250 employees in the Netherlands.

Fair Marketing
The way in which KAS BANK ensures fair competition and how the bank responds to the external environment

Full time equivalent (FTE)
The ratio of the total number of paid hours during a period by the number of working hours in that period.

General Meeting
The body formed by voting shareholders and others with voting rights.

General Meeting of Shareholders
The General Meeting of Shareholders or, more commonly, Annual General Meeting of Shareholders or AGM, is the meeting of shareholders and others with meeting rights.

Hedge
Protection of a financial position – against interest rate risks in particular – by means of a financial instrument.

Interest rate risk
The risk that profit and equity are impacted by changes in interest rates, in particular in the event of an intentional or unintentional mismatch in the terms of funds lent and borrowed.

International Financial Reporting Standards
International Financial Reporting Standards are a set of international accounting standards stating how particular types of transactions and other vents should be reported in financial statements. The European Union requires that IFRS be used by all exchange-listed companies in the EU starting from 2005.

KAS BANK
KAS BANK N.V.

Liquidity Coverage ratio
The liquidity coverage ratio refers to highly liquid assets held by financial institutions to meet short-term obligations. The ratio is a generic stress test that aims to anticipate market-wide shocks. The liquidity coverage ratio is designed to ensure financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions.

Liquidity risk
The risk that the bank has insufficient liquid assets available to meet current liabilities in the short term.

Market risk
The risk that the value of a financial position changes due to movements in stock exchange prices, foreign exchange and/or interest rates.

Material Assessment
An assessment that discovers what the key priorities are for stakeholders and their potential impact on the company.

Materiality
Materiality is the threshold at which topics become sufficiently important to be reported. Material topics are those that may reasonably be considered important for reflecting the organization’s economic, environmental and social impacts, or influencing the decisions of stakeholders, and, therefore, potentially merit inclusion in a report.

Operational risk
The risk of direct or indirect losses as a result of inadequate or defective internal processes and systems, inadequate or defective human acts, or external events.

Preference share
Share that receives a fixed rate of dividend prior to ordinary shares.

Repurchase agreement
The sale of securities together with an agreement for the seller to buy back the securities at a later date.

Return on equity
Annualized net profit attributable to ordinary shareholders of the parent company divided by average shareholders’ equity.

Risk-weighted assets
Total assets and off-balance sheet items calculated on the basis of the risks relating to the various balance sheet items.

Solvency
The bank’s buffer capital expressed as a percentage of risk weighted assets.

Stress testing
Method of testing the stability of a system or entity when exposed to exceptional conditions.

Sustainable development goals
In 2015, the United Nations set out the Sustainable Development Goals (SDGs) for 2030: a set of 17 highly ambitious goals relating to climate, poverty, healthcare, education and other challenges.

Three lines of defence
KAS BANK’s approach to risk management. The three lines-of-defence principle consists of a clear division of activities and responsibilities in risk management at different levels in the bank and at different stages in the lifecycle of risk exposures.

Transparency Benchmark
A benchmark constructed by the Dutch Ministry of Economic Affairs to provide an insight into how Dutch businesses report their activities in relation to corporate social responsibility.

Abbreviations

ABREVIATION	DEFINITION	CHAPTER
AFS	Available for Sale	Annual financial statement
ALCO	Asset & Liability Committee	Risk management
AScX	Amsterdam Small cap Index	KAS BANK's shares
AUD	Australian Dollar	Annual financial statement
BCM	Business continuity management	Risk management
BRRD	Bank Resolution and Recovery Directive	Risk management
CAD	Canadian Dollar	Annual financial statement
CFRO	Chief Financial & Risk Officer	Report of the managing board
CHF	Swiss Franc	Annual financial statement
COBIT	Capital Requirement Directive	Risk Management
CIA	Confidentiality, Integrity and Availability	Risk management
CRD	Capital Requirements Regulation	Risk management
CRR	Capital Requirement Regulation	Risk management
CSR	Corporate social Responsibility	Sustainability
CSR Score	Clients Service Review	KAS BANK at a glance
DNB	De Nederlandsche Bank (Dutch Central Bank)	Risk Management
EBA	European Banking Authority	Risk Management
ECB	European Central Bank	KAS BANK's Shares
EBIT	Earnings before interest and tax	Annual financial statement
EBITDA	Earnings before interest, tax, depreciation and amortization	Annual financial statement
EMIR	European Market Infrastructure Regulation	Risk management
ERMC	Enterprise Risk Management Committee	Risk management
ESG	Environmental, Social, Governmental	Sustainability
ESMA	The European Securities and Markets Authority	Annual financial statement
EU	European Union	Markets
FTE	Full-time equivalents	KAS BANK at a glance
GBP	British Pound	Annual financial statement
GDPR	General Data Protection Regulation	Risk Management
GRC	Governance, Risk and Compliance	Corporate Governance
GRI	Global Reporting Initiative	Materiality Assessment
ICAAP	Internal Capital Adequacy Assessment Process	Risk Management
IFRS	International Financial Reporting Standards	Risk Management – Report of the supervisory board
IIRS	International Integrated Reporting Counsel	Business Value Model
ILAAP	Internal Liquidity Adequacy Assessment Process	Risk Management – Report of the supervisory board
IR	Integrated Reporting	Business Value Model
IRMF	Integrated Risk Management Framework	Risk management
ISAE	International Standard on Assurance Engagement	Risk Management

ABBREVIATION	DEFINITION	CHAPTER
ISO	International Organization for Standardization	Risk management
ITIL	Information Technology Infrastructure Library	Risk management
JPY	Japanese Yen	Annual financial statement
KPI	Key Performance Indicator	Business Value Model
LCR	Liquidity coverage ratio	Risk management
MiFID	Markets in Financial Instruments Directive	Risk Management
NSFR	Net stable funding ratio	Risk management
NVB	Nederlandse Vereniging van Banken (Dutch Banking Association)	Materiality Assessment
PSD2	Payment Services Directive	Risk management
PV01	Price Value of a Basis Point	Risk management
PwC	PricewaterhouseCoopers Accountants N.V.	Risk management
SDG	Sustainable Development Goals	Business Value Model
SEK	Swedish Krona	Annual financial statement
SREP	Supervisory Review & Evaluation Process	Risk management
SSM	Single Supervisory Mechanism	Risk management
S&P	Standard & Poor	Annual financial statement
USD	United States Dollar	Annual financial statement
VaR	Value-at-Risk	Risk management

Disclaimer

KAS BANK may include certain statements in this Annual Report regarding future expectations and that may constitute forward looking statements. These forward-looking statements relate to KAS BANK's potential exposures to various types of market, credit and operational risk, are not historical facts and are based on KAS BANK's current views and assumptions. By their nature many of the forward-looking statements are uncertain and not in KAS BANK's control. Actual results may differ materially from those anticipated by the forward-looking statements made in this Annual Report due to a number of factors.

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