

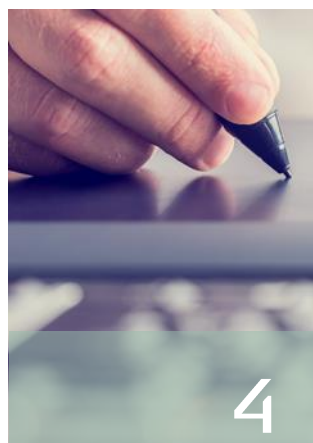
# KAS BANK N.V.

# Annual Report 2018



Enabling prosperity  
For future generations

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## Strategy

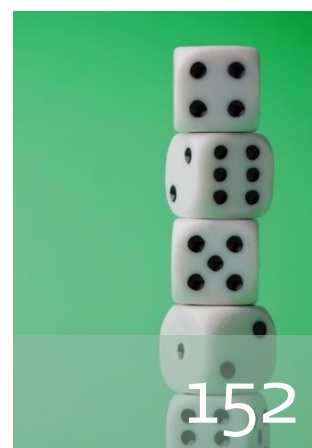
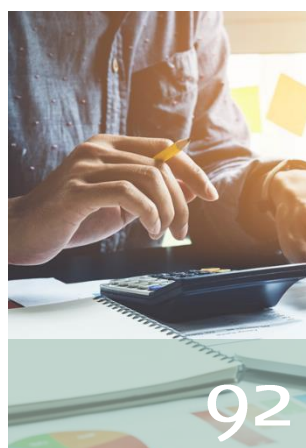
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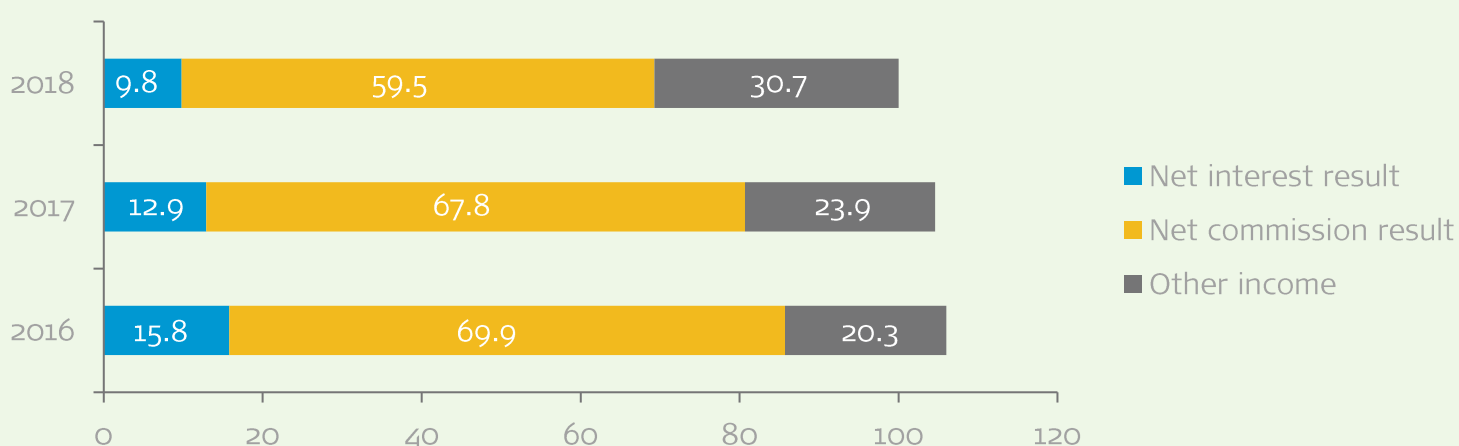
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# Financial key figures

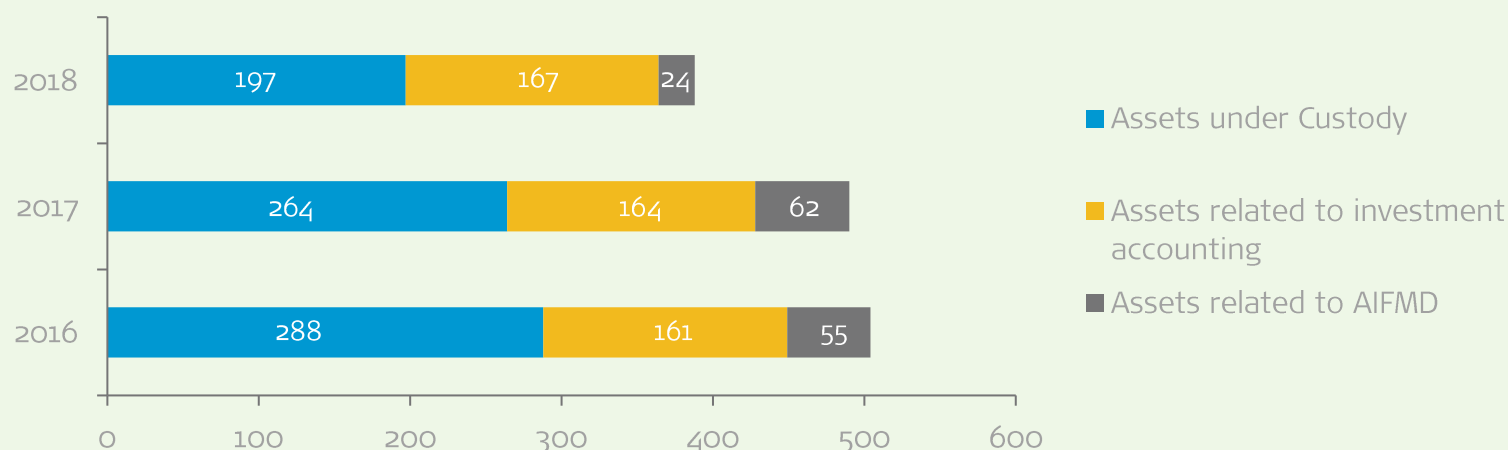
## KAS BANK at a glance

### Total operating income (in EUR millions)



	2018	2017	2016
Dividend	EUR 0.21	EUR 0.64	EUR 0.64
Profit per share	EUR 0.55	EUR 1.02	EUR 1.01

### Assets under administration (in EUR billions)





# Non-financial key figures

## Client satisfaction rate

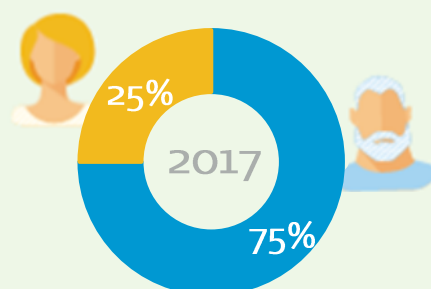
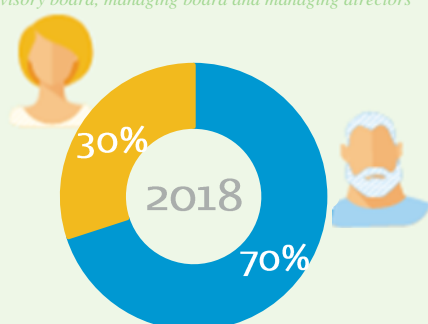


## Employee engagement



## Gender diversity at top management

*Supervisory board, managing board and managing directors*



## ESG screening module



2018: EUR 601,000  
2017: EUR 634,000

## KAS BANK Charity Fund awards



Welfare Fund: EUR 14,750  
Study Fund: EUR 13,000

# 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 by developing distinctive and sustainable administrative and banking services and solutions with our knowledge and. This way we enable our clients to achieve better 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, creating a solid return for our shareholders and strengthen our position in society.

Our specialized employees are the core of our company. Their quality and expertise are 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, personalization, distinctive 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 rigid control model.

### Long term value creation

KAS BANK focuses on sustainable value creation for all our stakeholders – clients, employees, shareholders, regulators and society. We acknowledge that a strategic partner will help us to enhance this value creation by providing KAS BANK the critical size that is needed to adapt to the changing market environments, where consolidations are going on and size is an important criterium.

By listening and adapting 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 strive to enable sustainable growth and optimization of performance for our shareholders within our low risk profile. Our data is transparent, to provide regulators and clients with the necessary insights. We want the best for our society and, therefore, support the local community around us with amongst others our KAS BANK Welfare and Study fund.

### Our ambition



#### Enabling prosperity for future generations

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.

### Our core values



Committed



Connected



Competent

### Our strategic priorities



Client Empowerment



Data Driven



Unique Specialist



Operational Excellence

# 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 the 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, 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

In our business model, we see a shift from more traditional banking services towards more administrative and added value 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.

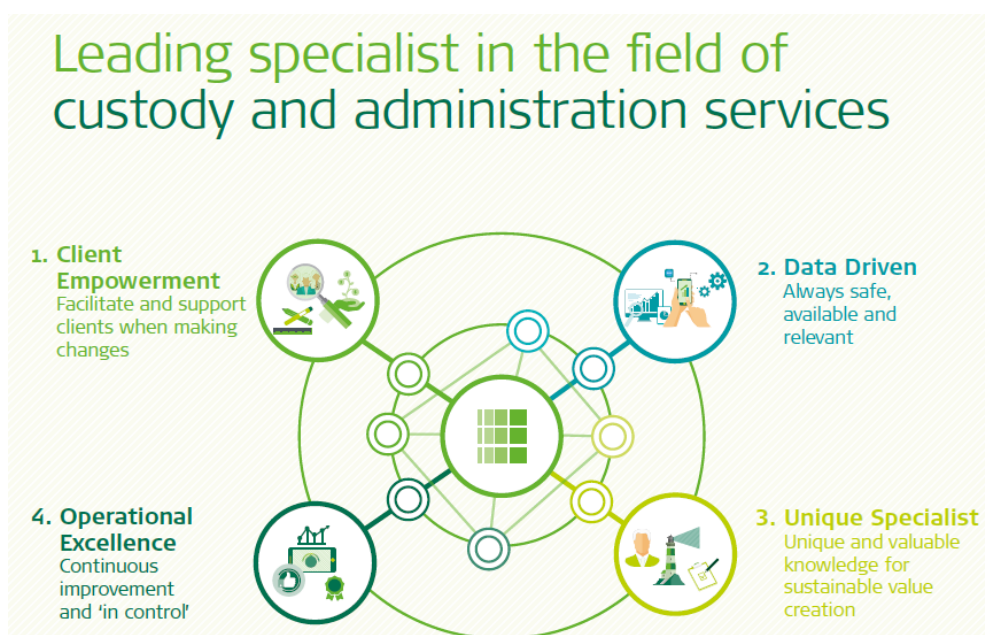
Our clients also use our transactional services, such as clearing, settlement and order execution.

Furthermore, we have clients that use our Treasury Services, mainly in combination with Transaction Servicing and/or asset servicing. 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.

## 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 home markets.



# Message from the Chairman

In 2018 the market conditions remained challenging for KAS BANK. Interest rates remained at unprecedented low levels, with the continued adverse effects on our results. The consolidation in the financial sector continues, with negative impact on our book of business, mainly related to some larger clients in our pension and insurance segment: In terms of size both our custodian-peers and our institutional client base have grown rapidly and significantly.

In 2018, we initiated a review of our business, where we evaluated the available strategic options. We concluded that the long time value of our business was better served with a strategic partner to support and enhance our strategic transformation. A strategic partner that will provide our operations with access to critical size in terms of a bigger balance sheet and a scalable custody base. This way we feel our clients, employees and shareholders are best served going forward. The review resulted in a clear preference for one party that over the years had demonstrated an interest in our business: CACEIS.

The conversations with CACEIS, in the past months, have been fruitful and have resulted in the announcement of the intended public offer by CACEIS for KAS BANK in February 2019. The preparations for this transaction have dominated the agenda of top management in the last months of 2018.

In 2018 we have also seen growth, especially in the wealth segment, with new clients choosing for KAS BANK. Our determination to maintain our focus on pensions in both the UK and Germany has been rewarded with the new mandates we have won there. It seems our specialist profile is now recognized by the consultants that dominate these markets.

In 2018 we have seen a positive effect in the client satisfaction rating, which has gone up to 7.4. This is the result of a lot of hard work on business discipline, process improvements and new developments. We are pleased that our clients recognize these efforts.

Again, we were able to provide our clients with an unqualified ISAE 3402 opinion. This will help them in their assurance of those parts of the value chain they outsourced to KAS BANK.

We invest considerably in our business model and product offering. We considered this necessary in order to be future proof and enhance our business and service offering given the challenging market conditions and competitive landscape.

We see a clear trend in the institutional asset management market, for which we are preparing the launch of a specialist sourcing proposition. As we have started market consultation in December of 2018, we hope to deliver on the results in the years to come.

We continue to invest in growth initiatives through KAS Lab. Only 12 months after we started, we are ready to launch two innovations to the market: KASPER and TOKAS. KASPER opens opportunities for our clients to have their securities depot linked to the index of their choice. Thereby avoiding legal uncertainty and extra costs. TOKAS delivers on the tokenization of fund assets, whereby we facilitate for fund managers the possibility for their clients to move in and out of investment funds in a new, digital way (through blockchain). This makes investment in investment funds more attractive to consumers.

In 2018 we further improved our control functions. We have invested in our risk management team and processes, resulting in a higher level of maturity. The stability of our IT infrastructure has also stabilized after the migration to ATOS was concluded. Other improvements we successfully implemented relate to prudential reporting and the quality of our data.

In 2019 we hope to complete the transaction with CACEIS and look forward to reaping the benefits of this promising combination. KAS BANK, as the future Dutch Branch of CACEIS, will become CACEIS' global centre of excellence for pensions, ensuring the growth of our institutional footprint and legacy.

Amsterdam, 13 March 2019

**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 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 2018

We held our annual General Meeting of Shareholders on 25 April 2018, during which attendees with voting rights represented 93.3% of the issued capital. Shareholders and depositary receipt holders in attendance represented 32.2% 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 67.8% of the voting shares. All depositary receipt holders attending the meeting were automatically authorized 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 directly 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 31st December 2018).

In 2018, no transactions took place between KAS BANK and any natural person or legal entity holding at least 10% of the shares in KAS BANK.

## Shareprice

During 2018, the price of KAS BANK shares decreased by approximately 40%, from EUR 9.97 (at year-end 2017) to EUR 5.92 (at year-end 2018). The basic earnings per KAS BANK share in 2018 were EUR 0.55 (2017: EUR 1.02). 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. We distribute dividends because we believe that our major shareholders as risk carriers should share in the returns achieved by our company. We strive for a long-term structural stable return, based on the nature of our business, combined with our low risk profile, and our historical performance.

The European Central Bank (ECB) recommends 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. KAS BANK follows this ECB guidance.

An interim dividend of EUR 0.21 (2017: EUR 0.33) per ordinary share was paid out in September 2018. In view of CACEIS' recommended offer for KAS BANK we have decided not to declare a final dividend for 2018 (2017: EUR 0.31).

## 3% holdings

SHAREHOLDER	PERCENTAGE OF KAS BANK SHARES
NN Group NV	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

## 2019

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
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

## 2020 (provisionally)

5 March	Announcement of 2019 figures (before opening of trading) Analysts' meeting
11 March	Publication of the 2019 Annual Report Notice convening the Annual General Meeting of Shareholders
25 March	Registration date for the General Meeting of Shareholders
22 April	Annual General Meeting of Shareholders
24 April	Ex-dividend quotation of KAS BANK N.V. depositary receipts
27 April	Record date for the determination of dividend entitlement
30 April	2019 Final dividend payable
3 September	Publication of H1-2020 interim figures (before opening of trading) Analysts' meeting
4 September	Ex-dividend quotation of KAS BANK N.V. depositary receipts
7 September	Record date for the determination of interim dividend entitlement
11 September	2020 Interim dividend payable

# Strategy



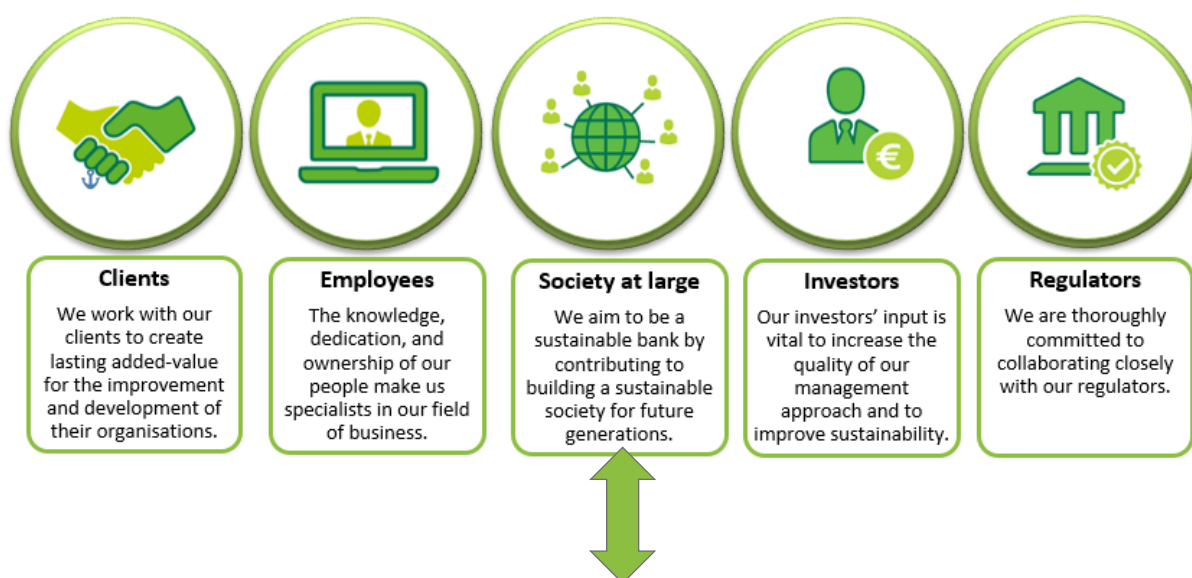
13	Stakeholder & ambition
15	Culture & strategic priorities
17	Trends & market developments
19	Sourcing
20	Materiality assessment
22	Material topics and connectivity
24	Business value model

# 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 custody and administration services. We put our clients at the center 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.

A strategic partner will help us to achieve our ambitions and strategic priorities faster via access to critical size in terms of balance sheet and additional investment and innovation power.



## 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*

## Strategic partnerships

We always look for strategic partnerships to support and enhance our strategic transformation and our business model. In 2018 we have been investing considerably in our business model and product offering. We consider this necessary in order to be future proof and further enhance our business and service offering given the challenging market conditions and competitive landscape.

In 2018 we also faced the loss of several (larger) clients due to consolidations in the pension and insurance industry, our balance sheet size and financial performance. Hence, we initiated a strategic review to evaluate the future position of KAS BANK. We concluded that a strategic partner will provide our operations with access to critical size in terms of a bigger balance sheet and a scalable custody base and will enhance and accelerate our strategic transformation.

This review resulted in a process leading to the announcement of a conditional offer from CACEIS on all KAS BANK shares on 25 February 2019.

## Investing succesfully

We connect institutional investors with the financial markets. As a Dutch bank with an international profile, we offer worldwide coverage. Our knowledge of the business enables us to implement distinctive 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 are 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.

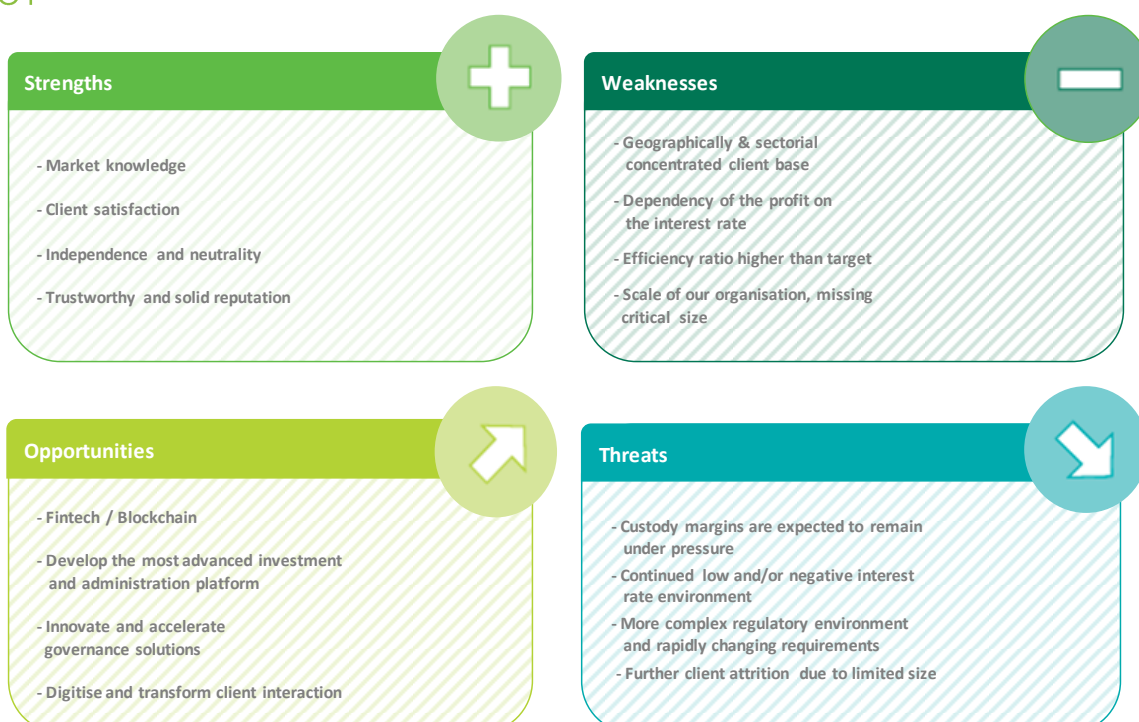
## Continuous improvement

We understand the changing circumstances and wishes of clients and strive to continuously adapt to their needs. Our specialized employees do this by continuously improving our services, putting the client first, devising custody 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





# 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 2018 we continued our 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, organization and shareholders but also to the way we partner with our clients and our position in society.

## Strategic priorities

Our core values are the foundation for realizing our strategic priorities and are entwined to reach the goals we set for our organization. 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 key performance indicators are reported in the Business Committee meetings to manage the performance of the goals set under the strategic priorities.

### Connectivity of material topic 13

#### Culture & Core Values

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
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## 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.

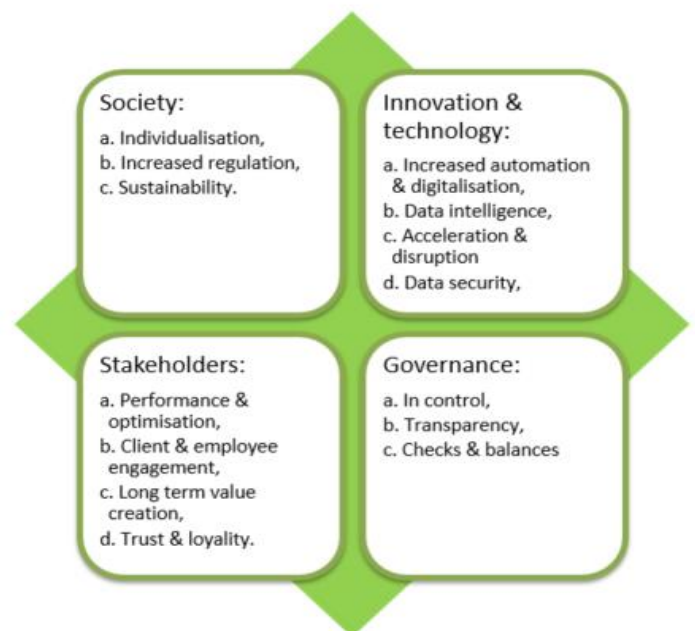
We continuously strive to improve the quality of our services. We listen carefully to the feedback of our clients and from the market. In our pursuit of Operational Excellence, we continuously invest in the expertise and potential of our employees.

- 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 towards 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 professionalization 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 digitalizing 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 entrust the speed and reliability of our systems. Nevertheless, in an extensive digitalized client environment personal contact with our clients will always remain a core element of our service.



### Connectivity of material topic 7

#### Strategy & Execution

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
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# Sourcing – advanced investment administration platform

KAS BANK is already one of the major players in performing administration services to institutional investors. In 2018, we started with the preparations to create an additional pillar to the business that focuses on conducting investment administration for large third parties, mainly asset managers and asset owners. We see an increasing demand from the market for this service and see this type of investment accounting as a logic extension and deepening of our product and service offering.

In March 2018 KAS BANK started a partnership with SimCorp to shape the sourcing proposition on the basis of Dimension (the system of SimCorp). From mid-2018, specialists were recruited with extensive experience in setting up and executing securities administrations of asset managers and asset owners. In 2019 we will continue and intensify our dialogue with potential clients, aiming to welcome new clients by the end of 2019

## Market development

Outsourcing is rapidly increasing. Almost every insurer, pension fund, and asset manager has outsourced parts or is currently working out plans for this purpose. They are confronted with continuous pressure from new laws and regulations, increased costs and the lack of change capacity to meet specific customer requirements.

## Our belief

We believe that outsourcing will unburden our clients, so that they can focus on executing their investment strategy. KAS BANK is the right outsourcing partner, because of our long-term experience with and our strong focus on this type of business

Outsourcing is much more than buying a product or service. We see it as a partnership where both parties contribute to the success.

There is no one-size-fits-all approach when it comes to outsourcing. However, the common base offers the possibility to realize benefits for our clients.

## Wide range of services, including modular outsourcing

KAS BANK organizes its sourcing activities in a business line that focuses purely on providing these services. Targeted clients are asset managers, fund managers and pension funds. The core consists of conducting the investment administration (back- and mid-office) where we administer the financial instruments in which investments are made; including the so-called alternative investments. In addition, we support the reporting process to the client and their supervisor. Through our partnership with SimCorp, we can offer front office functionality, resulting in seamless integration.

## Historical position of KAS BANK

Although outsourcing has received a lot of attention in recent years, it is nothing new. Storage of physical securities for professional parties can be seen as perhaps the first form of outsourcing of securities services. It was much more efficient and cheaper for most parties to use a party such as KAS BANK for the safekeeping of securities than to keep all the items in the safe themselves. Besides, KAS BANK has also a long track record in investment accounting.

Outsourcing is the natural habitat of KAS BANK.



# 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 themes 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.

### Connectivity of material topic 17

#### Stakeholder Engagement



## 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 in 2018, which helped us in identifying and prioritizing the most relevant topics for our stakeholders.

## The survey

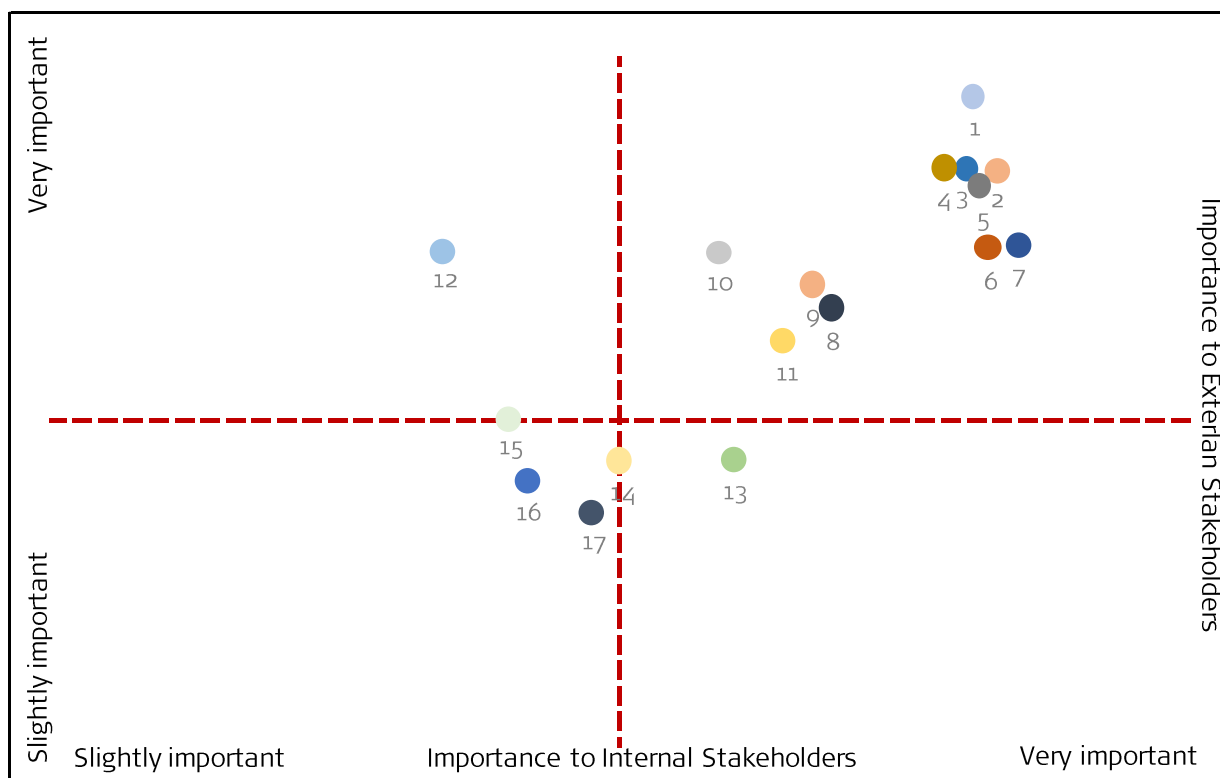
This survey was sent to KAS BANK's key stakeholders which are our clients, shareholders, employees, regulators and suppliers/partners. The group that we approached consisted of 158 stakeholders. Within the survey the stakeholders were asked to rank the topics on a scale from 1 (unimportant) to 5 (very 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 2018 with the results of 2018, we see a change of importance placed by our stakeholders. However, Privacy & Data protection and Valuable Data & Transparent Communication remains one of the most important topics for the stakeholders, while Economic Performance, Gender Equality and Stakeholder Engagement remain as less important topics.













































Although the response rate was a mere 16%, we recognize the outcome of the survey and importance of the mentioned materiality topics.

## Materiality matrix



Nr.	Topic
1	Privacy & Data Protection
2	Sustainable Value Creation
3	Quality Education
4	Valuable Data & Transparent Communication
5	Regulatory Compliance
6	Client Empowerment
7	Strategy & Execution
8	Innovation
9	Responsible Investment
10	Corporate Governance
11	Remuneration
12	Risk Management
13	Culture & Core Values
14	Decent Work and Economic Growth
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 organization, the digitalization of society and the setting of a high standard of security on assets and customer data underline this important theme.	 	 	See page 35
2. 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 optimization of performance within a low risk profile.	 	   	See page 44
3. 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 organization.			See page 46
4. 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 40
5. Regulatory Compliance	The financial sector is characterized 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 organization, but also support clients in this complex field.		   	See page 35
6. 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 44
7. 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 18
8. Innovation	We engage in innovative processes and collaborates with startups to develop new services to adapt to the changing market conditions.	 	 	See page 42
9. Responsible Investment	We became the first custodian bank that signed the UN Principles of Responsible Investment in 2009. In addition, we have an ESG (Environmental, 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 performance.	  	 	See page 45
10. 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 60

MATERIAL TOPIC	DESCRIPTION	STRATEGY	STAKEHOLDERS	REFERENCE
11. Remuneration	With our remuneration policy, we aim to retain and recruit qualified employees and experts. Furthermore, the variable reward depends on the realization of predefined financial and non-financial targets.			See page 62
12. Risk Management	We have a low risk strategy and profile that is reflected in the internal policies and procedures.			See page 68
13. Culture & Core Values	Our core values are competent, connected, and committed. The core values are the foundation for realizing our ambitions and the culture of the organization.			See page 15
14. 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 46
15. Economic Performance	Our economic performance is about the products and services offered to achieve solid financial results.			See page 48
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 employees, management and board members in the organisation.			See page 45
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



## Stakeholders



# 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 450 in-house specialists are the core asset of our bank. The quality and expertise of our people is crucial for our continued success.

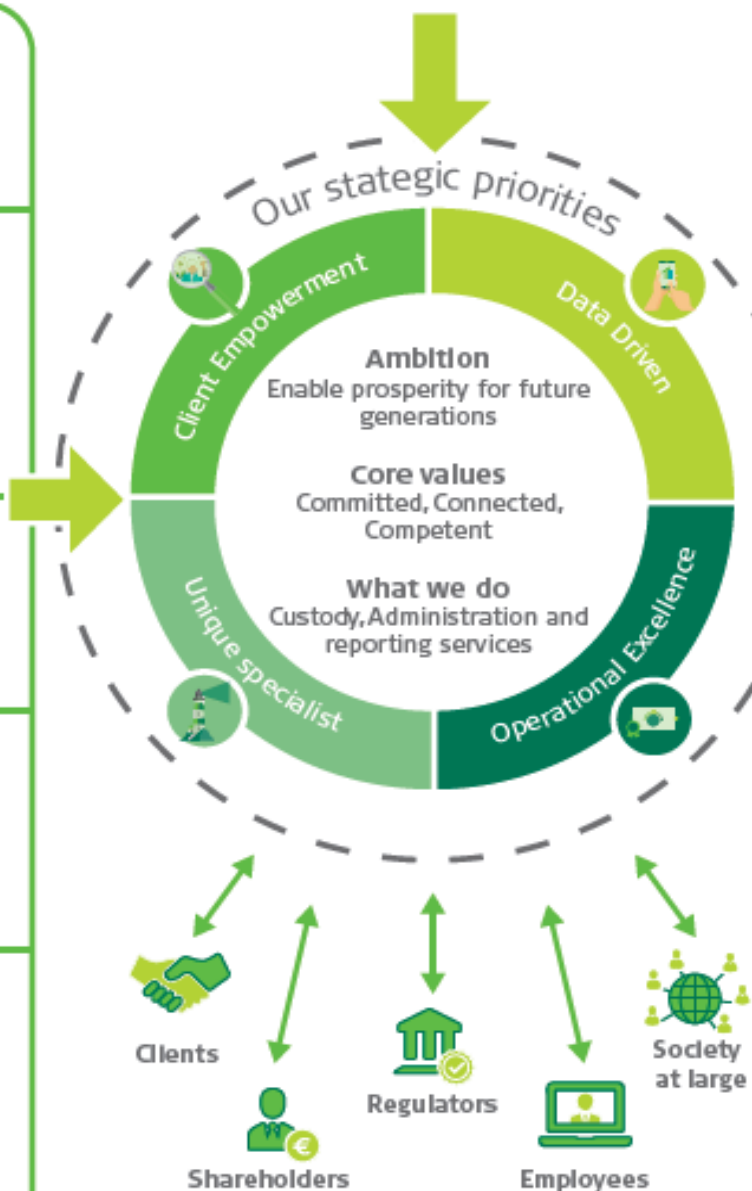
#### Social and Relation Capital

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.

### External environment Key trends





## Main output

- **ROE:**  
3.6%
- **Efficiency ratio:**  
90%
- **Dividend per share:**  
0.21
- **Profit per share:**  
0.55
- **Availability of our digital services:**  
99%
- **Investment in technology:**  
EUR 18.4 million
- **Personnel training expenses:**  
1.7%
- **Quality education scholarships:**  
EUR 13,000
- **Employee engagement score:**  
6.8
- **Gender diversity top management:**  
30% female/male
- **Contributions to study fund:**  
EUR 14,750
- **Client satisfaction score:**  
7.4
- **CO2 emissions:**  
144 gram/km

## How we create value

### Financial Capital

Our ambition is to enable prosperity for future generations. Our key services are custody, administration and reporting services while differentiating with our low risk profile. Our services are based on three important principles: Integrity, transparency and independence.

### 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, a state-of-the-art sourcing proposition, 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, personalization 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 market. 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 selected 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.



"Responsible investment is becoming increasingly popular, especially in Europe. KAS BANK is developing tools to help customers to have better insights in their investments"

Maurits Daarnhouwer, Product Manager

# Our Business Environment



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# Our Business Environment

## Our Markets

We specialize in providing 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 home 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.



"Our clients enjoy the advantages of flat hierarchies, quick decision-making processes and personal contacts"

Jeannet Bijker, Business Development Manager

# Dutch Market

The Dutch market is one of the leading investors markets in the world. There are well over 200 pension funds with a combined asset base of over EUR 1,3 trillion next to a large banking and insurance sector. Combined assets are in the region of EUR 2 trillion. The Dutch end investors invest in all possible asset classes and across the globe. The market is advanced and demanding from a service provider perspective.

## Pension Industry

The Dutch pension market has grown to over EUR 1,3 trillion. Low interest rates have resulted in relatively low funding levels. This puts pressure on the sector who will have to manage risk/return in a prudent way. Future investment returns are key for the sector. Risk management can be considered advanced and we have seen a growing need for risk management solutions. Our risk solutions team helps dozens of pension fund managing and monitoring their Risk exposures.

The sector has consolidated from around 1,000 (in 1997) to just over 200 pension funds. We expect that this consolidation will continue. Larger funds can be considered more demanding and typically have a more advanced and diversified investment portfolio.

Cost awareness and transparency are still considered to be important. We have developed a range of tools for pension funds to monitor their (implicit and explicit) costs. We have seen a huge interest in cost monitoring tools in the UK and to a lesser extent however still substantial in Germany. In these markets cost transparency is considered to be an innovation with lots of potential.

KAS BANK is still amongst the leading providers in terms of the number of pension funds it services in The Netherlands.

## Insurance Companies

The insurance sector is the second largest market segment KAS BANK services in The Netherlands. It is well diversified and has some large as well as a broad range of specialized insurance companies. Our strategy is built on offering a combination of more traditional securities servicing and investment accounting & reporting services. Solvency II, increased regulation and stricter oversight requirements have changed market requirements.

Our combined service offering, tailored to the Dutch market, has given us an important position in the number of insurance companies we service.

## Asset Management

We service a broad range of asset management companies. This ranges from private banks, independent wealth managers to (multi-)family offices. Capital is rapidly accumulated and requires to be professionally managed. The reporting and banking requirements of family offices are on the rise. The search for return has opened a range of new (alternative) asset classes which have to be serviced. This is one of the more exciting growth areas we currently operate in. Mainly because there is ample room to differentiate yourselves.

## Sourcing

It is our ambition to be the leading (Dutch) third party administration (TPA) provider. KAS BANK has a distinctive partnership with SimCorp which enables us to provide asset management companies with a complete front- to back solution. This solution includes a “state of the art” Dimension set-up. Middle- and back-office tasks will be handled by an expert team with asset management experience.



### Our results and successes in 2018

We have participated in many RFP's. We have won new mandates across all segments. However, consolidation within the pension and insurance industry as well as our limited balance sheet size and financial performance resulted in the loss of several (larger) clients in the second half of 2018.

We have invested consistently in client driven solutions. We have rebuilt our client web-portal (KAS-Web) which was launched in beta version in December 2018.

We will continue investing in client driven solutions. Our client's satisfaction improvement program has resulted in an improvement of our client satisfaction score (+0.2 to 7.4). We have identified 12 points of improvement during our annual service review. These will all be part of the Client Happiness Plan 2019. Client feedback is and remains welcomed, as it continues to encourage and inspire us to improve our services. We therefore invite all our clients to participate again in next year's Client Service Review.



"Client satisfaction is paramount to our success. We use client feedback to draw up various improvement initiatives, as we believe in continuously improving the quality of our services."

Wouter de Jonge, Marketing Manager



# German Market

The German office of KAS BANK is located in the heart of Frankfurt am Main. As an EU pass-ported branch of KAS BANK N.V. it is 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 big change in the German pensions market is still to happen, but the legislation has paved the way. On the 1st of January 2018 the new Pension Law (Betriebsrenten-stärkungsgesetz) has been introduced, which has the potential to boost occupational pension in Germany. The structure resembles in many ways the established Dutch system, with an even stronger focus on Defined Contribution structures bundled with a ban on guarantees. The potential for these funded pension structures is immense. Only 13% of the German GDP is in funded occupational pensions systems, compared to 194% of the GDP in the Netherlands.

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 expertise in the Dutch pension market creates market interests and we utilize this in a convincing and successful 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 differentiation in the market and deepens our footprint in the pension industry.

In recent years, we have 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 2018, where assets under administration have grown by another 25% per cent and several new pension related mandates could be onboarded.

In 2018 we have successfully transferred our innovation processes to the German branch. The first agile sprint week to analyze German pensions services was a real success. The outcome was highly valuable, innovative and last but not least real fun for the team and prospects involved.

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 continues to

be a real success. The senior roundtables and conferences regularly attract more than 100 participants and underline our dedication to the German Market and the pension industry.

### **Our outlook for 2019**

2019 will need to show that the pension reform is future proof and initiates the envisaged and needed change in the German occupational pension landscape. Almost one year in existence the first implementation of a new pension vehicle under the new legislation is yet to come. We continue to be at the heart of these discussions to be the partner of choice 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 key to our German pension strategy. We continue with our ambition to be recognized as the trusted adviser who thinks about and understands 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. In 2018 we were able to again improve our excellent score of our annual Client Service review. This score proves that we have laid a solid foundation for our strategic goal in achieving operational excellence and is a rewarding certification for the good work the team has done in 2018.



"We look back to a successful 2018 in Germany. Together with the teams in Amsterdam and London we were able to onboard several new mandates and grow our assets under management"

Daniel Schepp, Head of Sales Germany

# United Kingdom

We are becoming known as an innovative specialist in the UK market, delivering distinctive and valuable solutions to our clients. We have the ambition to become “the governance partner of choice for UK pension funds”, and we have made good progress during 2018. This ambition is underpinned by the Group ambition “Enabling prosperity for future generations”. Our office is a dynamic and enthusiastic working environment, with strong teamwork and a commitment to delivering a high standard.

## Our activities

The key objective of the UK branch is to ensure our clients have access to local specialists, who have a deep understanding of their challenges and can support their specific requirements.

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 endeavor to tailor our services to meet those requirements.

We are specialists in our market and continue to build solutions to better support our clients and respond to the regulators ever growing demands. We are also viewed as an educational partner to the UK pension industry, through various initiatives including the sponsorship and presenter of a Trustee Learning Zone held at the Pension & Life Saving Association (PLSA) Annual Conference, the sponsor and composer of the PLSA Made Simple Guide, and an educational video designed for trustees. We will continue with this theme during 2019, and specifically have agreed to be the Educational Partner with the PLSA for Cost Transparency throughout 2019.

## Our market

London is viewed as the world’s leading financial center. The UK pensions market is the second largest in the world (behind the US) and the largest European market.

The UK industry (across all sectors) continues to face a period of significant change and unpredictability with Brexit, political unrest and the continued challenging economic environment. Additionally, the UK pension industry is under ever increasing pressure with significant scheme deficits, the pressure to consolidate, a growing concern that DC schemes will not deliver a sustainable retirement income, ever

increasing policies and regulations and growing demands for better transparency and governance from the policy makers and the regulator. 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 challenger custodian and data specialist, to support small-to-medium-sized pension funds, and other institutional clients. Accordingly, there is an excellent opportunity for KAS BANK to become the provider of choice for these funds.

There is no other pure player securities services provider in the UK market. This allows us to remain a neutral party, free from conflicts of interest and so help our clients to reach their long-term goals. We are unique which we believe continues to present an exciting opportunity for KAS BANK.

## Our culture

The UK team is energetic and highly motivated, ensuring the highest levels of client service by working in partnership with our clients and building relationships for the long-term. We have developed a deep understanding of their challenges and requirements. The clients 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 aim for success

The contribution of the UK pension market to the turnover and profitability of the bank is limited but growing. To succeed in this highly competitive market we need to ensure we deliver distinctive and innovative solutions to both the UK pension industry and our institutional clients.

We became the first to the UK market with a pioneering cost transparency & benchmarking tool in 2017, 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 are now delivering our innovative Cost Transparency & Benchmarking service to a number of UK pension funds, whilst the rest of our institutional client base also continues to grow.

We are thought leaders in the industry and are committed to developing innovative client-focused solutions, through our innovation hub KAS Lab. KAS Lab is currently working on multiple client driven solutions, employing technologies such as blockchain and advanced machine learning.

During 2018 we launched KASHedge in the UK, an innovative currency overlay solution that enables pension funds to implement a currency overlay policy on the aggregate portfolio level, within an automated and controlled process; providing a strengthened governance framework, transparency and cost efficiencies.

We have also boosted our sales team this year with experienced pension fund professionals, in addition to continuously improving the quality and governance of our client service.



"I am proud to see that our new launched services, KASHedge and cost transparency & benchmarking tool, broaden the possibilities for our clients"

Patricia Sharman, Managing Director UK

# Our Regulatory Environment

The regulatory requirements for our clients, ourselves and other financial organizations will continue to increase. 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 organizations, 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 5 Regulatory Compliance

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
	   	Page 22

## Compliance

The compliance function has continued to operate on the desired maturity level. We are focusing on policy making, creating awareness and monitor. Given the incidents within the financial industry related to money laundering we expect increased attention from regulators over the upcoming period. We have an advanced monitoring system and a team of experts in place to carry out client due diligence and transaction monitoring in 2018. The implementation of the 4th

anti-money laundering directive by the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) also improved our procedures related to client due diligence, transaction screening and transaction monitoring.

During 2018 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. To comply with the

General Data Protection Regulation (GDPR) as of 25 May 2018 a multidisciplinary project group was set up in the second half of 2017 as well. We performed an analysis of Basel IV. We implement all these changes on schedule and the impact is relatively limited. Other implemented laws and regulations were Anacredit and PSD II.

### Connectivity of material topic 1 Privacy & Data Protection

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
 	 	Page 22

The preparations to comply with amongst others Securities Financing Transactions Regulation (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.

# Our Dilemmas

This chapter elaborates on the dilemmas we faced during 2018, discusses the direction chosen, and how this benefitted our stakeholders and the long-term value creation for the organization.

## Long-term investment versus short term return

In 2018, our main dilemma as an organization was how to create long-term value and at the same time maintain strong short-term returns. KAS BANK has launched its own innovation Lab at the end of 2017 and in the course of 2018 managed to develop initiatives which have the potential to create added value for our clients. It has also given us insights to strengthen, expand and explore our business model beyond the existing boundaries. Development of innovations requires time, patience and continued financial investments.

Meanwhile, the challenges to maintaining strong returns on the current business increased due to the accelerated consolidation of the institutional market in the Netherlands. In response to these developments, KAS BANK intensified its efforts to improve efficiencies of its operational processes and reduce its cost base.

How can we balance investments needed to improve our business model and create long-term value for our stakeholders while maintaining strong returns on the current business? We have decided to heavily involve our existing clients in our innovation Lab to ensure that we deliver real value to them and that they are fully aligned to immediately benefit from new services. In 2018, Kas Lab initiated 250 meetings with clients which inter alia included introductions, feedback interviews, co-creation workshops and sales initiatives. As a result, we have attracted clients to becoming our launching clients and expect that our innovations will already contribute to our results in the year 2019.

## Efficiency versus client satisfaction

Our work is to ensure that 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 realizing financial stability and continuity, which in turn is important to our stakeholders as well. Our stakeholders want a strong and reliable partner.

KAS BANK is of the opinion 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.

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 led 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. As a result, in 2018, our client satisfaction rate increased compared to 2017.

### Efficiency versus employee satisfaction

Improving our efficiency is key for the benefit of our shareholders and clients. We strive to continuously improve our way of working and we invest in automation, robotization and digitalisation of our processes. These changes also impact the required competences and skill sets of our employees. How can we keep our employees motivated while increasing the efficiency of our processes and as a result of that make (their) functions redundant.

We provide transparency and training opportunities to the employees who's functions will become redundant, but also to the directly involved colleagues. We have a good social plan that focuses on 'from work to work' to continue contribution of those employees to the bank. If employees leave before completion of an efficiency initiative, we will hire temporary staff to keep our work force at an adequate level.



"It is the continuous focus on the business model of KAS BANK that derived innovation and growth. Thus, the reason that KAS BANK has reinvented itself many times since its foundation"

Remko Dieker, Managing Director Corporate

# 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 its IT-partner. The partnership started in 2016. In 2017, we transferred our systems and data to ATOS, to maximize the benefits of this partnership. In 2018 the relationship evolved, we finished the transition and started the transformation to improve and optimize KAS BANK's IT landscape. This will be continued in 2019.

## Developments regarding the outsourcing

Outsourcing should 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 a 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.

Continuity of service and increased security levels: the KAS BANK infrastructure is now hosted and supported by a professional organization on a 7 x 24 basis. This means that stability and availability will improve, although in 2018 we experienced some hard times with the new setup. Especially in the first six months the number of incidents was substantial and a lot of effort was put in improvements to guarantee the quality and stability clients expect from KAS BANK.

The second half of 2018 KAS BANK and ATOS have proven that with the new way of working a stable IT-environment can be delivered.

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 in becoming more agile and making maximum use of technological possibilities to the benefit of our clients.

## Other key initiatives

Much effort has been put in market initiatives and new or changed regulations to meet the requirements

of our clients and regulators. For example: Swift changes, GDPR (data privacy) and a new Client Due Diligence solution. All changes are implemented successfully.

## Client developments

In 2018 we continued to modernize our Client Web portal, KAS Web adding new functionality, improving security. By modernizing this environment, we improve client interaction with KAS BANK and be more agile in future improvements of the portal.

## MatchingLink

We have implemented a fintech solution called MatchingLink. With this application we are able to increase our services for currency- and interest overlays. We expect this to broaden our client base.

## Datahub

As part of our data driven strategy, we started the Datahub initiative. Within this project we create an infrastructure to improve our market data management by:

1. Decreasing data vendor cost by smart sourcing data.
2. Increase of data quality by introducing more automated data quality controls before propagation into downstream systems.
3. Data governance: being able to track and record the market data lifecycle.
4. Becoming data vendor independent through out of the box connectors.

## SimCorp Expertise Centre

The Dimension platform is an increasingly important enabler of the strategy of KAS BANK. To extend our internal knowledge base, since 2017 investments are made to build a true 'best in class' internal Dimension Expertise Centre. Goal for the team in 2018 was threefold:

- Build a mature team with highly skilled and SimCorp certified Dimension experts.
- Continuously improve the use of the Dimension platform to enable our clients products and services.
- Professionalize and standardize demand management and working procedures.

This will create the basis for KAS BANK to further build its business in value added services for our clients.

#### Process improvement: Lean and Robotics

To improve our processes from a quality and efficiency perspective, we have 'leaned' several key processes. Together with our operational management tooling, operational managers are now able to monitor their team and process team performance on a daily basis, which results in more in control and reliable client processes.

As one of the first financial institutions in the Netherlands, in 2017 we implemented Robotics Process Automation (RPA). In 2018 we continued this development and we now have our own RPA-team in place. This means that with focus we robotize more processes, resulting in higher and predictable quality and lower costs.

In 2019 we will continue the transformation we started in 2018. This transformation will simplify and digitize our services 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 entire KAS BANK organization and will be embedded in our approach to cultural change.

Agility is 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 IT landscape in a flexible, agile but also controlled way.

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 bring new, modern solutions to our clients.

#### Connectivity of material topic 4

##### Valuable Data & Transparent Communication

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
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### Benefits of Robotics Process Automation and the meaning for our clients

1	2	3	4
Customer service levels are improved as the response time and throughput time are significantly reduced.	Built-in adherence to business rules guarantee a predictable and error-free process flow.	Improved compliance and auditability due to standardized checks and 100% process logging.	Agile sprint implementation leads to fast results that are supported by both the business and IT.



RPA is particularly effective for the automation of repetitive, transactional and rule-based manual processes.



The agile and non-invasive implementation approach allows for fast, effective and high-quality automation of end-to-end processes.



Our people can focus on what they do best: the further delivery of innovative and high-quality products and services for our clients.



# KAS Lab – Innovation for growth

In order to remain continuously relevant, you have to add value for your clients. The KAS Lab tests innovative concepts that can result in new services and products. This will lead to new business models for the KAS BANK that respond to the changing ecosystems and new technologies.

The KAS Lab has formulated four ambitions when it was founded, namely: increasing the product offer in order to generate more revenue, focusing on a more entrepreneurial culture within the bank, improving the bank's image by showing what we do and the fourth ambition is that innovation always remains high on the strategic agenda.

## **In 2018 four initiatives have been launched**

The KAS Lab has further shaped the 2017 initiatives (Index Tracking and Blockchain). The Index Tracking initiative makes it possible to follow a self-compiled index in a passive way that is cheaper and more transparent.

With the blockchain technology, we will make processes more efficient in the area of unlisted funds and we have completely turned the process around voting at shareholders' meetings. The fact that shareholders now experience a lot of problems to cast their vote, will no longer be discussed in our Voterroom application. In a pilot at the AGM of KAS BANK in April 2018, this was tested and we received a lot of positive feedback.

The fourth initiative looks at all possibilities around data. As a custodian bank we manage a lot of data, on which the question must be asked how we can get more value for our clients. The team is now working on a solution to prepare PRIIPS documents using different data sources.

Innovation means that experimenting, which also means that it is possible that something does not work. For example, we searched for a new way of delivering reports to the regulator, where many clients experience problems, but where we as a Lab cannot build the best solution. Also, a concrete idea about the administration of pension entitlements did not get any further in the process.

## **The Lab isn't a check in the box**

Changing a culture takes time. The Lab has taken steps to make the culture more entrepreneurial by

organizing various workshops, giving presentations about the working methods in the Lab, organizing several demo days on which the teams explain the initiatives and the Lab de Academy has started. In the Academy three employees are trained in the lean startup method and they immediately tackled an initiative. We call this learning by doing.

## **KAS BANK is mentioned in several innovation lists**

KAS BANK has been adjusting and changing its business model since it was founded in 1806. When something does not work, the bank will find out how it works differently to suit its clients' problems. Change is actually already quite normal. Yet the bank is not known for this.

The Lab makes this change power visually and very tangible. By developing prototypes that clients can express their opinion about, you create a more direct collaboration and a better end result. The adapted prototypes will become the final product or service.

In order to innovate, you need partners. It is not possible to adjust the entire chain by yourself. That is why the Lab aims in 2018 to create an ecosystem with clients, partners, educational institutions / universities, FinTechs, startups and specialists. In this ecosystem, ideas are developed, tested, built, (in)validated and prepared for the future. With this, the Lab and therefore KAS BANK is also seen as an innovative party and the ecosystem is growing more and more.

## **Innovation on the strategic agenda**

With our innovation partner Aimforthemoon, we have set up a process that allows you to take maximum advantage of corporates and entrepreneurs. Normally these parties avoid each other, but in the Lab their forces are precisely brought together. The Lab process is focused on four phases: scan, test, build and grow. Where an Innovation Board decides which innovative topics are picked up. With this you can immediately

respond to the needs of the client and create your internal support.

### Way of working

Innovation and creativity are not an 8 to 5 thing. That is 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 inspire, co-create and educate.

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 focusing 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 in 2018 are Index Tracking (horizon 2), Voterroom (horizon 3), TOKAS (horizon 3) and PRIIPS generator (horizon 2).

## Connectivity of material topic 8

### Innovation

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
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#### 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.

# 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 2018 we finalized our corporate social responsibility (CSR) policy, which can be found on our website.

## 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 realize 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. In 2018 we updated the materiality analysis, 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 conducted every two years with review of the content and quality of the societal reporting by Dutch companies). For the Annual Report of 2018 we expect the results in 2019.

## Corporate social responsibility 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.

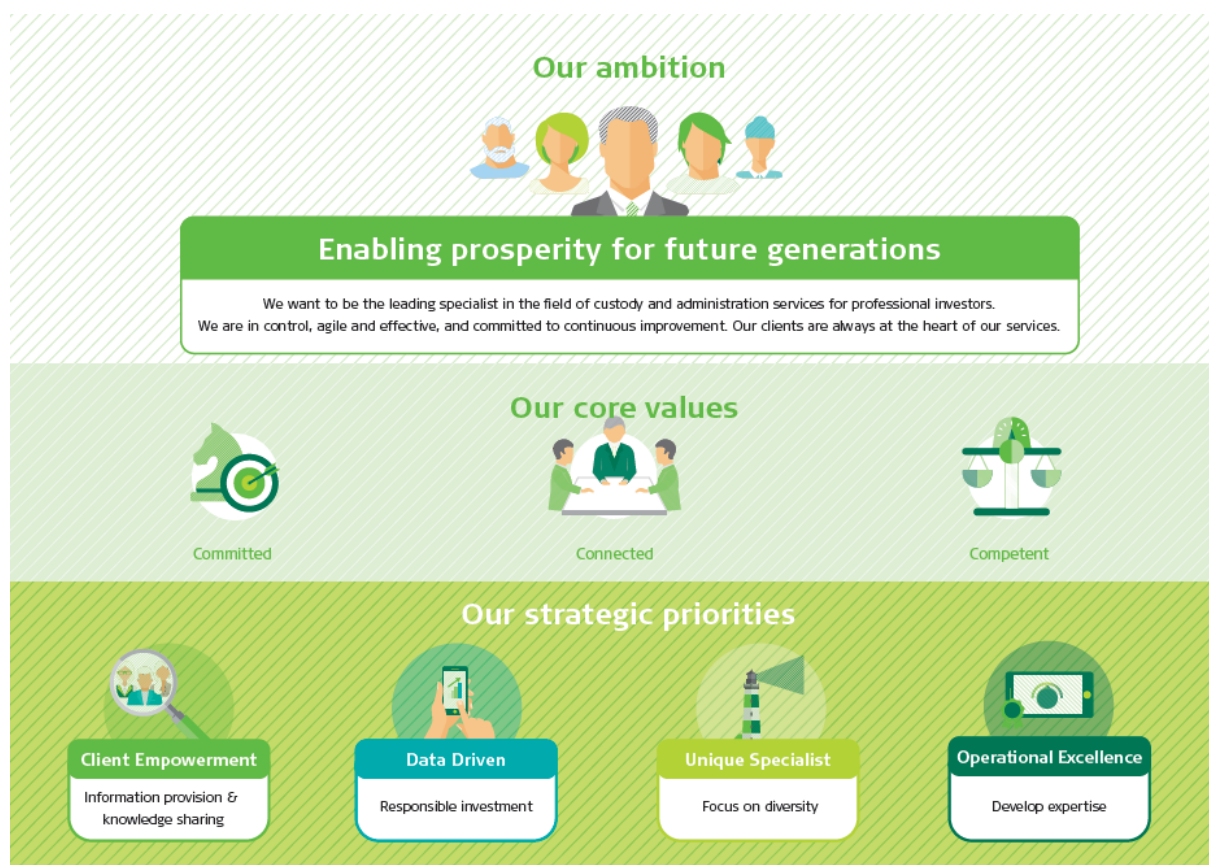
We see our added value in the relationship we have with our stakeholders and society. Our strategic priorities form our pillars within which we have an effect and in which we have defined the focus areas of our CSR policy.



"Our goal is to inspire our female colleagues by providing lectures and workshops and eventually build a community where we strengthen each other"

Stéphanie Holslag & Rinske Remmerswaal , Women Empowerers

## Corporate Social Responsibility Model



### Corporate social responsibility model

In 2018 we actively worked on the CSR goals we have set. Our CSR policy and its focus areas are directly linked to the strategic priorities.

KAS BANK developed a set of goals for every strategic priority that has been set.

#### Connectivity of material topic 2

##### Sustainable Value Creation

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
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#### 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 clients (pro) actively.

In 2018 KAS BANK organized, together with, FollowThis and VBDO (Dutch Association of Investors for Sustainable Development), a seminar socially responsible investment. This was a result of an ESG-survey that was conducted by KAS BANK and VBDO. The results showed that socially responsible investments gather momentum.

KAS BANK is furthermore 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.

#### Connectivity of material topic 6

##### Client Empowerment

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
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#### 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, labor, the environment and the fight against corruption). This helps clients to implement and maintain their sustainability policy. In 2018, we improved our ESG proposition, by adding ESG Overlay to our services and refine our other ESG services.

### Connectivity of material topic 9 Responsible Investment

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
   		Page 22

### 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 and social background.

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

KAS BANK's Supervisory Board is an example of diversity for the organization. The female to male ratio in this board is 60% and thus complies with the Dutch Civil Code that requires 30% of its members to be female.

KAS BANK has actively been monitoring the diversity ratio in the top management of the organization. Managing Board is focused on talent diversity and inclusion. KAS BANK aligned its diversity and recruitment strategy, overall the female to male ratio was 33% in 2018. The Managing Directors, Managing Board and Supervisory Board together have a female to male ratio of 30%.

### Women empowerment platform

KAS BANK believes in the importance of women in organizations and thus supports the women empowerment platform in the organization,

improving the representation and participation of women within KAS BANK.

KAS BANK's women empowerment platform is set up by women working at KAS BANK. This platform strives to support qualified female employees to be promoted to a specialist or managerial role.

### Connectivity of material topic 16 Gender Equality

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

The platform will offer workshops, lectures by inspirational speakers, coaching, and will maintain relations with other women's networks. For the long term KAS BANK's aims to foster a breeding ground for driven and ambitious female employees.

### Diversity in company

KAS BANK has, as part of the WVB (Association of Banking Employers), joined the Diversity in Company initiative and signed the Diversity Charter. KAS BANK will also pay attention to the advantages of diversity and the prevention of discrimination in the workplace by means of a conference or training to be organized by WVB at least once a year.

KAS BANK also contributes to the creation of job opportunities for people with limitations. KAS BANK has purchased a participation certificate by means of which people with a distance to the labor market are supported to actually acquire a job.

In addition, KAS BANK pays attention to the general concept behind the participation act by means of visiting one or several conferences for the members of the WVB.

KAS BANK personnel's conditions support the sustainability of deployment of the workforce in different life stages.

### 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.

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 organization. This makes KAS BANK unique specialist firm.

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

### Connectivity of material topic 3

#### Quality Education

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
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### Our impact

#### Carbon footprint

KAS BANK successfully passed the Energy Efficiency Directive audit in 2018. KAS BANK has taken several measures to reduce transport and the associated emissions. For 2018 this resulted in a CO2 emission of 144 grams/km (2017:182 grams/km).

#### Providing financial assistance for those who need it

KAS BANK's Welfare Fund welcomed several applications in 2018. These applications have been assessed by the advisory committee.

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 2018, an amount of EUR 14,750 was awarded for amongst others the following charity projects: an association where disabled people can ride horses; a guesthouse; an animal shelter; homework assistance and tutoring for underprivileged children in Indonesia; etc.

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 2018, the KAS BANK Study Fund provided two students a scholarship and donated an amount for a workshop where refugees can obtain education. The KAS BANK Study Fund awarded EUR 13,000 in 2018.

### Connectivity of material topic 14

#### Decent Work & Economic Growth

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
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### KAS BANK and the UN Sustainable Development Goals

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.



One of the results of the ESG-survey that was conducted by KAS BANK and VBDO

## 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 everyone 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").



# Financial Performance

2018 was financially a difficult year with pressure on the topline, which also resulted in a higher cost level. This apparent contradiction was the result of a delay in FTE reduction to ensure a higher client satisfaction and a stable operational performance and the result of additional investments in efficiency (future lower cost level) and in product development and enhancement of our services (future higher topline). Because of these trends we realized a net result of EUR 8.1 million (2017: EUR 15.1 million) and a return on equity of 4% (2017: 7%).

## Results

IN MILLIONS OF EUROS	2018	2017	CHANGE	%
Operating income	100.1	104.6	-4.5	-4%
Operating expenses	-90.6	-84.7	-5.9	7%
Impairment results	0.5	0.1	0.4	400%
Tax expense	-1.9	-4.9	3.0	-61%
Net result	8.1	15.1	-7.0	-46%

In 2018, both operating income and operating expenses were also impacted by the sale of our investment in a Dutch mortgage fund. We have decided to divest our position in this mortgage fund to avoid volatility in results due to the implementation of IFRS9. In total, this divestment contributed EUR 8.1 million to the operating income. The proceeds have been reinvested in strategic and improvement projects (EUR 6.0 million), resulting in a higher cost level.

In 2016 KAS BANK announced a cost saving programme of EUR 20 million in the period up to and including 2019. If the 2018 operating expenses are adjusted for the expenses made for the strategic and improvement projects and the contribution to the resolution fund these savings are almost realized ahead of planning.

The positive impairment results in 2018 mainly relate to a partial reversal of an impaired loan. The impact of IFRS 9 expected loss accounting on performing loans is included in the opening balance and has limited impact on the 2018 results.

Tax expense over 2018 amounts to EUR 1.9 million. The effective tax rate is 19% and is positively impacted by a tax adjustment related to (former) German activities.

## Connectivity of material topic 15

### Economic Performance

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



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## Operating income

IN MILLIONS OF EUROS	2018	2017	CHANGE	%
Net interest result	9.8	12.9	-3.1	-24%
Net commission result	59.5	67.8	-8.3	-12%
Result on investments	30.5	22.9	7.6	33%
Share of result of associates	-0.0	0.1	-0.1	-68%
Other income	0.3	0.9	-0.6	-67%
<b>Total income</b>	<b>100.1</b>	<b>104.6</b>	<b>-4.5</b>	<b>-4%</b>

## Interest

IN MILLIONS OF EUROS	2018	2017	CHANGE	%
Loans and deposits	2.0	2.2	-0.2	-9%
Bonds and non-trading derivatives (hedge)	7.8	10.7	-2.9	-27%
<b>Total net interest result</b>	<b>9.8</b>	<b>12.9</b>	<b>-3.1</b>	<b>-24%</b>

Net interest result decreased by 24% to EUR 9.8 million (2017: EUR 12.9 million) following the sale of our investment in a Dutch mortgage fund and the time to re-invest the proceeds of the sale. Other than that, the net interest result remained stable.

## Commission

IN MILLIONS OF EUROS	2018	2017	CHANGE	%
Asset Servicing	32.9	37.4	-4.5	-12%
Transaction Servicing	18.6	21.5	-2.9	-13%
Treasury	8.0	8.9	-0.9	-10%
<b>Total net commission result</b>	<b>59.5</b>	<b>67.8</b>	<b>-8.3</b>	<b>-12%</b>

Net commission result decreased year-on-year by 12% to EUR 59.5 million (2017: EUR 67.8 million). We had inflow of new clients and cross sell to our current client base. However, the negative impact of loss of clients in 2018 outweighed the positive inflow and cross sell effect.

The loss of clients was amongst others due to the consolidation in the pension and insurance industry, our balance sheet size and our financial performance resulted in a decrease in Assets under Administration (average 2018: EUR 438 billion; 2017: EUR 503 billion). At year-end the Assets under Administration amounted to EUR 388 billion (2017: EUR 490 billion).

## Result on investments

IN MILLIONS OF EUROS	2018	2017	CHANGE	%
Trading – foreign exchange transactions	19.8	15.7	4.1	26%
Trading – securities and derivatives	-0.5	4.1	-4.6	-112%
Investments – investment portfolio	11.2	3.1	8.1	261%
<b>Result on investments</b>	<b>30.5</b>	<b>22.9</b>	<b>7.6</b>	<b>33%</b>

Result on investments increased by 33% to EUR 30.5 million (2017: EUR 22.9 million) mainly due to the divestment of EUR 300 million (notional) in a Dutch mortgage fund which contributed EUR 10.5 million in 2018 (excluding related loss of interest income of EUR 2.4 million).

Increasing spreads between the euro and relevant foreign currencies resulted in a positive development of the FX-results on client transactions during 2018. In 2017, the results in the trading portfolio (derivatives) mainly related to the closing of swap transactions for clients.

## Operating expenses

IN MILLIONS OF EUROS	2018	2017	CHANGE	%
Personnel expenses	49.3	48.7	0.7	1%
General and administrative expenses – IT	27.6	24.1	3.5	15%
General and administrative expenses – other	11.6	10.4	1.2	11%
Depreciation and amortization	2.0	1.5	0.5	35%
<b>Total operating expenses</b>	<b>90.6</b>	<b>84.7</b>	<b>5.9</b>	<b>7%</b>

### Personnel expenses

Personnel expenses increased to EUR 49.4 million (2017: EUR 48.7 million). A lower average number of FTE (2018: 448; 2017: 475) and a modestly higher average personnel expense per FTE resulted in a decrease of expenses of internal FTEs with EUR 1.4 million (2018: EUR 41.8 million; 2017: EUR 43.2 million). This effect was cancelled out by higher expenses for external employees (EUR +3.5 million) to temporarily fill in vacancies in projects and operational departments.

### General and administrative expenses, including depreciation and amortisation

General and administrative expenses related to IT increased by 15% to EUR 27.6 million (2017: EUR 24.1 million). Our IT expenditures increased due to higher data and hosting costs because of increasing operational activities and an increase of the project portfolio in 2018. The project portfolio consisted of regulatory projects, efficiency projects and initiatives to strengthen our topline and service offering.

Other general and administrative expenses increased by 12% to EUR 11.6 million (2017: EUR 10.4 million). This line item included the contribution to the single resolution fund and other regulatory costs (in 2018 as well in 2017 about EUR 2 million in total). The 2017 cost level was positively influenced by a one-off of EUR 2.2 million related to the termination of a rental agreement of former office space. Depreciation and amortization increased to EUR 2.0 million (2017: EUR 1.5 million). This increase is caused by investments in the new office building and acquired software.

### Quality of the investment portfolio

The table below shows the credit rating of the investment portfolio securities.

IN MILLION OF EUROS	31 DECEMBER 2018	PERCENTAGE OF PORTFOLIO	31 DECEMBER 2017	PERCENTAGE OF PORTFOLIO
AAA - AA -	821	83%	654	58%
A + - A -	28	3%	24	2%
BBB + - BBB -	73	7%	70	6%
BB + BB -	5	1%	5	1%
<b>Total bonds (rated)</b>	<b>927</b>	<b>94%</b>	<b>753</b>	<b>67%</b>
Mortgage Fund (unrated)	-	0%	340	30%
Shares	63	6%	33	3%
<b>Total investments</b>	<b>990</b>	<b>100%</b>	<b>1,126</b>	<b>100%</b>

The sale of our investment in a Dutch mortgage fund explains the decrease of our investment portfolio. In the second part of 2018 the divestment has been partly reinvested in high-quality bonds resulting in an increase in bonds with a 'AAA – AA'-rating. The increase in shares is related to a short-term Money Market Fund.

## Solvency

IN MILLIONS OF EUROS	31 DECEMBER 2018		31 DECEMBER 2017	
	CARRYING AMOUNT	RISK-WEIGHTED VALUE	CARRYING AMOUNT	RISK-WEIGHTED VALUE
Loans and advances to banks	345.2	23.0	309.2	26.4
Loans and advances to customers	467.1	38.8	938.9	38.7
Trading assets	230.5	20.5	271.2	22.8
Investment securities	990.1	171.9	1,126.1	206.6
Other assets	1,737.1	80.1	1,553.8	58.8
<b>Total</b>	<b>3,770.0</b>	<b>334.3</b>	<b>4,199.2</b>	<b>353.3</b>
Other off-balance sheet exposure		208.9		264.9
<b>Total of the risk weighted items</b>		<b>543.2</b>		<b>618.2</b>
<b>CAPITAL AND RATIOS</b>	<b>CAPITAL</b>	<b>RATIO</b>	<b>CAPITAL</b>	<b>RATIO</b>
Capital ratio	203.2	37%	218.4	35%

Our capital ratio at 31 December 2018 was 37% (31 December 2017: 35%) reflecting our strong financial position. In line with the normal business trend our capital ratio is relatively high at the end of December. The average capital ratio in 2018 was 33% (2017: 33%).

As from 2018, the leverage ratio requirements are also applicable to KAS BANK. At 31 December 2018 our leverage ratio amounts to 5.1% (31 December 2017: 4.9%). The required minimum level of the leverage ratio is 3%.

## Liquidity

IN MILLIONS OF EUROS	31 DECEMBER 2018	31 DECEMBER 2017	CHANGE	%
High quality liquid assets	2,030	2,150	-120	-6%
Net cash outflow < 30 days	852	971	-119	-12%
<b>Liquidity coverage ratio</b>	<b>238%</b>	<b>221%</b>		

The high level of liquidity is demonstrated by the Liquidity Coverage Ratio, which is the outcome of the high-quality assets divided by the net cash outflow within 30 days. As per 31 December 2018, this ratio is 238% (31 December 2017: 221%). The regulatory minimum Liquidity Coverage Ratio is 100%.

## 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 BANK's 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 19.3% (2017: 24.2%) 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.



## Outlook

On 25 February 2019 we announced that we reached conditional agreement with CACEIS on a public offer for all the shares of KAS BANK. The combination of CACEIS and KAS BANK will provide the operations of KAS BANK with access to critical size in terms of balance sheet, boost KAS BANK's competitive strength and position KAS BANK as the combination's global center of excellence for pension fund services. CACEIS expects to complete the transaction in the third quarter of 2019 and together we will work towards achieving approvals required to complete the transaction. Reference is made to the separate press release.

Considering our business in 2019 on a standalone basis we will face the impact of the loss in 2018 of several (larger) clients. This will affect our topline significantly and as such also will have an influence on our net result development. On top of the cost reduction programme of EUR 20 million that is being executed, we have set an additional cost savings target of EUR 10 million in the period up to and including 2021. Meanwhile we strive to maintain and improve our current position in our custody markets. We will launch several additional new initiatives to strengthen our market position in (investment) administration and regulatory reporting. These additional streams should visibly contribute to operating income from 2020 onwards.

KAS BANK annual report 2018

# Corporate Governance

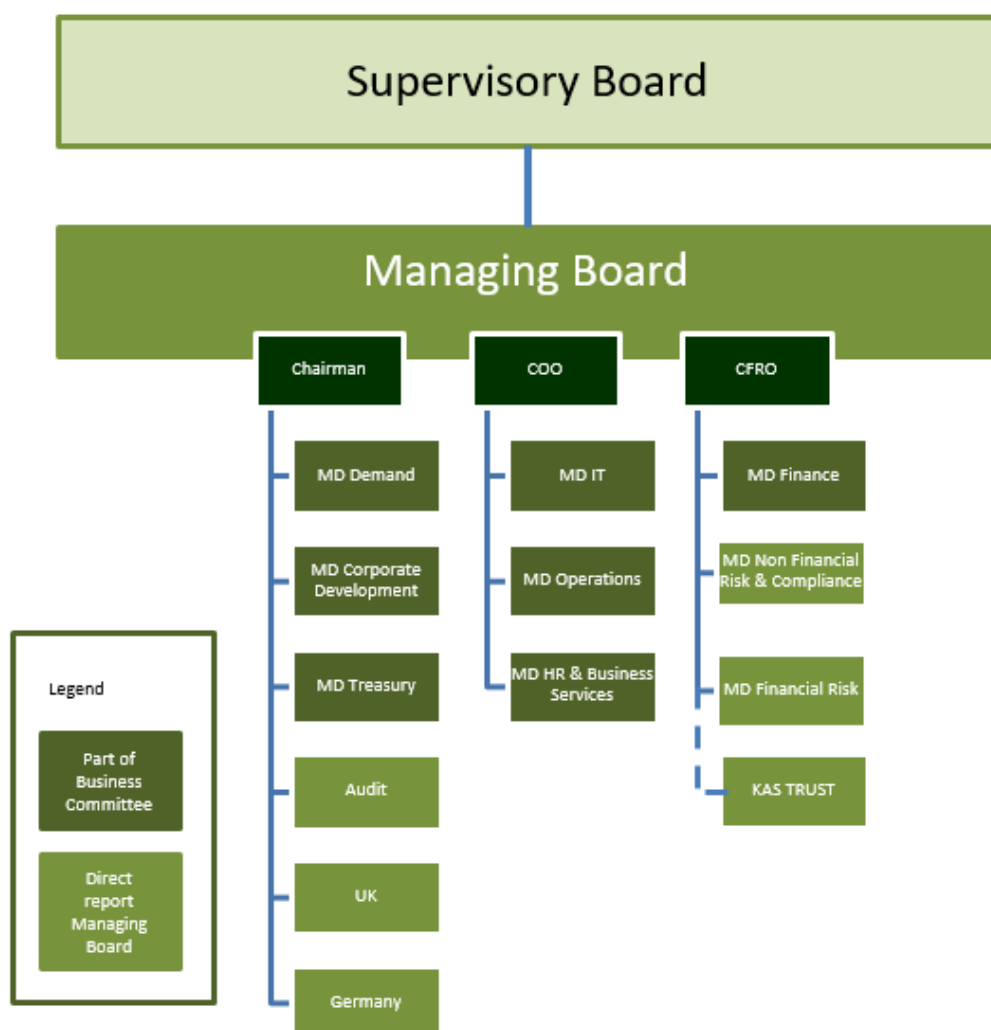


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# Corporate Governance

## Corporate Structure

KAS BANK is a public limited liability organization incorporated under Dutch law. We have a two-tier board consisting of a Managing Board and a Supervisory Board. As a two-tier organization, we are subject to the provisions of Book 2, Title 4, Section 6, of the Dutch Civil Code (in Dutch: structuurvennootschap). The organization 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 organization and the business associated therewith, taking into due consideration the interests of all (internal and external) stakeholders of the organization. Their powers, obligations and responsibilities are included in the organization's Articles of Association (in Dutch: statuten) and the by-laws of the Managing Board (in Dutch: reglementen) – which are published on the organization'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 organization'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 organization. The Business Committee is responsible for decision making on a more strategic and tactical level.

The organization seeks to avoid any kind of conflict of interest between the organization 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 organization and a member of the Managing Board. If a (potential) conflict of interest arises between the organization and a member of its Managing Board, the organization

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 organization and Managing Board members during the year to which this report relates.

The Managing Board has been authorized by the General Meeting of Shareholders to issue shares up to a maximum of 10% of the organization's issued share capital. This includes granting rights to acquire shares, and issuing an additional 10% of the organization'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 authorized by the General Meeting of Shareholders to repurchase the organization's own shares, subject to the approval of the Supervisory Board.

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



## The Managing Board

Jaap Witteveen, Chief Operations Officer

Sikko van Katwijk, Chairman

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 organization. In the performance of its duties, the Supervisory Board is guided by the interests of the organization and the business associated therewith, taking into due consideration the relevant interests of all stakeholders of the company. The Supervisory Board 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 organization.

The Supervisory Board's duties and responsibilities are set out in the 'Rules governing the Supervisory Board' ('Reglement van de Raad van Commissarissen'). These Rules include its relations with the Management Board, the General Meeting of Shareholders, the Works Council and the Executive Committee. The Rules are posted on the company's website. Applicable procedures are also included in the Articles of Association of the company.

The Supervisory Board has formulated a (membership) profile to define the Supervisory Board's size and composition. The Supervisory Board is composed in such a way that the required expertise, background, competencies and independence are present to be able to carry out its duties properly. The Supervisory Board members must always be able to 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 organized 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 organized 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 recommendation of the Supervisory Board. The General Meeting of Shareholders and the Works Council have the right to recommend candidates to be proposed as member of the Supervisory Board in conformity with the Supervisory Board's profile published on the bank's website. The Works Council may object to a proposed recommendation by the Supervisory Board.

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 of the Court of Amsterdam (in Dutch: Ondernemingskamer).

The organization seeks to avoid any kind of conflict of interest between the organization 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 organization and a member of the Supervisory Board. If a (potential) conflict of interest arises between the organization and a member of its Supervisory Board, the organization shall act in accordance with the provisions on preventing conflicts of interest in the Corporate Governance Code and in the Rules governing the Supervisory Board.

No conflicts of interest arose between the organization 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 organization). 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 organization 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 organization'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;
- Authorizing the Managing Board to issue and repurchase shares; and
- Resolving to amend the organization's Articles of Association, to undertake a legal merger or demerger, or to wind up the organization (on the joint proposal thereto from the Managing Board and the Supervisory Board).

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



### 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 organization'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 organization 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 organization's external auditor.

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

The resolution at the General Meeting of Shareholders to approve the organization'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 organization and the Supervisory Board should be discharged of liability resulting from its supervision of the organization, in the past financial year.

### Amendment of the Articles of Association

Resolutions amending the organization'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 organized, 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 organization's office, and copies are made available free of charge.

### Capital Structure

Our organization's share capital consists of ordinary shares and cumulative preference shares. All shares are registered and no share certificates are issued. At year-end 2018, 15,699,017 KAS BANK ordinary shares were issued (i.e. unchanged from year-end 2017). In addition, 25 cumulative preference shares were issued to Stichting Preferente Aandelen KAS BANK.

Most of the ordinary shares in the organization's issued capital (approximately 99.4% at year-end 2018) 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 (€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 organization itself.

The ordinary shares are listed on the Official Market of the stock exchange of Euronext Amsterdam in the form of depositary 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 organization's issued capital. With the cooperation of the organization, 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 organization, the business associated therewith, and all stakeholders. This includes safeguarding against influences which might impair the independence, continuity and/or identity of the organization.

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 organization 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 organization 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. A.L.M. 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 organization'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

KAS BANK 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 organization <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 10

#### Corporate Governance

Link to our strategy	Important to our stakeholders	See material topics and connectivity on
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## 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, each year we assess the requirements of the revised Corporate Governance Code and implement the necessary changes in our own relevant policies and procedures to comply with the new rules.

We have published a report on our website on how we apply to the 2016 Code, indicating compliance (or explaining why it does not comply) for each best practice provision. The organization applies all the best practice provisions except two.

The first exception concerns best practice 2.3.2 (the organization 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 organization 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 4.4.3, which refers to the appointment of Managing Board members and which also applies to board members of Stichting Administratiekantoor Aandelen KAS BANK (KAS BANK Registrar's Office). This best practice provides that the board members of a Registrar's Office can be appointed twice for a period of four years and after eight years can be reappointed twice for a period of two years. Reappointment after a period of eight years has to be explained. According to the Articles of Association of KAS BANK Registrar's Office their board members are appointed for four years with the possibility of re-appointment with a maximum period of twelve years. 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](http://www.nvb.nl)). KAS BANK supports the self-regulation of this code and strives to meet and respect all aspects of it.

KAS BANK 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 organization 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 2018, 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 related to decision making and internal communication.

# 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 organization – 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 organization.

### Connectivity of material topic 11

#### 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 collective and organization 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 categorizes 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 organization financial and non-financial performance indicators.

## Other employees

The organization also applied the Korn Ferry job evaluation method for other roles in the organization. All jobs are evaluated and categorized 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 and team indicators. Remuneration is based on performance and organization 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 organization's risk profile (i.e. Identified Staff).

Within the organization 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 organization in terms of services provided and/or size;
- A cross-industry reference group, consisting of companies included in the ASX 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 performance

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 organization, 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 organization. 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 left the company 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).

### 2018 Remuneration Managing Board

The Managing Board remuneration is in accordance with the remuneration policy. Note 42 of the Financial Statements in this report shows the figures related to the remuneration of the Managing Board.

### Annual base salary

The annual 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.

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 in 2017. These groups were carefully selected and analyzed 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 2018, the Managing Board achieved a score of 52.3% of their targets related to quantitative criteria (annual budget). The qualitative criteria for 2018 focused principally on strategic targets (of which the Managing Board achieved 67.1%) and operational targets (of which the Managing Board achieved 57.9%), and quantitative targets (of which the Managing Board achieved 31.8%). 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. The Supervisory Board has decided to grant a discretionary variable remuneration of 15%, to reward the Managing Board for the steps taken to reach a strategically sustainable solution for the bank and the advanced stage of the takeover by CACEIS.

In 2018, 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-ratio's within the organization 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 excl. members of the Management Board) over the last three years (total remuneration allocated):

IN THOUSANDS OF EUROS	2018	2017	2016
Chairman of the Managing Board	403	390	350
Average salary of all employees	64	63	60
Pay ratio	6.3	6.2	5.8

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 categorized 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 organization 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. Benchmarking in 2018 shows that the salaries are in line with the market.

#### **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 organization 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 and Compliance & Non-Financial Risk-management 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 organization subsequently suffered a significant downturn in its financial performance (specific indicators are to be used);
- the organization and/or the business unit in which the employee works suffers a significant failure of its risk management processes.

#### **2018 Remuneration for identified staff (excl. Managing Board)**

In 2018, there were 27 employees that classified as Identified Staff (excluding members of the Managing Board). These employees received in total a base salary of EUR 3.1 million and a variable remuneration of EUR 148 thousand, of which 17 thousand will be paid in shares. The total variable remuneration for all employees (excluding members of the Managing Board) related to the year 2018 amounts to EUR 0.9 million or more. In 2018, 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 2018, or to the vesting of previous tranches of deferred variable compensation.

KAS BANK annual report 2018

# Risk Management



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# 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 risk appetite as defined by the Managing Board and approved by the Supervisory Board.

## Risk profile

Not only is KAS BANK a specialist operating in a (geographical) niche, it also has a distinctive character due to its risk appetite and profile. Our overall risk appetite is low, in line with the interests of our clients. We manage risk pro-actively to protect, secure and improve clients' assets and data. The organization aims to improve and modernize wherever it can, respecting the priorities we have set. One of these priorities is maintaining a low risk profile. This started in 1806 and remains a key characteristic. Now and in the future.

## Risk appetite and key risks

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

This approach to risk 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.

## Risk appetite



Financial  
Position



Data & Asset  
Safety



Reputation

The organization's risk appetite is directly linked to our dedication to enable prosperity for future generations as a trusted partner. The risk appetite is aligned with the organization's strategy and is embedded in the organization through a combination of qualitative and quantitative risk tolerances (thresholds). The risk appetite and derived tolerances apply to all risk categories. These tolerances represent the downward variation in profit or value (per risk type) that the organization 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.

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.

Our Risk Appetite Statement is derived from our strategy and consist of the following risk domains which are vital to our organization:

### Financial Position



A sound financial position is essential for the bank. Solvability, profitability and liquidity need to meet minimum levels in the interest of all stakeholders, including clients, shareholders, counterparties and regulators.

### Asset and Data Safety

Key to KAS BANKs business model is being a trustworthy partner for its clients. Safeguarding client’s assets and data has always been a focal point. This started in 1806 with vaults and physical assets and evolved into the digital environment as we know it today.



### Reputation



As for most banks and the banking system, reputation is a crucial part of doing business. KAS BANK is a specialist, focusing on in-depth knowledge of the industry and our client’s industries, with reliable processes and long-lasting relationships.

KAS BANK makes use of a system of qualitative and quantitative statements within the three components to monitor, asses, report and when necessary steer on the risks we value the most.

## Connectivity of material topic 12 Risk Management

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



"Managing risk is a responsibility shared by all of KAS BANK's employees. Financial Risk Management supports and protects from the second line of defense an appropriate balance between risk and reward"

Freek van der Bent & Thijs Vlasman, Financial Risk Management



# Key Risks

## Overview of risks in 2018

In 2018 we witnessed some macro-economic, geopolitical, climatological and social commotion, resulting in returning volatility in the financial markets. We are facing challenging and unprecedented times with Brexit, implementation of new regulation and a demand for more transparency. The Brexit negotiations with the UK and EU aiming for a final exit deal and the Italian elections with the potential for a Eurosceptic government could have had an impact on the stability of the Eurozone and EURO. Credit risk arose from instability of some southern European banks. Other risks were the devaluation of currencies (for example Turkey, Argentina and Venezuela).

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 organization has a solid process in place to identify, prioritize, monitor and report the relevant developments in the banking industry, our clients' industries, and the field of risk management. If needed a structured project will be started to manage any necessary changes and be prepared for future events.

Risk Management constantly monitors the impact of global events on the pillars of KAS BANK's risk appetite and reports on this to the responsible persons and / or committees

Business risk is one of our two major risks. We see the pressure on our top line due to the consolidation in the financial industry, our solid, but limited balance sheet and our financial performance. We closely monitor our financial performance, capital and liquidity ratios and take the necessary actions in case of reaching internal warning or trigger levels. In 2018, 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 KAS BANK and other 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 organization's interest rate risk is mitigated by its contract structure and its wholesale client base.

The other major risk concerns operational risk. We have an operational risk control framework in place and Risk Management monitors the effectiveness of the controls frequently.

Our IT network quality and information security are crucial for day-to-day business. Virtually all our processes depend on the robustness and reliability of the infrastructure. We 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 2018, we further enhanced the partnership with our IT outsourcing partner ATOS, which helps to address, control and mitigate the numerous challenges and risks within the IT environment and makes the organization 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 specialized 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.

At KAS BANK, the potential impact of changing and accumulating rules and regulations is a constant focal point. It calls for an active dialogue with market participants and regulators. CRR II/CRD V, the Banking Resolution and Recovery Directive (BRRD), the Single Supervisory Mechanism (SSM), EMIR, MiFID II, GDPR, IRRBB 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 react accordingly. Impact can be expected for both financial and non-financial aspects.



KAS BANK opened its innovation hub KAS Lab late 2017. KAS Lab is a meeting place where internal and external innovators work together to transform innovative ideas into concrete products and solutions. KAS Lab emphasizes the organization'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 can gain faster results. KAS Lab provides new chances and creates new risk-related challenges for the organization. Risk Management is closely involved in all developments and will adapt our risk management to them whenever required.

In this changing 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. We have a strict policy concerning counterparty credit risk. In principle all loans are granted against collateral of good quality. Special attention is paid to shadow banking entities and risks related to 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 remains essential. We have a strict and dynamic process of accepting clients and counterparties and setting appropriate credit risk limits.

### **Main risks 2019**

We do not expect major changes in the environment in relation to 2018, it will be nervous, volatile and unpredictable. Our business risk and operational risk will remain the major risks, and we will pay extra attention to the impact of a possible Brexit and the developments related to cyber security and compliance.

## **Our Risk Management 2018**

### **Our risk profile**

Our risk appetite is annually assessed by the Managing Board and reconfirmed by the Supervisory Board. The risk appetite and risk profile reflect the interest of our stakeholders, and it therefore applies throughout all of the organization'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 stakeholder value.

Managing our risk profile includes compliance with all relevant regulatory requirements. The organization 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 different and interrelated 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.

MAIN DEVELOPMENTS IN 2018	ACTIONS KAS BANK
Pressure on top line, lower financial performance	KAS BANK transforms the business model, while looking for strategic partners to enhance our transformation. A strategic partner that will provide our operations with access to critical size in terms of a bigger balance sheet and a scalable custody base.
Risk Management and risk types integrated on different levels of the organization	KAS BANK upgraded to a more effective Integrated Risk monitoring and reporting, furnishing decision makers with better tailored and more integrated reporting and better supporting the organization.
Increased scrutiny in the investment portfolio	Increased attention to quality and diversification of investments and collateral in the light of increasing market volatility.
Strengthening of the Risk Appetite Process and risk Awareness	Changed approach to prepare Risk Appetite Statement for better alignment with the strategy of the organization. Perform risk self-assessments with better educated specialists.
Risk Management function and structure better aligned with the new organizational structure	Stricter application of three lines of defence model. Special attention paid to KAS Lab and its initiatives.
Better in-control by higher monitoring efficiency	Reduced manual interference by straight through processing, robotization and standardization.
Focus on integrated risk and business risks	Risk management is an integrated part of all processes and increased its focus on strategic initiatives and projects.
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.
Cultural steps by moving to a new office and environment	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 organization'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.
Reorganization	Risk Management is closely involved in monitoring the restructuring initiatives 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 specialized partner	We further enhanced the partnership with our IT outsourcings partner Atos, which helps to address, control and mitigate the numerous challenges and risks within the IT environment and makes the organization more risk sensitive and resilient.

# Risk Governance Structure

The organization'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 organization and oversight of the (integrated) risk management framework. To ensure a focus on all material risk categories that the organization is exposed to, it distinguishes between three separate categories:

- Strategic risk, including business 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).

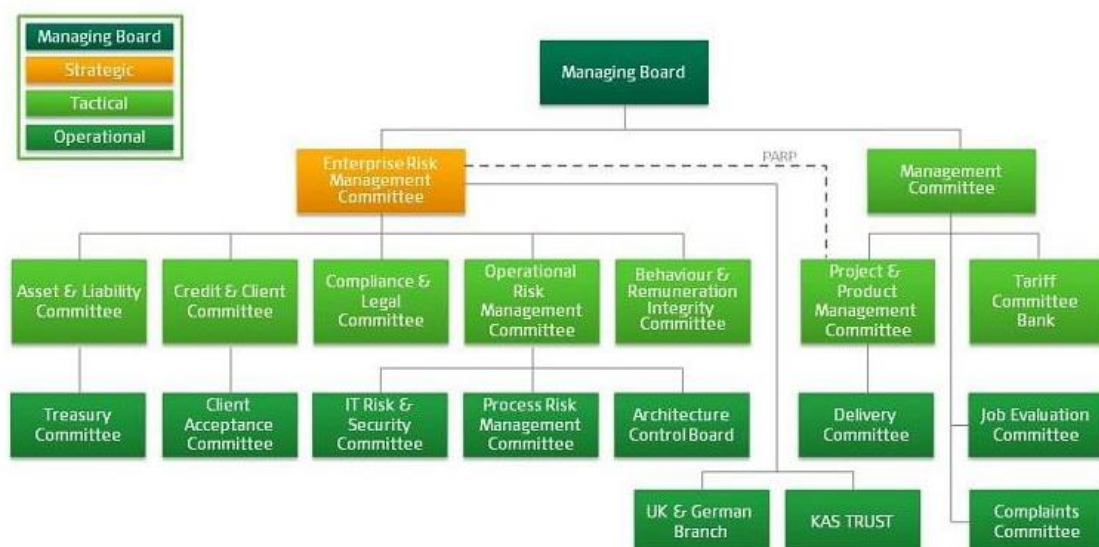
At the Supervisory Board level, the Risk Committee monitors the Managing Board's compliance with the organization's risk management policy and procedures. The Risk Committee focuses on aspects of internal risk management and control systems within the organization from both a banking operations perspective,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

## 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.

## Committee Structure



## Risk governance

In 2018, we continued to fine tune our Integrated Risk monitoring and reporting to assure alignment with best-practices in the industry. This gives a holistic basis to ensure the organization'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 organization.

We strengthened our monitoring process as part of the Integrated Risk Management Framework 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 realized 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 further improve the structure and control of our organization.

### Three lines of defence

In relation to governance, KAS BANK aims to establish the following preconditions:

- Clear standards with respect to governance;
- Clear roles and responsibilities;
- Well-prepared and balanced decision making with an eye for economic, operational, risk and compliance aspects;
- Careful documentation and good communication of the decisions;
- Follow up and monitoring of timely and correct implementation.

To realize structural and continuous improvement in these areas, KAS BANK has implemented the Three Lines of Defence model as its organizational model for managing risks. This model is an established internal control and risk management approach that helps strengthen, clarify and coordinate governance, internal control and risk management roles and responsibilities.

WHO	RESPONSIBILITY
<b>First line of defence</b> <i>Business</i>	<i>Risk Ownership</i> 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.
<b>Second line of defence</b> <i>Risk Management and Compliance</i>	<i>Risk monitoring and control</i> Risk analysis, policy preparation and the coordination of efforts to control the bank's risks. It also monitors 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 risks throughout the bank.
<b>Third line of defence</b> <i>Internal Audit</i>	<i>Risk assurance</i> Conducting operational, IT, compliance and audits as a means of independent and objective assessments of the effectiveness of internal controls.

The model helps to clearly define the roles and responsibilities of the Business (1st line), Risk Management & Compliance (2nd line) and Internal Audit (3rd line), so that each group of professionals understands the boundaries of their responsibilities and how their position fits into the organization's internal control and risk management system.

Next to the strengthening of the use of this model, 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 Risk Management was evaluated and updated to better align with the new organizational 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 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 (see our remuneration chapter), whereby both risk and compliance functions were closely involved in these discussions. From a risk perspective, no unacceptable incentives were found.

### **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).

We updated our Risk Management policies in 2018. 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 organization's main financial risks are (counterparty) credit risk, market risk (including interest rate and forex risk) and liquidity risk. A more comprehensive qualitative and quantitative description of these risk areas is included in the financial statements on page 134.

### **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 organization'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 investment 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 organization's financial positions (which include purchases and investments that are included on the organization's balance sheet – such as the investment portfolio). In 2018 market risk remained within the limits of the relevant Value-at-Risk (VaR), stress testing limits and scenario analysis limits. The organization 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 2018 the organization 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 organization 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 organization.

The organization always strives to maintain a comfortable liquidity position. 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 organization'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 and monitoring of liquidities.

### **Non-financial risk**

The organization's key principles for operational risk management is being 'in-control'. 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 Risk Management policy's.

In 2018, risk self-assessments continued to play a central role in the organization's (operational) risk management. The risk self-assessments were prepared and reviewed by the operational risk

management team. We improved process effectiveness by further focusing 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.

Risk Management was closely involved in monitoring the organization's restructuring and reorganization, 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 2018 disaster and recovery tests were successfully organized – 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 organizational structure, the absence of (or inadequate) internal controls, human error, fraud and external threats.

Awareness and management commitment are fundamental to identifying and analyzing operational risks and implementing adequate internal control measures. Risk Management is supported by first line experts (risk coordinators) in the field of systems organization processes and internal control, as well as risk managers within Risk Management. Risk Management also performs second line monitoring to strength the effectiveness of our control framework.

### **Operational risk framework**

The organization'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 analyzed for organizational 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.

Risk self-assessment is an important instrument for identifying, quantifying and evaluating operational risks in the organization's internal processes. It is also used to manage such risks by implementing adequate internal control measures.

### **Scenario analysis**

We examined a variety of stress testing scenarios to evaluate the hypothetical effects that operational risks may have on the organization's capital and liquidity. Exceptional but still plausible scenarios, based on extrapolated losses and publicly known external events, were selected and examined. The organization 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 organization 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.

### **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 organization's Enterprise Risk Management Committee, the Managing Board and/or the Risk Committee. The relevant committee assesses each risk and decides on actions to be taken in the form of temporary and/or structural measures.

### **Best practices and awareness**

Risk- and compliance awareness is recognized 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 organization 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 Compliance & Non-Financial Risk Management and the ERM. 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 always able to continue their core operational activities. 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 organization'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 organization'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 organization 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 organization 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 organizations must demonstrate their business continuity management control. The organization has adopted the framework and had it tested by external auditors. The quality of the organization'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 risk of improper operations of (business or IT) processes within KAS BANK due to insufficient confidentiality, integrity and availability of IT systems. IT risk includes all types of risks related to using and managing information technology.

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 minimize 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 organization's Information Security Policy.

## Managing Security

The Information Security Officer is responsible for coordinating all the organization'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 visualizing 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 organization's applications. The organization evaluates the assigned CIA categories every year, including the maintenance of CIA scores as part of the change management process.

## Cyber security

Cybercrime is recognized as an important source of non-financial risk. The organization 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.

The organization 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 organization of Risk Management reflects the main categories of risks to which the organization 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.

Risk Management 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 ERM. The organization uses an internal network of risk coordinators with links to the more than 50 processes into which the organization's activities can be divided as part of the operational risk management effort.

## Compliance risk

The organization'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 organization'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 organization strengthened its compliance organization 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 organization.

## 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 organization's financial reporting does not contain errors of material importance.

# 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 2019**

Sikko van Katwijk, Chairman

Mark Stoffels, Chief Financial & Risk Officer

Jaap Witteveen, Chief Operations Officer

# Leadership



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# Leadership

## Personal details of the Managing Board

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



<b>Current principal position</b>	Chairman of the Managing Board
<b>Previous principal position</b>	Various management roles Transaction Banking Citigroup; Managing director KAS BANK UK branch; Chief Commercial Officer of KAS BANK.
<b>Responsibilities</b>	Commerce, Treasury, Corporate, Internal Audit, UK and German branch
<b>First appointed</b>	2009 as member and 2015 as Chairman
<b>Current term of office expires</b>	2019

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



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

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



<b>Current principal position</b>	Member of the Managing Board and Chief Operating Officer
<b>Previous principal position</b>	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
<b>Responsibilities</b>	IT, Operations, Human Resources and Works Council
<b>First appointed</b>	2014
<b>Current term of office expires</b>	2022

# 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
Nationality	Dutch

### 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
Nationality	Dutch

### 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
Nationality	Dutch



## 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 Syntus Achmea Real Estate & Finance; Chairman of the Supervisory Board Rabobank PeelNoord; Board member Pensionfund Bouwnijverheid; Chairman Supervisory Board Commandierij College
First appointed	2016
Current term of office expires	2021
Nationality	Dutch

## Ms. T. (Tanja) L. Nagel (1960)



Current principal position	None
Previous principal position	CEO Theodoor Gilissen Bankiers N.V.
Other positions	Member Supervisory Board EY LLP Nederland; member Supervisory Board PNO; member Raad van Advies Hermon; member Raad van Toezicht Scheepvaartmuseum; Raad van Advies Frans Hals Museum/De Hallen Haarlem; board member Universiteitsfonds Utrecht; member Raad van Toezicht De Veer Stichting
First appointed	2018
Current term of office expires	2022
Nationality	Dutch

## Mr. R. (Ron) Icke (1957) (until April 2018)

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;
First appointed	2010
Current term of office expires	2018

# 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 fulfill the role of employer of the Management Board. We are guided by the interests of the company and consider the relevant interests of all stakeholders. In this report, we account for the fulfillment of our responsibilities and tasks in the past year.

## Developments in 2018

### Performance 2018

2018 was a challenging year with lower operating income and pressure on the topline which also resulted in a higher cost level. KAS BANK is transforming the organization into an innovative administration bank and accordingly accelerated investments in new products and services. The Supervisory Board discussed extensively with the Managing Board the budget for investments, balancing the need for innovation and transformation against the risks resulting from the reduction of income and assets under custody. We agreed on gated investments. Capital and liquidity ratios remained high. In view of CACEIS' recommended offer for KAS BANK it was decided not to declare a final dividend for 2018.

### KAS BANK and CACEIS agree on a public offer

On 25 February 2019, KAS BANK and CACEIS announced that they have reached conditional agreement on a public offer in cash on the entire issued and outstanding ordinary shares of KAS BANK at an offer price of € 12.75 per share. The offer represents a premium of 110% over the last closing price before the offer. The Supervisory Board and the Managing Board unanimously support and recommend the offer. A merger of the businesses will present opportunities for growth and profitability for KAS BANK and will add to the European Strategy of CACEIS. The Supervisory Board was closely involved in the preparation of the agreement from the very beginning through extra meetings, participation in the transaction committee, and weekly telephone updates to discuss the progress, legal documents, the financial and non-financial covenants, timeline, governance issues and decision making. Key principle for the Supervisory Board is that the offer must serve the interests of all stakeholders of KAS BANK in the best possible way. The Supervisory Board has obtained a separate fairness opinion from ABN Amro Bank in addition to the fairness opinion from

Rabobank for the Managing Board and the Supervisory Board that the offer price is fair to the shareholders of KAS BANK from a financial point of view. The offer will be further explained in the Annual General Meeting of Shareholders dated 24 April 2019.

### Challenging environment

KAS BANK provides custodian and fund administration services to institutional investors and financial institutions in a challenging and rapidly changing business environment. With ongoing consolidation and competition in the Dutch pension fund market, historically low interest rates, technological developments and increasing regulation, there is pressure on the bank's revenue model. The impact of consolidation and competition in the pension and insurance segment resulted in a lower number of clients and a decrease of commission income.

The Supervisory Board has engaged with the Managing Board on all measures taken by the bank to address these challenges, such as the IT-outsourcing to Atos, a thorough cost reduction programme, as well as investing in strategic and innovative initiatives, in Robotics and in a strong cultural awareness programme. The Supervisory Board supports the strategic transformation process to become an innovative administration bank for the institutional market.

### Priority areas for 2018

At the start of the year, the Supervisory Board adopted four priorities for its supervision in 2018: house in order in a sustainable way, with focus on the ISAE-process, strategic improvements with focus on topline and client satisfaction, culture and conduct to improve, and innovative solutions for clients. The Supervisory Board regularly and actively followed and discussed these items in its various meetings. The Supervisory Board is pleased that the ISAE 3402 Type 2 report on 2018 was issued with an unqualified assurance report from our auditor PwC. This

demonstrates that the processes that are outsourced by our clients to KAS BANK are in control. House in order means also being prepared for and having a vision on the future positioning of the bank. In this respect, the Supervisory Board discussed and challenged new developments and innovative solutions for clients through presentations and updates. The Supervisory Board's involvement in topline developments, cultural issues and innovations in KAS Lab are explained in more detail in this report.

## Strategy

### Strategy meetings

The strategic challenges as a result of the market developments and topline impact were discussed in every Supervisory Board meeting. Two extra strategy meetings were organized and one informal strategy meeting. Main issues were the strategic transformation of the bank, the risks involved in the topline developments and the Managing Board's vision for long-term value creation in relation to future growth, profitability and the interests of all stakeholders. Other issues were the opportunities for new products and services such as sourcing of investment administration.

It is the shared view of the Supervisory Board and Managing Board that the strategic focus should not only be on the stand-alone scenario and business as usual to be provided in independency but that the bank should also be prepared for alternative strategic options such as a strategic partnership. A broader orientation is paramount in a changing environment, changing needs of clients and new technologies in order to safeguard the bank's continuity and long-term growth perspective and the interests of our stakeholders.

Regulatory developments and new technologies pose both challenges and opportunities to the business of the bank. Custody still is the basis of the services of the bank and an important source of income, but custody is also impacted by the unbundling of the value chain and scale effect of globalization. The bank can benefit from this trends by launching new services, such as third-party administration services (sourcing) as a new service. The Supervisory Board is closely involved in the process of decision making regarding this new service given the investments that must be made. The Supervisory Board realizes the importance of investments by the bank but is also acutely aware of the risks given the current situation of the bank. Therefore, a milestone driven approach has been agreed.

In June 2018, the Supervisory Board held its annual full day meeting on KAS BANK's strategy in Frankfurt at the German branch of the bank. Specific subjects on the agenda were the opportunity and growth perspective in the German pension market and the

Pensions-Akademie, a successful initiative of the bank for the German pension industry. This initiative underlines the bank's commitment to the German pension market. The Supervisory Board experienced that the visibility of the bank in Germany continues to increase and leads to new clients.

The developments in the UK market and the possible consequences of Brexit are also regularly discussed with the Supervisory Board.

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. Execution has been monitored by the Managing Board in the 'K2' programme and progress has been reported frequently to the Supervisory Board. Themes were amongst others; IT outsourcing, improvement plans (top-10) and culture.

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. 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

KAS Lab, KAS BANK's innovation platform, was successful in its first year of its existence with the launch of new interesting initiatives such as TOKAS, Kasper and Voterroom. KAS Lab 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 partnering with clients and suppliers in the market. The Supervisory Board participated in a permanent education session on innovation, including Blockchain and the various initiatives of KAS Lab, and experienced the agile and dynamic approach of new ideas and different topics for the innovative agenda of KAS BANK. The Supervisory Board is pleased that one or two initiatives of KAS Lab are expected to be launched in 2019.

### Risk appetite

KAS BANK's risk appetite statement is subject to the annual approval of the Supervisory Board. 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 2018. 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 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.

### Conduct and culture

The Supervisory Board regularly discusses cultural and social issues with the Managing Board, such as the outcome of the different surveys ('Pulse', workload and work capacity) and the relevant training-sessions and training-tools. The Supervisory Board was concerned about the relatively high absenteeism percentage and high turnover of employees. Employee retention and effective recruitment were addressed through talent projects and management programmes. Absenteeism was addressed by switching to a new health and safety service (Arbodienst). A permanent education session was held on this last subject. The Supervisory Board understands that a first positive result is achieved.

### Corporate governance

The Supervisory Board discussed the Corporate Social Responsibility (CSR) policy and Sustainable Development Goals (SDG's) and the contribution to the bank's strategic priorities and core values. The regulations of the Supervisory Board and its Committees were adapted to the new requirements of the Corporate Governance Code 2016 and approved by the Supervisory Board. 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 2018, the Supervisory Board visited KAS BANK Frankfurt Office for two days, allowing it to get a better understanding of the bank's German business activities and how these relate and contribute to KAS BANK's strategy. Presentations included trends and developments in the German financial market and opportunities and challenges in the German Pension Market. The Supervisory Board also met with management and employees of the German office.

In 2018, the Supervisory Board and the Managing Board followed a programme of permanent education, including the following topics: German Pension Market, HR policy on absenteeism and reintegration and the new health and safety service (Arbodienst), KAS Lab and new innovation 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. The Supervisory Board received presentations on Sourcing/Third Party Administrator (TPA), improvement of the CDD-process and on corporate governance developments. Commercial and strategic updates are given in every regular Supervisory Board meeting.

### Supervisory Board Meetings

During 2018 the Supervisory Board held nine meetings with the Managing Board. Six meetings were in accordance with the adopted meeting schedule, three extra meetings including one informal meeting were held regarding the financial and strategic developments and possible new strategic initiatives of the bank. In June, the Board held its annual full day strategy session with the Managing Board.

The Supervisory Board met twice 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.

In 2018 the attendance at the meetings of the Supervisory Board was 100%. All members of the Supervisory Board were present at all nine meetings. The attendance in the Risk Committee, Audit Committee and Appointments & Remuneration Committee was also 100%.

### Profile of the Supervisory Board

The Supervisory Board has formulated a membership profile that defines its size and composition and that is 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 more than 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 membership profile and suitability matrix is drawn up.

### Supervisory Board Composition

The Supervisory Board consists of five members. A brief overview of the personal details of the Supervisory Board members is enclosed this Annual Report. All members of the Supervisory Board are independent within the meaning of provisions 2.1.7, 2.1.8 and 2.1.9 of the Dutch corporate Governance Code 2016. The members of the Supervisory Board retire by rotation. The full rotation schedule is published on the company's website. 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.

Ron Icke stepped down as member of the Supervisory Board at the Annual General Meeting of Shareholders on 25 April 2018. Mr. Icke was a member of the Supervisory Board for eight years and was no longer available for reappointment. As of 2014, Mr. Icke was chairman of the Appointment & Remuneration Committee. The Supervisory Board expresses its gratitude to Mr. Icke for his valuable contribution and dedication to the company during his term of service. After the resignation of Mr. Icke as member of the Supervisory Board, Ms. Pauline Bieringa succeeded him as chairman of the Appointment & Remuneration Committee.

The Supervisory Board prepared a job profile for the vacancy in 2018, focusing on knowledge and expertise in business development, B2B, and sales and marketing and nominated Ms. Tanja Nagel for appointment as a new member of the Supervisory Board. The Annual General Meeting of Shareholders appointed Ms. Nagel on 25 April 2018 for a period of four years. Neither the General Meeting of Shareholders nor the Workers Council nominated any other candidates.

According to the scheme, Peter Borgdorff and Ms. Petri Hofsté will step down in the Annual General Meeting of Shareholders to be held on 24 April 2019. Mr. Borgdorff and Ms. Hofsté both are eligible and available for reappointment as members of the Supervisory Board. The Supervisory Board carefully considered the reappointments and has the intention to nominate Mr. Borgdorff and Ms. Hofsté for reappointment.

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 well-diversified Supervisory Board. This objective has been achieved.

### Supervisory Board Committees

The Supervisory Board has formed three committees: Risk Committee, Audit Committee and Appointments & Remuneration Committee. Each committee advises the Supervisory Board and prepares the decision making by the Supervisory Board on the specific areas of the Committees. 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 assists and advises the Supervisory Board in monitoring the company's risk management and related internal risk control and monitoring systems, in monitoring the risk appetite and risk strategy, and in monitoring the information and communication technology and cybersecurity.

In 2018, the members of the Risk Committee were Mr. Hans Snijders (chairman), Ms. Petri Hofsté, Ms. Pauline Bieringa and Mr. Peter Borgdorff (as of 1 November 2018). The other members of the Supervisory Board have a standing invitation to participate in the Committee's meetings.

The Risk Committee held six meetings in 2018. All meetings were attended by all committee members. Other participants of the meetings of the Risk Committee are the Managing Director Compliance and Non-Financial Risk Management and the Managing Director Financial Risk Management.

The Risk Committee discussed the management's assessment of the key risks, the risk appetite 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 and non-financial risk. An important topic was the strengthening of the risk management function resulting in the integration of the compliance and non-financial risk departments. The risk management function has been improved significantly as a result of new structures and arrangements regarding the Risk Appetite Statement, the integrated risk management framework, the risk management charter and new policies on monitoring and risk culture awareness.

Annually recurring important items in the Risk Committee meetings were IT-outsourcing, information security, internal liquidity adequacy assessment process (ILAAP), internal capital adequacy assessment process (ICAAP) and stress testing and amended legislation and regulations such as GDPR. Brexit was discussed in several meetings.



All relevant topics discussed by the Risk Committee were reported to the Supervisory Board, with the Supervisory Board approving those topics as required from a governance perspective. The chairman of the Risk Committee held regularly meetings with the CFRO.

#### **Audit Committee**

The Audit Committee assists and advises the Supervisory Board in monitoring the integrity of the financial statements, in monitoring the compliance with regulatory requirements, in monitoring the effectiveness of the internal risk management and internal control systems and in monitoring the independence and performance of the internal and external auditors.

The Supervisory Board has decided to reduce the size of the Audit Committee from four to three members. In 2018, the members of the Audit Committee were Ms. Petri Hofsté (chair), Mr. Hans Sijnders, Mr. Ron Icke (until 25 April 2018) and Ms. Tanja Nagel (as of 25 April 2018). The other members of the Supervisory Board have a standing invitation to participate in the Committee's meetings.

In 2018 the Audit Committee held six meetings. All meetings were attended by all committee members and by the external auditor. Other participants of the meetings of the Audit Committee are the members of the Managing Board, the internal auditor and the Managing Director Finance & Control. Two private sessions were held with the external auditor.

The Audit Committee discussed the (quarterly) financial performance, the capital and liquidity ratio's, the budget for the upcoming years and the interim and annual financial statements. Key audit matters, as included in the auditor's report, were a main topic of discussion with special attention to the implementation of IFRS 9. The Audit Committee reviewed the press releases related to the interim and annual financial performance.

In addition, the Audit Committee discussed all the reports of the external auditor, the management letters of the internal auditor and the relevant correspondence between the bank and the regulators. The Audit Committee discussed and approved the charter of the internal auditor and the internal audit plan. During 2018 the Audit Committee paid attention to the bank's follow up on control deficiencies in the area of for example regulatory reporting and data quality.

All relevant topics discussed by the Audit Committee were reported to the Supervisory Board, with the Supervisory Board approving those topics as required from a governance perspective. The chairman of the

Audit Committee held regularly meetings with the CFRO and the internal and external auditor.

#### **Appointments & Remuneration Committee**

The Appointments & Remuneration Committee assists and advises the Supervisory Board in defining the selection criteria and appointment procedures for members of the Supervisory Board and Managing Board. It also advises and prepares decision making relating to appointments and reappointments of Managing Board members and Supervisory Board members. 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.

In 2018, the members of the Appointments and Remuneration Committee were Mr. Ron Icke (chairman until 25 April 2018), Ms. Pauline Bieringa (chair as of 25 April 2018), Mr. Peter Borgdorff and Ms. Tanja Nagel (as of 25 April 2018).

The Appointments and Remuneration Committee held four meetings in 2018. 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. The Managing Board's targets for 2018 were discussed and proposed by the Committee. The 2018 Remuneration report was prepared by the Committee.

Preliminary work was undertaken to fulfil the upcoming vacancies in the Supervisory Board for 2018 (Mr. Ron Icke) and 2019 (Mr. Peter Borgdorff and Ms. Petri Hofsté). The Appointment & Remuneration Committee prepared the job profile and started the search and selection process to fulfill the vacancy in the Supervisory Board in 2018. The Committee prepared the vacancy in the Managing Board in 2018 and the reappointment of Mr. Jaap Witteveen and the upcoming vacancies in the Managing Board in 2019 and 2020 and the reappointments of Mr. Sikko van Katwijk (2019) and Mr. Mark Stoffels (2020).

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, employee surveys, absenteeism and retention were discussed. The Committee also discussed the remuneration of the members of the Management Committee and the internal pay ratios. The Committee also evaluated the Remuneration



policy of the Managing Board. The Supervisory Board decided to adjust the policy after implementation of the Shareholders Right Directive.

### **Cooperation with the Managing Board**

In 2018, the cooperation with the Managing Board intensified because of the strategic transformation process in which the bank is involved. The Chairmen of the Supervisory Board and Managing Board regularly meet outside of formal meetings. The other Supervisory Board members and Managing Board members also met 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.

The composition of the Managing Board did not change in 2018. The Supervisory Board reappointed Mr. Jaap Witteveen as of 1 September 2018 for the next period of four years. Mr. Witteveen was first appointed on 1 September 2014. It is the intention of the Supervisory Board to also reappoint Mr. Sikko van Katwijk as of 17 December 2019 and Mr. Mark Stoffels as of 1 February 2020. Notifications will be given to the General Annual Meeting of Shareholders on 24 April 2019.

### **Remuneration policy Managing Board**

The Supervisory Board decided not to propose a new remuneration policy for the Managing Board to the Annual General Meeting of Shareholders in 2019. The 2018 remuneration report is incorporated in this Annual Report and will also be posted on the company's website. This report is prepared by the Supervisory Board and 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. The Chairman of the Appointment and Remuneration Committee will provide detailed information to the Annual General Meeting of Shareholders on 24 April 2019 regarding the implementation of the remuneration policy for the Managing Board in 2018.

### **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 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 start of 2019, this self-evaluation was conducted using a questionnaire completed by each member and the conclusions were discussed and evaluated in a meeting of the Supervisory Board without the Managing Board.

The Supervisory Board discussed its size and composition, its quality and effectiveness and the functioning of the Managing Board. Main conclusions were that the reduced size of the Supervisory Board (from six to five members) worked out well and even had a positive effect on the Board's effectiveness given the diversity in the Board and the various experiences, knowledge and backgrounds of the members. The Supervisory Board considers itself a good and critical team, acting collectively but not afraid to challenge each other and look from different perspectives. The functioning of the Managing Board and the individual members were discussed in relation to the preparation of the reappointment of the Managing Board members. The relevant conclusions were shared with the Managing Board.

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 2019**

The main priority for 2019 is to successfully complete the strategic discussions in which KAS BANK is involved and to enter into a sustainable strategic transaction in the best interest of the company and its stakeholders to strengthen the opportunities for future growth and profitability of KAS BANK. The Supervisory Board will closely monitor the process and negotiations in its supervising and advisory role.

### **Adoption of financial statements, dividend proposal and discharge from responsibility**

We hereby present the annual report and financial statements for the 2018 financial year, as prepared by the Managing Board. The Supervisory Board has discussed the 2018 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 2018, including the proposed profit appropriation and the dividend

proposal for 2018, at the General Meeting of Shareholders to be held on 24 April 2019. 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 2018 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 2018.

**Amsterdam, 13 March 2019**

*The Supervisory Board,*

Mr. Peter Borgdorff, chairman

Ms. Pauline Bieringa, vice-chairman

Ms. Petri Hofsté

Mr. Hans Snijders

Ms. Tanja Nagel

# 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.

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 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 of KAS BANK Registrar's Office 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 2018, 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 2017 and half year results 2018 respectively. The Executive Committee regularly kept in touch by telephone and e-mail and attended the Annual General Meeting of Shareholders on 25 April 2018. 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 developments regarding the 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 appointment of a new member of the Supervisory Board. 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 favor 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 25 April 2018, the Registrar's Office issued proxies to 68 depositary receipt holders and/or their proxies, compared to 71 the previous year. Shareholders and depositary receipt holders in attendance represented 32.2% of the voting capital in the meeting, compared to 24.8% in the previous year. The Registrar's Office therefore represented 67.8% of the voting right, compared to 75.2% in the previous year.

The total number of ordinary shares in the issued capital of the company remained unchanged in 2018 at 15,699,017. At year-end, the Registrar's Office had 15,599,937 ordinary shares under administration, in exchange for which the same number of depositary receipts had been issued. Depositary receipts were issued for approximately 99.4% 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 2018 amounted to approximately €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 2018, there were no retirement by rotation. In 2019 Mr. Van Rutte will retire by rotation. The vacancy will be posted on the Registrar's Office dedicated website. Mr. Van Rutte is available for reappointment.

The chairman of the Executive Committee receives an annual fee of €10,000 excluding VAT and the other members receive €7,500 excluding VAT for their services to the Registrar's Office. 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.

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>.

On 25 February 2019, KAS BANK and CACEIS announced that they have reached conditional agreement on a public offer in cash for all securities in KAS BANK. On 5 March 2019, the Executive Committee was informed of the offer in more detail by the chairmen of the Managing Board and of the Supervisory Board. Conditional to the offer is the agreement of KAS BANK Registrar's Office to exchange all depositary receipts to be held by CACEIS for the corresponding ordinary shares. The Executive Committee shall carefully prepare this agreement considering the interests of depositary receipt holders, the company, its related enterprise and all other stakeholders.

Amsterdam, 13 March 2019

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

Executive Committee,

J.J. Nooitgedagt, chairman (2021)

M.R van Dongen (2021)

J.C.M. van Rutte (2019)

KAS BANK annual report 2018

# Annual Financial Statements



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# Consolidated Financial statements

## Consolidated Statement of Profit or Loss

IN THOUSANDS OF EUROS	NOTE	2018	2017
<b>Operating income</b>			
Interest income from financial assets using the effective interest method	1	29,433	32,525
Other interest income	1	237	-
Interest expense	2	19,833	19,639
<b>Net interest result</b>		<b>9,837</b>	<b>12,886</b>
Commission income		75,482	85,658
Commission expense		15,949	17,815
<b>Net commission result</b>	<b>3</b>	<b>59,533</b>	<b>67,843</b>
Net trading income	4	19,244	19,190
Net investment income	5	11,240	3,650
Share of result of associates	19	-22	65
Other income	6	242	925
<b>Total operating income</b>		<b>100,074</b>	<b>104,559</b>
<b>Expenses</b>			
Personnel expenses	7	49,305	48,720
General and administrative expenses	8	39,185	34,453
Depreciation and amortisation	9	2,013	1,496
<b>Total operating expenses</b>		<b>90,503</b>	<b>84,669</b>
Credit impairment losses	36	-518	-129
<b>Total expenses</b>		<b>89,985</b>	<b>84,540</b>
<b>Result before tax</b>		<b>10,089</b>	<b>20,019</b>
Tax expense	10	1,946	4,920
<b>Net result for the period</b>		<b>8,143</b>	<b>15,099</b>
Earnings per share			
- basic (in euros)	11	0.55	1.02
- diluted (in euros)	11	0.55	1.02

The notes on pages 109 to 145 are an integral part of these consolidated Financial Statements.



## Consolidated Statement of Comprehensive Income

IN THOUSANDS OF EUROS	2018	2017
<b>Net result (as per Statement of Profit or Loss)</b>	<b>8,143</b>	<b>15,099</b>
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>		
Net gains and losses on investments in available-for-sale assets	n/a	8,897
Net gains and losses on investments in available-for-sale assets reclassified to profit or loss on disposal	n/a	-1,565
Net gains and losses on investments in debt instruments measured at fair value through other comprehensive income	-9,044	n/a
Net gains and losses on financial assets measured at fair value through other comprehensive income reclassified to profit or loss on disposal	-8,365	n/a
<b>Other comprehensive income that may be reclassified to profit or loss</b>	<b>-17,409</b>	<b>7,332</b>
<i>Other comprehensive income that will not be reclassified to profit or loss</i>		
Net gains or losses on investments in equity instruments designated at fair value through other comprehensive income	559	n/a
<b>Other comprehensive income that will not be reclassified to profit or loss</b>	<b>559</b>	<b>-</b>
<b>Other comprehensive income, net of tax</b>	<b>-16,850</b>	<b>7,332</b>
<b>Total comprehensive income, net of tax</b>	<b>-8,707</b>	<b>22,431</b>

The notes on pages 109 to 145 are an integral part of these consolidated financial statements.

## Consolidated Statement of Financial Position

IN THOUSANDS OF EUROS	NOTE	31 DECEMBER 2018	1 JANUARY 2018	31 DECEMBER 2017
<b>Assets</b>				
Cash and balances with central banks	12	1,604,801	1,504,060	1,504,060
Loans and advances to banks	13	345,235	309,031	309,188
Loans and advances to customers	14	461,782	938,923	938,930
Trading assets	15	230,491	264,783	264,783
Hedging derivatives	16	-	6,455	6,455
Financial assets at fair value through profit or loss	17	64,581	59,656	n/a
Financial assets at fair value through other comprehensive income	18	925,515	1,066,391	n/a
Available-for-sale financial assets	18	-	n/a	1,126,126
Investments in associates	19	135	157	157
Current tax assets		1,805	1,027	966
Property and equipment	20	2,018	1,994	1,994
Intangible assets	21	9,612	3,361	3,361
Deferred tax assets	22	9,990	8,414	8,414
Other assets	23	108,731	34,756	34,756
<b>Total assets</b>		<b>3,764,696</b>	<b>4,199,008</b>	<b>4,199,190</b>
<b>Equity and liabilities</b>				
Deposits from banks	24	118,375	172,789	172,789
Deposits from customers	25	3,143,673	3,455,162	3,455,162
Trading liabilities	15	229,595	266,220	266,220
Hedging derivatives	16	1,756	8,481	8,481
Current tax liabilities		-	161	161
Deferred tax liabilities	22	495	8,093	8,093
Other liabilities	26	53,691	55,192	55,192
<b>Total liabilities</b>		<b>3,547,585</b>	<b>3,966,098</b>	<b>3,966,098</b>
Issued capital	28	15,699	15,699	15,699
Treasury shares	29	-21,670	-21,866	-21,866
Share premium		21,569	21,569	21,569
Revaluation reserve	30	-1,087	16,010	25,096
Other reserves (including net result for the period)	31	202,600	201,498	192,594
<b>Total equity</b>		<b>217,111</b>	<b>232,910</b>	<b>233,092</b>
<b>Total equity and liabilities</b>		<b>3,764,696</b>	<b>4,199,008</b>	<b>4,199,190</b>
Contingent liabilities	33	1,327	2,205	2,205
Irrevocable facilities	34	1,100	12,147	12,147

The notes on pages 109 to 145 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. NET RESULT FOR THE PERIOD)	TOTAL EQUITY
<b>Balance as at 1 January 2017</b>	15,699	-21,980	21,569	17,763	191,934	224,985
Net result for the period	-	-	-	-	15,099	15,099
Other comprehensive income	-	-	-	7,332	-	7,333
<b>Total comprehensive income for the period</b>	-	-	-	7,332	15,099	22,431
Dividends	-	-	-	-	-14,615	-14,615
Sale of treasury shares	-	114	-	-	-114	-
Share-based payments	-	-	-	-	109	109
Other changes in equity	-	-	-	-	181	181
<b>Balance as at 31 December 2017</b>	15,699	-21,866	21,569	25,096	192,594	233,092
<b>Balance at 1 January 2018</b>	15,699	-21,866	21,569	25,096	192,594	233,092
Changes on initial application of IFRS 9	-	-	-	-9,086	8,904	-182
<b>Restated balance at 1 January 2018</b>	15,699	-21,866	21,569	16,010	201,498	232,910
Net result for the period	-	-	-	-	8,143	8,251
Other comprehensive income	-	-	-	-16,850	-	-16,850
<b>Total comprehensive income for the period</b>	-	-	-	-16,850	8,143	-8,599
Dividends	-	-	-	-	-7,356	-7,356
Sale of treasury shares	-	196	-	-	-196	-
Share-based payments	-	-	-	-	-	-
Other movements	-	-	-	-247	511	264
<b>Balance as at 31 December 2018</b>	15,699	-21,670	21,569	-1,087	202,600	217,111

The notes on pages 109 to 145 are an integral part of these consolidated financial statements.

## Consolidated statement of Cash Flows

IN THOUSANDS OF EUROS	NOTE	2018	2017
<b>Cash flows from operating activities</b>			
Net result for the period		8,143	15,099
<b>Adjustments for non-cash items included in net result</b>			
Share of result of associates	19	-22	65
Depreciation and amortisation	9	2,013	1,496
Credit impairment losses	36	-518	-129
Tax expense	10	1,982	4,920
Addition to restructuring provision	26	-	1,948
Change in provision relating to legal procedures	26	-600	-250
Unrealised gains / (losses)		-837	-936
<b>Changes in operating assets and liabilities</b>			
Loans to banks (not on demand) and deposits from banks	13, 24	-103,156	-96,827
Loans to customers	14	477,141	310,665
Trading assets and liabilities	15	-2,333	12,809
Hedging derivatives	16	-270	-
Deposits from customers	25	-311,489	16,901
Use of restructuring provision during the year	26	-2,785	-5,134
Taxes		-6,529	-8,407
Other movements		-4,987	-8,084
<b>Total cash flow from operating activities</b>		<b>55,753</b>	<b>244,136</b>
<b>Cash flows from investing activities</b>			
Investments in financial assets available-for-sale	18	n/a	-629,180
Investments in financial assets through other comprehensive income	18	-449,676	n/a
Investments in financial assets through profit or loss	17	-60,579	-
Divestments and redemptions of financial investments	18	558,377	393,398
Purchases of property and equipment	20	-618	1,576
Purchases of intangible assets	21	-7,698	3,084
<b>Total net cash (outflow) from investing activities</b>		<b>39,806</b>	<b>-231,122</b>
<b>Cash flows from financing activities</b>			
Dividend paid to KAS BANK's shareholders		-7,356	-14,615
<b>Total net cash (outflow) from financing activities</b>		<b>-7,356</b>	<b>-14,615</b>
<b>Net increase (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the financial year	12, 13	1,601,333	1,602,934
<b>Cash and cash equivalents at end of year</b>		<b>1,689,536</b>	<b>1,601,333</b>
<b>Additional disclosure of operating cash flow</b>			
Cash received as interest			
Cash paid as interest		26,471	34,414
Cash received as dividends		21,376	19,371

The notes on pages 109 to 145 are an integral part of these consolidated financial statements.

# Significant 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 Euronext Amsterdam. KAS BANK's statutory seat is Amsterdam, De Entree 500. KAS BANK's consolidated financial statements for the period ending 31 December 2018 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 European specialist for custody, securities administration, and risk- and reporting services. Our focus lies in securities services for professional investors from the pensions and securities industry.

KAS BANK has branches in Amsterdam, London and Frankfurt am Main.

The annual financial statements have been drawn up by the Managing Board. The Supervisory Board advises and proposes that shareholders adopt the 2018 financial statements at the General Meeting of Shareholders on 24 April 2019.

## 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. The financial statements are presented in euros, which is the reporting currency of KAS BANK.

### Historical cost convention

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

- Fair value is used for:
  - Trading assets and liabilities;
  - Hedging derivatives;
  - Financial assets at fair value through profit or loss;
  - Financial assets at fair value through other comprehensive income.
- Fair value based on a mix of valuation methods is used for:
  - Share-based payments;
  - Investments in associates which valuation is based on the equity method.

## New and amended standards adopted by KAS BANK

### IFRS 9 Financial Instruments

KAS BANK has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

KAS BANK did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, KAS BANK elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period. KAS BANK has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Consequently, for disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets and superseded IAS 39 in that respect. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

### **Classification and measurement**

On 1 January 2018 KAS BANK has assessed which business models apply to the financial assets held by KAS BANK and has classified its financial instruments into the appropriate IFRS 9 categories. All financial instruments comply to the SPPI criteria and business model held to collect except the following:

- KAS BANK has designated all equity instruments which were formerly part of the Available-for-sale portfolio as part of the FVOCI portfolio. Based on IFRS 9 both realized and unrealized gains will be recorded through OCI, with no recycling to the Statement of Profit or Loss. As a result the unrealized revaluation reserve as per 31 December 2017 of EUR 2 million, concerning these equity instruments will not be recycled to the Statement of Profit or Loss.
- A small number of debt instruments (bonds) and investments in Money Market Funds did not pass the SPPI test. As a result these instruments – with a carrying amount of EUR 59.7 million as per 31 December 2017 – were classified as FVTPL as per 1 January 2018. The corresponding revaluation reserve of these instruments – with a negative balance of EUR 0.1 million as per 31 December 2017 – is transferred from revaluation reserve to retained earnings. This amount will not be recycled through the Statement of Profit or Loss.
- An amount of EUR 9.2 million (positive, net of tax) relating to the non-SPPI-proof part of the investment in a mortgage fund is transferred from the revaluation reserve to retained earnings as per 1 January 2018. This amount will not be recycled through the Statement of Profit or Loss.
- All other Available-for-sale instruments, including the SPPI-proof-part of an investment in a mortgage fund are classified as FVOCI.

### **Impairments**

As per 1 January 2018 KAS BANK revised its impairment methodology and as required by IFRS 9 included forward-looking information into an expected credit loss model associated with its debt instrument assets carried at amortized cost and at FVOCI and with the exposure arising from loan commitments and financial guarantee contracts.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- Stage 1: financial instruments without a significant increase in credit risk;
- Stage 2: financial instruments with significantly increased credit risk;
- Stage 3: credit-impaired financial instruments.

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 (see paragraph 'Measuring ECL model').

The outcome of the application of the expected credit risk model performed as per 1 January 2018 requires a Stage 1 credit loss provision of EUR 0.2 million (net of tax) and a Stage 2 credit loss provision of nil. The tax effect (EUR 0.1 million) of the ECL entry is included in other assets (current tax).

The assessment of the IFRS 9 Stage 3 impairment amount is similar to the assessment based on IAS 39. As per 31 December 2017 the carrying amount of the credit-loss provision amounts to EUR 15 million and relates a limited number of credit events occurred during the financial crisis. As part of the IFRS 9 opening balance this amount is classified as a Stage 3 credit loss provision.

### **Hedge-accounting**

KAS BANK has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.



### Transition to IFRS 9

The table set out below presents the adjustments relating to IFRS 9 as recorded in the opening balance as per 1 January 2018.

IN THOUSANDS OF EUROS	IAS 39				IFRS 9	
	31 December 2017		Reclassifications	Rem easurement	1 January 2018	
	Measurement Category	Carrying amount	From AFS (FVOCI) to FVTPL	Expected Credit Loss	Carrying amount	Measurement Category
Cash and balances with central banks	Am ortised cost	1,504,060			1,504,060	Am ortised cost
Loans and advances to banks	Am ortised cost	309,188		-157	309,031	Am ortised cost
Loans and advances to customers	Am ortised cost	938,930		-7	938,923	Am ortised cost
Trading assets	Fair value	264,783			264,783	Fair value
Hedging derivatives	Fair value	6,455			6,455	Fair value
Financial assets at Fair value through profit or loss (FVTPL)	Fair value		59,656		59,656	Fair value
Financial assets at Fair value through OCI (AFS)	Fair value	1,126,126	-59,656	-79	1,066,391	Fair value
Other assets		49,648		61	49,709	Am ortised cost
<b>Total assets</b>		<b>4,199,190</b>	<b>-</b>	<b>-182</b>	<b>4,199,008</b>	
Deposits form banks	Am ortised cost	172,789			172,789	Am ortised cost
Deposits form customers	Am ortised cost	3,455,162			3,455,162	Am ortised cost
Trading liabilities	Fair value	266,220			266,220	Fair Value
Hedging derivatives	Fair value	8,481			8,481	Fair Value
Other liabilities		63,447			63,446	-
<b>Total liabilities</b>		<b>3,966,099</b>			<b>3,966,098</b>	
Equity		233,091		-182	232,910	
of which: Revaluation reserve		25,096	-9,086		16,010	
of which: retained earnings		192,594	9,086	-182	201,498	
<b>Total equity and liabilities</b>		<b>4,199,190</b>	<b>-</b>	<b>-182</b>	<b>4,199,008</b>	

### IFRS 15 Revenue from Contracts with Customers

KAS BANK adopted IFRS 15 'Revenue from Contracts with Customers' on its effective date of 1 January 2018. IFRS 15 replaces IAS 18 'Revenue' and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income has been moved from IAS 18 to IFRS 9 without significant changes to the requirements. There was no impact of adopting IFRS 15 for KAS BANK. The revenue recognition of contractual services provided by KAS BANK and the determination of the transaction price and the allocation to the reporting period was already in line with IFRS 15. KAS BANK is not providing services which requires a different accounting treatment under IFRS 15, compared to IAS 18.

### New standards, amendments and interpretations not yet effective

#### 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. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

KAS BANK will apply the standard from its mandatory adoption date of 1 January 2019. KAS BANK will not restate comparative amounts for the year prior to adoption. The right of use that KAS BANK has to recognise relates to the leases for buildings and cars. IFRS 16 will impact the total of the Statement of Financial Position of around EUR 13 million, the impact on the Statement of Profit or Loss is limited and will mainly be related to a reclassification of the related costs, from General and administrative expenses to Depreciation.

### Comparative figures

Due to comparability KAS BANK has changed the presentation of a number of balance sheet and income statement items.

### 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 the 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 the compensation arrangements.
- The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior. A number of significant judgements are also required in applying the accounting requirements for measuring ECL (e.g. criteria for significant increase in credit risk, forward looking scenarios).

### Principles of consolidation and equity accounting

#### Subsidiaries

The consolidated financial statements incorporate the financial statements of KAS BANK – the ultimate parent – and entities controlled by the bank (its subsidiaries) for the year ended 31 December 2018. Subsidiaries are entities which are controlled by KAS BANK. Control of an entity exists when 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. Subsidiaries are fully consolidated from the date at which control is transferred to the group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by KAS BANK. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and statement of financial position respectively.

As at 31 December 2018, the major subsidiaries and their statutory seat are:

MAJOR SUBSIDIARIES	STATUTORY SEATS	% OF INTEREST
KAS Trust & Depositary Services B.V.	Amsterdam	100
KAS Servicing B.V.	Amsterdam	100
KAS BANK OG NZVW B.V.	Amsterdam	100
SourceCo B.V.	Amsterdam	100
KB Deutschland Holding GmbH (in liquidation as per 14 January 2015)	Wiesbaden	100
KAS Securities Ltd	London	100

The full list of subsidiaries has been filed with the Trade Register of the Amsterdam Chamber of Commerce.

### Associates

Associates are all entities over which KAS BANK has significant influence but no control or joint control. This is generally the case where KAS BANK holds between 20% and 50% of the voting rights. As per 31 December 2018 the entity BTN Förvaltning AB (formerly known as Neonet AB) is recognized as an associate. BTN Förvaltning AB is a company incorporated and organized under the laws of Sweden and registered in Stockholm, Sweden.

### Equity method

Associates 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 is recognised in the statement of profit or loss of KAS BANK. Dividends received from an associate is recognised as a reduction in the carrying amount of the investment. The carrying amount of an equity-accounted investment is tested for impairment on reporting date.

### Segment reporting

KAS BANK's products and services primarily focus on three core client segments: Pension funds, Insurance companies and Funds, Wealth Management and Transaction Banking. KAS BANK does not report assets and liabilities on the level of the above mentioned core segments. KAS BANK distinguishes in its internal management information Core segments, Treasury activities and Other. The segment reporting reflects this structure and is based on the management information submitted to the Managing Board, based on which the Managing Board evaluates the performance of the segment and allocates resources.

A geographical segment is defined by the location where the revenues are generated. The geographical segments are the Netherlands, the United Kingdom, Germany and Belgium.

Segment information is based on the same accounting policies as applicable for KAS BANK's consolidated statement of financial position and statement of profit or loss.

#### **Foreign currency translation**

Transactions in foreign currencies are translated into the functional currency using the exchange rates 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.

#### **Revenue recognition**

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.

#### **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 set off unless related to hedging or to assets and liabilities which are set off in accordance with the foregoing.

#### **Tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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.

KAS BANK N.V. forms a tax group with all significant subsidiaries for both corporate tax and VAT.

#### **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 statement of profit or loss and changes in the statement of financial position which do not result in actual cash flows during the year. Cash and cash equivalents comprise balances which are callable on demand.

### **Summary of significant accounting policies**

#### **Financial assets and liabilities – Measurement Methods**

##### **Amortised cost and effective interest rate**

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amounts and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

##### **Interest income**

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets.

##### **Initial recognition and measurement**

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. At 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. After initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the profit or loss when an asset is newly originated.

### Financial assets – Classification and subsequent measurement

From 1 January 2018, KAS BANK has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost

The classification requirements for debt and equity instruments are described below:

#### Debt instruments

Classification and subsequent measurement of debt instruments depends on:

- (i) KAS BANK's business model for managing the asset, and
- (ii) The cash flow characteristics of the asset

Based on these factors KAS BANK classifies debt instruments into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in 'Interest income from financial assets using the effective interest method'.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the asset cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. In case the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income from financial assets using the effective interest method'.
- **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit and loss and presented in the

Statement of profit or loss within 'Net trading income' in the period in which it arises.

**Business model:** the business model reflects how KAS BANK manages the assets in order to generate cash flows. That is, whether KAS BANK's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Business models are determined at a portfolio level. Factors considered by KAS BANK in determining the business model for a portfolio of assets include past experience on how the cash flows for these assets were collected, and is furthermore based on the level of sales, risk management, management compensation and performance evaluation.

**SPPI – Solely Payments of Principal and Interest:** Where the business model is to hold assets to collect contractual cash flows and sell, KAS BANK assesses whether the financial instruments' cash flows represent solely payments of principal and interest ('the SPPI test'). In making this assessment, KAS BANK considers whether the contractual cash flows are consistent with a basic lending arrangement in which consideration for the time value of money and credit risk are typically the most significant interest components. Instruments not meeting the SPPI requirements are mandatorily measured at FVTPL.

#### Equity instruments

KAS BANK has elected for an irrevocable designation of its current equity investments within the investment portfolio at fair value through other comprehensive income. As a result of this election the fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net investment income' where KAS BANK's right to receive payments is established.

#### Financial assets – Impairment

KAS BANK assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and its off-balance sheet items as loan commitments and financial guarantee contracts. KAS BANK recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Credit risk is defined as the risk of suffering financial loss, should a client or counterparty may fail to meet its contractual or other agreed obligations. A credit facility is only granted to a client where sufficient high quality collateral is available. Furthermore, credit positions to clients are strictly limited. The estimation of credit exposure for risk management is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as outlined below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored;
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Financial instruments in Stage 1 have their Expected Credit Loss (ECL) measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

KAS BANK measures ECL under IFRS 9 using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The PD of financial instruments measured at amortised cost is determined on a collective basis (grouping of exposures on the basis of shared risk characteristics) based on the average of external ratings weighted to maximum counterparty limit. The PD is, in the absence of sufficient historical losses, determined by an Expert Board. This approach implies a through the cycle PD/LGD calculation, corresponding with the current Risk Management method. At reporting date, the Expert Board, will assess the applicability of the through the cycle calculation by a point-in-time calculation.

The Expert Board is an internal committee, chaired by the CFRO, and includes executive staff members of Financial Risk Management, Finance, Treasury and Sales.

The PD of debt instruments measured at FVOCI is determined on an individual instrument level and

based on external rating agency credit grades. These published grades are continuously monitored and updated. The PD is assessed per asset type and will be confirmed by the Expert Board.

The assessment of the PDs by the Expert Board is amongst others based on future economic conditions both on macro and microlevel and specific client behaviour.

### **Significant increase in credit risk**

On reporting date KAS BANK assesses if a significant increase in credit risk is applicable within the various portfolios. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

KAS BANK uses a blend of quantitative, qualitative and backstop criteria to assess if a financial instrument has experienced a significant increase in credit risk. As a qualitative criterium KAS BANK determines if the remaining Lifetime PD at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised. As qualitative criteria KAS BANK includes amongst others information about increases within credit spreads, forbearance, changes in the value of collateral or signs about cashflow or liquidity problems. A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

KAS BANK has used the low credit risk exemption for all financial instruments in the year ended 31 December 2018.

### **Default and credit-impaired assets**

KAS BANK defines a financial instrument as in default (Stage 3 of ECL) when the borrower is more than 90 days past due on its contractual payments or other circumstances require an earlier Stage 3 loan provision. In the assessment of a defaulted financial instrument KAS BANK also includes information about the solvency position of the borrower. An instrument is considered no longer to be in default when it no longer meets any of the default criteria for a consecutive period of six months.

### **Measuring ECL – model**

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD),



Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation.
- EAD is based on the amounts KAS BANK expects to be owed at the time of default. In the assessment of EAD KAS BANK includes the execution of the granted collateral by the borrower.
- Loss Given Default (LGD) represents KAS BANKS expectation of the extent of loss on a defaulted exposure.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment.

### **Collateral**

KAS BANK employs a range of policies and practices to mitigate credit risk. These include the adjustment of applicable limits, haircuts and/or collateral eligibility. KAS BANK receives collateral in the form of cash or securities. KAS BANK has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

### **Write-off policy**

efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where KAS BANKS recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

### **Financial liabilities – Classification and subsequent measurement**

Financial liabilities are classified and subsequently measured at amortised cost, except for Financial liabilities at fair value through profit or loss. The classification Financial liabilities at fair value through profit or loss is applied to Trading liabilities and Hedging derivatives. Trading liabilities include derivatives.

### **IAS 39 – as used for the comparable figures of 2017**

The figures of 2017 were not restated based on IFRS 9. The classification, measurement and impairment of positions within the Statement of Profit or Loss and Statement of Financial Position are based on IAS 39 'Financial Instruments: Recognition and Measurement'.

Classification of financial assets under IAS 39 distinguishes Financial assets measured at amortised cost, financial assets available-for-sale and financial assets at fair value through profit or loss. The last category was not applicable for KAS BANK as per 31 December 2017. Measurement at amortised cost is similar to amortised cost under IFRS 9, however independent of business model and SPPI testing.

Available-for-sale assets are 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 within other comprehensive income is recognised within the Statement of Profit or Loss.

Impairment under IAS 39 is based on historical credit events which require an impairment. At each reporting date KAS BANK assesses whether there is objective evidence that a financial asset must be impaired. This method is comparable to Stage 3 expected credit loss. The credit impairment is recognised within the Statement of Profit or Loss as Impairment result.

In 2018 KAS BANK continued to apply the hedge accounting requirements as stated within IAS 39.

### **Derivatives and hedging activities**

KAS BANK has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

KAS BANK uses derivative financial instruments 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. Derivatives used for hedge accounting are classified as Hedging derivatives within the Statement of Financial Position. Derivatives held for trading are classified within the Statement of Financial Position as Trading assets or Trading liabilities.

All derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. 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. 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.

Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains or losses arising from changes in the fair value of derivatives are recognised as 'Net trading income' (derivatives held for trading) or as 'Interest income or expense from financial assets using the effective interest method'.



A part of the derivatives classified as held for trading relates to derivatives which the bank engages in with the clients. All risks of these positions are fully covered by collateral posted by the clients and by back-to-back transactions with other financial institutions. In other cases, KAS BANK acts as General Clearing Member. In these cases, KAS BANK also guarantees the obligations toward the clearing institution of the relevant derivatives exchange.

#### **Hedge accounting**

KAS BANK uses derivatives 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, of whether or not 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 Statement of Profit or Loss through the actual hedge adjustment. Ineffectiveness outside the 80%-125% bandwidth is recognised by not posting a hedge adjustment to the hedged item.

#### **Property and equipment**

Property and equipment is initially measured at cost, and subsequently measured at historical cost less accumulated depreciation and impairment losses. Depreciation is recognised in the Statement of Profit or Loss 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 Statement of Profit or Loss over the estimated useful life.

#### **Provisions**

A provision is recognised in the Statement of Financial Position 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 Statement of Profit or Loss and the carrying amount is recognised in the Statement of Financial Position as '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 Statement of Profit or Loss 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 Statement of Financial Position as 'Other liabilities'. These cumulative preference shares are classified as debt instruments 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 Statement of Profit or Loss.

#### **Treasury shares**

Own equity instruments of KAS BANK which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average 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 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. 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 Statement of Profit or Loss as Personnel expenses, 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 Statement of Profit or Loss as 'Personnel expenses'. The net benefit obligation or receivable is recognised in the Statement of Financial Position 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 the Statement of 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 Statement of Financial Position as 'Other liabilities'. Expenses are recognised in the Statement of Profit or Loss 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 may be paid in shares. The cost of the services received is measured at the fair value of the shares granted on the grant date. The fair value is recognised in the Statement of Financial Position as 'Personnel expenses' and allocated over the vesting period, with a corresponding movement in 'Other reserves'.

The value of the shares granted is calculated taking into account the share price at grant date, any 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 services rendered so that the cumulative amount recognised in the Statement of Profit or Loss 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 Statement of Profit or Loss as and when the related service is rendered. A liability is recognised in the Statement of Financial Position 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.

#### **Commission result**

Commission income relates to activities as custody, settlements and fund accounting. Commission income is recognised based on accrual accounting, meaning that in cases where the services are not yet invoiced the income attributable to the reporting period is allocated based on an accrual entry.

Commission expense relates to the purchase of services as custody and settlement delivered by subcontractors. These expenses are recognised based on accrual accounting.

Commission is based on the service labelled as Asset Servicing, Transaction Servicing or Treasury.

#### **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) in the Statement of Financial Position.

Non-cash collateral (e.g. securities) received or paid is not recognised respectively derecognised from the Statement of Financial Position. Cash collateral received or paid is recognised in the Statement of Financial Position 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.

#### **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 Statement of Financial Position, as they are not the assets KAS Trust.

#### **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 Statement of Financial Position 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 Statement of Financial Position (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 Statement of Financial Position as 'Trading assets or Trading liabilities'.

#### **Note to the reader**

Certain figures in this report may not tally exactly due to rounding. In addition, certain percentages in this document have been calculated using rounded figures.

# Note to the consolidated statement of Profit or Loss

## 1. Interest income

IN THOUSANDS OF EUROS	2018	2017
Interest income from:		
Loans and deposits	18,587	16,729
Trading assets and hedging derivatives	-	302
Financial assets at fair value through profit and loss	237	-
Financial assets at fair value through other comprehensive income	10,846	n/a
Financial assets available-for-sale	n/a	15,494
<b>Total</b>	<b>29,670</b>	<b>32,525</b>

## 2. Interest expense

IN THOUSANDS OF EUROS	2018	2017
Interest expense on loans and deposits	16,517	14,536
Interest expense on trading liabilities and hedging derivatives	3,316	5,103
<b>Total</b>	<b>19,833</b>	<b>19,639</b>

The interest expense on trading liabilities and hedging derivatives includes a positive amount of EUR 63 (2017: EUR 271 negative) related to ineffectiveness. This ineffectiveness relates to fair value hedge accounting relations with debt securities included in the investment portfolio.

## 3. Net commission result

Net commission result includes 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	2018	2017
Asset Servicing	39,661	45,168
Transaction Servicing	26,580	30,835
Treasury	9,240	9,655
<b>Total commission income</b>	<b>75,482</b>	<b>85,658</b>
Asset Servicing	6,767	7,753
Transaction Servicing	7,907	9,353
Treasury	1,274	709
<b>Total commission expense</b>	<b>15,949</b>	<b>17,815</b>

#### 4. Net trading income

IN THOUSANDS OF EUROS	2018	2017
Foreign exchange transaction results	19,770	15,682
Fair value movement of financial assets at fair value through profit or loss	-740	-
Sale of financial assets at fair value through profit or loss	66	-
Change in fair value of trading assets and liabilities and hedging derivatives	148	3,508
<b>Total</b>	<b>19,244</b>	<b>19,190</b>

#### 5. Net investment income

IN THOUSANDS OF EUROS	2018	2017
Sale of financial assets at fair value through other comprehensive income	11,153	2,637
Dividends	87	77
Fair value movement of impaired available-for-sale assets	-	936
<b>Total</b>	<b>11,240</b>	<b>3,650</b>

#### 6. Other income

IN THOUSANDS OF EUROS	2018	2017
Rental income	-	294
Other items	242	631
<b>Total</b>	<b>242</b>	<b>925</b>

#### 7. Personnel expenses

IN THOUSANDS OF EUROS	2018	2017
Salaries	27,682	28,551
Pension costs	6,049	6,769
Social security costs	4,918	4,583
Temporary staff	6,999	3,460
Addition to restructuring provision	-	1,948
Share-based payments for variable remuneration	144	109
Other personnel expenses	3,513	3,300
<b>Total</b>	<b>49,305</b>	<b>48,720</b>

AVERAGE NUMBER OF FTES	2018	2017
Netherlands	425	451
Germany	14	15
United Kingdom	9	9
<b>Total</b>	<b>448</b>	<b>475</b>

## 8. General and administrative expenses

IN THOUSANDS OF EUROS	2018	2017
Information technology	27,630	24,077
Consultancy fees	1,987	2,146
Accommodation expenses	2,843	2,131
Travelling expenses	731	791
Audit fees (note 45)	634	533
Other general and administrative expenses	5,360	4,775
<b>Total</b>	<b>39,185</b>	<b>34,453</b>

## 9. Depreciation and amortisation

IN THOUSANDS OF EUROS	2018	2017
Property and equipment	594	387
Intangible assets	1,419	1,109
<b>Total</b>	<b>2,013</b>	<b>1,496</b>

## 10. Tax expense

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	2018	2017
Current tax expense for the year	9,462	5,573
Change in deferred tax through profit or loss	-7,516	-653
<b>Total</b>	<b>1,946</b>	<b>4,920</b>

IN THOUSANDS OF EUROS	2018	%	2017	%
Result before tax	10,089		20,019	
Tax expense at statutory tax rate	2,522	25.0	5,005	25.0
Differences in rates	-89	-0.9	22	0.1
Non-deductible items	-487	-4.8	-107	-0.9
<b>Total</b>	<b>1,946</b>	<b>19.3</b>	<b>4,920</b>	<b>24.2</b>

## 11. 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	2018	2017
Net result attributable to KAS BANK shareholders	8,143	15,099
Issued capital	15,699	15,699
Treasury shares (note 29)	-922	-931
Weighted average number of ordinary shares outstanding	14,777	14,768
Effect of stock options and share plans	-	-
Weighted average number of ordinary shares outstanding (diluted)	14,777	14,768
Basic earnings per share (in euros)	0.55	1.02
Diluted earnings per share (in euros)	0.55	1.02



# Notes to the consolidated Statement of Financial Position - Assets

## 12. Cash and balances with central banks

This balance sheet item includes cash on hand and demand deposits with central banks. The minimum reserve requirement with the Dutch central bank is also included within cash and balances with central banks. As per year end 2018 and 2017 KAS BANK meets the requirements related to the minimum reserve requirement.

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

## 13. Loans and advances to banks

The table below shows the amount loans and advances to banks split by type and maturity.

IN THOUSANDS OF EUROS	2018	2017
Current account	85,172	97,467
Deposits	13,942	19,670
Reverse repurchase agreements	246,644	198,221
Loss allowance	-523	-6,170
<b>Balance as at 31 December</b>	<b>345,235</b>	<b>309,188</b>
Due on demand	85,172	97,467
Not due on demand (maturity less than one year)	260,586	217,891
Loss allowance	-523	-6,170
<b>Balance as at 31 December</b>	<b>345,235</b>	<b>309,188</b>

The impact of adopting IFRS 9 as per 1 January 2019 was -157 on the position as at 31 December 2017. On 1 January 2019, the Loans and advances to banks amounted to 309,031.

## 14. Loans and advances to customers

The table below shows the outstanding amount of loans and advances to customers. The current accounts, deposits, reverse repurchase agreements and mortgage loans are collateralised by customer securities or individual properties (note 36).

IN THOUSANDS OF EUROS	2018	2017
Current account	323,943	668,998
Deposits	8,378	24,852
Reverse repurchase agreements	134,922	250,000
Mortgage loans	2,798	4,209
Loss allowance	-8,259	-9,129
<b>Balance as at 31 December</b>	<b>461,782</b>	<b>938,930</b>
Due on demand	323,943	668,998
Not due on demand (maturity less than one year)	143,300	274,852
Mortgage loans (maturity more than five years)	2,798	4,209
Loss allowance	-8,259	-9,129
<b>Balance as at 31 December</b>	<b>461,782</b>	<b>938,930</b>

The balance of loans and advances to customers decreased by EUR 0.6 billion (2017: EUR 0.9 billion) because of the offsetting of deposits for several clients (note 25 and 36).

The impact of adopting IFRS 9 as per 1 January 2019 was -7 on the position as at 31 December 2017. On 1 January 2019, the Loans and advances to customers amounted to 938,923.

## 15. Trading assets and liabilities

This balance sheet item includes derivatives that are not used within a hedge accounting relationship. The table below shows the fair value of the trading assets and liabilities, together with their notional amount.

As at 31 December 2018 IN THOUSANDS OF EUROS	NOTIONAL AMOUNT	FAIR VALUE ASSETS	FAIR VALUE LIABILITIES
Forward foreign exchange contracts	224,050	1,480	807
Foreign exchange swaps	6,943,309	26,401	27,089
Future contracts		512	-
Interest rate swaps	696,000	56,747	56,348
Exchange traded derivatives held on behalf of clients		145,351	145,351
<b>Total</b>		<b>230,491</b>	<b>229,595</b>

As at 31 December 2017 IN THOUSANDS OF EUROS	NOTIONAL AMOUNT	FAIR VALUE ASSETS	FAIR VALUE LIABILITIES
Forward foreign exchange contracts	1,225,328	2,325	13,908
Foreign exchange swaps	5,912,028	41,378	33,669
Interest rate swaps	1,832,000	151,883	149,446
Exchange traded derivatives held on behalf of clients		69,197	69,197
<b>Total</b>		<b>264,783</b>	<b>266,220</b>

## 16. Hedging derivatives

KAS BANK uses fair value hedge accounting based on the requirements as set out within IAS 39 to hedge the fair value movements, relating to changes in applicable market interest rates, of designated financial assets. These instruments are so called hedging items. As at 31 December 2018, EUR 286 million (2017: EUR 591 million) of the investment portfolio is included as hedged item in a fair value hedge relationship (note 18). The derivatives used within these hedge relationships are so called hedged instruments. The table below presents the fair value of these hedged instruments together with their notional amount.

As at 31 December 2018 IN THOUSANDS OF EUROS	NOTIONAL AMOUNT	FAIR VALUE ASSETS	FAIR VALUE LIABILITIES
Interest rate swaps used within a fair value hedge relation	284,600	-	1,756
<b>Total</b>	<b>284,600</b>	<b>-</b>	<b>1,756</b>

As at 31 December 2017 IN THOUSANDS OF EUROS	NOTIONAL AMOUNT	FAIR VALUE ASSETS	FAIR VALUE LIABILITIES
Interest rate swaps used with a fair value hedge relation	787,600	6,455	8,481
<b>Total</b>	<b>787,600</b>	<b>6,455</b>	<b>8,481</b>

## 17. Financial assets at fair value through profit or loss

The table below shows the outstanding amount of the financial assets at fair value through profit or loss. The debt instruments included in this portfolio would otherwise not have been measured at fair value through other comprehensive income or amortised cost.

IN THOUSANDS OF EUROS	2018	2017
Equity instruments	60,032	-
Debt instruments	4,549	-
<b>Balance as at 31 December</b>	<b>64,581</b>	<b>-</b>

IN THOUSANDS OF EUROS	2018	2017
Carrying amount as at 1 January	-	-
Impact of adopting IFRS 9 (note 18)	59,656	-
Purchases	60,579	-
Sales	-54,914	-
Redemptions	-	-
Movement in fair value	-740	-
<b>Balance as at 31 December</b>	<b>64,581</b>	<b>-</b>

## 18. Financial assets at fair value through other comprehensive income / available-for-sale financial assets

The table below shows the movement of the financial assets at fair value through other comprehensive income. The comparable figures concern the movement schedule of the Available-for-sale portfolio, based on IAS 39.

2018 IN THOUSANDS OF EUROS	DEBT INSTRUMENTS	EQUITY INSTRUMENTS	TOTAL
Balance as at 1 January	1,093,117	33,009	1,126,126
Impact of adopting IFRS 9 (note 17)	-29,641	-30,015	-59,656
Purchases	449,676	-	449,676
Sales	-510,320	-329	-510,649
Movements in fair value	-12,471	744	-11,727
Redemptions	-68,196	-	-68,196
Loss allowance	-59	-	-59
<b>Balance as at 31 December</b>	<b>922,106</b>	<b>3,409</b>	<b>925,515</b>

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
<b>Balance as at 31 December</b>	<b>1,093,117</b>	<b>33,009</b>	<b>1,126,126</b>

At 31 December 2018, EUR 41 million (2017: EUR 5 million) of the debt instruments are pledged as collateral. EUR 286 million (2017: EUR 591 million) of the debt instruments is included as a hedged item in a fair value hedge relationship (note 16).

## 19. 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 under the laws of Sweden and registered in Stockholm, Sweden. KAS BANK holds a stake of 20% in BTN Förvaltning AB. The table below shows the movement of the carrying value of the associate BTN Förvaltning AB.

IN THOUSANDS OF EUROS	2018	2017
Carrying amount as at 1 January	157	92
Share of result of associates	-22	65
Dividend	-	-
<b>Balance as at 31 December</b>	<b>135</b>	<b>157</b>

## 20. Property and equipment

2018 IN THOUSANDS OF EUROS	COMPUTER EQUIPMENT	FIXTURES AND FITTINGS	TECHNICAL INSTALLATIONS	TOTAL
Acquisition costs at 1 January	1,823	1,413	1,614	4,850
Investments	9	116	30	155
Reclassification	463	-	-	463
Divestments	-	-	-	-
<b>Acquisition costs at 31 December</b>	<b>2,295</b>	<b>1,529</b>	<b>1,644</b>	<b>5,468</b>
Accumulated depreciation as at 1 January	-1,634	-353	-345	-2,332
Depreciation for the year	-172	-269	-153	-594
Divestments	-	-	-	-
<b>Accumulated depreciation as at 31 December</b>	<b>-1,806</b>	<b>-622</b>	<b>-498</b>	<b>-2,926</b>
Impairments as at 1 January	-	-2	-522	-524
Impairments for the year	-	-	-	-
<b>Impairments as at 31 December</b>	<b>-</b>	<b>-2</b>	<b>-522</b>	<b>-524</b>
<b>Balance as at 31 December</b>	<b>489</b>	<b>905</b>	<b>624</b>	<b>2,018</b>

2017 IN THOUSANDS OF EUROS	COMPUTER EQUIPMENT	FIXTURES AND FITTINGS	TECHNICAL INSTALLATIONS	TOTAL
Acquisition costs at 1 January	2,559	575	1,174	4,308
Investments	174	962	440	1,576
Divestments	-910	-124	-	-1,034
<b>Acquisition costs at 31 December</b>	<b>1,823</b>	<b>1,413</b>	<b>1,614</b>	<b>4,850</b>
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
<b>Accumulated depreciation as at 31 December</b>	<b>-1,634</b>	<b>-353</b>	<b>-345</b>	<b>-2,332</b>
Impairments as at 1 January	-	-2	-522	-524
Impairments for the year	-	-	-	-
<b>Impairments as at 31 December</b>	<b>-</b>	<b>-2</b>	<b>-522</b>	<b>-524</b>
<b>Balance as at 31 December</b>	<b>189</b>	<b>1,058</b>	<b>1,494</b>	<b>1,994</b>

## 21. Intangible assets

2018 IN THOUSANDS OF EUROS	PURCHASED SOFTWARE	INTERNALLY DEVELOPED SOFTWARE	TOTAL
Acquisition costs at 1 January	7,151	2,203	9,354
Investments	1,656	6,648	8,304
Reclassification	397	-860	-463
Divestments	-143	-28	-171
<b>Acquisition costs at 31 December</b>	<b>9,061</b>	<b>7,963</b>	<b>17,024</b>
Accumulated depreciation as at 1 January	-4,994	-912	-5,906
Depreciation for the year	-1,419	-	-1,419
Divestments	-	-	-
<b>Accumulated depreciation as at 31 December</b>	<b>-6,413</b>	<b>-912</b>	<b>-7,325</b>
Impairments as at 1 January	-87	-	-87
Impairments for the year	-	-	-
Impairments as at 31 December	-87	-	-87
<b>Balance as at 31 December</b>	<b>2,561</b>	<b>7,051</b>	<b>9,612</b>

Internally developed software includes mainly purchased software components which will be reclassified to 'purchased software' after completion of the internal development and implementation.

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



## 22. Deferred tax assets and liabilities

IN THOUSANDS OF EUROS	2018	2017
Deferred tax assets	9,990	8,414
Deferred tax liabilities	-495	-8,093
<b>Net</b>	<b>9,495</b>	<b>321</b>

2018 IN THOUSANDS OF EUROS	1 JANUARY	IMPACT OF ADOPTING IFRS 9	INCOME STATEMENT	EQUITY	31 DECEMBER
Financial assets through Other Comprehensive Income	-	-8,163	6,010	1,658	-495
Financial assets through Profit or Loss	-	70	-70	-	-
Financial investments available-for-sale	-8,093	8,093	-	-	-
Property and equipment	346	-	-25	-	321
Internally developed software	-	-	-	-	-
Tax loss carry forwards	8,054	-	1,605	-	9,659
Other	14	-	-4	-	10
<b>Total</b>	<b>321</b>	<b>-</b>	<b>7,516</b>	<b>1,658</b>	<b>9,495</b>

2017 IN THOUSANDS OF EUROS	1 JANUARY	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	31 DECEMBER
Financial investments available-for-sale	-5,649	-	-2,444	-8,093
Property and equipment	494	-148	-	346
Internally developed software	-246	246	-	-
Tax loss carry forwards	7,497	557	-	8,054
Other	16	-2	-	14
<b>Total</b>	<b>2,112</b>	<b>653</b>	<b>-2,444</b>	<b>321</b>

The settlement of the deferred tax asset of EUR 1.2 million (31 December 2017: EUR 1.5 million) that is included in the line item 'Tax loss carry forward' depends on future results in Germany.

## 23. Other assets

IN THOUSANDS OF EUROS	2018	2017
Receivables	92,524	16,145
Accrued income and prepaid expenses	16,207	18,611
<b>Balance as at 31 December</b>	<b>108,731</b>	<b>34,756</b>

In 2018, the prepaid expenses did not include any amounts related to a period of more than one year (2017: nil). Receivables increased due to the settlement of the sale of an investment in a mortgage fund of EUR 75 million as of 31 December 2018. This sale was settled in January 2019.

# Equity and Liabilities

## 24. Deposits from banks

IN THOUSANDS OF EUROS	2018	2017
Due on demand	112,276	166,448
Not due on demand	6,099	6,341
<b>Balance as at 31 December</b>	<b>118,375</b>	<b>172,789</b>

## 25. Deposits from customers

IN THOUSANDS OF EUROS	2018	2017
Current accounts	3,037,474	3,300,292
Saving deposits	1,736	2,106
Time deposits	104,463	152,764
<b>Balance as at 31 December</b>	<b>3,143,673</b>	<b>3,455,162</b>

The presented amount of 'Deposits from customers' is decreased with EUR 0.6 billion (2017: EUR 0.9 billion) because of the offsetting of loans and advances for a number of clients (note 14 and 36).

## 26. Other liabilities

IN THOUSANDS OF EUROS	2018	2017
Accrued expenses and deferred income	13,268	18,992
Long-term employee benefits	1,237	978
Restructuring provision	3,663	6,448
Cumulative preference shares	-	-
Other liabilities	35,523	28,773
<b>Balance as at 31 December</b>	<b>53,691</b>	<b>55,191</b>

At 31 December 2018 KAS BANK has issued 25 (2017: 25) of the authorized 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 to 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.

At 31 December 2018 KAS BANK has a provision for legal proceedings of EUR 2.1 million (31 December 2017: EUR 3.3 million).

The table below shows the changes in the restructuring provision in 2018, which is part of the other liabilities.

IN THOUSANDS OF EUROS	2018	2017
Balance as at 1 January	6,448	9,634
Additions	-	1,948
Used during year	-2,785	-5,134
<b>Balance as at 31 December</b>	<b>3,663</b>	<b>6,448</b>

## 27. Retirement benefit plan

KAS BANK sponsors pension plans in the Netherlands and the United Kingdom. The Dutch pension plan qualifies as a (collective) defined contribution plan. KAS BANK pays for the Dutch pension plan 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'.

The plan of the UK employees is a defined benefit plan and is carried out 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 2018, the net pension expense recognized in the Statement of Profit or Loss amounted to EUR 0.1 million (2017: EUR 0.1 million).

The present value of the benefit obligation is EUR 7.8 million (2017: EUR 8.6 million). The plan assets showed 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 summarizes the assumptions used to determine the present value and movements in the pension obligation and plan assets and the components of net benefit expenses recognized in the Statement of Financial Position and the Statement of Profit or Loss.

ACTUARIAL ASSUMPTIONS	2018	2017
Discount rate	3.00%	2,50%
General wage inflation	2.65%	2,65%
Price inflation	2.65%	2,65%
Indexation	2.00%	2,00%
Life expectancy	22 / 24	22 / 25
-65 year old male/female at end of year	24 / 26	24 / 26
Duration	31	31

## 28. Issued capital

NUMBER OF SHARES	2018	2017
Authorised	25,000,000	25,000,000
Non-issued	9,300,983	9,300,983
<b>Issued and fully paid</b>	<b>15,699,017</b>	<b>15,699,017</b>

The main part (15,599,937 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 90 to 91 of this annual report, a more comprehensive description of the objectives and activities of the Registrar's Office can be found.

## 29. Treasury shares

NUMBER OF SHARES	2018	2017
Opening balance at 1 January at average of EUR 23.48 (2016: EUR 23.41)	931,291	936,742
Granted as share-based payments	-9,357	-5,451
<b>Closing balance at 31 December at EUR 23.50 (2017: EUR 23.48)</b>	<b>921,934</b>	<b>931,291</b>

## 30. Revaluation reserve

IN THOUSANDS OF EUROS	2018	2017
<b>Balance as at 1 January</b>	<b>25,096</b>	<b>17,763</b>
Impact of adopting IFRS 9 (net of tax)	-9,086	n/a
Unrealised results presented within other comprehensive income	-11,972	11,863
Reclassified to profit or loss	-11,153	-2,086
Reclassified to other comprehensive income	247	
Reclassified to deferred tax	2,993	-2,444
Reclassified to current tax	2,788	-
<b>Balance as at 31 December</b>	<b>-1,087</b>	<b>25,096</b>

The revaluation reserve relates to unrealized fair value movements of Financial assets at fair value through other comprehensive income. The 2017 figures relate to the unrealized fair value movements of available-for-sale instruments.

### 31. Other reserves (including net result for the period)

IN THOUSANDS OF EUROS	2018	2017
Balance as at 1 January	192,594	191,934
Impact of adopting IFRS 9	8,904	n/a
Net result for the period	8,143	15,099
Final dividend previous year (distributed in April)	-4,253	-9,434
Interim dividend (distributed in September)	-3,103	-5,181
Share-based payments	-	109
Transferred from revaluation reserve	247	-
Treasury shares	-196	-114
Other movements	264	181
Balance as at 31 December	202,600	192,594

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.

### 32. 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 instrument's 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).

AS AT 31 DECEMBER 2018 IN THOUSANDS OF EUROS	LEVEL 1	LEVEL 2	LEVEL 3	EXPECTED CREDIT LOSS	TOTAL
Financial assets at fair value through profit or loss	64,581	-	-	-	64,581
Financial assets at fair value through other comprehensive income	629,873	289,982	5,719	-59	925,515
Available-for-sale financial assets	n/a	n/a	n/a	n/a	n/a
Trading assets	145,863	84,628	-	-	230,491
Hedging derivatives	-	-	-	-	-
<b>Total financial assets</b>	<b>840,317</b>	<b>374,610</b>	<b>5,719</b>	<b>-59</b>	<b>1,220,587</b>
Trading liabilities	145,351	84,244	-	-	229,595
Hedging derivatives	-	1,756	-	-	1,756
<b>Total financial liabilities</b>	<b>145,351</b>	<b>86,000</b>	<b>-</b>	<b>-</b>	<b>231,351</b>

AS AT 31 DECEMBER 2017 IN THOUSANDS OF EUROS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income	n/a	n/a	n/a	n/a
Available-for-sale financial assets	567,792	206,448	351,886	1,126,126
Trading assets	69,197	195,586	-	264,783
Hedging derivatives	-	6,455	-	6,455
<b>Total financial assets</b>	<b>636,989</b>	<b>408,489</b>	<b>351,886</b>	<b>1,397,364</b>
Trading liabilities	69,197	197,023	-	266,220
Hedging derivatives	-	8,481	-	8,481
<b>Total financial liabilities</b>	<b>69,197</b>	<b>205,504</b>	<b>-</b>	<b>274,701</b>

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 table below. KAS BANKs policy is to recognize transfers into and transfers out of fair value hierarchy levels 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:

IN THOUSANDS OF EUROS	2018	2017
Balance as at 1 January	351,886	382,049
Reclassification to Level 1	-	-737
Purchases / (sales) of assets	-339,590	-31,380
Revaluation recognized in other comprehensive income	-6,577	1,954
<b>Balance as at 31 December</b>	<b>5,719</b>	<b>351,886</b>

The Level 3 valuations relate to both equity and debt instruments. For equity instruments the value is based on amongst others intrinsic value. For debt instruments value is based on non-daily market quotes.



***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, loans and advances to banks and customers, deposits from banks and customers. The assessment of fair value of these instruments is based on Level 2 inputs.

### **33. Contingent assets and liabilities**

**Contingent assets**

During 2018 KAS BANK settled a dispute with a business partner. As part of the settlement KAS BANK received a contingent right to spend on services performed by the business partner with a value of around EUR 0.4 million. The expiration date of this contingent right is October 2020. The contingent right is not recognized within the Statement of Profit or Loss of 2018.

**Contingent liabilities**

KAS BANK has 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.

KAS BANK has an irrevocable payment commitment to the Single Resolution Board in Brussels. The Single Resolution Board provides credit institutions with the option to fulfil part of the obligation to pay the annual ex-ante contribution to the Single Resolution Fund through irrevocable payment commitments. To secure full and punctual payment, credit institutions need to constitute cash collateral and fully transfer legal ownership to the Single Resolution Board. As per 31 December 2018 KAS BANK has posted EUR 0.5 million of such collateral.

### **34. Irrevocable facilities and off balance sheet commitments**

**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 drawing up.

**Off balance sheet commitments**

As per December 2018 KAS BANK has committed, as an investor in a financial note, EUR 250 million to a legal entity which will invest in Dutch residential mortgages. Payment is due during 2019. The financial note will be recognized in the Statement of Financial Position of KAS BANK during 2019 and will be measured at amortized cost.

### 35. 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	2018	2017
Within one year	13,685	14,306
After one year but within five years	48,991	52,789
After five years	4,908	14,710
<b>Balance as at 31 December</b>	<b>67,584</b>	<b>81,805</b>

The operating lease commitments and long-term rental and maintenance contracts mainly relate to hardware, software, cars and premises. An amount of EUR 20.0 million (2017: EUR 15.2 million) relating to these contracts is included in the Statement of Profit or Loss as 'General and administrative expenses'.

### 36. Credit risk

Credit risk is the risk that counterparty fails to meet contractual or other agreed obligations. KAS BANKS credit risk may occur in providing loan services to clients, appointing network connections or partners and in treasury transactions. Credit risk may also occur, due to concentrations in counterparties, countries, segments and asset classes.

Many employees, especially in Client Management and Treasury, are involved in credit risk management.

Credit risk concerns the following parties:

- Clients;
- Treasury counterparties (including in investment portfolios);
- Sub-custodians;
- Central counterparties.

Credit risk is divided into four elements:

- *Probability of default*: likelihood over a specified period, that a borrower will not be able to make scheduled repayments;
- *Concentration risks*: refers to disproportionately large risk exposure to specific credit risks, due to inadequate diversification within the portfolio;
- *Loss given default*: is the total amount of loss for KAS BANK when a counterparty defaults on a loan, taking into account the collateral received;
- *Exposure at default*: is the total value KAS BANK is exposed to at the time of a loan's default.

KAS BANK's credit risk is structured by a framework of policies and procedures, monitoring and reporting and risk culture/awareness. The framework is linked to the strategy and Risk Appetite of KAS BANK and limit the bank's credit risks for example by ensuring that credit is covered by sufficient collateral. Credit risk is managed using the Three Lines of Defence model, and centrally controlled from Financial Risk Management.

KAS BANK uses an internal model for setting limits and determining the level of margin required in respect of security transactions. To fill the model, KAS BANK uses external information such as credit rating and credit default curves, as much as possible. If such external information is not available or deemed not sufficient a system based on quantitative criteria for monitoring credit risks on counterparties is applied. The internal ratings are reassessed periodically, on the basis of risk classification and developments in the markets or of client's activities

The main committees dealing with credit risk are:

- Enterprise Risk Management Committee, approving policies, guidelines and limits;
- Asset and Liability Committee, monitoring credit risk (and risk-return) and accepting exceptions within its mandate;
- Credit and Client Committee, approving medium and high-risk clients and credit facilities.

### **Exposures relating to security transactions, based on collateral**

Exposure related to settlement and clearing facilities is in principle 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 Financial Risk Management and approved by the Enterprise Risk Management Committee. A basic requirement is that advance conditions only apply to securities matching KAS BANK's risk criteria.

The monitoring of outstanding settlement positions is based on a credit risk information system which quantifies the risks and assesses the collateral posted by the client. The monitoring system includes information of the real time financial position of the client.

Internal authorization of client instructions is also part of this monitoring system. The settlement of security transactions results in a counterparty risk in case KAS BANK delivers securities and/or cash, but does not receive cash or securities from the counterparty. Delivery versus payment is a standardized 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.

### **Exposures 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. Front office submits a request for a limit. Financial Risk Management performs a credit analysis based on the policy set by the bank's Enterprise Risk Management Committee.

### **Exposures relating to treasury activities**

The main exposure of treasury activities concerns the investment portfolios. In addition, a credit exposure arises from securities borrowing and lending transactions, (reverse) repurchase transactions, exposures in money market instruments and derivatives.

### **Investment portfolios**

KAS BANK limits the exposure to credit risk in its investment portfolios by investing in marketable, highly liquid, securities with an investment grade credit rating from Moody's Investors Service, Standard & Poor's and/or Fitch Ratings. Delegated by the Enterprise Risk Management Committee, the Asset & Liability Committee may approve exemptions of these minimum requirements.

The following table shows the credit rating (based on Standard & Poor's) of the investment and designated fair value portfolios:

IN THOUSANDS OF EUROS	2018	2017
AAA - AA -	821,114	62,467
A+ - A-	27,813	591,149
BBB+ - BBB-	73,238	24,198
BB+ - BB-	4,550	70,424
< BB-	-	5,289
Mortgage fund	-	339,590
Shares	63,381	33,009
<b>Total</b>	<b>990,096</b>	<b>1,126,126</b>

### **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.

IN THOUSANDS OF EUROS	2018	2017
Banks	758,742	2,490,800
Other parties	94,946	80,795
<b>Receivables in respect of securities lending</b>	<b>853,688</b>	<b>2,571,595</b>
Securities	867,239	2,683,547
Cash	50,728	65,013
<b>Collateral received</b>	<b>917,967</b>	<b>2,748,560</b>
Banks	-	40,845
Other parties	845,504	2,366,906
<b>Liabilities in respect of securities lending</b>	<b>845,504</b>	<b>2,407,751</b>
Borrowers' repledged securities	887,891	2,544,015
Reverse repurchase agreements	104,236	27,394
<b>Collateral paid</b>	<b>992,127</b>	<b>2,571,409</b>

Collateral pledged and received includes both cash and non-cash positions.

### 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 derecognized them.

In addition, KAS BANK recognizes 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 recognized by the bank, which instead records a separate asset for the cash collateral given.

IN THOUSANDS OF EUROS	2018	2017
Reverse repurchase agreements	381,566	448,221
<b>Net</b>	<b>381,566</b>	<b>448,221</b>
Government bonds	246,850	198,417
Central counterparty - non-ECB eligible	100,000	200,000
Central counterparty - ECB eligible	35,000	50,000
<b>Total collateral received</b>	<b>381,850</b>	<b>448,417</b>
<b>Exposure</b>	<b>-</b>	<b>-</b>

### Exposures from derivatives and money market instruments

The Enterprise Risk Management Committee assigns limits for money market transactions and foreign currency positions for all counterparties. Exemptions or (temporary) proposals for increase of 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 positions, including own book positions and client positions, are in majority entered into under a master agreement of the International Swaps and Derivatives Association (ISDA).

Master agreements provide that, if the master agreement is 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.

### 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.

EXPECTED CREDIT LOSS – STAGING IN THOUSANDS OF EUROS	STAGE 1	STAGE 2	STAGE 3	TOTAL
Cash and balances with central banks	1,604,801	-	-	1,604,801
Loans and advances to banks	345,321	-	437	345,758
Loans and advances to customers	461,800	-	8,241	470,041
Financial assets at fair value through other comprehensive income – debt instruments	922,165	-	-	922,165
Off balance sheet commitments	2,427			2,427
<b>Gross carrying amount</b>	<b>3,336,514</b>	<b>-</b>	<b>8,678</b>	<b>1,740,391</b>
Loss allowance	-163	-	-8,678	-8,841
<b>Carrying amount</b>	<b>3,336,351</b>	<b>-</b>	<b>-</b>	<b>1,731,550</b>

EXPECTED CREDIT LOSS – MOVEMENTS IN THOUSANDS OF EUROS	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loss allowance as at 1 January 2018	243	-	15,028	15,271
Transfers between stages	-	-	-	-
Movements to Profit or Loss	-80	-	-438	-518
Write-offs	-	-	-5,912	-5,912
<b>Loss allowance as at 31 December 2018</b>	<b>163</b>	<b>-</b>	<b>8,678</b>	<b>8,841</b>

In 2018, KAS BANK has written-off EUR 5.9 million on two credit outstandings. There were no possibilities anymore to collect these amounts. Both positions have been fully written-off.



### Provisions and impairments

Clients with financial problems or uncollateralized debt positions past due are transferred to special credit monitoring. These clients are actively monitored by Financial Risk Management in order to manage both the relationship with the client and KAS BANK's risks.

In 2018 and 2017 KAS BANK did not utilize pledged collateral and had no assets that were past due. In both years received collateral mitigated credit risks. In 2018 and 2017, KAS BANK did not provide forbearance measures to clients.

IN THOUSANDS OF EUROS			
As at 31 December 2018	Cash and balance with central banks	Loans and advances to banks and customers	Financial assets at fair value through other comprehensive income (debt instruments)
Carrying amount	1,604,801	807,017	922,106
Assets not impaired, not past due	1,604,801	807,121	922,165
Individually impaired assets (gross carrying amount)	-	8,678	-
Provision Expected Credit Loss Stage 1	-	- 104	59
Provision Expected Credit Loss Stage 2	-	-	-
Provision Expected Credit Loss Stage 3	-	- 8,678	-
As at 31 December 2017	Cash and balance with central banks	Loans and advances to banks and customers	Financial assets Available for sale
Carrying amount	1,504,060	1,248,018	1,126,126
Assets not impaired, not past due	1,504,060	1,248,018	1,126,126
Individually impaired assets (gross carrying amount)	-	15,028	-
Accumulated impairment	-	15,028	-

**Financial assets and liabilities subject to offsetting  
and enforceable master netting arrangements**

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES AS AT 31 DECEMBER 2018	GROSS AMOUNTS	AMOUNTS THAT ARE SET OFF	NET AMOUNTS IN THE BALANCE SHEET	RELATED AMOUNTS NOT SET OFF IN BALANCE SHEET*	NET AMOUNTS
IN THOUSANDS OF EUROS					
<b>Financial assets</b>	-	-	-	-	
Loans and advances to banks	345,235	-	345,235	248,148	97,087
Loans and advances to customers	1,091,216	629,434	461,782	325,290	136,492
Trading assets and hedging derivatives	230,491	-	230,491	235,345	-4,854
	1,666,942	629,434	1,037,508	808,783	228,725
<b>Equity and liabilities</b>	-	-	-	-	
Deposits from banks	118,375	-	118,375	-	118,375
Deposits from customers	3,773,107	629,434	3,143,673		3,143,673
Trading liabilities and hedging derivatives	231,351	-	231,351	230,143	1,208
	4,122,833	629,434	3,493,399	230,143	3,263,256

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES AS AT 31 DECEMBER 2017	GROSS AMOUNTS	AMOUNTS THAT ARE SET OFF	NET AMOUNTS IN THE BALANCE SHEET	RELATED AMOUNTS NOT SET OFF IN BALANCE SHEET*	NET AMOUNTS
IN THOUSANDS OF EUROS					
<b>Financial assets</b>					
Loans and advances to banks	309,188	-	309,188	200,071	109,117
Loans and advances to customers	1,885,383	946,453	938,930	674,652	264,278
Trading assets and hedging derivatives	271,238	-	271,238	270,115	1,123
	2,465,809	946,453	1,519,356	1,144,838	374,518
<b>Equity and liabilities</b>					
Deposits from banks	172,789	-	172,789	-	172,789
Deposits from customers	4,401,419	946,453	3,454,966		3,454,966
Trading liabilities and hedging derivatives	274,701	-	274,701	237,218	37,483
	4,848,909	946,453	3,902,456	237,218	3,665,238

\* 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 margin. Margin mainly relates 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 and advances, deposits and derivatives are presented in the column headed "Related amounts not set off in balance sheet".

### Concentration risk

Credit risk includes 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 by Financial Risk Management of our client groups and client acceptance.

Concentration by segment IN THOUSANDS OF EUROS	CENTRAL GOVERNMENT	FINANCIAL INSTITUTIONS	INSTITUTIONAL INVESTORS	OTHER	TOTAL
<b>31 December 2018</b>					
Cash and balances with central banks	1,604,801	-	-	-	1,604,801
Loans and advances to banks	-	345,235	-	-	345,235
Loans and advances to customers	-	-	459,045	2,737	461,782
Trading assets and hedging derivatives	-	59,831	162,550	8,110	230,491
Financial assets at fair value through other comprehensive income	-	452,446	473,069	-	925,515
Financial assets at fair value through profit or loss	-	4,550	50,640	9,391	64,581
	<b>1,604,801</b>	<b>862,062</b>	<b>1,145,304</b>	<b>20,238</b>	<b>3,632,405</b>
<b>31 December 2017</b>					
Cash and balances with central banks	1,504,060	-	-	-	1,504,060
Loans and advances to banks	-	309,188	-	-	309,188
Loans and advances to customers	-	56,171	857,281	25,478	938,930
Trading assets and hedging derivatives	-	109,480	158,029	3,729	271,238
Financial assets at fair value available- for-sale	18,162	395,837	710,589	1,538	1,126,126
Financial assets at fair value through profit or loss	-	-	-	-	-
	<b>1,522,222</b>	<b>870,676</b>	<b>1,725,899</b>	<b>30,745</b>	<b>4,149,542</b>

Concentration by region IN THOUSANDS OF EUROS	THE NETHERLANDS	REST EUROZONE	OTHER	TOTAL
<b>31 December 2018</b>				
Cash and balances with central banks	1,604,801	-	-	1,604,801
Loans and advances to banks	32,463	246,850	65,922	345,235
Loans and advances to customers	316,085	145,337	360	461,782
Trading assets and hedging derivatives	159,976	63,839	6,676	230,491
Financial assets at fair value through other comprehensive income	228,670	369,413	327,432	925,515
Financial assets at fair value through profit or loss	9,391	50,640	4,550	64,581
	<b>2,351,386</b>	<b>876,079</b>	<b>404,940</b>	<b>3,632,405</b>
<b>31 December 2017</b>				
Cash and balances with central banks	1,504,060	-	-	1,504,060
Loans and advances to banks	8,326	212,577	88,285	309,188
Loans and advances to customers	512,777	368,295	57,858	938,930
Trading assets and hedging derivatives	168,056	81,195	21,987	271,238
Financial assets at fair value available-for-sale	509,180	341,244	275,702	1,126,126
Financial assets at fair value through profit or loss	-	-	-	-
	<b>2,702,399</b>	<b>1,003,311</b>	<b>443,832</b>	<b>4,149,542</b>

### 37. 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 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 mainly relates to the investment and trading portfolio.

#### 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 amongst others a Value-at-Risk (VaR) model in combination with stress testing to monitor the market risks in the 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 foreign exchange book, mainly arising from client activity. The VaR of the foreign exchange positions is monitored 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 investment portfolios of KAS BANK. These portfolios may include positions in central governments and financial institutions. If the calculated VaR exceeds this signal value, the breach will be discussed in the Asset & Liability Committee. The Asset & Liability Committee decides on actions in case the VaR shows a level above EUR 7 million. Financial Risk Management monitors the VaR for the own investment 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 a VaR method as outlined above, KAS BANK complements the VaR analysis with a stress test. The stress test is a scenario analysis which takes into account extremely unfavorable market conditions (such as huge price swings in a stock market meltdown or losses in Residential Mortgage-Backed Security tranches).

### 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	2018	4.4	4.4	3.4	3.9
VaR total	2017	2.8	3.3	2.5	2.9
VaR trading	2018	0.4	1.0	0,3	0.7
VaR trading	2017	0.3	0.9	0.3	0.6

The VaR trading consists of the foreign exchange positions and financial assets/liabilities designated at fair value.

The VaR total relates to the whole investment portfolio of KAS BANK.

### Currency risk

Currency risk concerns the risk that the fair value of future cash flows from a financial instrument fluctuates as a result of changes in exchange rates. The following table presents the amounts outstanding in foreign currencies.

The effect of an increase 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 2018 IN THOUSANDS OF EUROS	ASSETS	LIABILITIES	NET	TRADING AND HEDGING DERIVATIVES	REMAINING EXPOSURE
USD	256,239	628,890	-372,651	371,656	-995
GBP	187,005	352,854	-165,849	167,259	1,410
CHF	43,529	20,792	22,737	-22,499	238
SEK	16,470	5,728	10,742	-11,729	-987
JPY	5,541	24,718	-19,177	19,312	135
AUD	2,114	10,367	-8,253	8,491	238
CAD	4,455	6,342	-1,887	1,854	-33
Other	33,607	41,860	-8,253	9,639	1,386
<b>Total</b>	<b>548,960</b>	<b>1,091,551</b>	<b>-542,591</b>	<b>543,983</b>	

31 DECEMBER 2017 IN THOUSANDS OF EUROS	ASSETS	LIABILITIES	NET	TRADING AND HEDGING DERIVATIVES	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
<b>Total</b>	<b>393,537</b>	<b>1,029,438</b>	<b>-635,901</b>	<b>644,160</b>	

### Interest rate risk

The interest rate risk concerns the risk that the fair value of future cash flows from a financial instrument fluctuates as a result of changes in the market rate of interest.

The interest rate risk in the regular 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 investment portfolio. The impact of interest rate fluctuations is determined on the level of the Statement of Financial Position using an interest rate model that predicts the effects for both the Statement of Profit or Loss and the market value of the shareholders' equity. The interest rate risk in the investment portfolio is monitored using VaR calculations.

The basic principles on which the interest rate risk is managed are included in the Statement of Financial Position 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. Financial Risk Management 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 probably results in a decrease of 46% (2017: 25% 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 decrease of 10% (2017: 13% increase) 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 3% increase of equity (2017: 2% decrease), while a sudden decrease of 200 basis points in the market rate of interest probably results in a decrease of 2% of equity (2017: 1% increase).

### 38. Liquidity risk

The liquidity risk concerns the risk that the bank will be 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 an overview of the bank's liquidity position and ensures that sufficient liquidities are available at any time.

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 broadly to relevant management within the bank.

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 2018 IN THOUSANDS OF EUROS	ON DEMAND	<= 3 MONTHS	> 3 MONTHS < 1 YEAR	> 1 YEAR < 5 YEAR	>5 YEAR	NON-MATURITY	TOTAL
<b>Assets</b>							
Cash and balances with central banks	1,604,801	-	-	-	-	-	1,604,801
Loans and advances to banks	84,443	260,792	-	-	-	-	345,235
Loans and advances to customers	315,606	143,378	-	-	2,798	-	461,782
Financial assets at fair value through other comprehensive income		19,206	-	408,167	494,734	3,408	925,515
Financial assets at fair value through profit or loss		50,640	-	-	4,550	9,391	64,581
	<b>2,004,850</b>	<b>474,016</b>	<b>-</b>	<b>408,167</b>	<b>502,082</b>	<b>12,799</b>	<b>3,401,914</b>
<b>Liabilities</b>							
Deposits from banks	118,375						118,375
Deposits from customers	3,037,191	106,482					3,143,673
	<b>3,155,566</b>	<b>106,482</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,262,048</b>
Foreign exchange contracts							
· Incoming cash flow		7,136,115	7,446				7,143,561
· Outgoing cash flow		-7,138,814	-7,465				-7,146,279
Interest contracts							-
· Incoming cash flow		4,571	1,845	10,717	57,813		74,946
· Outgoing cash flow		-7,889	-2,718	-14,349	-57,698		-82,654
<b>Liquidity surplus/(deficit)</b>	<b>-1,150,716</b>	<b>361,517</b>	<b>-892</b>	<b>404,535</b>	<b>502,197</b>	<b>12,799</b>	<b>129,440</b>



LIQUIDITY MATURITY CALENDAR AS OF 31 DECEMBER 2018 IN THOUSANDS OF EUROS	ON DEMAND	< = 3 MONTHS	> 3 MONTHS < 1 YEAR	> 1 YEAR < 5 YEAR	>5 YEAR	NON- MATURITY	TOTAL
<b>Liabilities (undiscounted cash flows)</b>							
Loans and advances to banks	112,276	6,099					118,375
Loans and advances to customers	3,037,474	106,199					3,143,673
Current tax liabilities							-
Other liabilities		53,691					53,691
Deferred tax liabilities				495			495
							-
Estimated contractual interest cash flows		-3,318	-873	-3,632	115		-7,708
<b>Total</b>	<b>3,149,750</b>	<b>162,671</b>	<b>-873</b>	<b>-3,137</b>	<b>115</b>	<b>-</b>	<b>3,307,536</b>

MATURITY CALENDAR AS OF 31 DECEMBER 2017 IN THOUSANDS OF EUROS	ON DEMAND	< = 3 MONTHS	> 3 MONTHS < 1 YEAR	> 1 YEAR < 5 YEAR	>5 YEAR	NON- MATURITY	TOTAL
<b>Assets</b>							
Cash and balances with central banks	1,504,060	-	-	-	-	-	1,504,060
Loans and advances to banks	97,271	211,917	-	-	-	-	309,188
Loans and advances to customers	653,698	281,023	-	-	4,209	-	938,930
Financial assets available for sale	-	40,484	29,566	954,467	98,615	2,994	1,126,126
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
	<b>2,255,029</b>	<b>533,424</b>	<b>29,566</b>	<b>954,467</b>	<b>102,824</b>	<b>2,994</b>	<b>3,878,304</b>
<b>Liabilities</b>							
Deposits from banks	166,448	6,341	-	-	-	-	172,789
Deposits from customers	3,300,096	155,066	-	-	-	-	3,455,162
	<b>3,466,544</b>	<b>161,407</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,627,951</b>
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
<b>Liquidity surplus/(deficit)</b>	<b>-1,211,515</b>	<b>371,532</b>	<b>26,904</b>	<b>941,003</b>	<b>87,024</b>	<b>2,994</b>	<b>217,942</b>

LIQUIDITY MATURITY CALENDER AS OF 31 DECEMBER 2017 IN THOUSANDS OF EUROS	ON DEMAND	<= 3 MONTHS	> 3 MONTHS < 1 YEAR	> 1 YEAR < 5 YEAR	>5 YEAR	NON-MATURITY	TOTAL
<b>Liabilities (undiscounted cash flows)</b>							
Loans and advances to banks	166,448	6,341	-	-	-	-	172,789
Loans and advances to customers	3,300,097	155,065	-	-	-	-	3,455,162
Current tax liabilities	-	-	161	-	-	-	161
Other liabilities		55,191	-	-	-	-	55,191
Deferred tax liabilities	-	-	-	8,093	-	-	8,093
Estimated contractual interest cash flows		-1,703	-2,989	-13,464	-15,800		-33,956
<b>Total</b>	<b>3,466,545</b>	<b>214,894</b>	<b>-2,828</b>	<b>-5,371</b>	<b>-15,800</b>	<b>-</b>	<b>3,657,440</b>

### 39. Capital management

In accordance with KAS BANK's low risk profile KAS BANK always maintains a strong capital base. The management, planning and allocation of capital is supervised on a tactical level by The Asset & Liability Committee and on a strategic level by the Enterprise Risk Management Committee. The main goals of these committees are to assess the impact of investments, new products and changes in regulations on, amongst others, capital, leverage- and liquidity ratios.

#### Present and future of capital requirements

KAS BANK monitors its capital by its own standards and by international, European and national standards. KAS BANK complies to rules regarding regulatory capital that are initiated by the Basel Committee on Banking Supervision and implemented on a European level by, amongst others, the Capital Requirements Directive (after: CRD) and Capital Requirements Regulation (after: CRR). The rules initiated by the Basel Committee on Banking Supervision are based on the three pillars as mentioned below:

- 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, where regulators analyze the Internal Capital Adequacy Assessment Process and the Internal Liquidity Adequacy Assessment Process of the individual banks; and

- In Pillar 3 the required risk reporting standards are displayed, supporting additional market discipline in the international capital markets.

In the coming years KAS BANK expects changes regarding regulatory capital requirements, these will not enter into force in 2019. The Basel Committee for Banking Supervision published its Basel III: Finalizing post-crisis reforms Standard in December 2017 which is expected to have a limited effect on requirements regarding KAS BANK's regulatory capital. In addition to this in June 2018 a proposal for amending the CRD/CRR was published by the European Parliament of which a final version is expected before May 2019. Based on an analysis of that proposal the impact will be limited.

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 'standardized' to 'advanced'. For credit risk and operational risk, KAS BANK adopted the standardized approach. In addition to this KAS BANK uses the VaR Method, the Financial Collateral Comprehensive Method and the Mark-to-Market Method. Beside these methods KAS BANK uses the external credit assessments from Moody's, Standard & Poors and Fitch.

The following table displays the composition of regulatory capital (CRR/CRD IV):

CAPITAL		
Number of shares	2018	2017
Share capital	15,699	15,699
Share premium	21,569	21,569
Treasury shares	-21,670	-21,866
Eligible reserves	196,956	207,726
Regulatory adjustments	-9,346	-4,683
<b>Common Equity Tier 1</b>	<b>203,208</b>	<b>218,445</b>

#### 40. Segmented information

The table below reflects the structure of the internal management information provided to the Managing Board

2018 IN MILLIONS OF EUROS	CORE SEGMENTS	TREASURY	OTHER	TOTAL
Interest income and expenses	11.1	-2.3	1.0	9.8
<i>Commission income and expense</i>				
Asset Servicing	32.3	-	0.5	32.8
Transaction Servicing	16.5	-	2.2	18.7
Treasury	6.3	1.5	0.2	8.0
Result on financial transactions	6.6	23.9	-	30.5
Other income	-	-	0.3	0.3
<b>Total income</b>	<b>72.8</b>	<b>23.1</b>	<b>4.2</b>	<b>100.1</b>
Operating expenses (direct)	34.4	1.3	1.6	37.3
<b>Contribution</b>	<b>38.4</b>	<b>21.8</b>	<b>2.6</b>	<b>62.8</b>
Operating expenses other	-	-	52.7	52.7
<b>Result for the period before tax</b>				<b>10.1</b>

2017 IN MILLIONS OF EUROS	CORE SEGMENTS	TREASURY	OTHER	TOTAL
Interest income and expenses	9.6	2.7	0.6	12.9
<i>Commission income and expense</i>				
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	6.1	16.7	0.1	22.9
Other income	-	-	1.0	1.0
<b>Total income</b>	<b>78.4</b>	<b>21.1</b>	<b>5.1</b>	<b>104.6</b>
Operating expenses (direct)	29.7	1.8	2.3	33.8
<b>Contribution</b>	<b>48.7</b>	<b>19.3</b>	<b>2.8</b>	<b>70.8</b>
Operating expenses other	-	-	50.8	50.8
<b>Result for the period before tax</b>				<b>20,0</b>

The table below presents the country by country reporting

COUNTRY BY COUNTRY REPORTING IN THOUSANDS OF EUROS	OPERATING INCOME	OPERATING RESULT BEFORE TAX	TAX EXPENSE
<b>2018</b>			
Netherlands	91.4	10.6	1.6
United Kingdom	5.6	-	-
Germany	2.1	-1.5	-
Belgium	1.0	1.0	0.3
<b>Total</b>	<b>100.1</b>	<b>10.1</b>	<b>1.9</b>
<b>2017</b>			
Netherlands	95.2	20.0	4.3
United Kingdom	5.1	-	-
Germany	2.3	-2.0	-
Belgium	2.0	2.0	0.6
<b>Total</b>	<b>104.6</b>	<b>20.0</b>	<b>4.9</b>

The 25 largest clients of KAS BANK account for 39% (2017: 41%) of the total revenue. None of these clients (2017: none) account for more than 10% of the total revenue.

#### 41. Related parties

KAS BANK identifies the members of the Managing Board (see note 42), the members of the Supervisory Board (see note 44), the company pension fund 'Stichting Pensioenfonds van de KAS BANK' (see note 27) 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 2018 and 2017.

#### 42. Remuneration of the Managing Board

The table below presents the remuneration of the Managing Board.

REMUNERATION OF THE MANAGING BOARD IN THOUSANDS OF EUROS	BASE SALARY	PENSION COSTS	OTHER PAYMENTS	SHARES	TOTAL REMUNERATION
<b>2018</b>					
Sikko van Katwijk	350	18	121	53	542
Jaap Witteveen	325	16	67	49	457
Mark Stoffels	323	14	57	49	443
<b>Total</b>	<b>998</b>	<b>48</b>	<b>245</b>	<b>150</b>	<b>1,443</b>
<b>2017</b>					
Sikko van Katwijk	350	22	116	40	528
Jaap Witteveen	325	17	61	37	440
Mark Stoffels	298	14	52	37	401
<b>Total</b>	<b>973</b>	<b>53</b>	<b>229</b>	<b>114</b>	<b>1,369</b>

#### Base salary

The current base annual salary of 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 (February 2016) and will reach the targeted base salary of EUR 325,000 (February 2018) in two equal steps.

#### Pension costs

The pension plan of the Managing Board is a defined contribution plan. The maximum salary in the Managing Board's defined contribution plan is capped at the fiscal maximum. To compensate the impact of this adjustment, the members of the Managing Board will receive 'pension compensation'. This annual compensation is a percentage of their base salary minus the cap of EUR 105,075 and is subject to income tax. This compensation is presented in the table above as part of 'Other payments'.

#### Other payments

This item comprises the abovementioned pension compensation, the contribution to mortgage costs and the lease expenses.

#### Loans

KAS BANK has not granted loans or guarantees to members of the Managing Board.

#### Claw back

In 2018 and 2017 KAS BANK has not clawed back remuneration of the Managing Board.

#### Depository receipts

The members of the Managing Board hold the following number of depository receipts for shares in the company:

NUMBER OF SHARES	2018	2017
Sikko van Katwijk	4,057	6,836
Jaap Witteveen	3,263	1,745
Mark Stoffels	1,500	247

### 43. Share-based payments

#### Share plans

As part of the remuneration package KAS BANK has share plans for identified staff and members of the Managing Board. Identified staff are employees whose professional activities affect the risk profile of KAS BANK materially.

#### Identified staff

The variable remuneration for 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 identified staff. KAS BANK did not grant shares to non-identified staff. No shares have been granted to identified staff in 2017.

Share-based payments SHARES IDENTIFIED STAFF		
Grant date	March 2018	February 2016
Fair value at grant date (in euros)	10.11	8.93
Share price at grant date (in euros)	10.52	10.01
Vesting period	1 year	1 year
Deferral period	1-3 years	1-3 years
Retention period	1 year	1 year
Expected dividend yield	3.0%	7,0%
Risk-free interest rate	-0,257 - 0,273%	-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 2018	March 2017	March 2016	February 2015	April 2013	January 2013
Fair value at grant date (in euros)	10.11	8.89	8.93	10.16	4.74	5.32
Share price at grant date (in euros)	10.52	9.41	10.01	11.64	7.56	8.84
Vesting period	1 year	1 year	1 year	1 year	1 year	3 years
Vesting conditions	1 year performance	1 year performance	1 year performance	1 year performance	no conditions	3 year performance
Deferral period	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
Expected dividend yield	3,0%	7.0%	7.0%	5.5%		
Risk-free interest rate	-0.257 - 0.273%	0.0023 - - 0.274%	-0.07 - - 0.18%	013 - 0.25%		

### Fair value of shares granted

The fair value of the shares granted in the financial year is presented below.

IN THOUSAND OF EUROS	2018	2017
Share payments Managing Board	160	151
Share payments Identified staff	34	-
<b>Total</b>	<b>194</b>	<b>151</b>

### Share-based payments in the income statement

The value of the share based payments is allocated to the Statement of Profit or Loss during the vesting period as 'Personnel expenses'. The amounts of share based payments as included in the Statement of Profit or Loss for the years are specified as follows:

IN THOUSAND OF EUROS	2018	2017
Share payments Managing Board	144	109
Share payments Identified staff	-	-
<b>Total</b>	<b>144</b>	<b>109</b>

### Outstanding shares

The following statement presents the vested but not yet settled outstanding shares of the Managing Board and identified staff

	GRANT DATE	OUTSTANDING AS AT 31/12/2017	CONDITIONALLY GRANTED <sup>1)</sup>	SETTLED	FORFEITED	OUTSTANDING AS AT 31/12/2018	STATUS
<b>Managing Board</b>							
<b>Sikko van Katwijk</b>	January 2012	506	-	506	-	-	Vested
	January 2013	2,859	-	1,429	-	1,430	Vested
	February 2015	252	-	252	-	-	Vested
	February 2015	1,067	-	533	-	534	Vested
	March 2017	5,951	-	2,570	1,667	1,714	Vested
	March 2018	-	5,324	-	-	5,324	
<b>Jaap Witteveen</b>	February 2015	84	-	84	-	-	Vested
	February 2015	1,066	-	534	-	532	Vested
	March 2017	5,526	-	2,387	1,548	1,591	Vested
	March 2018	-	4,944	-	-	4,944	
<b>Mark Stoffels</b>	March 2016	181	-	91	-	90	Vested
	March 2017	5,526	-	2,387	1,548	1,591	Vested
	March 2018	-	4,944	-	-	4,944	
<b>Former Managing Board members</b>	January 2012	2,558	-	2,558	-	-	Vested
	January 2013	4,627	-	2,313	-	2,314	Vested
	February 2015	596	-	596	-	-	Vested
	February 2015	1,460	-	730	-	730	Vested
	February 2016	1,410	-	705	-	705	Vested
<b>Identified Staff</b>	March 2016	2,449	-	1,224	-	1,225	Vested
	March 2018	-	3,185	1,911	-	1,274	Vested
<b>Total</b>		<b>36,118</b>	<b>18,397</b>	<b>20,810</b>	<b>4,763</b>	<b>28,942</b>	

1) Shares to identified staff are unconditionally granted

### Outstanding options

As per 31 December 2018 KAS BANK has no outstanding options granted to the Managing Board nor other staff.



#### 44. 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:

IN THOUSANDS OF EUROS	2018	2017
Peter Borgdoff	50	60
Pauline Bieringa	47	51
Petri Hofsté	51	51
Ron Icke (until 25 April 2018)	13	51
Hans Snijders	51	48
Tanja Nagel (as from 25 April 2018)	36	-
Robbert van der Meer (until 26 April 2017)	-	17
<b>Total</b>	<b>248</b>	<b>278</b>

KAS BANK has not granted loans or guarantees to members of the Supervisory Board.

#### 45. Independent auditors' fee

The following table presents the external independent auditor's fees recognized in the Statement of Profit or Loss as 'General and administrative expenses'.

IN THOUSANDS OF EUROS	PWC AUDITORS	OTHER PWC NETWORK	TOTAL PWC NETWORK
<b>2018</b>			
Audit of the financial statements	489	-	489
Other audit assignments	145	-	145
Tax fees	-	-	-
Other non-audit assignments	-	-	-
<b>Total</b>	<b>634</b>	<b>-</b>	<b>634</b>
<b>2017</b>			
Audit of the financial statements	380	-	380
Other audit assignments	153	-	153
Tax fees	-	-	-
Other non-audit assignments	-	-	-
<b>Total</b>	<b>533</b>	<b>-</b>	<b>533</b>

### **Appropriation of the result for 2018**

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 2018 result:

<b>APPROPRIATION OF THE RESULT TO THE CONSOLIDATED INCOME STATEMENT FOR 2018 IN THOUSAND OF EUROS</b>	
Result for the period	8,143
Interim dividend	-3,103
Proposed final dividend	-
<b>Proposed addition to other reserves</b>	<b>5,040</b>

### **Subsequent events**

On 25 February 2019 KAS BANK and CACEIS announced a public offer of CACEIS on the shares of KAS BANK of EUR 12.75 per share. CACEIS is a French asset servicing bank specialized in post-trade functions related to administration and monitoring of all asset classes. CACEIS is part of the Credit Agricole Group.

The Managing Board and the Supervisory Board of KAS BANK unanimously support and recommend the offer of CACEIS. The offer is expected to be completed in the third quarter of 2019 and is subject to customary conditions, including approvals from the Dutch Central Bank and the European Central Bank.

The offer of CACEIS does not have material impact on the consolidated or company financial statements of KAS BANK as per 31 December 2018.

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# Company Financial Statements 2018



## Company Statement of Profit or Loss

IN THOUSANDS OF EUROS	2018	2017
<b>Income</b>		
Interest income from financial assets using the effective interest method	29,739	32,013
Other interest income	237	-
Interest expense	19,710	19,065
<b>Net interest result</b>	<b>10,266</b>	<b>12,948</b>
Commission income	69,839	76,597
Commission expense	14,683	13,772
<b>Net commission result</b>	<b>55,156</b>	<b>62,825</b>
Results of subsidiaries	1,419	2,087
Net trading income	19,250	19,741
Net investment income	11,233	3,099
Share of result of associates	-22	65
Other income	242	807
<b>Total operating income</b>	<b>97,544</b>	<b>101,572</b>
<b>Expenses</b>		
Personnel expenses	48,127	47,574
General and administrative expenses	38,870	34,196
Depreciation and amortization	2,013	1,495
<b>Total operating expenses</b>	<b>89,010</b>	<b>83,265</b>
Credit impairment losses	-518	-129
<b>Total expenses</b>	<b>88,492</b>	<b>83,136</b>
Result before tax	9,052	18,436
Tax expense	909	3,337
<b>Net result for the period</b>	<b>8,143</b>	<b>15,099</b>

## Company Statement of Comprehensive Income

IN THOUSANDS OF EUROS	2018	2017
<b>Net result (as per Statement of Profit or Loss)</b>	<b>8,143</b>	<b>15,099</b>
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>		
Net gains and losses on investments in available-for-sale assets	n/a	8,897
Net gains and losses on investments in available-for-sale assets reclassified to profit or loss on disposal	n/a	-1,565
Net gains and losses on investments in debt instruments measured at fair value through other comprehensive income	-9,044	n/a
Net gains and losses on financial assets measured at fair value through other comprehensive income reclassified to profit or loss on disposal	-8,365	n/a
<b>Other comprehensive income that may be reclassified to profit or loss</b>	<b>-17,409</b>	<b>7,332</b>
<i>Other comprehensive income that will not be reclassified to profit or loss</i>		
Net gains or losses on investments in equity instruments designated at fair value through other comprehensive income	559	n/a
<b>Other comprehensive income that will not be reclassified to profit or loss</b>	<b>559</b>	<b>-</b>
<b>Other comprehensive income, net of tax</b>	<b>-16,850</b>	<b>7,332</b>
<b>Total comprehensive income, net of tax</b>	<b>-8,707</b>	<b>22,431</b>

## Company Statement of Financial Position

IN THOUSANDS OF EUROS	31 DECEMBER 2017	31 DECEMBER 2016
<b>Assets</b>		
Cash and balances with central banks	1,604,801	1,504,060
Loans and advances to banks	359,182	119,087
Loans and advances to customers	491,792	1,115,225
Trading assets	230,491	264,783
Hedging derivatives	-	6,455
Financial assets at fair value through profit or loss	64,581	n/a
Financial assets at fair value through other comprehensive income	925,515	n/a
Available-for-sale financial assets	n/a	1,126,126
Investments in associates	135	157
Current tax assets	2,553	2,017
Participating interest in group companies	-2,813	41,188
Property and equipment	2,018	1,994
Intangible assets	9,612	3,361
Deferred tax assets	9,980	8,404
Other assets	117,051	34,352
<b>Total assets</b>	<b>3,814,898</b>	<b>4,227,209</b>
<b>Equities and Liabilities</b>		
Deposits from banks	118,556	172,789
Deposits from customers	3,188,409	3,483,633
Trading liabilities	229,594	266,220
Hedging derivatives	1,756	8,481
Current tax liabilities	-	161
Deferred tax liabilities	495	8,093
Other liabilities	58,977	54,740
<b>Total liabilities</b>	<b>3,597,787</b>	<b>3,994,117</b>
Issued capital	15,699	15,699
Treasury shares	-21,670	-21,866
Share premium	21,569	21,569
Revaluation reserve	-1,087	25,096
Statutory reserve	1,290	1,290
Other reserves (including net result for the period)	201,310	191,304
<b>Total equity</b>	<b>217,111</b>	<b>233,092</b>
<b>Total equity and liabilities</b>	<b>3,814,898</b>	<b>4,227,209</b>
Contingent liabilities	1,327	2,205
Irrevocable facilities	1,100	12,147

## Company Statement of Changes in Equity

IN THOUSANDS OF EUROS	ISSUED CAPITAL	TREASURY SHARES	SHARE PREMIUM	RE-VALUATION RESERVE	STATUTORY RESERVE	OTHER RESERVES (INC. NET RESULT FOR THE PERIOD)	TOTAL EQUITY
<b>Balance as at 1 January 2017</b>	15,699	-21,980	21,569	17,763	986	190,948	224,985
Net result for the period	-	-	-	-	-	15,099	15,099
Other comprehensive	-	-	-	7,332	-	-	7,333
<b>Total comprehensive income for the period</b>	-	-	-	7,332	-	15,099	22,432
Dividends	-	-	-	-	-	-14,615	-14,615
Purchase/sale of treasury shares	-	114	-	-	-	-114	-
Share-based payments	-	-	-	-	109	-	109
Other changes in equity	-	-	-	-	195	-14	181
<b>Balance as at 31 December 2017</b>	15,699	-21,866	21,569	25,096	1,290	191,304	233,092
<b>Balance at 1 January 2018</b>	15,699	-21,866	21,569	25,096	1,290	191,304	233,092
Changes on initial application of IFRS 9	-	-	-	-9,086	-	8,904	-182
<b>Restated balance at 1 January 2018</b>	15,699	-21,866	21,569	16,010	1,290	200,208	232,910
Net result for the period	-	-	-	-	-	8,143	8,251
Other comprehensive income	-	-	-	-16,850	-	-	-16,850
<b>Total comprehensive income for the period</b>	-	-	-	-16,850	-	8,143	-8,599
Dividends	-	-	-	-	-	-7,356	-7,356
Purchase/sale of treasury shares	-	196	-	-	-	-196	-
Share-based payments	-	-	-	-	-	-	-
Other movements	-	-	-	-247	-	511	264
<b>Balance as at 31 December 2018</b>	15,699	-21,670	21,569	-1,087	1,290	201,310	217,111



## 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 Statement of Financial Position 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 recognized in the Statement of Profit or Loss as 'Results of subsidiaries'. The table below shows the movement of the carrying amount during the financial year.

GROUP COMPANIES IN THOUSAND OF EUROS	2018	2017
Position as at 1 January	41,188	81,487
Result of the year	1,419	2,087
Dividend distribution to shareholder	-3,131	-42,382
Establishment of new companies	100	
Liquidation of group companies	-42,388	
FX results	-1	-4
Other	-	-
Common Equity Tier 1	-2,813	41,188

An overview of the major group companies and an explanation of the definition of group companies are included in the consolidated accounting policies.

## Expected Credit Loss

For expected credit losses relating to the company financial statements reference is made to the consolidated figures (note 36). Expected credit loss relating to group companies is eliminated both statements.

## Statutory reserve

The Statutory reserve relates to the capitalization of internal developed software. The amounts recognized as statutory reserve are not distributable.

## 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 2019

## The Managing Board:

Sikko van Katwijk, Chairman of the Managing Board

Mark Stoffels, Chief Financial & Risk Officer

Jaap Witteveen, Chief Operations Officer

## 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.

## The Supervisory Board:

Peter Borgdorff, Chairman of the Supervisory Board

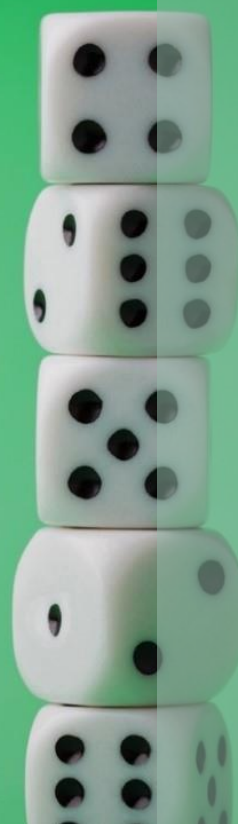
Pauline Bieringa, Vice-Chairman

Petri Hofsté

Tanja Nagel

Hans Snijders

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## Independent auditor's report

To: the general meeting and supervisory board of KAS BANK N.V.

### Report on the financial statements 2018

#### 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 2018 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 2018 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 2018 of KAS BANK N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of KAS BANK N.V. and its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the following statements for 2018: the consolidated statement of profit or loss and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising significant accounting policies applied and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2018;
- the following statements for 2018: the company statement of profit or loss and the company statements of other comprehensive income and changes in equity for the year then ended; and
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework 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

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### ***The basis for our opinion***

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards 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).

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### ***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 Group's main activities, where we focussed on in our audit, comprise the asset servicing and transaction servicing activities, treasury, risk management and the IT environment.

In 2018, KAS BANK N.V. continued its efforts to transition its business model and further digitise and automate their operational processes. The Group's 2018 financial performance was impacted by strong competition and challenging market circumstances. Consequently, the Group's results dropped, which resulted in a decrease of our 2018 materiality level with € 500,000 from € 1,000,000 in 2017 to € 500,000 in 2018. We refer to the materiality section in this report. This considerable materiality shift had an impact on the overall audit approach, including more line items in scope and relatively more detailed audit procedures. Next to this, we also assessed the Group's underlying financial performance drivers, management's financial forecasts and relevant scenario analysis as part of our continuous audit risk assessment and execution. The impact of the Group's financial performance and challenging market circumstances is described in the key audit matter on KAS BANK's business model developments and financial impact.

The group is comprised of several components and 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 and the financial position of the Group.

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 101 of the financial statements the



Group 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 (investments and derivatives), we considered these to be key audit matters as set out in the section 'Key audit matters' of this report.

The implementation of IFRS 9 and impact on the disclosures and opening balance of the financial statements resulted in the key audit matter on the first time adoption of IFRS 9.

The Group outsourced the IT-infrastructure and parts of the IT-organisation to an IT service provider. 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 Group'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.

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 experts and tax specialists.

The outline of our audit approach was as follows:



### 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'.



<b>Overall group materiality</b>	€500,000 (2017: €1,000,000).
<b>Basis for determining materiality</b>	We used our professional judgment to determine overall materiality. As a basis for our judgment, we used 5% of the profit before tax.
<b>Rationale for benchmark applied</b>	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 €25,000 (2017: €50,000) as well as misstatements, in our view, warranted reporting for qualitative reasons. For balance sheet reclassifications we agreed with the Company's supervisory board to report on misstatements above €3,770,000.

### *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 was performed centrally at 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. 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 an ISAE 3402 type II-report, which includes internal controls that were evaluated and reported upon by an external auditor. KAS BANK uses a considerable part of the systems and some of the controls on operational process level, for which KAS BANK issues an ISAE 3402 type II report to its clients. As a result, we place reliance on this ISAE 3402 type II report for the operating effectiveness of internal controls where it covers the IT general controls for relevant systems to our audit of the financial statements and some of the controls relevant to our audit on a (operational) process level. The report comprises, amongst other, 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 auditing standards. We have been involved in planning the ISAE 3402 work by the service provider auditor, discussed progress and interim findings of the service provider audit and finally evaluated the ISAE 3402 assurance report once it was issued. We obtained evidence on the competence, objectivity and independence of the service provider's auditor.

Based on our risk assessment and understanding of the Group, 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 certain other controls that are implemented and not included in the ISAE 3402 type II report, and 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 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.

We addressed the key audit matters 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 and developments of the Group's business, we recognise that key audit matters we reported in our independent auditor's report on the financial statements 2018 may be long-standing and therefore may not change significantly year over year. As compared to last year, we have changed last year's key audit matters relating to:

- the IAS 8 disclosure on the implementation of IFRS 9 since the standard has been implemented and we changed the key audit matter to first time adoption of IFRS 9,
- We excluded the key audit matter relating to hedge accounting since this related mainly to the debt instruments, which have been disposed during the year.
- We included a key audit matter in relation to the Bank's business model, transition and resulting financial impact.

Key audit matter	How our audit addressed the matter
<p><b>Valuation of investments</b></p> <p>Refer to pages 103 to 105 of the accounting policies, note 17 on page 114 and note 18 on page 115</p> <p>Investments at fair value 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 (OCI) and in profit and loss. The valuation is performed by management using a fair value hierarchy:</p> <ul style="list-style-type: none"> <li>• Level 1: valuations based on quoted prices (unadjusted) in active markets.</li> <li>• Level 2: valuations based on other than quoted prices included within level 1 that are observable either directly or indirectly.</li> <li>• Level 3: valuations based on unobservable inputs for the asset.</li> </ul>	<p>We performed the following substantive procedures to address the valuation of investments:</p> <ul style="list-style-type: none"> <li>• tested the valuation of the entire portfolio of level 1 investments by agreeing the prices used in the valuation as at 31 December 2018 to market quotes from independent third party sources (i.e. Bloomberg) through a pricing tool.</li> <li>• assessed the methodology and the appropriateness of the valuation models used by management to value investments. We found the methodology and models to be in line with market practices.</li> <li>• 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</li> </ul>



<b>Key audit matter</b>	<b>How our audit addressed the matter</b>
<p>The level 1, level 2 and level 3 investments amount to €694,454,000, €289,982,000 and €5,719,000 respectively as at 31 December 2018. The Company sold a large part of the level 3 investments in 2018 and invested the generated cash temporarily in level 1 investments.</p> <p>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.</p> <p>Given the level of judgment and the related estimation uncertainty involved in the valuation of level 2 and level 3 investments, combined with the magnitude of the amounts of the level 1 investments, 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.</p>	<p>substantiating them with underlying contract data.</p> <p>We found our results to be consistent with those of management.</p>
<p><b>Valuation of derivative financial instruments</b>  Refer to pages 105 and 106 of the accounting policies, note 15 on page 113 and note 16 on page 114</p> <p>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, including instrument for own hedging purposes, comprise of foreign exchange contracts, consisting of forward contracts and foreign currency swaps, and interest rate swaps.</p> <p>Foreign exchange contracts amount to €27,881,000 (assets) and €27,896,000 (liabilities) as at 31 December 2018. Interest rate swaps amount to €57,259,000 (assets) and €58,104,000 (liabilities) as at 31 December 2018. Derivative financial instruments held on behalf of clients comprise of exchange-traded derivatives and amount to €145,350,000 (assets) and €145,350,000 (liabilities) as at 31 December 2018. The client derivatives are back-to-back, and, as a result, the remaining net exposure is limited.</p>	<p>We, together with our valuation specialists, performed the following procedures to address the valuation of derivatives financial instruments:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Tested, on a risk based sample basis, for each type of derivative financial instrument, the accuracy of key inputs by 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 market data providers with external market data sources we independently obtained. We found our results to be consistent with those of management.</li> <li>• Assisted by our valuation specialists, we performed an independent valuation on a risk based sample of derivative positions. In some cases our independent valuation resulted in differences compared to those calculated by</li> </ul>

### **Key audit matter**

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 and valued using 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.

### **How our audit addressed the matter**

- management. We have assessed those differences to fall within a range of reasonable outcomes, this in the context of the inherent uncertainties when using models and assumptions.
- The Group maintains a collateral management process with margin call, reconciliation and monitoring controls. Based on the testing of controls we determined that we could place reliance on these controls for the purpose of our audit.
- We further noted that the Group is entitled to the collateral received as part of derivative financial instrument transactions. We found no exceptions in our testing.

### **Business model developments and financial impact**

*Refer to pages 14 and 145 of the annual report.*

As mentioned in KAS BANK's annual report the Group has been investing considerably in its business model and product offering. The Group considers this necessary in order to be future proof and to further enhance its business and service offering given the challenging market conditions and competitive landscape.

These developments and related investments also had a direct impact on the Group's financial position and performance, more specifically:

- additions to intangible fixed assets;
- deferred tax asset relating to Germany;
- recognition of restructuring provision;
- decreasing revenue levels, increasing project related spending and overall costs, and
- the resulting profitability trend.

This considerably affected our risk assessment, approach, scope and execution, resulting in more focus on matters such as forward looking assessments, scenario analysis, stakeholder analysis and regulatory context. More specifically, amongst other, we looked at whether investments in intangible assets could be substantiated and validated against the criteria in EU-IFRS and whether there were any impairment triggers

In relation to this key audit matter we performed the following audit procedures:

- We had frequent interaction with the Group's management board and supervisory board on the strategic outlook, scenarios and relevant financial impact.
- We inquired on the Group's multi-year forecasts and budgets and discussed underlying rationales and assumptions together with a stakeholder's assessment and future going concern scenarios.

We performed the following audit procedures to address the relevant financial statements line items linked to this key audit matter:

- We assessed the substance and background of the investments capitalized as intangible assets including evaluating impairment triggers on existing intangible assets.
- We assessed the Group's strategic outlook and projections in relation to the German branch's future outlook and profitability in light of the deferred tax asset amounting to €1,249,000. Relevant to our assessment is the fact that a deferred tax asset in relation to prior period losses as per German law may be offset with future profits for an indefinite period.
- We performed audit procedures over the completeness and underlying assumptions

### **Key audit matter**

that would trigger further impairment testing. Furthermore, we looked at the recoverability of the deferred tax asset in Germany, any potential onerous contracts and whether the restructuring provisions met the criteria of recording such provision in accordance with EU-IFRS and that all elements were taken into account.

Given the significance of the developments and investments to the Group and our audit, we considered this as a key audit matter for our audit.

### **How our audit addressed the matter**

and calculations in relation to the restructuring provision and whether the provision met the requirements in EU-IFRS for recording such provision. We also assessed related works council procedures and approvals.

- In relation to the decreasing revenue levels, we performed, amongst other audit procedures, an onerous contract assessment, assessment of potential impairment triggers and relevant impact on financial forecasts and future scenarios.
- We assessed project costs in terms of matching to the appropriate period and evaluated the validity of capitalized costs against relevant accounting standards.

We considered the appropriateness of the disclosure on the importance of the Group's strategic direction and decision to seek strategic alliances as discussed in the annual report.

We found that the financial impact, in light of this key audit matter, is appropriately considered in the preparation of the financial statements.

### **First time adoption of IFRS 9**

*Refer to page 98 of the accounting policies*

As at 1 January 2018, the Group has adopted accounting standard IFRS 9. Given the impact of this new accounting standard on the opening balance sheet and the accounting policy choices and assumptions made 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

Regarding the accounting policy choices, we reviewed the Group's accounting policy to determine whether this has been set up in accordance with the requirements of IFRS 9. We challenged management on their compliance with IFRS 9 and obtained reasonable explanations and evidence supporting this compliance.

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 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 (such as transaction documentation, prospectuses and term sheets) to



### Key audit matter

- 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. 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 impact of expected losses impairments on the opening balance sheet as at 1 January 2018 amounts to €0.2 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.

### How our audit addressed the matter

- evaluate whether the SPPI requirements in IFRS 9 are met.
- In relation to the disposal of the Company's investment in a mortgage fund, we verified whether the sale of the investment, including the recognition of part of the positive historical revaluations in the profit and loss account, has been accounted for appropriately.
  - 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 new model 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.
  - Finally we assessed the PD and LGD, including forward looking information, applied by management in the impairment calculation.

We found that management's judgement is supported by available evidence.

## 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:

- Introduction;
- Strategy;
- Our Business Environment;
- Corporate Governance
- Risk Management;
- Leadership;
- 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.

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## ***Report on other legal and regulatory requirements***

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### ***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 5 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 45 to the financial statements.

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## ***Responsibilities for the financial statements and the audit***

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### ***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 Group'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 Group 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 Group's ability to continue as a going concern in the financial statements.



The supervisory board is responsible for overseeing the Group's financial reporting process.

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***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 2019  
PricewaterhouseCoopers Accountants N.V.

Original has been signed by C.C.J. Segers RA



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## ***Appendix to our auditor's report on the financial statements 2018 of KAS BANK N.V.***

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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 Group'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 Group'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 Group 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 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 started 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 events 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

ABBREVIATION	DEFINITION
AFS	Available for Sale
ALCO	Asset & Liability Committee
AScX	Amsterdam Small cap Index
AUD	Australian Dollar
BCM	Business continuity management
BRRD	Bank Resolution and Recovery Directive
CAD	Canadian Dollar
CFRO	Chief Financial & Risk Officer
CHF	Swiss Franc
COBIT	Capital Requirement Directive
CIA	Confidentiality, Integrity and Availability
CRD	Capital Requirements Regulation
CRR	Capital Requirement Regulation
CSR	Corporate social Responsibility
CSR Rate	Clients Service Review
DNB	De Nederlandsche Bank (Dutch Central Bank)
EBA	European Banking Authority
ECB	European Central Bank
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EMIR	European Market Infrastructure Regulation
ERMC	Enterprise Risk Management Committee
ESG	Environmental, Social, Governmental
ESMA	The European Securities and Markets Authority
EU	European Union
FTE	Full-time equivalents
GBP	British Pound
GDPR	General Data Protection Regulation
GRC	Governance, Risk and Compliance
GRI	Global Reporting Initiative
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IIRS	International Integrated Reporting Counsel
ILAAP	Internal Liquidity Adequacy Assessment Process
IR	Integrated Reporting
IRMF	Integrated Risk Management Framework
ISAE	International Standard on Assurance Engagement

ABBREVIATION	DEFINITION
ISO	International Organization for Standardization
ITIL	Information Technology Infrastructure Library
JPY	Japanese Yen
KPI	Key Performance Indicator
LCR	Liquidity coverage ratio
MiFID	Markets in Financial Instruments Directive
NSFR	Net stable funding ratio
NVB	Nederlandse Vereniging van Banken (Dutch Banking Association)
PSD2	Payment Services Directive
PV01	Price Value of a Basis Point
PwC	PricewaterhouseCoopers Accountants N.V.
SDG	Sustainable Development Goals
SEK	Swedish Krona
SREP	Supervisory Review & Evaluation Process
SSM	Single Supervisory Mechanism
S&P	Standard & Poor
USD	United States Dollar
VaR	Value-at-Risk

# 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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