

Friesland Bank N.V.

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Financial

Annual Report 2006

Friesland Bank

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Profile of the bank

Friesland Bank N.V. is an independent bank which combines personal service and professional expertise. Friesland Bank's client base consists of personal, institutional and corporate customers who value a bank which puts advice and tailor-made products first. The bank's strategy is designed to build its market position while preserving its independence. Friesland Bank has been given A ratings by Moody's Investors Service and Fitch Ratings. With a balance sheet total of €9.3 billion, Friesland Bank is the seventh largest general bank in the Netherlands. It has 37 branches, including regional offices in Leeuwarden, Heerenveen, Drachten, Sneek, Groningen, Assen, Alkmaar, Zwolle, Enschede and Amsterdam.

Friesland Bank N.V. shares are held via Friesland Bank Holding N.V. by Vereniging Friesland Bank, Leeuwarden, the object of which is to promote the continuity of Friesland Bank as a banking institution with its own identity and culture.

Credit ratings

	Moody's Investors Service	Fitch Ratings
Long-term	A2	A
Short-term	P-1	F-1

Report of the Supervisory Board

We hereby present the 2006 financial statements of Friesland Bank N.V. as prepared by the Board of Management and approved by our Board. Pursuant to Article 24 of the Articles of Association, the financial statements have been audited by Ernst & Young Accountants, who have issued an unqualified report thereon.

We recommend that you adopt the 2006 financial statements as included in the company's 2006 annual report. We also recommend that, in accordance with the Board of Management's proposal, you approve a dividend for 2006 of €71,747,000 and add the remaining profit of €35,124,000 to the company's reserves.

The Supervisory Board met on nine occasions in 2006. The items on the agenda included the balance sheet and results of the banking operations, risk policy and management and control of credit risk. The process of implementing Friesland Bank N.V.'s new strategy, in which significant progress was made in 2006, was also discussed at length at its meetings, as was the bank's ICT strategy for the years ahead. The financial statements, the auditors' report and the management letter were discussed in the presence of the external auditors. The operating budget for 2007 was approved.

Following the Supervisory Board's decision to increase the number of members of the Board of Management from three to five, Ms. E.H.M.M. Krijnsen was appointed as its fourth member with effect from 1 January 2007.

The Supervisory Board held constructive discussions in 2006 with the Staff Council or delegations from the Council on a variety of issues, including the 'Operation Changing Tack' restructuring exercise and the company's strategic reorientation.

At several meetings at which the Board of Management was not present, the Supervisory Board evaluated its own functioning and that of the Board of Management.

The Credit Committee met four times and the Audit & Compliance Committee six times last year. The Remuneration Committee and Compensation Committee devoted several meetings to the remuneration structure for the Supervisory Board and Board of Management and appointments to the new seats on the Board of Management. Further information on the remuneration of the Board of Management and Supervisory Board in 2006 can be found in the notes to the financial statements on pages 63–65.

In the Supervisory Board's judgment, all its members qualified as independent in 2006. There were no transactions last year involving a conflict of interest with Supervisory Board members. The composition of the Supervisory Board was unchanged in 2006.

We recommend that you ratify the actions of the Board of Management in respect of its management and those of the Supervisory Board in respect of its supervision.

The Supervisory Board thanks the Board of Management and the staff for their hard work in 2006 and the results they achieved.

Leeuwarden, 5 April 2007

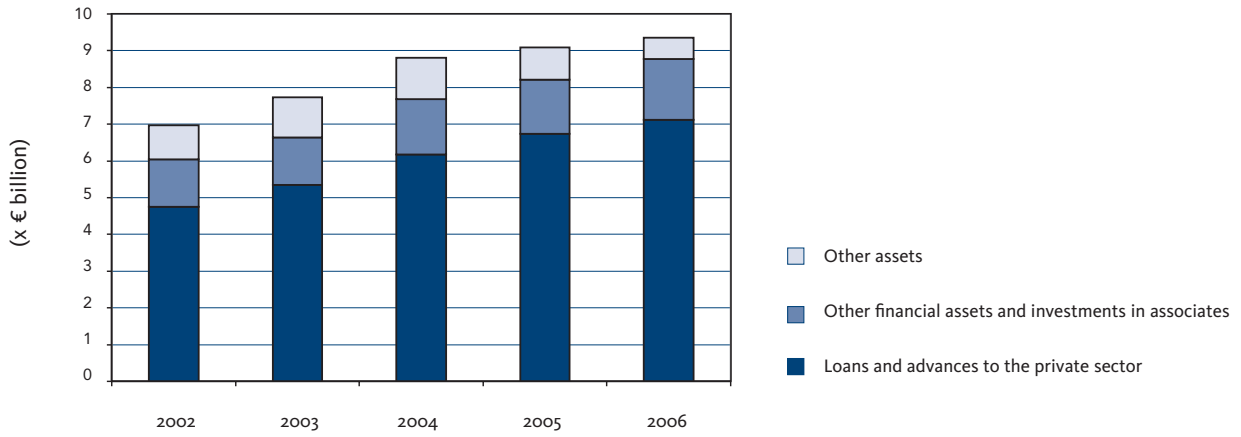
Supervisory Board:
K. Wezeman, Chairman
Ms L. Lindner, Secretary
J. Keijzer
H. Visser
L.M.L.H.A. Hermans
G. Benedictus
A. Oosterhof

Key figures

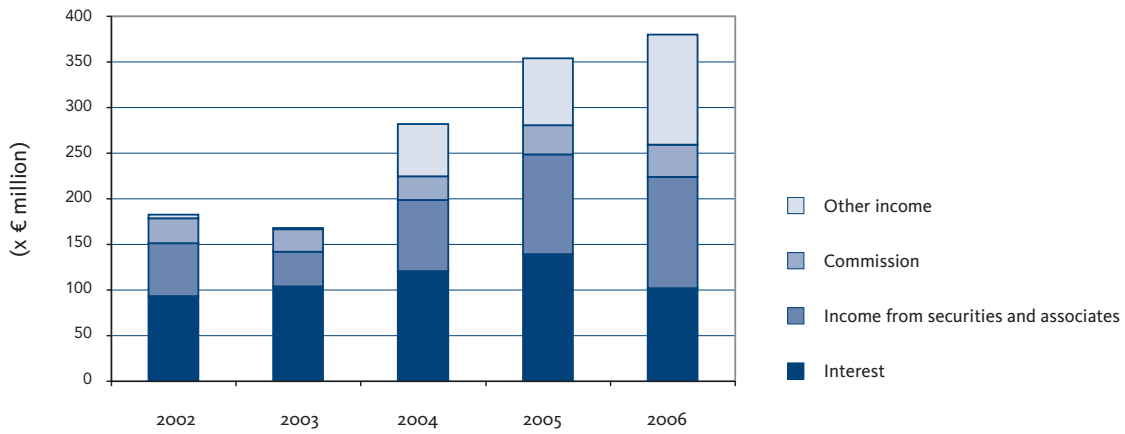
Key figures*	2006	2005	2004	2003	2002
(x € million) Balance sheet figures					
Balance sheet total	9,346.8	9,093.7	8,813.3	7,725.8	6,971.4
Loans and advances	7,271.2	7,028.4	6,454.2	5,526.5	5,056.1
Savings accounts	2,088.1	1,979.3	1,997.1	1,700.4	1,657.0
Other funds entrusted	2,916.9	3,100.3	2,934.2	2,817.2	3,080.1
Debt securities	2,513.2	2,209.6	2,245.6	1,805.1	859.5
Shareholders' equity	856.7	819.8	715.7	560.1	489.2
Group funds	1,230.2	1,154.0	996.6	858.6	742.0
BIS core capital ratio (%)	13.2	13.4	12.9	12.0	12.5
BIS total capital ratio (%)	13.2	13.4	12.9	12.4	12.1
(x € million) Profit and loss account figures					
Operating income	379.7	354.2	281.9	168.2	182.4
Ordinary operating expenses	247.6	191.3	164.8	106.9	106.9
Ordinary operating result	132.0	162.9	117.1	61.3	75.5
Impairment losses	8.1	66.5	28.1	17.5	35.0
Operating result	123.9	96.4	89.0	43.8	40.5
Net profit	106.9	76.7	71.3	52.9	48.0
Efficiency ratio (%)	65.2	54.0	58.5	63.6	58.6
Return on equity (%)	12.7	11.5	12.8	10.1	10.2
(x €) Figures per share					
Average number of shares in issue	37,463	37,463	37,463	37,463	37,463
Earnings per share	2,853	2,047	1,903	1,411	1,281
Net asset value per share (excluding perpetual bond loan)	19,531	18,546	15,768	14,951	13,058

* 2004–2006 under IFRS, 2002–2003 under Dutch GAAP.

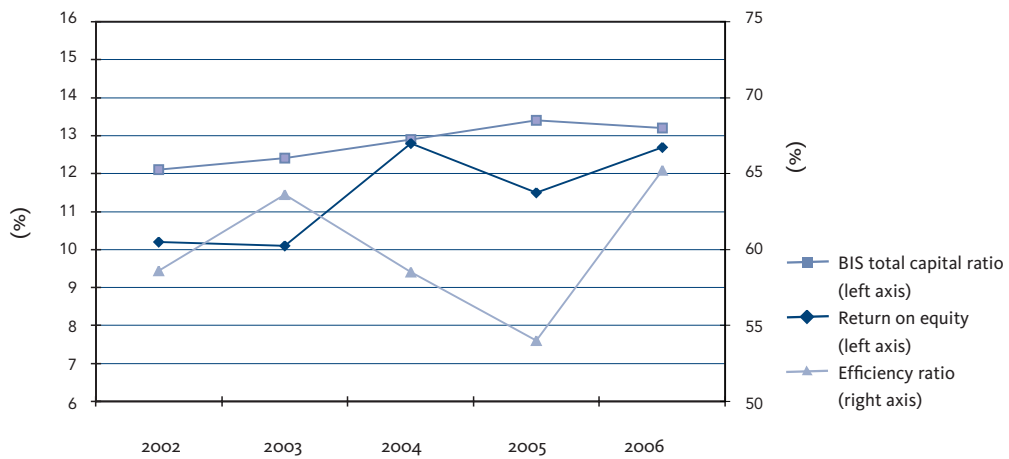
Balance sheet



Operating income



Ratios



Report of the Board of Management

General

Friesland Bank N.V. posted an exceptionally good profit of €107 million in 2006, despite a highly competitive banking environment and with an interest-rate structure that was less favourable for banks than it had been in recent years. The bank also made substantial progress in pursuit of the strategy announced in 2005. The additional cost which this incurred was more than offset by the excellent performance of the banking associates and private equity operations. The bank's growth was most clearly apparent in its sales of home mortgages.

Favourable economic climate

The bank achieved its strong profit performance in a propitious economic environment. The Dutch economy had an excellent year, exceeding expectations in practically all areas and posting year-on-year growth of 2.9%, almost double the 2005 figure. Growth accelerated in the second half of the year, which was reflected in the sharply lower unemployment figures. In the closing months of the year, there was in fact a shortage on the labour market, something the Netherlands has not experienced for several years.

2006 was also a period of recovery for the other countries in the eurozone. Falling unemployment in almost all the member states gave a boost to consumer confidence, which translated into higher consumer spending in some of those countries. In response to the economic upturn in the eurozone, the European Central Bank raised the interest rate, in five steps, by a total of 1.25 percentage points. This was the first series of rate rises for two and a half years, marking the end of a period of extremely low money market rates and resulting in a flattening of the interest rate curve.

Closer customer focus

Through 'Operation Changing Tack', which was announced in 2005, the bank is implementing a strategy designed to further improve customer satisfaction and raise internal efficiency. The bank took a number of important steps in 2006 with the aim of

consolidating its position in the highly competitive financial services market.

Within the province of Friesland, Friesland Bank is and will remain a general bank. Outside the province, Friesland Bank serves a target group of medium-sized corporate customers and the more affluent personal customers. Central to the new strategy is a more pro-active customer approach. Friesland Bank intends to continue to profile itself as a relationship bank, forging lasting and profitable links with its customers.

Recognising that, in times of shrinking margins, higher efficiency is crucial to sustaining profitable banking operations, the bank analysed and restructured several key internal processes last year. Administrative activities are now concentrated at four new regional offices instead of distributed over local offices. This new approach means that account managers now have to spend less time on administrative matters and have more time to devote to our customers. We are also creating a field force of account managers who visit customers at home at their convenience. The initial results of this new approach are encouraging and serve to strengthen our conviction that this strategy is the right one.

The bank is expecting to open more branches outside Friesland in the coming years. It has already taken the first step, with the opening of a branch in Amsterdam, and preparations for a new branch in Utrecht are well under way. By extending its reach into the Randstad conurbation, it is opening up new opportunities for establishing contact with potential customers who are attracted by a down-to-earth and individual bank like Friesland Bank.

Integration of Bank Bercoop and Friesland Bank

Bank Bercoop, a regional bank covering the south-east of Friesland, is part of Holding Bercoop Group, in which Friesland Bank has had a 45% interest since 2004. Agreement was reached with Holding Bercoop Group in November 2006 on the acquisition of the remaining 55% of the shares. This acquisition will enable the further integration of the banking and insurance

activities of Bank Bercoop and Friesland Bank. The process of transition started in early 2007.

Customer satisfaction

One of the findings of the quarterly customer satisfaction surveys conducted by the bank in 2006 was that customers perceive the bank as a dependable partner which keeps its promises. This is corroborated by the growing number of customers who report that Friesland Bank is the principal bank they do business with. We can also be justly proud of the high score customers gave us for the service provided by our staff, which is important for a personal, relationship-based bank aiming for maximum customer satisfaction. At the same time, the surveys are a source of valuable information on how we can match all our service elements to customers' needs.

Sustained improvement in customer satisfaction will continue to be our organisation's primary aim, because the future health of our business depends on it.

Banking

Personal banking

Competition on the mortgage market was intense last year, which brought pressure to bear on interest rates. The changed conditions on the mortgage market are not a temporary phenomenon: permanent factors include the increased transparency of the market, due in no small measure to better consumer access to information via the Internet, and the entry into the market of foreign players with a different cost structure. In choosing at times not to engage in an extreme price war, the bank accepted a slightly slower rate of growth in the personal lending portfolio, which nevertheless increased by a net €322 million in 2006 to €4.5 billion: a satisfactory outcome in the light of the developments outlined above. With money-market rates rising, there was increased interest last year in mortgages with extended fixed-interest terms. Over 80% of sales were of mortgages with a fixed-interest term of five years or more, compared with 60% in 2005.

Savings continued to grow in popularity last year, partly reflecting the growth in Internet banking. The number of users almost doubled in 2006, to 23,000. Helped by the attractive rate on the Internet savings account and the success of the 'KlimSpardeposito' account (selected as Product of the Month by the Financiële Telegraaf in November), there was a substantial inflow of new funds, increasing the Savings accounts item by €109 million to €2.1 billion.

The bank's stockbroking business benefited in 2006 from the positive stock-market sentiment, reflected in revenue growth of 12% to €8 million. This growth can be attributed in part to the active approach adopted by our advisers, who assist customers with transactions in individual shares, bonds, options etc. Friesland Bank also advises third-party investment funds, offering them the most appropriate products provided by various financial specialists. This 'open architecture' means that our advisers are able to make objective choices tailored as closely as possible to the customer's investment requirements. This approach has resulted in substantial growth in the number of investing customers. A revised investment process was implemented in the first half of 2006 for the Friesland Bank Aandelen Fonds to position it as a high-dividend equities fund. The bank has every confidence that this new strategy will prove popular with both existing and new investors in the fund. An increased inflow into the fund, attracted by its strong performance, is already clearly in evidence. The central trading desk in Leeuwarden, which provides advice for the more active investor, also developed well. A letter of intent was signed in late 2006 relating to cooperation with BinckBank which will lead in 2007 to the creation of a brand-new investment platform for our bank. We are confident that this will result in customers being considerably better advised and better informed about their investments and securities portfolios.

Our insurance brokers Friesland Bank Assurantiën and Aecum were integrated in 2006 to enhance their commercial effectiveness and improve the service to banking customers. In the individual insurance sector, this will offset the pressure on margins from heightened competition on the insurance market. There was healthy growth in tailor-made insurance products and advisory services for corporate customers which exceeded

market growth. Aecum, which specialises in employee benefits including pensions, had a good year, greatly increasing our insurance arm's share of the life insurance and pensions market.

Corporate banking

In a competitive market, the corporate portfolio increased slightly to €2.7 billion. With margins still under pressure and rising leverage, the bank adopted a rather more cautious approach to lending, taking the view that low risk premiums do not always accurately take account of risks that may be incurred in the future. The new items added to the portfolio contributed to a balanced distribution across the various sectors. The fastest percentage growth was recorded in the agricultural sector. The branches outside the province of Friesland continued to make good progress with the strategy they are pursuing and made a substantial contribution to the revenue from and results on corporate banking activities. The proportion of structured loans in the portfolio also increased.

We are pleased to report that the quality of the corporate lending portfolio, judged by the bank's internal risk standards, improved last year. Given the satisfactory risk profile, the provisions formed for the corporate lending portfolio were lower in 2006.

Banking results

The balance of operating income from and operating expenses on banking activities in 2006 was a profit of €14.8 million, compared with €59.4 million in 2005. This decrease was due to a combination of lower operating income and higher expenses. The lower operating income reflected the narrower interest margin. In addition to a substantial consolidation effect, regular interest income was also under pressure from erosion of spreads, lower penalty fees in commercial banking activities and the flatter interest-rate curve. The higher expenses related mainly to project costs incurred in complying with external regulations and improving standards of service. Reflecting positive changes in value of derivatives, loans and advances, the impairment item was €1.5 million positive, increasing the operating result to €16.3 million, from €3.5 million in 2005.

Private equity investments

Friesland Bank Investments (FBI) invests in medium-sized Dutch companies as a financial partner, giving access to our expertise and acting as a constructive sounding-board for their management. FBI again made a significant contribution to profit in 2006, but it fell short of the previous year's figure because the latter included the gain on the sale of our interest in Telfort. The bank is satisfied with the way its private equity business is developing and the quality of the portfolio promises a good future in the coming years.

FBI committed to new investments totalling €15 million in 2006, in Fritom (logistics services), Institute of Travel (travel organisation), Main Capital II (private equity fund), Actuera (software solutions for insurance companies and pension funds), King Nuts (food industry) and Orffa (sales and marketing of additives and ingredients for animal feed and veterinary applications). Our involvement in Fritom takes the form of a unique financial structure for family companies: Friesland Bank Investments will maintain an internal market in the family shares and a foundation will safeguard independence, continuity and employment. This innovative concept can be applied to other family companies faced with similar issues.

Additional investments were also made last year in existing holdings. These were Doedijns (supplier of hydraulic systems), in connection with the acquisition of competitor Koppen & Lettem, and Mennens (lifting equipment).

FBI disposed of its interests in Samas (office equipment), Coops & Nieborg (supplier to the shipbuilding industry), Hyproca (dairy products wholesaler and producer) and Low Land Fashion (fashion wholesaler and importer).

The balance of operating income from and operating expenses on private equity investment in 2006 was a profit of €50.5 million, compared with €70.1 million in 2005. Including impairment losses, the operating result amounted to €40.9 million, down €18.5 million or 31% on 2005. The decrease is attributable entirely to the inclusion in 2005 of the book profit on Telfort.

Banking associates

At the end of 2006, Friesland Bank held equity interests in Van Lanschot N.V. (28%), Triodos Bank N.V. (6%), Kempen & Co N.V. (19%) and BinckBank N.V. (almost 10%). A 6% equity interest in Kas Bank was sold in February 2006, yielding a profit of several million euros.

In September 2006, Van Lanschot announced a bid for Kempen & Co which was approved by Kempen & Co's shareholders. This transaction, for which payment was made partly in Van Lanschot shares (to the value of €180 million) and partly in cash (€120 million), was completed in early 2007 and the book profit will be accounted for in 2007.

Friesland Bank built up a stake of almost 10% in BinckBank last year. BinckBank is a specialised provider of securities services for various types of investor, including Internet brokerage for private investors, and therefore operates in a different market segment from Friesland Bank.

The higher Van Lanschot share price and other movements (including Kempen & Co) translated into a fair-value gain on investments in associates of €364 million.

The balance of operating income and operating expenses in 2006 amounted to €66.7 million, compared with €33.5 million in 2005. There were no impairment losses in either year. The increase reflects both higher regular income and, more especially, the gain on the sale of the interest in Kas Bank.

ICT, Operations and projects

The focus in 2006 was on further improvement of our infrastructure, with the aim of enhancing the stability and reliability of the existing systems. The ICT environment was strengthened by an upgrade to the Unix operating system and the installation of a new version of the database system. Substantial improvements were also made to a number of processes, including the implementation of a new mortgage system.

A new business, software and infrastructure architecture was developed to preserve continuity, promote innovation and shorten the time to market in the coming years, based on a more modular system which allows new front-office applications and/or back-office systems to be developed and replaced independently. This new software architecture is also essential to the bank's multi-channel future. The first applications were successfully installed in 2006. Higher staffing levels is a key element in the bank's new ICT strategy.

Personnel

The average number of permanent staff in 2006, expressed as full-time equivalents, was 979, compared with 954 in 2005. The bank again had frequent recourse to temporary staff in 2006, in connection with the many projects currently in progress to improve the processes and technical infrastructure.

The year also brought major changes for the personnel, principally in the context with 'Operation Changing Tack'. Thanks to the constructive approach adopted by the Staff Council, the personnel are now much more receptive to change. In our home market, the province of Friesland, our closer focus on customers has meant changes to around 300 jobs.

Balance sheet

Private-sector lending grew by €375 million, or 5%, to €7.2 billion. Lending to personal customers was up by more than 8% at €4.5 billion, mainly owing to the effect of €800 million gross of new mortgages.

Corporate lending grew by 2% to €2.7 billion. The relative share of personal lending increased during the year. Of the private-sector loans and advances outstanding as at year-end 2006, 63% had been granted to personal customers and 37% to companies and other private-sector institutions.

Other financial assets were €147 million higher at €1.2 billion, mainly due to growth in the bond portfolio by €151 million to €1.1 billion. Quoted debt securities purchased for balance sheet management purposes accounted for most of the increase.

The €40 million increase in investments in associates to €418 million mainly reflects the strong performance of the bank's investments in the share capital of Van Lanschot and Kempen & Co. among others. A significant proportion of the funding for the growth in lending to customers was raised on the money and capital markets. Additional funding was provided by the growth in savings accounts, an increase in subordinated loans and higher shareholders' equity. The bank made a successful call on the international capital market in early 2006 with the placing of a €700 million public loan under the EMTN programme. This contributed to the increase in the debt securities item by €304 million to €2.5 billion. Savings accounts, which are included in funds entrusted, increased by 5.5% to €2.1 billion in 2006, mainly reflecting growth in deposits and balances on Internet savings accounts.

The bank's net cash position was slightly lower, but remained at a more than adequate level. The balance of cash plus net demand deposits of banks (assets and liabilities) was €72 million down at €125 million. Reported shareholders' equity grew by 4%, or €37 million, to €857 million at year-end. Apart from the appropriation from the 2006 profit and revaluations, this increase also reflects several dividends paid to Friesland Bank Holding N.V., some of which was used to redeem preference shares.

Group own funds, which include the subordinated loans, rose 7% to over €1.2 billion. Including the fair value gains amounting to almost €242 million, which are still carried in the balance sheet though not recognised in equity, the bank's 'capital base' totals almost €1.5 billion.

Profit for 2006

2006 yielded net profit attributable to shareholders of €106.9 million, an increase of 39% on 2005 which was largely due to significantly lower net impairment losses. The operating result was 28% higher at €123.9 million.

As in 2005, the balance of operating income and ordinary operating expenses (ordinary operating result) received a boost from book profits on disposals in the private equity business, but ended the year 19% or €30.9 million lower at €132.0 million. As well as higher expenses, consolidation and deconsolidation effects were also a factor.

Results

Total operating income was up 7% in 2006, at €379.7 million. Ordinary operating expenses were 30% higher, rising to €247.6 million. Excluding consolidation effects, the increase was 17%. Much of the growth in operating expenses was due to higher project costs, notably for 'Operation Changing Tack' and the implementation of the Basel II guidelines. Impairment losses totalling €8.1 million were also recognised.

Interest income was down 27% at €102.3 million, due to consolidation effects, a non-recurring item and shrinking margins on both personal and corporate lending. Early repayment penalties due to remortgaging declined to €4 million, down €3 million on 2005.

Income from securities and associates was markedly higher in 2006 at €122 million, mainly due to gains on the sale of several equity interests by the bank, the private equity arm and the banking associates. As expected, the result on the private equity business fell short of the 2005 figure, which included a substantial gain on the sale of our interest in Telfort.

The bank's investments in banking associates, including Van Lanschot and Kempen & Co., reported good operating results in 2006. As well as higher operating income, Kempen's result also included dividend income. The interest in Kas Bank was sold at a good price, yielding a book profit of several million euros.

The picture with regard to commission income showed increases across the board, chiefly as a result of higher revenues from insurance and stockbroking services. All the insurance brokers (Aecum, Friesland Bank Assurantiën and Bercoop Assurantiën) contributed to the 8% growth in insurance commission income. Stockbroking commission income was up 12%, with higher trading volumes and several successful product placings lifting the income of our stockbroking operations. Commission income on funds transfer services did not keep pace with the growth in our corporate banking activities and remained stable. Overall, commission income was up by 9% at €35.2 million. The higher result on financial transactions, up from €9.8 million in 2005 to €18.2 million in 2006, was largely due to transaction profits on other financial assets resulting from interest rate movements in the bank's favour. Other income amounted to €1.8 million, due to consolidation effects.

Total staff costs (excluding consolidations) were 4.5% higher at €84 million. Post-employment benefit expenses were sharply lower, mainly as a consequence of the increase in the pensionable age to 65, which generated non-recurring income. Expenditure on contract staff was higher, as were social security charges in connection with reorganisations as part of 'Operation Changing Tack'. The other administrative expenses increased by €55.9 million to €139.2 million, 71% of this increase being accounted for by new consolidations. The bank's own cost base was increased by higher costs of ICT and other projects and higher marketing expenses. Amortisation and depreciation increased to €12.5 million.

Impairment losses totalled €8.1 million, compared with €66.5 million in 2005. This decrease was due to several factors. Firstly, an amount of €9.4 million was included in respect of fair-value gains on financial instruments due to movements in the market price of derivatives, which are recognised directly through the profit and loss account. In the case of Friesland Bank, this related mainly to changes in fair value due to movements in capital market interest rates.

The amount set aside for ordinary bad debts in 2006 was €10.3 million lower, at €1.6 million. Total impairment losses on loans and advances amounted to €4.7 million. The sharply lower bad debt losses reflect an improvement in the portfolio risks. The risk costs in 2006 work out at 2 basis points on the private lending portfolio, compared with 17 basis points in 2005. In addition to the above items, impairment losses amounting to a further €12.8 million (2005: €9.7 million) were recognised in respect of private equity investments, shares and property, plant and equipment.

Because a large proportion of the bank's results qualifies for the substantial-holding privilege with regard to corporation tax, the Group's tax burden is relatively low. In 2006, the reported tax burden showed a limited rise to a total of €13.2 million, compared with €8.0 million in 2005.

Financial ratios

The efficiency ratio (ordinary operating expenses divided by operating income) worked out at 65.2% in 2006 compared with 54.0% in 2005, most of this improvement being due to consolidation effects. Excluding these effects, the ratio was 55.3%. The return on equity last year was 12.7%, compared with 11.5% in 2005.

The BIS total capital ratio was 13.2%, compared with the minimum requirement of 8.0%, showing little change on the 2005 figure of 13.4%.

2007 strategic framework

Although further growth is expected across all the bank's activities, competition in the banking services market is extremely strong, exerting sustained pressure on commercial spreads. Additional factors are the relatively flat interest rate curve and the bank's focus on investments in improving the quality of its services and strengthening its infrastructure, while seeking to maintain an acceptable balance between risk and return in both the personal and corporate markets. All these factors are bringing pressure to bear on the results of the banking operations. Despite the propensity to invest remaining strong in the private equity market, resulting in significantly higher prices, the bank's private equity arm has an excellent track record and, on current evidence, looks set to maintain it in 2007. The banking associates are expected to sustain the good pace of organic growth achieved in 2006.

2007 profit forecast

Friesland Bank had an exceptionally profitable year in absolute terms in 2006 which it will not be able to match in 2007. On the basis of the information currently available and barring unforeseen circumstances, the bank expects to continue 2005's good but more normal profit trend in 2007.

Leeuwarden, 5 April 2007

Board of Management:
W.F.C. Cramer, Chairman
T. Branbergen
A. Vlaskamp
E.H.M.M. Krijnsen



Financial Statements

1.1 Consolidated balance sheet as at 31 December 2006

(x € 1,000) ASSETS	Note	2006	2005
Cash	1	46,993	128,990
Banks	2	78,498	180,121
Loans and advances	3	7,271,173	7,028,401
Other financial assets	4	1,239,046	1,092,437
Investments in associates	5	417,534	377,223
Intangible assets	6	28,470	5,983
Property, plant and equipment	7	85,662	101,298
Assets held for sale	8	6,963	4,500
Current tax	9	6,160	10,111
Deferred tax	9	67,182	75,830
Inventories	10	14,650	13,628
Trade receivables	11	17,840	16,161
Other assets	12	32,012	24,109
Prepayments and accrued income	13	34,613	34,860
		<hr/>	<hr/>
Total assets		9,346,796	9,093,652

(x € 1,000) EQUITY AND LIABILITIES	Note	2006	2005
Banks	14	265,484	336,226
Funds entrusted	15	5,005,032	5,079,593
Debt securities	16	2,513,241	2,209,575
Financial liabilities	17	50,590	62,010
Current tax	9	-	-
Deferred tax	9	-	2,075
Other liabilities	18	120,551	88,557
Accruals and deferred income	19	119,375	115,227
Provisions	20	42,348	46,365
Subordinated liabilities	21	373,484	334,219
		8,490,105	8,273,847
Share capital and reserves attributable to shareholders of Friesland Bank N.V.		833,017	800,018
Third-party interests		23,674	19,787
Shareholders' equity	22	856,691	819,805
Total equity and liabilities		9,346,796	9,093,652

1.2 Consolidated profit and loss account for 2006

(x € 1,000)	Note	2006	2005
Interest income		363,217	385,653
Interest expense		260,922	245,992
Interest	23	102,295	139,661
Income from securities		33,776	47,804
Income from associates		87,759	60,983
Income from securities and associates	24	121,535	108,787
Commission	25	35,194	32,355
Results on financial transactions	26	18,237	9,838
Other income	27	1,821	1,601
Revenues of companies included as private equity investments	28	100,588	61,975
Operating income		379,670	354,217
Staff costs	29	95,952	97,344
Other administrative expenses	30	139,217	83,298
Depreciation and amortisation	31	12,477	10,621
Operating expenses		247,646	191,263
Impairment of loans and advances	32	4,735	28,754
Impairment of financial instruments	33	-9,434	28,044
Impairment of financial assets	34	9,784	9,728
Impairment of intangible assets and PP&E	35	3,035	-
Total impairment losses		8,120	66,526
Total expenses		255,766	257,789
Operating result		123,904	96,428
Tax	36	13,220	8,038
Profit for the period		110,684	88,390
Net profit attributable to third-party interests	37	3,813	11,665
Net profit attributable to shareholders of Friesland Bank N.V.	38	106,871	76,725
		110,684	88,390

1.3 Consolidated statement of changes in equity for 2006

(x € 1,000)

	Share capital	Share premium reserve	Perpetual capital securities	Revaluation reserve	Other equity components	Other statutory reserves	Other reserves	Result for the year	Share capital and reserves	Third-party interests	Shareholders' equity
Balance as at 1 January 2005	16,858	76,319	125,000	32,589	-	86,012	329,986	36,261	703,025	18,414	721,439
Changes in 2005:											
- Share issue	-	-	-	-	-	-	-	-	-	-	-
- Issue of perpetual bonds	-	-	-	-	-	-	-	-	-	-	-
- Profit appropriation	-	-	-	-	-	13,345	19,565	-32,910	-	-	-
- Result for the year	-	-	-	-	-	-	-	76,725	76,725	-	76,725
- Dividend	-	-	-	-	-	-	-	-7,865	-7,865	-	-7,865
- Revaluation, associates	-	-	-	13,867	-	-	-	-	13,867	-	13,867
- Revaluation, private equity	-	-	-	14,116	-	-	-	-	14,116	-	14,116
- Revaluation, shares	-	-	-	6,802	-	-	-	-	6,802	-	6,802
- Revaluation, bonds	-	-	-	-6,652	-	-	-	-	-6,652	-	-6,652
- Consolidation effects	-	-	-	-	-	-	-	-	-	1,373	1,373
Balance as at 31 December 2005	16,858	76,319	125,000	60,722	-	99,357	349,551	72,211	800,018	19,787	819,805
Changes in 2006:											
- Profit appropriation	-	-	-	-	-	30,447	41,764	-72,211	-	-	-
- Result for the year	-	-	-	-	-	-	-	106,871	106,871	-	106,871
- Dividend	-	-	-	-	-	-	-74,515	-	-74,515	-	-74,515
- Revaluation, associates	-	-	-	-4,770	-	-	-	-	-4,770	-	-4,770
- Revaluation, private equity	-	-	-	-2,214	-	-	-	-	-2,214	-	-2,214
- Revaluation, shares	-	-	-	9,028	-	-	-	-	9,028	-	9,028
- Revaluation, bonds	-	-	-	-3,671	-	-	-	-	-3,671	-	-3,671
- Fair value gains on derivatives accounted for in equity	-	-	-	-	2,270	-	-	-	2,270	-	2,270
- Fair value losses on derivatives accounted for in equity	-	-	-	-	-	-	-	-	-	-	-
- Consolidation effects	-	-	-	-	-	-	-	-	-	3,887	3,887
Balance as at 31 December 2006	16,858	76,319	125,000	59,095	2,270	129,804	316,800	106,871	833,017	23,674	856,691

For details, see note 22 on shareholders' equity.

1.4 Consolidated cash flow statement for 2006

(x € 1,000)	Note	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit attributable to shareholders of Friesland Bank N.V.			
	37	106,871	76,725
Adjustments for:			
- Depreciation	31	12,477	10,621
- Impairment of loans and advances	32	4,735	28,754
- Impairment of financial instruments	33	-9,434	28,044
- Impairment of financial assets	34	9,784	9,728
- Impairment of intangible assets and PP&E	35	3,035	-
- Tax on profits	9, 35	13,220	8,038
- Income from securities and associates		-66,563	-57,789
- Third-party interests	22	3,813	11,665
		<hr/>	<hr/>
Cash flow from operations		77,938	115,786
Movement in banks	2, 14	41,169	107,788
Movement in loans and advances	3	-237,998	-569,291
Movement in funds entrusted	15	-74,561	148,268
Other operating cash flows		55,266	-68,569
		<hr/>	<hr/>
Total cash flow from operating activities		-138,186	-266,018
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in and purchases of:			
- Financial assets not included in the trading portfolios	4	-678,279	-196,697
- Associates	5	-55,311	-21,185
- Property, plant and equipment and intangible assets	6, 7	-33,180	-15,768
Disposals and sales of:			
- Financial assets not included in the trading portfolios	4	515,343	376,827
- Associates	5	46,783	10,974
- Property, plant and equipment and intangible assets	6, 7	2,705	7
		<hr/>	<hr/>
Total cash flow from investing activities		-201,939	154,158
CASH FLOW FROM FINANCING ACTIVITIES			
Increase in subordinated liabilities	21	50,000	60,000
Decrease in subordinated liabilities	21	-10,735	-6,665
Increase in debt securities	21	351,745	-
Decrease in debt securities	21	-48,079	-36,022
Dividend paid	22	-74,515	-7,865
		<hr/>	<hr/>
Total cash flow from financing activities		268,416	9,448
Net cash flow		-71,709	-102,412

(x € 1,000)	Note	2006	2005
MOVEMENTS IN CASH			
Cash balance as at 1 January	1, 2, 14	196,162	298,574
Cash balance as at 31 December	1, 2, 14	124,453	196,162
Net cash flow		-71,709	-102,412
The analysis of the cash balances is as follows:			
- Cash in hand and at bank	1	46,993	128,990
- Bank demand deposits (assets)	2, 42	78,231	67,603
- Bank demand deposits (liabilities)	14, 42	-771	-431
		124,453	196,162
Other cash disclosures concerning cash flows from ordinary activities:			
- Interest received	13, 23	362,190	394,758
- Interest paid	19, 23	253,583	255,168
- Dividends received	5, 24	34,436	33,962

1.5 Accounting policies

General

Friesland Bank N.V. is registered in Leeuwarden. The consolidated financial statements of Friesland Bank for 2006 include the company and its subsidiaries (together forming the 'Group') and the Group's investments in associates and interests in joint ventures. The Board of Management completed the financial statements on 5 April 2007. The date set for adoption of the financial statements in the General Meeting of Shareholders is 26 April 2007.

Preparing the financial statements requires that the company's management form judgments and make estimates and assumptions affecting balance sheet and profit and loss account items as well as the disclosures in the notes. Despite the fact that these estimates are based on the most recent understanding of the current state of affairs, the actual amounts and figures may ultimately prove to be different. The estimates and underlying assumptions are constantly reappraised and any changes are promptly taken into account in the affected period or future periods.

The company's management has held discussions with the Audit & Compliance Committee to consider the various key assumptions affecting financial reporting and estimates and the developments surrounding them as well as the provision of the relevant information and the manner in which the assumptions and estimates are used. The principal estimates and appraisals relate to impairment losses on loans and advances and goodwill, to the assumptions used in calculating the benefit obligations and to the outcome of current lawsuits.

For Friesland Bank, both the functional currency and the presentation currency are the euro. All amounts in these financial statements have been rounded to the nearest thousand euros unless otherwise indicated.

Declaration of conformity of the accounting policies used in the preparation of the financial statements

These financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as endorsed for use in the European Union, together with the interpretations of those standards by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

The 2006 financial statements have been prepared on the basis of the accounting policies used in the preceding year, with the exception of the following:

The Group has applied the following new IFRS and IFRIC interpretations and amendments with effect from 1 January 2006. Application of these amended standards and interpretations has not had any impact on the Group's financial figures as such but has given rise to additional disclosures.

- IAS 19 Employee Benefits, amendment;
- IAS 39 Financial Instruments: Recognition and Measurement, amendment;
- IFRIC 4 Determining whether an Arrangement contains a Lease;
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

The principal effects of the above amendments are:

IAS 19 Employee Benefits

With effect from 1 January 2006, the Group has been applying the amendments to IAS 19. As a consequence, additional disclosures have been included concerning trends in the assets

and liabilities of the defined benefit pension plans and in the assumptions underlying the costs of the pension plans. Applying the amendments has not led to the recognition of any changes in the amounts since the Group has elected to account for actuarial gains and losses using the corridor approach.

IAS 39 Financial Instruments: Recognition and Measurement
Amendment concerning financial guarantees and credit insurance contracts: financial guarantees and credit insurance contracts (which in the past were treated as insurance contracts) now have to be measured at fair value on initial recognition and measured subsequently at the higher of (i) initial carrying amount (less amortisation in accordance with IAS 18, as applicable) and (ii) fair value based on expected cash flows in accordance with IAS 37. This change in the financial reporting standards has not had any effect on the Group's figures.

Fair value option amendment: this new rule sets a number of conditions before an entity can designate a financial instrument on initial recognition as being 'at fair value through profit or loss'. This has no implications for the Group since it has so far not made any use of this option in IAS 39.

IAS 39 initially did not permit expected intragroup transactions to be treated as hedges in consolidated financial statements. The amendment makes it possible to use hedge accounting in certain cases. The hedge must be a foreign currency cash flow hedge satisfying certain conditions. This does not affect the Group since no intragroup transactions are designated foreign currency hedges.

IFRIC 4 Determining whether an Arrangement contains a Lease
The Group has adopted IFRIC 4, containing instructions for determining whether arrangements contain a lease, necessitating the application of lease accounting, with effect from 1 January 2006. This change in the financial reporting standards has had no effect on the Group's figures.

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
The Group has adopted this interpretation with effect from 1 January 2006. However, since the Group does not have any interests in countries where such funds exist, the interpretation has no effect on the financial statements.

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

This interpretation has been adopted by the Group with effect from 1 January 2006. It governs the recognition of a liability in connection with the disposal of waste electrical and electronic equipment. The interpretation has not had any effect on the Group's figures since it is aimed at entities selling electrical domestic appliances.

Consolidation

Included in the consolidation are those interests qualifying as group companies and entities where the economic risk is borne by Friesland Bank N.V. (including foundations connected with securitisation). Group companies are entities over which the company has control. Control means the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In establishing the existence of control, account is taken of potential voting rights, whether existing or resulting from conversion. The financial statements of group companies are included in the consolidated financial statements from the date on which control is first established until such time as it ceases. Intercompany accounts and any unrealised gains and losses on transactions within the group or income and expenses resulting from such transactions are eliminated on consolidation. Interests of precisely 50% (joint ventures) are not consolidated, the carrying amount of such interests being measured using the equity method.

Recognition of financial instruments

Financial assets and liabilities are included in the balance sheet as from the date on which the company acquires a right to the benefits or becomes bound by the obligations under the terms and conditions of the contract relating to the financial instrument concerned (the trade date). Financial assets and liabilities are netted off in the balance sheet where permissible by law and under the terms of the contracts and where it is the intention to settle on a net basis.

Basis of valuation and determination of results

General

The financial statements have been prepared according to the historical cost convention, including incidental costs which, in the case of financial instruments, are amortised by applying the effective interest method. The following assets and liabilities

are carried at fair value: derivatives, financial instruments held for trading purposes, available-for-sale financial assets, financial instruments forming part of fair value hedges and investment property. Non-current assets held for sale and groups of assets which are to be disposed of (disposal groups) are measured at the lower of carrying amount and fair value less selling costs. Accrued interest on amounts receivable and payable, unless otherwise stated in the notes to the item concerned, is included in either prepayments and accrued income or accruals and deferred income.

Foreign currency

Transactions denominated in foreign currencies are converted into euros at the spot rates on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into euros at the spot rates on the balance sheet date. Translation differences are recognised in the profit and loss account.

Fair value

For financial instruments traded on regulated financial markets, the fair value is based on quoted prices, taking the bid price in the case of assets and the offer price in the case of liabilities. The fair value of financial instruments without a quoted market price is measured on the basis of the present value of the expected cash flows, internal and external valuation models, the market value of similar instruments or bid prices quoted by stockbrokers. Where net present value methods are used, the estimated future cash flows are based on the best estimates of the management and the discount rate applied is a market rate for a similar instrument on the balance sheet date. Where other valuation models are used, market-derived figures provide the data for the model. Financial instruments whose fair value cannot be measured reliably are recognised at cost less any impairment.

Only if there are clear indications that, for example, the transaction price differs from that observable for similar current market transactions or based on a valuation model using objectively observable data, are results recognised ab initio on the financial instrument concerned.

Impairment

An assessment is made on the balance sheet date to ascertain whether there are objective external or internal indications of impairment of particular financial assets. Objective indications include such things as a drastic deterioration in the market or significant financial difficulties affecting a particular debtor. In

the case of financial assets that are measured at amortised cost, including loans and advances, if the assessment reveals such indications, the present value of the amount of any impairment is arrived at by discounting the expected future cash flows, including expected payments under the terms of guarantees or security provided, using the original effective interest rate, and the amount thus calculated is recognised as impairment of loans and advances in the profit and loss account. Impairment losses are individually assessed in the first instance. In addition to these specific provisions, a general provision is made for the entire portfolio in respect of impairment losses that are not individually calculated but which may be presumed to exist as at balance sheet date on the basis of experience and general or economic trends. For the purposes of the assessment at portfolio level, the assets are grouped on the basis of similar credit characteristics. These characteristics are relevant in estimating the expected future cash flows for portfolios of assets because they are indicative of debtors' ability to meet their contractual obligations in full. The impairment test is performed on portfolios of financial assets at portfolio level on the basis of contractually agreed cash flows and historical experience with respect to bad debts on assets with similar credit characteristics. The historical experience is adjusted for recently observed trends in order to take account of current market conditions that are not yet reflected in the historical record and to eliminate the effects of conditions that are no longer relevant.

In the case of other assets, an annual assessment is made for indications of impairment and an impairment test is performed if such indications exist. Regardless of the existence of indications of possible impairment, the carrying amount of goodwill and intangible assets not yet in use is systematically tested for impairment at least once a year. An impairment loss is recognised if the carrying amount of an asset is higher than the recoverable amount, which is the higher of an asset's net selling price (the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal) and its value in use.

Cash

Classified as cash are cash in hand, demand deposits with De Nederlandsche Bank N.V. and the net amount of demand deposits with banks (assets and liabilities). Composite transactions are recognised at the net amount.

Banks and loans and advances

Both banks (assets) and loans and advances are classified as

loans and receivables. These items are measured at amortised cost, using the effective interest rate method and allowing for impairment where necessary.

Interest-bearing securities and shares

The investment portfolios of interest-bearing securities and shares are treated as available for sale. On first recognition in the balance sheet, these securities are measured at cost, including transaction costs. Subsequently they are carried at fair value, with fair value gains and losses accounted for in equity (until such time as the asset is sold or becomes impaired). Realised results on sale are taken to the profit and loss account. Preference shares are carried at amortised cost. The trading portfolios of interest-bearing securities and shares are treated as being held for trading. The assets are initially recognised at cost and subsequently carried at fair value. All realised and unrealised gains and losses are taken to the profit and loss account.

Interest on the interest-bearing securities classed as available for sale is presented as interest income in the profit and loss account, and is calculated on the basis of the effective interest rate. Dividends on investment portfolio shares are presented in the profit and loss account as income from securities and associates while dividends on trading portfolio shares are presented as results on financial transactions. Dividends are recognised from the date on which they are made payable. Both the trading portfolios and the investment portfolios of interest-bearing securities and shares are presented in the balance sheet in other financial assets.

Derivatives and hedge accounting

Friesland Bank makes use of derivatives to hedge interest rate, exchange rate and credit risks and for other risk management purposes. Derivatives are measured at cost on initial recognition in the balance sheet. Subsequently they are carried at fair value, with fair value gains and losses netted off under the heading of impairment of financial instruments in the profit and loss account. Derivatives on which there are fair value gains (positive market value) are carried as assets in the balance sheet (included in other financial assets) and those with fair value losses (negative market value) are carried as liabilities (included in financial liabilities).

Hedge accounting is used for some of the derivatives. In fair value hedge accounting, the fair value gains and losses depending on the risks affecting specific assets or liabilities together with the fair value gains and losses on the derivative

contract itself are accounted for in the profit and loss account. In cash flow hedge accounting, fair value gains and losses on the instrument, provided the hedge is highly effective, are not recognised in the profit and loss account but are instead accounted for in equity until such time as the hedged item affects the profit and loss account. Hedge accounting is only applied if the documentation requirements concerning the hedging relationship are satisfied (including the risk management objective and strategy, the date of inception of the hedge, identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness will be assessed) and if the hedge is determined actually to have been highly effective. Hedge accounting is discontinued as soon as the hedging instrument expires, is exercised or is sold or the hedge no longer satisfies the conditions, the forecast transaction is no longer expected to occur or if the designation of a hedging relationship is revoked. Not all economically effective hedges qualify for hedge accounting.

Investments in subsidiaries and associates, and private equity investments

The presentation of investments in subsidiaries and associates and interests in joint ventures (i.e. the bank's strategic investments in the share capital of other companies) and private equity investments (i.e. those connected with the bank's venture capital operations) depends on the extent to which the bank is able to influence policy decisions. Investments where the bank's influence is decisive (generally interests of more than 50%) are consolidated. Investments where the bank's influence is significant (generally interests of between 20% and 50%) are accounted for by applying the equity method, i.e. they are initially recognised at cost, with the carrying amount subsequently adjusted for the post-acquisition change in the bank's share of net assets of the investee, together with recognition of the bank's share in the results. Investments where the bank is able to exercise significant influence are presented in the balance sheet as investments in associates. Interests of less than 20% are treated as available-for-sale financial assets and carried at fair value adjusted through equity. These other investments are presented as other financial assets.

Intangible assets

All acquisitions are accounted for by applying the purchase method. Goodwill is recognised at cost and is not amortised on a systematic basis. However, each year, or more frequently if events or changes in circumstances indicate the need, a test is

performed to ascertain whether there has been any impairment as a result of structural changes in future cash flows. Negative goodwill arising on an acquisition is recognised immediately in the profit and loss account. Goodwill relating to unconsolidated investments in associates and private equity investments is included in the carrying amount of the various investments. Other goodwill is presented in the balance sheet as intangible assets. The other intangible assets (comprising purchased software or software developed in-house and purchased insurance portfolios) are carried at cost less accumulated amortisation and impairment losses. The amount of the amortisation charge recognised in the profit and loss account is calculated on the basis of the estimated useful life of the intangible assets concerned, unless they have an indefinite useful life. Amortisation of the other intangible assets commences as soon as the assets are ready for use. Their useful life is 3–10 years.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Straight-line depreciation is applied over the estimated economic life of the various assets, with the exception of land owned by the bank, which is treated as having an indefinite economic life. Residual values are periodically appraised.

The estimated useful lives are as follows:

- Buildings 10–33 years
- Technical installations 10–15 years
- Equipment 8–12 years
- Computer equipment 3–5 years

Assets held for sale

Immediately prior to classification as held for sale, the carrying amounts of the individual assets (and disposal groups of assets and liabilities) are updated in accordance with the applicable IFRS. The assets and disposal groups that are classified as held for sale are subsequently carried at the lower of carrying amount and fair value less selling costs. Impairment losses recognised on first classification as held for sale are accounted for in the profit and loss account.

Inventories

This item relates to the inventories of non-financial companies included in the consolidation as private equity investments and is measured at the lower of cost and net realisable value.

Provisions

Provisions are recognised when the bank, on balance sheet date, has a present obligation (legal or constructive) arising from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, the amount of the provisions is calculated by discounting the expected future cash flows using a pre-tax discount rate that reflects the current assessment of the time value of money and, where appropriate, the risks specific to the liability.

Post-employment benefit provisions

Friesland Bank operates a defined-benefit pension scheme. The net liability under defined-benefit plans is calculated separately for each plan by estimating the defined-benefit obligation that employees have accrued in consideration for their service in the reporting period and past periods. This defined-benefit obligation is discounted to arrive at the present value and the fair value of the plan assets is then deducted. The discount rate used is the yield on balance sheet date on bonds with a AAA credit rating and a maturity reflecting that of the liabilities. The calculation is performed by an accredited actuary using the projected unit credit method.

If the defined-benefit obligation under a plan is increased, the increased past-service cost is expensed on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the past service cost is recognised immediately in the profit and loss account. If the defined-benefit obligation under a plan is curtailed, the gains are immediately recognised as income in the profit and loss account.

Actuarial gains and losses arising on calculating the liability under a defined-benefit plan (not already recognised as net cumulative actuarial gains and losses) exceeding 10% of the higher of the present value of the defined-benefit obligation and the fair value of the plan assets are recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Actuarial gains and losses falling within the 10% corridor are not recognised.

Apart from pensions, other long-term employee benefits are also recognised in the balance sheet, such as those under long-service/jubilee benefit plans. There are no plan assets in the case of these components but the future benefits and benefit expense are discounted in the same way as for pensions.

Other provisions

The other provisions recognised in the balance sheet concern possible future liabilities to repay unearned commission on insurance business. The amount of these provisions is calculated on the basis of both historical data and future estimates.

Income

Income is recognised if it is probable that the economic benefits of transactions will flow to the Group and they can be reliably measured. Interest income and expense relating to financial instruments are accounted for in the profit and loss account using the effective interest method. Results on the sale of interest-bearing financial instruments are presented as results on financial transactions. Commission income and expense are recognised in the period to which they relate. Dividends are recognised from the date on which they are made payable.

Expenses

The staff costs and other administrative expenses are attributed to the year to which they relate.

Tax

The tax on the profit or loss for the year comprises the tax to be paid or received for the reporting period together with deferred tax assets and liabilities. Profits tax is included in the profit and loss account except where it relates to items recognised directly in equity, in which case the tax effect is accounted for in shareholders' equity. The tax is calculated on the basis of tax rates current or in practice already decided as at balance sheet date plus adjustments of current tax attributable to previous periods.

A provision for deferred tax liabilities is recognised, calculated according to the balance-sheet method based on temporary differences between the carrying amounts of assets and liabilities for reporting purposes and their respective tax bases. Deferred tax is not recognised for the following temporary differences: goodwill for which amortisation is not deductible for tax purposes, initial recognition of assets or liabilities affecting neither accounting profit nor taxable profit and differences relating to investments in subsidiaries where settlement is not expected to occur in the foreseeable future. The amount of the deferred tax provision is based on the manner in which the carrying amount of the assets and liabilities is expected to be realised or settled, applying tax rates current or in practice already decided as at balance sheet date.

The carrying amount of deferred tax assets is reviewed each year as at balance sheet date and reduced if it is no longer probable that sufficient taxable profits will be available in order to utilise all or part of the deferred tax assets.

Segment reporting

Friesland Bank primarily distinguishes the following business segments for internal performance measurement purposes: banking, private equity and banking associates (various strategic interests, including Van Lanschot N.V.). Because there is no specific financing of the individual business segments, interest has been attributed informally to the average invested capital on the basis of the return on the interest-bearing assets of the banking operations in order to calculate returns. There is no secondary segmentation along geographical lines since the business is conducted entirely in the Netherlands.

Future changes in reporting rules

With effect from 1 January 2007, the following reporting rules become applicable. Friesland Bank has elected not to adopt the new rules ahead of time. They are:

- IFRS 7 Financial Instruments: Disclosures. IFRS 7 adds a number of new disclosure requirements with respect to financial instruments on top of the existing requirements of IAS 32 and IAS 30. Among other things, IFRS 7 requires an entity to perform sensitivity analyses on different classes of financial instruments and to include a classified analysis where disclosure is required. The Group is currently engaged in analysing the impact this will have on the note relating to financial instruments.
- IAS 1 Amendment: Presentation of Financial Statements. The amendment relates to the disclosures concerning shareholders' equity arising out of IFRS 7. The note must enable the user of the financial statements to form a view of the objectives, the policy and the processes for managing shareholders' equity and should be primarily qualitative in nature. It does not require figures to be presented reflecting internal and external standards but an entity is required to quantify what it counts as shareholders' equity. The Group is required to state whether it has satisfied the minimum capital requirements stipulated by the regulator and what the sanctions would have been (or were) for failure to do so. The effect of this amendment is limited since a great deal of quantitative information is already disclosed and

the emphasis will therefore be on expanding the qualitative disclosures.

- IFRIC 8 Scope of IFRS 2. This interpretation addresses the issue of whether IFRS 2 (Share-Based Payments) applies to transactions in which the entity cannot identify specifically some or all of the goods or services received for which shares have been given/issued in payment. The Group is currently evaluating this interpretation but expects that its adoption, with effect from 1 January 2007, will not affect the Group's financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives. The consensus of this interpretation is that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, with subsequent reassessment only if there is a change in the terms of the contract that significantly modifies the cash flows. The Group is currently evaluating this interpretation but expects that its adoption, with effect from 1 January 2007, will not affect the Group's financial statements.

1.6 Notes to the consolidated balance sheet

(x € 1,000)

1. Cash

This item includes legal tender, including foreign currency banknotes and coins, as well as demand deposits with the central bank.

	2006	2005
This item is made up of:		
- Cash	10,041	13,281
- Deposits with the central bank	36,952	115,709
	46,993	128,990

2. Banks

Included in this item are all amounts receivable from banks in connection with the activities of the bank, regardless of form, except for securities.

	2006	2005
This item is made up of:		
- Demand deposits	78,231	67,603
- Time deposits	267	112,518
	78,498	180,121

No bad debt provisions have been made for the receivables under this heading.

3. Loans and advances

Included in this item are all amounts receivable in connection with the bank's activities, other than receivables from banks and in the form of securities.

	2006	2005
This item is made up of:		
- Loans and advances to the public sector	148,269	285,496
- Loans and advances to the private sector, personal customers	4,529,387	4,207,576
- Loans and advances to the private sector, business customers	2,688,772	2,635,358
- Bad debt provision	-95,255	-100,029
	7,271,173	7,028,401

This item includes receivables securitised by the bank amounting to €611.1 million (2005: €643.6 million). This concerns home mortgages, the beneficial ownership of which has been transferred to foundations Stichting Eleven Cities No. 1 and Stichting Eleven Cities No. 2. The credit risk on these loans is borne by the foundation concerned while the interest rate risk remains with Friesland Bank. The debt securities issued in connection with this securitisation are included under debt securities on the liabilities side of the balance sheet.

	2006	2005
The loans and advances to business customers can be analysed by sector as follows:		
- Agriculture	18%	16%
- Manufacturing and construction	9%	10%
- Commerce	7%	9%
- Business and financial services	51%	49%
- Other services	12%	12%
- Other	3%	4%
	100%	100%
	2006	2005
The loans and advances can be analysed according to type of security as follows:		
- Public sector guarantee	6%	7%
- Mortgage	52%	50%
- Other security (including unsecured)	42%	43%
	100%	100%
	2006	2005
Movements in the bad debt provision were as follows:		
Opening balance	100,029	104,970
- IFRS changes	-	1,587
- Write-offs	-5,582	-17,080
- Releases	-25,055	-15,560
- Additions	25,863	26,486
- Consolidation effects	-	-374
Closing balance	95,255	100,029
	2006	2005
The bad debt provision concerns:		
- Loans and advances to personal customers	11,996	7,212
- Loans and advances to business customers	82,002	84,561
- General lending portfolio provision	1,257	8,256
	2006	2005
The loans and advances on which impairment losses have been recognised are made up as follows:		
- Loans and advances with impairment, gross	240,477	230,756
- Secured amount	148,018	129,308
- Loans and advances with impairment, net	92,459	101,448
- Bad debt provision	93,998	91,773
	-1,539	9,675

The amount of non-performing loans and advances (these are loans and advances on which interest has ceased to be recognised) is €49.4 million (2005: €49.2 million). That part of the bad debt provision which relates to non-performing loans is €38.3 million (2005: €37.1 million). The amount of interest income accrued in respect of loans and advances for which a provision has been recognised is nil since interest is accounted for on customers' current accounts on the settlement date and therefore forms an integral part of the lending exposure.

4. Other financial assets

Included in this item are the trading (held-for-trading) and investment (available-for-sale) portfolios of interest-bearing securities and non-interest-bearing securities (such as shares and private equity investments) and derivatives with fair value gains.

The item is made up of:

	Listed	Unlisted	Total 2006	Listed	Unlisted	Total 2005
Bonds held for trading	-	-	-	-	-	-
Shares held for trading	1,680	-	1,680	2,238	-	2,238
Bonds available for sale / preference shares	383,571	675,447	1,059,018	444,558	463,091	907,649
Shares available for sale	57,348	25,790	83,138	32,269	14,179	46,448
Private equity investments available for sale	7,824	68,434	76,258	19,580	85,602	105,182
Derivatives	-	18,952	18,952	-	30,920	30,920
	450,423	788,623	1,239,046	498,645	593,792	1,092,437

2006 **2005**

The analysis of the other financial assets by issuer is as follows:

- Public sector	617,263	586,214
- Private sector	621,783	506,223

2006 **2005**

Movements in the bonds available for sale / preference shares were as follows:

Opening balance	907,649	1,063,596
- IFRS changes	-	17,928
- Purchases	612,555	186,723
- Sales	-347,831	-245,439
- Redemptions	-103,667	-121,135
- Revaluation	-6,020	5,976
- Impairment	-3,668	-

Closing balance	1,059,018	907,649
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2006 **2005**

Movements in the shares available for sale were as follows:

Opening balance	46,448	39,322
- Purchases	64,251	4,049
- Sales	-36,116	-7,166
- Revaluation	8,445	10,243
- Impairment	110	-

Closing balance	83,138	46,448
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	2006	2005
Movements in the private equity investments available for sale were as follows:		
Opening balance	105,182	88,557
- Purchases	1,473	5,925
- Sales	-32,368	-564
- Revaluation	3,089	14,854
- Impairment	-1,118	-3,590
	<hr/>	<hr/>
Closing balance	76,258	105,182

The following table analyses the unrealised gains and losses which have not yet been recognised in the profit and loss account:

2006	Fair value	Gains	Losses	Gross	Tax	Net
Bonds	1,059,018	8,793	-	8,793	2,240	6,553
Shares	83,138	16,466	322	16,144	1,994	14,150
Private equity investments	76,258	17,465	-	17,465	59	17,406
Derivatives	18,952	3,048	-	3,048	777	2,270
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,237,366	45,772	322	45,450	5,070	40,380
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
2005	Fair value	Gains	Losses	Gross	Tax	Net
Bonds	907,649	14,606	-	14,606	4,250	10,356
Shares	46,448	7,121	-	7,121	2,072	5,049
Private equity investments	105,182	19,969	-	19,969	-	19,969
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,059,279	41,696	-	41,696	6,322	35,374

Unrealised losses which have not been recognised in the profit and loss account are treated as temporary diminutions in value. No provision is made for bad debts in respect of items included under this heading.

5. Investments in associates

Included in this item are strategic investments in the share capital of entities over which the bank has significant influence.

	2006	2005
The item concerns:		
Investments in credit institutions	340,306	304,155
Private equity investments	60,904	62,862
Private equity investments in non-financial companies included in the consolidation	4,962	-
Other investments in associates	11,362	10,206
	<hr/>	<hr/>
	417,534	377,223

	2006	2005
Movements in this item were as follows:		
Opening balance	377,223	319,586
- Acquisitions	55,312	21,185
- Disposals	-46,783	-7,599
- Share in results	67,083	57,821
- Revaluation	-3,774	10,595
- Dividends	-26,403	-18,176
- Impairment	-5,124	-6,189
Closing balance	417,534	377,223

	2006	2005
The analysis according to marketability is as follows:		
- Listed	100,925	90,150
- Unlisted	316,609	287,073

The market capitalisation of the listed associates is €195.8 million (2005: €175.8 million).

	2006	2005
The carrying amount of the investments in associates (not adjusted for the Group's percentage interest) shows the following picture (x € billion)		
-Total assets	20.2	19.2
-Total liabilities	18.6	17.6

The Group's share in the net profits amounts to €65.0 million.

6. Intangible assets

This item is made up of capitalised goodwill on investments in entities included in the consolidation and other intangible assets such as software and purchased insurance portfolios.

	2006	2005
The item concerns:		
- Goodwill	24,188	1,996
- Software	3,356	2,546
- Insurance portfolios	926	1,441
	28,470	5,983

Movements in this item were as follows:

	Good- will	Other assets	Total 2006	Good- will	Other assets	Total 2005
Opening balance	1,996	3,987	5,983	667	1,206	1,873
- Purchases	22,192	2,719	24,911	1,385	2,880	4,265
- Amortisation	-	-2,433	-2,433	-16	-99	-115
- Consolidation effects	-	9	9	-40	-	-40
Closing balance	24,188	4,282	28,470	1,996	3,987	5,983
Cumulative cost	24,188	6,808	30,996	1,996	4,086	6,082
Cumulative amortisation	-	2,526	2,526	-	99	99

No impairment losses have been recognised in respect of items presented under this heading.

7. Property, plant and equipment

Included in this item are buildings and land, machinery and installations and other assets such as technical and office equipment.

Movements in this item were as follows:

	Property	Other assets	Total 2006	Property	Other assets	Total 2005
Opening balance	81,183	20,115	101,298	82,886	16,502	99,388
- Investments	2,851	5,418	8,269	2,099	9,404	11,503
- Disposals	-220	-2,485	-2,705	-	-7	-7
- Depreciation	-4,738	-6,306	-11,044	-4,025	-6,481	-10,506
- Reclassification	-2,463	-	-2,463	-	-	-
- Other movements (including consolidation changes)	-4,949	-2,744	-7,693	223	697	920
Closing balance	71,664	13,998	85,662	81,183	20,115	101,298
Cumulative cost	110,911	65,596	176,507	122,081	70,641	192,722
Cumulative depreciation	39,247	51,598	90,845	40,898	50,526	91,424

8. Assets held for sale

This concerns assets which it is intended to sell in the short term.

	2006	2005
The item is made up of:		
- Investments in associates	-	-
- Property	6,963	4,500
	6,963	4,500

9. Tax

Included in this item are current and deferred tax assets and liabilities.

	2006	2005
The net amount of the total tax assets and liabilities after deduction of impairments is made up of:		
- Net current tax assets and liabilities	6,160	10,111
- Net deferred tax assets and liabilities	67,182	73,755
	73,342	83,866

Current tax assets and liabilities

	2006	2005
- Current tax assets	6,160	10,111
- Current tax liabilities	-	-
	6,160	10,111

	2006	2005
Opening balance	10,111	15,126
Settled with the tax authorities	-4,301	-10,845
Adjustments in respect of finalised assessments for preceding years	-1,031	4,360
Movements in the year	1,381	1,470
	6,160	10,111

The deferred tax assets and liabilities have been computed at a corporation tax rate of 25.5% (2005: 29.1%), as the most recently enacted rate of corporation tax. The deferred tax assets are recognised in the balance sheet to the extent that it will probably be possible to set them against tax on future results. An impairment of €8.9 million was recognised in the year (2005: €7.6 million), in 2006 relating entirely to the change in the rate of corporation tax (2005: €5.0 million).

The deferred tax assets and liabilities can be attributed as follows:

	Assets		Liabilities		Total	
	2006	2005	2006	2005	2006	2005
Goodwill	7,650	-	-	-	7,650	-
Loans and advances	21,104	22,754	-	-	21,104	22,754
Interest-bearing securities	-	-	-	6,891	-	-6,891
Shares available for sale	-	-	225	922	-225	-922
Derivatives	9,562	9,047	-	-	9,562	9,047
Investments in associates	112	-	-	-	112	-
Property	-	-	362	3,194	-362	-3,194
Pensions	21,294	20,025	-	-	21,294	20,025
Provisions	1,020	-	-	-	1,020	-
Deferred liquidation losses	2,158	2,643	-	-	2,158	2,643
Tax loss carryforwards	4,894	30,415	-	-	4,894	30,415
Other	-	-	25	122	-25	-122
	67,794	84,884	612	11,129	67,182	73,755
Netting of tax assets and liabilities within the tax group	-612	-9,054	-612	-9,054	-	-
Total	67,182	75,830	-	2,075	67,182	73,755

The total amount of tax assets recognised directly in equity during the year was €1.4 million (2005: €0.0 million), relating entirely to fair value gains and losses on shares and bonds and on the cash flow hedges recognised directly in equity and presented as other equity components.

10. Inventories

This concerns the inventories of the non-financial companies included in the consolidation as private equity investments.

11. Trade receivables

This concerns the trade receivables of the non-financial companies included in the consolidation as private equity investments.

12. Other assets

This concerns all other assets which cannot be classified in any of the other asset categories.

13. Prepayments and accrued income

This concerns advance payments of expenses, accrued interest and other amounts receivable but not yet invoiced.

	2006	2005
The item is made up of:		
- Accrued interest	33,942	33,719
- Other amounts	671	1,141
	<hr/> 34,613	<hr/> 34,860

14. Banks

Included in this item are all amounts owed to banks in connection with the activities of the bank except the liabilities in the form of debt securities and subordinated liabilities.

	2006	2005
The item is made up of:		
- Demand deposits	771	431
- Time deposits	264,713	335,795
	<hr/> 265,484	<hr/> 336,226

15. Funds entrusted

Included in this item are all amounts owed in connection with the activities of the bank except for amounts owed to banks, liabilities in the form of debt securities and subordinated liabilities.

	2006	2005
The item is made up of:		
- Savings accounts	2,088,110	1,979,325
- Other funds entrusted	2,916,922	3,100,268
	<hr/> 5,005,032	<hr/> 5,079,593

16. Debt securities

Included in this item are bonds, medium-term notes and other debt securities. Also included here are the Class A, B and C notes issued in connection with the securitisation programme. These listed notes have been issued by Stichting Eleven Cities No. 1 and Stichting Eleven Cities No. 2. Security has been provided for these notes in the form of home mortgages.

	2006	2005
The item is made up of:		
1997 5.75% debenture loan 2007	114,504	118,174
1998 5.25% debenture loan 2008	137,393	140,403
Medium-term notes	1,620,000	1,270,000
Senior Class A notes	592,829	634,155
Mezzanine Class B notes	35,000	35,000
Junior Class C notes	10,500	10,500
Other debt securities	3,015	1,343
	2,513,241	2,209,575

17. Financial liabilities

Included in this item are the derivatives on which there are fair value losses.

18. Other liabilities

This item comprises those liabilities which cannot be classified under any of the other liabilities headings, including funds transfer items not yet cleared and other liabilities of companies included in the consolidation as private equity investments.

	2006	2005
The item is made up of:		
- Banking liabilities	79,582	54,731
- Other liabilities of non-financial companies included as private equity investments	40,969	33,826
	120,551	88,557

19. Accruals and deferred income

This concerns amounts received in advance, accrued interest and other amounts payable.

	2006	2005
The item is made up of:		
- Accrued interest	111,253	103,914
- Other amounts	8,122	11,313
	119,375	115,227

20. Provisions

	2006	2005
The item is made up of:		
- Pensions	39,651	42,846
- Other provisions	2,697	3,519
	42,348	46,365

Friesland Bank offers various pension schemes to its employees, covered by a plan giving defined retirement benefits of 70% of final pay or average pay. Prior to 1 January 2006, the defined retirement benefit became payable as from age 60, 62 or 65, depending on circumstances, but now becomes payable universally from age 65, in connection with changes in the law (Wet VPL – Early Retirement (Adjustment of Tax Treatment) and Life-Course Savings Schemes Act). This change has resulted in the release of €12.1 million from the pension liabilities. Group pension policies have been taken out with insurance companies on behalf of the employees. The following tables present the defined-benefit obligation and the fair value of the plan assets. The plan assets are made up of 69.2% fixed-income securities (2005: 71.6%), 30.8% equities (2005: 28.4%) and 0% cash (2005: 0%).

	2006	2005
In calculating the amount of the pension provision, the following principal assumptions have been used:		
- Discount rate	4.25%	3.75%
- Expected pay rises (corrected for inflation)	2.50%	2.50%
- Expected return on plan assets/technical reserves of insurance companies	4.50%	4.50%
- Expected benefit increases	2.00%	2.00%

These percentages are based on long-term expectations. The expected return on plan assets/technical reserves is the weighted average of the expected returns based on the investment strategy.

Movements in the pension provision were as follows (in millions of euros):

2006	Benefit obligation	Plan assets	Corridor	Total 2006
Opening balance	276.8	184.0	50.0	42.8
- Current service cost	10.2	-	-	10.2
- Released in connection with increase in pensionable age	-12.1	-	-	-12.1
- Interest cost on benefit obligation / return on plan assets	10.3	8.5	-	1.8
- Employer's contributions for current year of service	-	8.6	-	-8.6
- Employees' contributions	-	0.2	-	-0.2
- Benefits paid	-5.4	-5.4	-	0.0
- Administrative expenses	-	-1.1	-	1.1
- Actuarial gains and losses	-51.6	1.3	-57.6	4.7
Closing balance	228.2	196.1	-7.6	39.7
2005	Benefit obligation	Plan assets	Corridor	Total 2005
Opening balance	230.8	166.5	26.3	38.0
- Current service cost	10.0	-	-	10.0
- Interest cost on benefit obligation / return on plan assets	10.1	7.7	-	2.4
- Employer's contributions for current year of service	-	9.2	-	-9.2
- Benefits paid	-4.8	-4.8	-	0.0
- Administrative expenses	-	-0.9	-	0.9
- Actuarial gains and losses	30.7	6.3	23.7	0.7
Closing balance	276.8	184.0	50.0	42.8

Longer-term review	2006	2005	2004
Benefit obligation	228.2	276.8	223.9
Plan assets	196.1	184.0	161.6
Deficit	32.1	92.8	62.3

Up to year-end 2006, a cumulative amount of €5.4 million had been recognised in the profit and loss account in respect of actuarial losses. Contribution payments for 2007 are expected to amount to €9.0 million.

The other provisions mainly relate to technical reserves of the insurance activities, particularly unearned premium reserves. Under the terms of insurance policies, there is a risk of having to refund premiums received if a contract is cancelled before it is due to expire. The amount of the provision is calculated on the basis of historical data.

	2006	2005
Movements in this item were as follows:		
Opening balance	3,519	3,207
- Added	810	352
- Utilised	-1,632	-40
Closing balance	2,697	3,519

21. Subordinated liabilities

The liabilities included in this item are subordinated to all current and future liabilities of Friesland Bank N.V.; premature or partial redemption is not possible. The average interest rate on the subordinated liabilities amounts to 5.3% (2005: 5.4%) and the average remaining term to maturity is 7.0 years (2005: 7.2 years).

22. Shareholders' equity and capital adequacy

The authorised capital of Friesland Bank N.V. comprises 150,000 ordinary shares of €450 nominal value. The issued share capital comprises 37,463 ordinary shares of €450. All the issued shares are held by Friesland Bank Holding N.V., whose ordinary shares are in turn almost entirely held by Vereniging Friesland Bank. There were no movements in the issued and paid-up capital during the year.

In November 2004, Friesland Bank issued Perpetual Capital Securities. This concerns a 'perpetual' bond loan which is listed on Euronext. With the prior approval of the regulator, the loan may be redeemed at the bank's discretion at any time from 3 December 2014 onwards. The bonds are subordinated to all other existing and future liabilities of the bank. For capital adequacy testing purposes by De Nederlandsche Bank N.V., the bond loan is treated as core capital. The coupon of this bond loan is linked to the yield on Dutch State Loans with a maturity of 10 years plus a margin of 0.125 percentage points, but subject to a maximum rate of 8%. The interest rate will be reviewed each quarter. Payment of interest will be mandatorily suspended if such payment would cause the capital ratio to fall below the minimum requirement stipulated by the regulator. The bank may also resolve to suspend interest payments.

	2006	2005
The composition of the shareholders' equity is as follows:		
- Issued and paid-up capital	16,858	16,858
- Share premium reserve	76,319	76,319
- Perpetual Capital Securities	125,000	125,000
- Revaluation reserve	59,095	60,722
- Other statutory reserves and reserves pursuant to articles	129,804	99,357
- Other equity components	2,270	-
- Other reserves	391,315	349,551
- Result for the year	106,871	76,725
- Interim dividend	-74,515	-4,514
- Third-party interests	23,674	19,787
	856,691	819,805

	2006	2005
Movements in the shareholders' equity of Friesland Bank N.V. were:		
Opening balance	819,805	715,740
- IFRS changes	-	5,699
- Result for the year	106,871	76,725
- Dividend	-74,515	-7,865
- Revaluation	643	28,133
- Third-party interests	3,887	1,373
Closing balance	856,691	819,805

For full details of the movements in shareholders' equity, see the statement of changes in equity on page 21.

Nature and purpose of reserves:

Share premium reserve: this comprises the amounts received in excess of the nominal value at the time of issuing shares.

Revaluation reserve: this reserve is made up of fair value gains and losses on available-for-sale assets and investments in associates, less the associated deferred tax liabilities.

Other equity components: this comprises that proportion of the fair value gains and losses on cash flow hedging instruments where the hedge is determined actually to have been highly effective.

Statutory reserves and reserves pursuant to articles: this comprises the statutory reserve for the undistributed profits of associates and the redenomination reserve.

Other reserves: these are made up of the profits added to equity in the past, less declared dividends.

Comprehensive income

The statement of comprehensive income presents all the movements in shareholders' equity during the year except for transactions with shareholders such as increases in the share capital and payment of dividends.

	2006	2005
Comprehensive income is made up of:		
- Net profit	106,871	76,725
- Revaluation	643	28,133
Total comprehensive income	107,514	104,858

Capital adequacy

De Nederlandsche Bank N.V. has laid down standards for the ratios of core capital and total capital to risk-weighted assets. The minimum requirements are 4% for core capital and 8% for total capital. The table below presents actual capital compared with the minimum required.

	Minimum 2006	Actual 2006	Minimum 2005	Actual 2005
Core capital	221,741	729,734	216,739	723,615
Core capital ratio	4.0%	13.2%	4.0%	13.4%
Total capital	443,481	729,734	433,478	723,615
Total capital ratio	8.0%	13.2%	8.0%	13.4%

The risk-weighted assets were as follows:

Credit equivalents	Unweighted 2006	Weighted 2006	Unweighted 2005	Weighted 2005
- 0% risk weighting	1,359,591	-	1,264,061	-
- 20% risk weighting	214,201	42,840	340,717	68,143
- 50% risk weighting	2,724,698	1,362,349	2,516,415	1,258,208
- 100% risk weighting	4,060,137	4,060,137	4,033,770	4,033,770
Credit equivalent of weighted items		5,465,326		5,360,121
Other exposure of weighted items		78,191		58,351
Risk-weighted assets		5,543,517		5,418,472

	2006	2005
The actual own funds were made up as follows:		
- Issued and paid-up capital	16,858	16,858
- Share premium reserve	76,319	76,319
- Perpetual Capital Securities	125,000	125,000
- Statutory reserves and reserves pursuant to articles	129,804	99,357
- Other reserves	391,315	349,551
- Result for the year	106,871	76,725
- Dividend	-74,515	-7,282
- Third-party interests	-	9,883
- Deducted in respect of investments in and loans to banking associates	-41,918	-22,796
Core capital	729,734	723,615
- Qualifying subordinated liabilities	264,911	247,247
- Revaluation reserve	52,542	52,373
- Deducted in respect of investments in and loans to banking associates	-317,453	-299,620
Total actual own funds	729,734	723,615

Third-party interests

The third-party interests represent the interests of third parties in the shareholders' equity of consolidated investments in associates and private equity investments.

	2006	2005
This item is made up of:		
- Third-party interests in consolidated investments in associates	-	9,883
- Third-party interests in consolidated private equity investments	23,674	9,904
	23,674	19,787

1.7 Notes to the consolidated profit and loss account

(x € 1,000) **23. Interest**

Included in this item is all income and expense in the nature of interest arising out of the lending and borrowing of funds. Included in this item, too, is commission having the nature of interest such as arrangement fees and penalty fees.

	2006	2005
The item is made up of:		
- Interest income on cash, banks and loans and advances	331,118	342,567
- Interest income on other financial assets	32,099	43,086
Total interest income	363,217	385,653
- Interest expense on banks and funds entrusted	158,060	164,021
- Interest expense on debt securities	85,370	66,308
- Interest expense on subordinated liabilities	17,492	15,663
Total interest expense	260,922	245,992
Interest	102,295	139,661

24. Income from securities and associates

Included in this item is the income relating to investments in share capital that are classified as available for sale and investments accounted for by applying the equity method. In the balance sheet, the investments concerned are presented in other financial assets and investments in associates, respectively. The item can be analysed as follows:

	Banking associates	Private equity	Banking operations	Total 2006	Total 2005
Investments classified as available for sale:					
- Dividends	2,198	2,882	925	6,005	13,086
- Results on disposal	7,893	16,432	3,446	27,771	34,718
	10,091	19,314	4,371	33,776	47,804
Equity-method investments:					
- Share in results	51,929	20,010	1,662	73,601	57,789
- Results on disposal	11,725	7,494	-	19,219	3,194
	63,654	27,504	1,662	92,820	60,983
Consolidation effects	-	-5,061	-	-5,061	-
Total	73,745	41,757	6,033	121,535	108,787

25. Commission

Included in this item is the income earned by providing services relating to inland and foreign funds transfer, securities and insurance. The commission expense is a minor amount.

	2006	2005
The analysis of the commission is as follows:		
- Insurance	21,315	19,721
- Securities	7,796	6,940
- Funds transfer	5,125	5,210
- Other	958	484
	35,194	32,355

26. Results on financial transactions

Included in this item are the results on the sale of interest-bearing securities, the results on financial assets classified as held for trading, foreign exchange results and other trading income.

	2006	2005
The results on financial transactions are made up as follows:		
- Results on the sale of interest-bearing securities	1,157	9,164
- Results on the sale of derivatives	15,922	-
- Result on the securities trading portfolio	666	287
- Result on the foreign exchange trading portfolio	492	387
	18,237	9,838

27. Other income

Included in this item is all income which cannot be classified in any of the preceding items.

	2006	2005
The item is made up of:		
- Rents received	563	544
- Sundry other income	1,258	1,057
	1,821	1,601

28. Revenues of companies included as private equity investments

This concerns the revenues of the non-financial companies included in the consolidation as private equity investments.

29. Staff costs

	2006	2005
The analysis of the staff costs is:		
- Wages and salaries of the permanent staff (including bonuses)	51,229	47,325
- Contract staff	9,133	7,292
- Pension charges	7,268	13,962
- Social security charges	9,419	4,148
- Other staff costs	7,295	7,988
	84,344	80,715
- Staff costs of the non-financial companies included as private equity investments	11,608	16,629
	95,952	97,344

	2006	2005
The average number of employees on permanent contract during the year - expressed as full-time equivalents - was:		
Friesland Bank	765	747
FBA/Aecum	127	118
Bercoop Groep	76	79
Friesland Bank Investments	11	10
	979	954
Non-financial companies included as private equity investments	1,143	370
	2,122	1,324

	2006	2005
The net benefit expense is made up of (in millions of euros):		
- Current service cost	-1.9	10.0
- Interest cost on benefit obligation	10.3	10.1
- Return on plan assets	-8.5	-7.7
- Administration costs	1.1	0.9
- Actuarial gains and losses	4.7	0.7
- Compensation for effects of VPL Act	1.6	-
	7.3	14.0

30. Other administrative expenses

Included in this item are the other operating expenses such as costs of office supplies, premises costs, ICT costs, marketing costs and miscellaneous other expenses.

	2006	2005
The analysis of the other administrative expenses is:		
- Office supplies	7,818	7,775
- ICT costs	26,199	11,477
- Outsourced services	5,760	5,508
- Premises costs	5,237	4,858
- Marketing costs	6,411	5,018
- Miscellaneous expenses	8,602	9,230
	60,027	43,866
- Other administrative expenses and cost of sales of non-financial companies included as private equity investments	79,190	39,432
	139,217	83,298

31. Depreciation and amortisation

Included in this item is the depreciation charged on property, plant and equipment, together with amortisation of intangible assets.

	2006	2005
The item is made up of:		
- Depreciation of property etc.	3,738	3,678
- Depreciation of equipment	5,498	5,242
	9,236	8,920
- Amortisation of intangible assets	2,433	115
- Depreciation/amortisation recognised by non-financial companies included as private equity investments	808	1,586
	12,477	10,621

For further details, see the note to item 7.

32. Impairment of loans and advances

Included in this item are all adjustments to the value of receivables in respect of loans and advances.

	2006	2005
The item is made up of:		
- Movements in specific bad debt provisions	3,541	-1,581
- Movements in general portfolio provision	-6,999	-4,573
- Loans and advances written off	5,104	18,031
	1,646	11,877
- Impairment losses in connection with a new banking system	3,089	16,877
	4,735	28,754

33. Impairment of financial instruments

Included in this item are the fair value gains and losses on derivatives (not accounted for as a cash flow hedge) and those on hedged items where the fair value hedge is highly effective.

	2006	2005
The item is made up of:		
- Fair value gains and losses on derivatives	-12,013	40,845
- Fair value gains and losses on hedged items	2,579	-12,801
	-9,434	28,044

The Group uses hedge accounting for part of the derivatives portfolio and recognises both fair value hedges and cash flow hedges. Fair value hedges are used to minimise changes in the fair value of assets (generally bonds) or liabilities (generally long-term liabilities) as a result of interest rate movements. The Group has also contracted cash flow hedges on a number of debt securities. These debt securities were issued at a variable interest rate, which has since been fixed by means of an interest rate swap. No cash flow hedging gains or losses were recognised in 2006 since the hedges were entirely effective. The total value of the cash flow hedges is €5.7 million, and the hedged cash flows will occur in annual instalments over the period April 2007 to maturity in April 2013. The instruments used include interest rate swaps and futures.

The following hedge accounting fair value gains and losses have been recognised in the profit and loss account:

2006	Derivatives	Assets	Liabilities	Net
Interest rate swaps (cash flow hedge)	-	-	-	-
Interest rate swaps (fair value hedge)	-2,390	-5,140	8,474	944
Interest rate futures (fair value hedge)	4,199	-5,913	-	-1,714
	1,809	-11,053	8,474	-770

2005	Derivatives	Assets	Liabilities	Net
Interest rate swaps (fair value hedge)	-6,827	3,320	5,663	2,156
Interest rate futures (fair value hedge)	-5,459	3,818	-	-1,641
	-12,286	7,138	5,663	515

34. Impairment of financial assets

Classified under this heading are the impairment losses on investments in shares and in associates.

	2006	2005
This item is made up of:		
- Impairment of investments classified as available for sale	4,660	3,539
- Impairment of investments accounted for by applying the equity method	5,124	6,189
	9,784	9,728

35. Impairment of intangible assets and Property, Plant and Equipment

Classified under this heading are the impairment losses on intangible assets and property, plant and equipment.

	2006	2005
This item is made up of:		
- Impairment of intangible assets (software)	-	-
- Impairment of property, plant and equipment	3,035	-
	3,035	-

36. Tax

This item concerns the tax expense for the year on the operating result recognised in the profit and loss account. Calculation of the amount of tax takes account of tax-exempt profit components and non-deductible items.

	2006	2005
Tax expense for the year	2,187	15,404
Adjustments in respect of finalised assessments for preceding years	245	2,603
Adjustment of deferred tax to reflect lower tax rate	8,930	5,014
Movement in deferred tax asset relating to fair value gains and losses	-13,594	5,256
Movement in deferred tax asset relating to tax loss carryforwards	15,452	-20,239
	13,220	8,038

The average effective tax rate was 10.7% (2005: 8.3%). The applicable standard rate of tax was 29.6% (2005: 31.5%) and can be reconciled with the effective tax burden as follows:

	2006 €	2006 %	2005 €	2005 %
Operating result	123,904		96,428	
Tax based on standard tax rate	36,675	29.6	30,409	31.5
Tax-exempt profit by virtue of substantial-holding privilege	-31,651	-25.6	-28,567	29.6
Tax-deductible dividends on perpetual capital securities	-1,468	-1.2	-1,422	-1.5
Net non-deductible items	489	0.4	-	-
Tax payable for the year	4,045	3.2	420	0.4
Adjustment in respect of finalised assessments for preceding years	245	0.2	2,604	2.7
Adjustment of deferred tax to reflect lower tax rate	8,930	7.3	5,014	5.2
	13,220	10.7	8,038	8.3

37. Net profit attributable to third-party interests

Presented under this heading is the share of third parties in the profit for the period.

	2006	2005
The item is made up of:		
- Third-party interests in consolidated associates	198	10,960
- Third-party interests in non-financial companies included in the consolidation as private equity investments	3,615	705
	3,813	11,665

38. Net profit attributable to shareholders

Presented under this heading is the shareholders' share in the profit for the period.

	2006	2005
The item is made up of:		
- Attributable to holders of perpetual capital securities	4,789	4,541
- Attributable to holders of ordinary shares	102,082	72,184
	106,871	76,725

1.8 Additional disclosures

39. Segment information

The analysis of the figures according to business segment is as follows:

2006	Banking	Private equity	Banking associates	Total 2006
Interest	107,770	1,579	-7,054	102,295
Income from securities and associates	6,033	41,757	73,745	121,535
Other income	54,860	100,980	-	155,840
Operating income	168,663	144,316	66,691	379,670
Ordinary operating expenses	153,850	93,796	-	247,646
Ordinary operating result	14,813	50,520	66,691	132,024
Impairment losses	-1,538	9,658	-	8,120
Operating result	16,351	40,862	66,691	123,904
Of which attributable to financing interest ¹	12,094	-4,236	-7,858	-
Assets (in millions of euros)	8,661	275	411	9,347
As percentage of total assets	93%	3%	4%	100%
Investments in property, plant and equipment	6,971	1,298	-	8,269
Investments in the intangible assets	2,716	22,195	-	24,911
Depreciation of property, plant and equipment	10,238	806	-	11,044
Amortisation of intangible assets	2,433	-	-	2,433

¹ The financing interest is attributed on the basis of the average invested capital.

2005	Banking	Private equity	Banking associates	Total 2005
Interest	145,096	1,409	-6,844	139,661
Income from securities and associates	2,950	65,535	40,302	108,787
Other income	43,400	62,369	-	105,769
Operating income	191,446	129,313	33,458	354,217
Ordinary operating expenses	132,048	59,215	-	191,263
Ordinary operating result	59,398	70,098	33,458	162,954
Impairment losses	55,871	10,655	-	66,526
Operating result	3,527	59,443	33,458	96,428
Of which attributable to financing interest ¹	12,060	-4,045	-8,015	-
Assets (in millions of euros)	8,502	246	346	9,094
As percentage of total assets	93%	3%	4%	100%
Investments in property, plant and equipment	9,786	1,717	-	11,503
Investments in the intangible assets	2,880	1,385	-	4,265
Depreciation of property, plant and equipment	8,918	1,588	-	10,506
Amortisation of intangible assets	99	16	-	115

Intersegment revenue is not disclosed because there is none. Since there is also no specific financing of individual segments, liabilities are not separately disclosed either.

Of the total banking assets, €7.3 billion (2005: €7.0 billion) is accounted for by lending to customers, of which 62% (2005: 60%) relates to personal banking and 38% (2005: 40%) to corporate banking. Of the assets relating to the private equity activities, €199 million (2005: €194 million) is accounted for by the combined carrying amount of the private equity investments, with the remainder of the private equity assets relating specifically to the assets of the actual non-financial companies included in the consolidation as private equity investments. The assets of the banking associates represent the combined carrying amount of the investments concerned.

¹ The financing interest is attributed on the basis of the average invested capital.

40. Acquisitions and disposals of subsidiaries

	2006	2006	2006	2005	2005
	Banking	Private		Private	
	acquisition	equity	Disposals	equity	Disposals
		acquisition		acquisition	
Assets					
Cash	-	830	-	113	-
Loans and advances	-	-	-	-	-
Other financial assets	-	-	-	-	-
Investments in associates	9,883	24,853	-	-	-
Intangible assets	-	6,647	-	193	-
Property, plant and equipment	-	92	-	694	-
Inventories	-	1,917	-	3,611	-
Trade receivables	-	3,166	-	4,417	-
Other receivables	-	728	-	793	-
Total assets	9,883	38,232	-	9,821	-
Equity and liabilities					
Trade payables	-	784	-	2,495	-
Other current liabilities	-	573	-	3,431	-
Long-term liabilities	-	5,515	-	1,218	-
Provisions	-	1	-	-	-
Bank	-	2,206	-	-	-
Total equity and liabilities	-	9,079	-	7,144	-
Net assets	9,883	29,153	-	2,677	-
Goodwill	-	-	-	-	-
Purchase price/selling price	9,883	29,153	-	2,677	-
The price paid/price received comprises					
- shares (at fair value)	-	-	-	-	-
- cash	9,883	29,093	-	2,677	-
- acquisition costs	-	60	-	-	-
Total	9,883	29,153	-	2,677	-
Cash flows associated with acquisitions and disposals					
Cash in entity acquired/sold	-	830	-	113	-
Purchase price/selling price	-9,883	-29,153	-	-2,677	-
Net cash flow associated with acquisitions and disposals	-9,883	-28,323	-	-2,564	-
Revenues for the year	-	53,615	-	26,954	-
Profit/loss for the year	-	7,160	-	350	-
Contribution to Group results since acquisition date	-	4,355	-	239	-

The carrying amount of the companies taken over (in whole or in part) is not materially different from the fair value as presented in the above statement.

Bank

On 29 December 2006, Friesland Bank increased its interest in the financial institution Holding Bercoop Groep N.V. from 45% to 100% by purchasing the preference shares in issue. Bercoop Groep results have been entirely attributable to Friesland Bank since the original acquisition in 2004.

Private equity investments

Name of acquired company	Transaction date	Interest acquired	Goodwill	Activity
King Nuts	19-05-2006	55%	-	Food industry
Aandelenbeurs Fritom	10-05-2006	100%	-	Transport
Houdstermij. Preferente Aandelen NDC	03-01-2006	51%	-	Printing industry

The price paid for the private equity investments was entirely attributable to the identifiable assets, liabilities and contingent liabilities as at the date of acquisition, so that no goodwill has been recognised.

41. Risk management

General

An important aspect of banking is the management of risk. Risk exposure is carefully considered and continuously monitored. The primary object of risk management is to protect the bank's financial soundness.

General coordination of the risk management activities is the responsibility of the Risk Management Officer, who reports to the Chief Financial Officer. The activities are based on the general principles of Enterprise Risk Management – COSO II. Various bodies within the bank are concerned with risk management, with a distinction being made according to the formulation of policy, policy implementation, monitoring of results and control. Policy implementation is the responsibility of five committees, each made up of senior management, including both line and functional managers, together with one or more members of the Board of Management.

The separate committees are:

- Lending Policy Committee: this committee is concerned with credit risks and operating risks. The committee meets once every six weeks.
- Asset & Liability Committee: this committee is concerned with market, interest rate and liquidity risks. The committee meets once a month.
- Legislation and Regulation Committee: this committee is concerned with integrity risks, legal risks and compliance risks. The committee meets twice a month.
- Product Scan Committee: this committee is concerned with product-specific risks relating to existing and new products. The committee meets once every three weeks.
- Business Continuity Committee: this committee is concerned with the continuity risk. In that context, it considers exceptional events with a potential impact on the bank. The committee meets once every six weeks.

Basel II

As expected, the Basel II Accord has been translated into Dutch law and became effective on 1 January 2007. Friesland Bank opted in 2005 to apply the Foundation IRB Approach for credit risks and the Standardised Approach for market and operating risks. The necessary measures will be implemented in stages. Friesland Bank will be reporting on the basis of Foundation IRB with effect from 2010. In the interim (commencing 1 January 2008), the Standardised Approach will also be adopted for credit risks.

2006 saw the completion of a central databank. Risk models for personal banking customers and corporate clients have also been developed and applied. The 'use test' has been implemented with

effect from 1 January 2007. External validation of the risk models has been entrusted to Groningen University (RuG).

A start was made in 2006 with the development of models for calculating economic capital, as well as with the organisation of the related process connected with capital adequacy testing (ICAAP). Calculating the economic capital enables the bank to make a systematic calculation of the appropriate risk mark-up for inclusion in banking charges.

Credit risk

Friesland Bank pursues a conservative and prudent credit risk policy. Implementation of this policy is the responsibility of the Credit Committee, which meets on a weekly basis. Important risk management tools include analysis of economic sectors, assessment of the quality of debtors relative to the facilities provided and measurement of the spread of exposure within and between economic sectors.

The facilities provided by the bank for its clients on the basis of strictly defined criteria consist primarily of overdrafts and loans and to a lesser extent risk-bearing capital, such as shares (including cumulative preference shares) and private equity investments. Some of the shares in the portfolio are listed.

There is a rigorous approval procedure for loans and advances. A distinction is made between personal and corporate lending. Approval of personal credit facilities is based on income and net worth, while approval of corporate lending is based on the client's market sector, management quality, cash flow, capital ratio and collateral. An internal system of credit rating is used in both cases. The ratings are reviewed annually.

Credit risk is measured in terms of risk-weighted assets, which increased by €395 million (7%) to €5,5 billion in 2006. Risks are minimised by ensuring good diversification across sectors. In 2006, the reported growth was distributed evenly across the sectors. The bulk of the bank's lending is to debtors within its operating area.

The following table shows the maximum credit risk for the various components of the balance sheet, including derivatives. The maximum credit risk is shown gross, i.e. without taking account of the moderating effect (on the credit risk) obtained from the assets provided as security. The amount of the financial instruments presented in this table at fair value represents the existing credit risk but not the maximum potential future risk due to changes in fair value.

	Note	Maximum gross credit risk 2006	Maximum gross credit risk 2005
Deposits with the central bank	1	36,952	115,709
Receivables from banks	2	78,498	180,121
Loans and advances	3	7,271,173	7,028,401
Other financial assets	4	1,239,046	1,092,437
Current tax	9	6,160	10,111
Trade receivables	11	17,840	16,161
Other assets	12	32,012	24,109
Prepayments and accrued income	13	34,613	34,860
Subtotal		8,716,294	8,501,909
Contingent liabilities	46	69,840	69,682
Irrevocable facilities	46	704,849	855,168
Total credit risk		9,490,983	9,426,759

Market risk

Market risk comprises interest rate risk, price risk and currency risk. The bank's market risk policy focuses mainly on controlling interest rate risk. Price risk and currency risk are low, and the trading portfolio is subject to 'de Minimis' limits. Interest rate risk is inherent to the loan portfolio, the investment portfolio and the funds entrusted. The investment portfolio consists predominantly of loans issued by public authorities. Interest rate derivatives are used almost exclusively as hedges in balance sheet management. The potential effect of interest rate movements on the bank's exposure is measured against the set limits on a regular basis. The market value of the portfolio, the duration of the shareholders' equity and earnings and value at risk are monitored closely.

The effective interest rates as at 31 December 2006 for financial assets and liabilities not measured at fair value were:

Assets	
Banks	3.3%
Loans and advances	4.8%
Liabilities	
Banks	4.9%
Funds entrusted	3.0%
Debt securities	3.9%
Subordinated liabilities	5.3%

On the basis of the positions as at year-end 2006 - other things being equal - a one-point rise in money market rates would reduce total interest income by €0.1 million over a full year. A one-point rise in long-term rates, however, would increase interest income by €3.5 million over a full year. A parallel one-point rise in the entire interest-rate curve would therefore increase total interest income by €3.4 million over a full year. The duration of the shareholders' equity as at year-end 2006 was a factor of 5.4, which means that a parallel one-point shift in the entire interest-rate curve would translate into a 5.4% movement in the market value of the portfolio. These computations are based on a gap analysis, ignoring all option elements except for premature redemption.

Liquidity risk

Liquidity risk is the risk of the bank being unable to meet its commitments in respect of withdrawals. Liquidity is closely monitored over time horizons of one week, one month and one year. The bank satisfies the standards set by De Nederlandsche Bank.

Compliance risk

Compliance risk concerns failure to comply with statutory and other rules and regulations and internal standards. The compliance organisation was greatly improved in 2006, making Friesland Bank better equipped to implement new laws and regulations and to monitor compliance with their requirements. During the year, these efforts concerned the Financial Services Act (WFD), the Professional Services (Identification) Act (WID) and the Customer Due Diligence (CDD) guideline among other requirements. Changes were made to processes, systems were implemented and staff were trained accordingly. Coming into force in 2007 is the Financial Supervision Act (WFT), which brings together most of the existing legislation governing supervision. In 2006, Friesland Bank made an analysis of the differences between the requirements of the new act and the existing situation. The relatively minor changes which the WFT introduces as far as Friesland Bank is concerned were implemented in the fourth quarter of 2006.

Operating risk

Operating risk concerns the risk of losses due to failures on the part of internal processes, systems and people as well as external events. The bank keeps operating risks to a minimum by raising risk awareness among the staff and adopting effective risk management measures, including segregation of the front and back offices, transaction confirmation and daily position assessment procedures plus stringent authorisation procedures for large transactions. Processes are subdivided into banking and support processes, with each process having a specific owner. Risk analyses are performed on behalf of these process owners. Identified risks are then duly assessed.

A Business Continuity Management project was undertaken in 2006. A Crisis Management Plan (CMP) committee was appointed and tasked with producing constantly updated risk/impact analyses, formulating crisis management policy and arranging staff training. The team is formed by representatives of the Compliance, Risk Management, ICT and Facilities Management Departments. The Crisis Management Team (CMT) has a slightly different composition and meets in the event of an actual crisis. The CMT will be supported in such circumstances by various teams, each responsible for implementing and monitoring a specific fallback procedure.

All the various precautions were unfortunately unable to prevent the Internet banking application from being out of operation for two weeks. Damage limitation for both customers and the bank was, however, made possible by workarounds. Permanent solutions to the problem, which will guarantee the availability and stability of Internet banking, were prepared and implemented during the year.

Information flow security was further improved, with the information security code used as reference. The necessary actions were decided for each process, and implemented by the process owner. A new system for automated system access control (role-based access) was introduced in 2006.

The ICT risk is limited by employing a standard ICT infrastructure and making adequate fallback provisions, in the form of multi-processor computers, a ring network configuration and duplicated backup and storage systems. Internal procedures are based partly on ITIL best practices.

42. Fair value of financial instruments

The fair value of a financial instrument is the amount for which it could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction. The fair values disclosed below are either based on market value or, if that is not possible, calculated by discounting the expected future cash flows. Where instruments are traded on an organised market, the quoted price gives a good indication of the fair value. In most cases, however, such quoted prices are not available and estimation methods have to be applied to arrive at the fair value. These methods are inherently subjective and rely on certain assumptions, including estimates of future cash flows and the discount rate applied. The estimated fair value at any particular point in time also depends on current circumstances. The information provided by different financial institutions about the fair values of financial instruments is therefore not always strictly comparable.

The fair value of the bonds, shares, private equity investments, investments in associates and derivatives with a stock market listing is measured on the basis of the quoted prices. This accounts for approximately 11% of the total. For the remaining balance sheet items, use is made of internal valuation models, and this accounts for approximately 89% of the total.

The following table presents both carrying amount and fair value for the various balance sheet items (in millions of euros):

	Carrying amount 2006	Fair value 2006	Difference 2006	Carrying amount 2005	Fair value 2005	Difference 2005
Assets						
Cash	47	47	-	129	129	-
Banks	78	78	-	180	180	-
Loans and advances	7,271	7,175	-96	7,028	7,097	69
Other financial assets	1,239	1,239	-	1,092	1,092	-
Investments in associates	417	781	364	377	671	294
Intangible assets	28	28	-	6	6	-
Property, plant and equipment	86	86	-	101	99	-2
Assets held for sale	7	7	-	5	5	-
Other assets, prepayments and accrued income	174	174	-	176	176	-
	9,347	9,615	268	9,094	9,455	361
	Carrying amount 2006	Fair value 2006	Difference 2006	Carrying amount 2005	Fair value 2005	Difference 2005
Liabilities						
Banks	265	273	8	336	330	-6
Funds entrusted	5,005	5,004	-1	5,080	5,107	27
Debt securities	2,513	2,519	6	2,210	2,219	9
Financial liabilities	51	51	-	62	62	-
Other liabilities	121	121	-	89	89	-
Accruals and deferred income	119	119	-	115	115	-
Provisions	42	42	-	46	46	-
Subordinated liabilities	373	386	13	334	360	26
	8,489	8,515	26	8,272	8,328	56
Assets minus liabilities	858	1,100	242	822	1,127	305

43. Analysis of assets and liabilities according to remaining term to maturity

Analysed below are a number of banking assets and liabilities, analysed according to remaining term to maturity (in millions of euros). The first table presents an analysis according to the maturity calendar and the second table an analysis according to the interest rate curve.

Maturity 2006	< 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	> 5 years	Total
Assets						
Banks	78	-	-	-	-	78
Loans and advances	1,125	227	223	627	5,069	7,271
Bonds	318	195	43	183	320	1,059
Liabilities						
Banks	12	23	70	128	33	266
Funds entrusted	2,034	750	766	995	460	5,005
Debt securities	7	150	116	740	1,500	2,513
Subordinated liabilities	5	-	35	117	216	373

Maturity 2005	< 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	> 5 years	Total
Assets						
Banks	68	111	1	-	-	180
Loans and advances	1,304	230	186	591	4,717	7,028
Bonds	248	42	31	270	317	908
Liabilities						
Banks	26	43	60	182	25	336
Funds entrusted	2,388	408	690	1,052	542	5,080
Debt securities	13	-	651	309	1,237	2,210
Subordinated liabilities	-	2	6	158	168	334

Interest rate 2006	Variable	< 1 year	1 year - 5 years	5 years - 10 years	10 years - 15 years	> 15 years	Total
Balance sheet items							
Assets	1,215	4,190	1,711	1,357	70	86	8,629
Liabilities	433	5,649	1,722	432	22	16	8,274
Net balance sheet items	782	-1,459	-11	925	48	70	355
Derivatives							
Long positions	8	1,090	194	184	14	21	1,511
Short positions	0	538	177	616	66	160	1,557
Net derivatives positions	8	552	17	-432	-52	-139	-46
Net total	790	-907	6	493	-4	-69	309

Interest rate 2005	Variable	< 1 year	1 year - 5 years	5 years - 10 years	10 years - 15 years	> 15 years	Total
Balance sheet items							
Assets	1,353	4,652	1,515	1,000	39	31	8,590
Liabilities	722	5,263	1,861	331	70	10	8,257
Net balance sheet items	631	-611	-346	669	-31	21	333
Derivatives							
Long positions	10	817	315	240	13	21	1,416
Short positions	0	671	179	385	23	125	1,383
Net derivatives positions	10	146	136	-145	-10	-104	33
Net total	641	-465	-210	524	-41	-83	366

44. Derivatives and hedge accounting

Derivatives are financial instruments taking the form of contracts whose value depends on one or more underlying assets, reference prices or indices. Examples of derivatives are forward exchange contracts, swaps, options and forward rate agreements. Transactions in derivatives are contracted by the bank to hedge interest rate risks and exchange risks on the bank's own positions and on behalf of clients. Amount, maturity and price derivative contracts are commonly agreed directly with a counterparty in the over-the-counter (OTC) market.

Apart from the market risk (risks due to movements in, for example, interest rates and exchange rates) there is also a credit risk where derivatives are concerned. The credit risk is determined by the possible losses in the event of default by a counterparty. The credit risk is measured by adding a percentage of the notional amount to the positive replacement value of the derivative contracts (depending on the term and nature of the contracts). Multiplying this unweighted credit equivalent by the counterparty risk (generally banks) then gives the weighted credit equivalent.

The derivatives positions can be analysed as follows (in millions of euros):

Year-end 2006	≤ 1 year	> 1 year - ≤ 5 years	> 5 years	Total	Positive market value	Negative market value
<i>Interest rate contracts</i>						
OTC, swaps	150	573	929	1,652	20	31
OTC, options	10	103	13	126	1	-
OTC, forwards	138	-	-	138	-	-
	298	676	942	1,916	21	31
<i>Foreign-exchange contracts</i>						
OTC, options	25	-	-	25	-	-
OTC, forwards	17	5	-	22	-	-
	42	5	-	47	-	-
<i>Share contracts</i>						
OTC, options	-	1	-	1	-	-
Exchange, options	-	-	-	-	-	-
	-	1	-	1	-	-
Total	340	682	942	1,964	21	31
Year-end 2005	≤ 1 year	> 1 year - ≤ 5 years	> 5 years	Total	Positive market value	Negative market value
<i>Interest rate contracts</i>						
OTC, swaps	159	482	624	1,265	27	58
OTC, options	10	78	2	90	-	-
OTC, forwards	94	-	-	94	-	-
	263	560	626	1,449	27	58
<i>Foreign-exchange contracts</i>						
OTC, options	35	-	-	35	-	-
OTC, forwards	36	1	-	37	-	-
	71	1	-	72	-	-
<i>Share contracts</i>						
OTC, options	-	1	-	1	-	-
Exchange, options	-	-	-	-	-	-
	-	1	-	1	-	-
Total	334	562	626	1,522	27	58

The credit equivalents can be analysed as follows (in millions of euros):

	Unweighted 2006	Weighted 2006	Unweighted 2005	Weighted 2005
Interest rate contracts	20	16	27	12
Foreign-exchange contracts	1	1	-	1
Equities contracts	-	-	-	-
	21	17	27	13

45. Foreign currency

The bank's policy is to hedge possible exchange risks by means of derivatives, including forward exchange contracts. The foreign currency positions were as follows (in millions of euros):

2006	Assets	Liabilities	Net	Derivatives	Position
US dollars	35.4	35.7	-0.3	1.2	0.9
Sterling	9.9	11.4	-1.5	1.4	-0.1
Japanese yen	0.0	0.0	0.0	0.0	0.0
Other	24.7	17.9	6.8	-6.7	0.1
	70.0	65.0	5.0	-4.1	0.9
2005	Assets	Liabilities	Net	Derivatives	Position
US dollars	54.7	43.2	11.5	-11.5	0.0
Sterling	10.1	11.4	-1.3	1.3	0.0
Japanese yen	0.5	0.5	0.0	0.0	0.0
Other	5.3	4.1	1.2	-1.1	0.1
	70.6	59.2	11.4	-11.3	0.1

46. Obligations and commitments not shown in the balance sheet

This includes contingent liabilities in respect of transactions where the bank has given guarantees for the liabilities of third parties together with irrevocable facilities which are potential credit risks, for example, unutilised overdraft facilities.

	2006	2005
Contingent liabilities in respect of guarantees etc.	64,145	59,534
Contingent liabilities in respect of irrevocable letters of credit	5,695	10,148
Contingent liabilities	69,840	69,682
Irrevocable facilities	704,849	855,168

A small number of lawsuits involving Friesland Bank N.V. are pending. On the basis of available information and on the strength of advice from legal counsel, the Board of Management does not expect the outcome of these lawsuits to have any material adverse effect on the financial position of Friesland Bank N.V. Provisions have been formed in respect of some of these lawsuits.

The commitments under long-term rental and lease contracts (specifically renting of premises and operating leases relating to motor vehicles) as at year-end amounted to:

- less than one year €2.1 million (2005: €2.1 million)
- between one and five years €3.5 million (2005: €5.5 million)
- longer than five years €0.0 million (2005: €0.1 million)

Charged to the result for the year in respect of long-term rental and lease contracts was an amount of €3.1 million (2005: €2.6 million).

During the year Friesland Bank did not commit itself to any investments in property, plant and equipment.

47. Collateral security

In connection with security provided for certain liabilities and off-balance-sheet contingent liabilities as well as in connection with transactions on financial markets, certain assets are not freely available. This concerns cash (€69.4 million) and other financial assets (€323.9 million).

48. Related party disclosures

To a certain extent, ordinary banking transactions such as lending and funds transfer - conducted on market terms and conditions - involve related parties.

	Banks assets	Loans and advances	Banks liabilities	Funds entrusted
Van Lanschot	4,650	-	3,500	-
Kempen & Co N.V.	60	-	-	-
Private equity interests	-	12,124	-	992
Friesland Bank Holding	-	-	-	4,605

No bad debt provisions have been recognised. The profit and loss account includes €0.9 million in respect of interest income and commission and €0.2 million in respect of expenses connected with related parties.

Within the Group, the Board of Management and the Supervisory Board are considered key management inasmuch as they determine operating and financial policy.

Board of Management

The conditions of employment of the members of the Board of Management are decided by the Supervisory Board on the recommendation of the Remuneration Committee. In addition to their basic salary, the members of the Board of Management receive a performance-related bonus depending on the achievement of certain targets. The pensionable salary of the members of the Board of Management is equal to 116% of their regular salary. The retirement age was changed in 2006 from 60 or 62 to 65 in connection with the change in the law (Wet VPL – Early Retirement (Adjustment of Tax Treatment) and Life-Course Savings Schemes Act). The pension scheme is non-contributory.

The remuneration (including pension charges) of existing and former members of the Board of Management amounted to €1,787,000 (2005: €2,939,000), analysed as follows:

2006	Salary	Bonus	Other	Pension	Total
W.F.C. Cramer	422,000	142,000	-	103,000	667,000
T. Branbergen	293,000	89,000	-	52,000	434,000
A. Vlaskamp	318,000	96,000	-	77,000	491,000
A. Offringa (former member) *	38,000	-	157,000	-	195,000

* relates to remuneration paid after leaving the company's service

2005	Salary	Bonus	Other	Pension	Total
W.F.C. Cramer	334,000	151,000	-	99,000	584,000
T. Branbergen	231,000	138,000	-	53,000	422,000
A. Vlaskamp	208,000	136,000	-	74,000	418,000
A. Offringa (until 30 June 2005)	197,000	229,000	986,000	103,000	1,515,000

Friesland Bank used to operate a Friesland Bank Holding N.V. stock option plan, under which options were granted to existing and former members of the Board of Management to acquire depository receipts for Friesland Bank Holding shares, which could then be traded twice a year on an internal market. The recommended price of these depository receipts was computed on the basis of the financial performance of Friesland Bank itself and external factors. The computation of the recommended price was performed internally and audited by the external auditors. The actual transaction price depended on supply and demand but there was a guaranteed price of 85% of the recommended price. At the end of 2006, it was decided to discontinue the stock option plan and all the depository receipts for shares were repurchased at a price of €3,000. The movements in the numbers of options and depository receipts for shares held by members of the Board of Management were as follows:

Options	Start of year		Exercised		Granted		End of year	
	Number	Ave. price	Number	Ave. price	Number	Ave. price	Number	Ave. price
W.F.C. Cramer	-	-	-	-	-	-	-	-
T. Branbergen	125	1,399.00	125	1,399.00	-	-	-	-
A. Vlaskamp	68	1,399.00	68	1,399.00	-	-	-	-
A. Offringa (former member)	300	1,399.00	300	1,399.00	-	-	-	-

Depository receipts	Start of year		Bought		Sold		End of year	
	Number	Ave. price	Number	Ave. price	Number	Ave. price	Number	Ave. price
W.F.C. Cramer	-	-	-	-	-	-	-	-
T. Branbergen	-	-	125	1,399.00	125	3,000.00	-	-
A. Vlaskamp	-	-	68	1,399.00	68	3,000.00	-	-
A. Offringa (former member)	709	1,740.80	300	1,399.00	1,009	3,000.00	-	-

As at balance sheet date, open accounts relating to loans etc. granted to members of the Board of Management amounted to €2,091,000 (2005: €1,992,000), analysed as follows:

	2006	Ave. %	2005	Ave. %
W.F.C. Cramer	1,212,000	4.0%	1,189,000	3.8%
T. Branbergen	386,000	3.0%	414,000	4.1%
A. Vlaskamp	493,000	2.9%	389,000	2.4%

Supervisory Board

The analysis of the remuneration of €171,000 (2005: €186,000) and open accounts relating to loans etc. of €1,776,000 (2005: €1,146,000) for members of the Supervisory Board is as follows:

	Remuneration		Open accounts			
	2006	2005	2006	Ave. %	2005	Ave. %
K. Wezeman	37,000	36,000	-	-	-	-
J. de Vries	-	11,000	-	-	-	-
J. Keijzer	30,000	40,000	-	-	-	-
H. Visser	18,000	22,000	-	-	-	-
L.M.L.H.A. Hermans	18,000	19,000	-	-	-	-
G. Benedictus	27,000	26,000	216,000	4.5%	226,000	3.7%
A. Oosterhof	19,000	28,000	1,424,000	4.0%	784,000	3.4%
L. Lindner	22,000	4,000	136,000	4.5%	136,000	4.5%

49. Post-balance-sheet events

There have been no events since balance sheet date of such significance that they might affect the view obtained by users of these financial statements.

1.9 Principal investments

Subsidiaries

FBA/Aecum B.V.	Leeuwarden	100%
FB/Aecum Assurantiën B.V.	Leeuwarden	100%
Friesland Bank Assuradeuren B.V.	Leeuwarden	100%
Friesland Bank Investments B.V.	Leeuwarden	100%
Friesland Bank Participaties B.V.	Leeuwarden	100%
Friese Participatie Maatschappij B.V.	Leeuwarden	100%
Overijsselse Participatie Maatschappij B.V.	Enschede	100%
Haarlemse Participatie Maatschappij B.V.	Haarlem	100%
Fries Trustkantoor B.V.	Leeuwarden	100%
Beheerder Friesland Fund B.V.	Leeuwarden	100%
Bewaarder Friesland Fund B.V.	Leeuwarden	100%
Friesland Bank Garant Fonds B.V.	Leeuwarden	100%
Friesland Bank Global Custody B.V.	Leeuwarden	100%
Holding- en Beleggingsmaatschappij Kring Noord B.V.	Leeuwarden	100%
Beheersmaatschappij Het Noorden B.V.	Leeuwarden	100%
Stichting Eleven Cities Nr. 1	Amsterdam	100%
Stichting Eleven Cities Nr. 2	Amsterdam	100%
De Koepel B.V.	Leeuwarden	88%
Holding Bercoop Groep N.V.	Oldeberkoop	100%

Consolidated non-financial private equity investments

Aandelenbeurs Fritom N.V.	Leeuwarden	100%
Doedijns International Holding B.V.	Waddinxveen	70%
Haatland Kampen B.V.	Kampen	67%
King Nuts Holding B.V.	Bodegraven	55%
Houdstermaatschappij Preferente Aandelen NDC B.V.	Leeuwarden	51%

Associates

Frieschriedt B.V.	Leeuwarden	50%
Van Lanschot N.V.	's Hertogenbosch	28%
Kempen & Co N.V.	Amsterdam	19%

Unconsolidated non-financial private equity investments

Damheer B.V.	Heerenveen	50%
SELO Holding B.V.	Oldenzaal	50%
Avensus Nederland B.V.	Utrecht	50%
Helpman Capital B.V.	Groningen	49%
Nykamp Nyboer B.V.	Oldenzaal	47%
Mennens Holding B.V.	Amsterdam	45%
Offra Holding B.V.	Werkendam	45%
SupportPlus Europe B.V.	Oldenzaal	43%
Frans Nooren B.V.	Stadskanaal	40%
MC van der Leest Beheer B.V.	Stadskanaal	40%
Succes Holding B.V.	Rijswijk	40%
Triade Holding B.V.	Amsterdam	40%
Berghave N.V.	Naarden	38%
Euroclinics Holding B.V.	Beekbergen	35%
Newion Investments B.V.	Nijehaske	35%
Wits Groep B.V.	Heerenveen	33%
Axa Stenman Industries B.V.	Veenendaal	32%
De Drie Eiken B.V.	Baarn	30%
Actuera Holding B.V.	Rotterdam	29%
BR Holding B.V.	Zwolle	29%
The Institute of Travel Holding B.V.	Amsterdam	29%
De Haan Zonwering B.V.	Drachten	28%
De Oliehoorn B.V.	Zwaag (Hoorn)	28%
Twentures Holding B.V.	Enschede	28%
Main Entertainment I	The Hague	26%
Jongbloed B.V.	Heerenveen	25%
Ophtec Holding B.V.	Groningen	25%
De Boer Stalinrichtingen B.V.	Leeuwarden	25%
Steinfort Beheer B.V.	Franeke	24%
Machinefabriek G. van der Ploeg B.V.	Leeuwarden	22%
Nimbus Investments IX B.V.	Zeist	20%

2. Company financial statements

2.1 Company balance sheet as at 31 December 2006

(x € 1,000)	Note	2006	2005
Assets			
Cash	1	43,384	126,432
Short-dated government paper	2	348,233	160,000
Banks	3	70,575	147,425
Loans and advances to the public sector		148,269	285,496
Loans and advances to the private sector		6,265,445	5,856,644
Loans and advances	4	6,413,714	6,142,140
Interest-bearing securities	5	646,555	715,481
Shares	6	84,817	47,935
Investments in subsidiaries, joint ventures and associates	7	396,288	347,859
Other investments	8	351,668	314,362
Intangible assets	9	3,356	2,546
Property, plant and equipment	10	75,185	80,318
Other assets	11	110,649	115,180
Prepayments and accrued income	12	33,082	32,362
Total assets		8,577,506	8,232,040

(x € 1,000)

	Note	2006	2005
Equity and liabilities			
Banks	13	276,135	343,783
Savings accounts		1,899,720	1,788,562
Other funds entrusted		3,068,222	3,189,406
Funds entrusted	14	4,967,942	4,977,968
Debt securities	15	1,873,166	1,529,920
Other liabilities	16	114,715	106,616
Accruals and deferred income	17	107,493	105,031
Provisions	18	38,232	41,247
Subordinated liabilities	19	366,806	327,457
Share capital		16,858	16,858
Share premium reserve		76,319	76,319
Perpetual capital securities		125,000	125,000
Revaluation reserve		61,365	60,722
Reserves prescribed by law and articles of association		129,804	99,357
Other reserves		391,315	349,551
Unappropriated profit		106,871	76,725
Interim dividend		-74,515	-4,514
Shareholders' equity	20	833,017	800,018
Own funds		1,199,823	1,127,475
Total equity and liabilities		8,577,506	8,232,040
Contingent liabilities	21	69,114	68,902
Irrevocable facilities	21	677,617	845,626

2.2 Company profit and loss account for 2006¹

(x € 1,000)	2006	2005
Share in results of subsidiaries, joint ventures and associates after tax	108,948	107,194
Other results after tax	-2,077	-30,469
Net profit	106,871	76,725

¹ In preparing the company profit and loss account, use has been made of the provisions of Section 402, Book 2, of the Netherlands Civil Code.

2.3 Accounting policies

The company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Netherlands Civil Code. Friesland Bank N.V. makes use of the facility for using the same accounting policies as applied in preparing the consolidated financial statements. With effect from 1 January 2005, Friesland Bank N.V. has been preparing its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed for use in the European Union. Given the fact that Friesland Bank has elected to use the same accounting policies as applied in preparing the consolidated financial statements for the company financial statements, shareholders' equity and net profit are the same in both the consolidated and company financial statements.

Reference is accordingly made to the accounting policies included in Section 1.5 Accounting policies in the consolidated financial statements.

2.4 Notes to the company financial statements

(x € 1,000)

1. Cash

This item includes legal tender, including foreign currency banknotes and coins, as well as demand deposits with the central bank.

	2006	2005
This item is made up of:		
- Cash	9,532	12,722
- Deposits with the central bank	33,852	113,710
	43,384	126,432

2. Short-dated government paper

Included in this item are debt securities issued by public authorities with maturities of less than two years.

3. Banks

Included in this item are all amounts receivable from banks in connection with the activities of the bank, regardless of form, except for securities.

	2006	2005
This item is made up of:		
- Demand deposits	35,308	32,606
- Time deposits	35,267	114,819
	70,575	147,425

No bad debt provisions have been made for the receivables under this heading.

4. Loans and advances

Included in this item are all amounts receivable in connection with the bank's activities, other than receivables from banks and in the form of securities.

	2006	2005
This item is made up of:		
- Loans and advances to the public sector	148,269	285,496
- Loans and advances to the private sector, personal customers	3,762,859	3,437,438
- Loans and advances to the private sector, business customers	2,591,098	2,510,834
- Bad debt provision	-88,512	-91,628
	6,413,714	6,142,140

	2006	2005
The loans and advances to business customers can be analysed by sector as follows:		
- Agriculture	17%	15%
- Manufacturing and construction	10%	11%
- Commerce	7%	9%
- Business and financial services	53%	51%
- Other services	10%	11%
- Other	3%	3%
	100%	100%

	2006	2005
The loans and advances can be analysed according to type of security as follows:		
- Public sector guarantee	9%	8%
- Mortgage	46%	45%
- Other security (including unsecured)	45%	47%
	100%	100%

	2006	2005
Movements in the bad debt provision were as follows:		
Opening balance	91,628	96,007
- IFRS changes	-	1,587
- Write-offs	-4,354	-16,892
- Releases	-30,674	-15,560
- Additions	31,912	26,486
Closing balance	88,512	91,628

5. Interest-bearing securities

Included in this item are the interest-bearing securities issued by public law bodies, banks and other entities, except for government paper that is refinable with the central bank.

	2006	2005
The analysis according to portfolio purpose is as follows:		
- Investment portfolio	646,555	715,481
- Trading portfolio	-	-
	646,555	715,481
	2006	2005
Movements in the investment portfolio were as follows:		
Opening balance	715,481	848,848
- IFRS changes	-	17,928
- Purchases	215,997	181,553
- Sales	-169,769	-232,693
- Redemptions	-101,767	-106,135
- Revaluation	-13,387	5,980
Closing balance	646,555	715,481
	2006	2005
The analysis by issuer is as follows:		
- Public sector	613,263	420,314
- Private sector	33,292	295,167
	646,555	715,481
	2006	2005
The analysis according to marketability is as follows:		
- Listed	379,571	438,658
- Unlisted	266,984	276,823
	646,555	715,481

The total unamortised difference between cost and redemption value of the interest-bearing securities in the investment portfolio amounted to €5.8 million (2005: €4.7 million). The amount of interest-bearing securities falling due in the current year is €52.5 million (2005: €69.6 million).

6. Shares

Included in this item are shares issued by credit institutions and other companies, except for investments presented as investments in subsidiaries or other investments.

	2006	2005
The analysis according to portfolio purpose is as follows:		
- Investment portfolio	83,137	45,697
- Trading portfolio	1,680	2,238
	84,817	47,935

	2006	2005
Movements in the investment portfolio were as follows:		
Opening balance	45,697	39,221
- Purchases	64,251	4,049
- Sales	-30,728	-7,166
- Revaluation	3,807	9,593
- Impairment	110	-

Closing balance	83,137	45,697
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	2006	2005
The analysis according to marketability is as follows:		
- Listed	59,027	34,507
- Unlisted	25,790	13,428
	84,817	47,935

The total revaluation of the shares in the investment portfolio amounted to €14.1 million (2005: €8.7 million). The cost of the shares in the trading portfolio amounted to €1.7 million (2005: €1.9 million).

7. Investments in subsidiaries, joint ventures and associates

Included in this item are all the investments in the share capital of companies over which significant influence can be exercised and which qualify as 'group companies' within the meaning of Section 24b, Book 2, of the Netherlands Civil Code.

	2006	2005
This concerns investments in:		
- Banks	17,375	7,767
- Other entities	378,913	340,092

	396,288	347,859
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	2006	2005
Movements in this item were as follows:		
Opening balance	347,859	271,324
- IFRS changes	-	-
- Purchases	9,883	-
- Results	41,611	64,797
- Revaluation	-2,214	14,115
- Dividends	-506	-2,155
- Other movements	-345	-222

Closing balance	396,288	347,859
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	2006	2005
The analysis according to marketability is as follows:		
- Listed	-	-
- Unlisted	396,288	347,859

8. Other investments

Included in this item are all the investments in the share capital of companies over which significant influence can be exercised but which do not qualify as 'group companies'.

	2006	2005
This concerns investments in:		
- Banks	340,306	304,155
- Other entities	11,362	10,207
	351,668	314,362

	2006	2005
Movements in this item were as follows:		
Opening balance	314,362	264,784
- Purchases	23,500	13,082
- Sales	-13,973	-3,375
- Results	53,085	41,259
- Revaluation	-3,774	10,595
- Dividends	-21,532	-11,983
Closing balance	351,668	314,362

	2006	2005
The analysis according to marketability is as follows:		
- Listed	100,925	90,150
- Unlisted	250,743	224,212

9. Intangible assets

This item is made up of capitalised goodwill on investments in entities included in the consolidation and other intangible assets such as software and purchased insurance portfolios.

	2006	2005
The item concerns:		
- Goodwill	-	-
- Software	3,356	2,546
	3,356	2,546

Movements in this item were as follows:

	Good- will	Soft- ware	Total 2006	Good- will	Soft- ware	Total 2005
Opening balance	-	2,546	2,546	-	-	-
- Purchases	-	2,542	2,542	-	2,600	2,600
- Amortisation	-	-1,732	-1,732	-	-54	-54
Closing balance	-	3,356	3,356	-	2,546	2,546

10. Property, plant and equipment

Included in this item are buildings and land, machinery and installations and other assets such as technical and office equipment.

Movements in this item were as follows:

	Property	Other assets	Total 2006	Property	Other assets	Total 2005
Opening balance	66,676	13,642	80,318	68,842	11,378	80,220
- IFRS changes	-	-	-	-	-	-
- Investments	1,344	5,232	6,576	1,147	6,826	7,973
- Disposals	-220	-2,039	-2,259	-	-	-
- Depreciation	-4,509	-4,941	-9,450	-3,313	-4,562	-7,875
Closing balance	63,291	11,894	75,185	66,676	13,642	80,318
Cumulative cost	97,578	55,899	153,477	102,187	53,470	155,657
Cumulative depreciation	34,287	44,005	78,292	35,511	39,828	75,339

11. Other assets

Included in this item are precious metals, coins and medals, tax assets and all other assets which cannot be classified in any of the other asset categories. The item includes an amount of €70.6 million (2005: €79.9 million) in respect of deferred and current tax.

12. Prepayments and accrued income

This concerns advance payments of expenses, accrued interest and other amounts receivable but not yet invoiced.

13. Banks

Included in this item are all amounts owed to banks in connection with the activities of the bank except the liabilities in the form of debt securities and subordinated liabilities.

	2006	2005
The item is made up of:		
- Demand deposits	24,315	10,577
- Time deposits	251,820	333,206
	276,135	343,783

14. Funds entrusted

Included in this item are all amounts owed in connection with the activities of the bank except for amounts owed to banks, liabilities in the form of debt securities and subordinated liabilities.

	2006	2005
The item is made up of:		
- Savings accounts	1,899,720	1,788,562
- Other funds entrusted	3,068,222	3,189,406
	4,967,942	4,977,968

15. Debt securities

Included in this item are bonds, medium-term notes and other debt securities.

	2006	2005
The item is made up of:		
1997 5.75% debenture loan 2007	114,504	118,174
1998 5.25% debenture loan 2008	137,393	140,403
Medium-term notes	1,620,000	1,270,000
Other debt securities	1,269	1,343
	1,873,166	1,529,920

16. Other liabilities

This item comprises those liabilities which cannot be classified under any of the other liabilities headings, including funds transfer items not yet cleared.

17. Accruals and deferred income

This concerns amounts received in advance, accrued interest and other amounts payable.

18. Provisions

	2006	2005
The item is made up of:		
- Pensions	37,871	40,890
- Other provisions	361	357
	38,232	41,247

Friesland Bank offers various pension schemes to its employees, covered by a plan giving defined retirement benefits of 70% of final pay or average pay. Prior to 1 January 2006, the defined retirement benefit became payable as from age 60, 62 or 65, depending on circumstances, but now becomes payable universally from age 65, in connection with changes in the law (Wet VPL – Early Retirement (Adjustment of Tax Treatment) and Life-Course Savings Schemes Act). This change has resulted in the release of €11.7 million from the pension liabilities. Group pension policies have been taken out with insurance companies on behalf of the employees. The following tables present the defined-benefit obligation and the fair value of the plan assets. The plan assets are made up of 69.2% fixed-income securities (2005: 71.6%), 30.8% equities (2005: 28.4%) and 0% cash (2005: 0%).

In calculating the amount of the pension provision, the following principal assumptions have been used:

	2006	2005
- Discount rate	4.25%	3.75%
- Expected pay rises (corrected for inflation)	2.50%	2.50%
- Expected return on plan assets/technical reserves of insurance companies	4.50%	4.50%
- Expected benefit increases	2.00%	2.00%

Movements in the pension provision were as follows (in millions of euros):

2006	Benefit obligation	Plan assets	Corridor	Total 2006
Opening balance	269.3	178.5	50.0	40.8
- Current service cost	9.7	0.0	0.0	9.7
- Released in connection with increase in pensionable age	-11.7	-	-	-11.7
- Interest cost on benefit obligation / return on plan assets	9.9	8.2	0.0	1.7
- Employer's contributions for current year of service	0.0	8.1	0.0	-8.1
- Employees' contributions	0.0	0.3	0.0	-0.3
- Benefits paid	-5.2	-5.2	0.0	0.0
- Administrative expenses	0.0	-1.0	0.0	1.0
- Actuarial gains and losses	-53.0	1.0	-58.8	4.8
- Consolidation effects	0.0	0.0	0.0	0.0
Closing balance	219.0	189.9	-8.8	37.9
2005	Benefit obligation	Plan assets	Corridor	Total 2005
Opening balance	224.0	161.6	26.3	36.1
- Current service cost	9.8	0.0	0.0	9.8
- Interest cost on benefit obligation / return on plan assets	9.5	7.5	0.0	2.0
- Employer's contributions for current year of service	0.0	8.6	0.0	-8.6
- Benefits paid	-4.7	-4.7	0.0	0.0
- Administrative expenses	0.0	-0.8	0.0	0.8
- Actuarial gains and losses	30.7	6.3	23.7	0.7
Closing balance	269.3	178.5	50.0	40.8
		Longer-term review		
		2006	2005	2004
Benefit obligation		219.0	269.3	223.9
Plan assets		189.9	178.5	161.6
Deficit		29.1	90.8	62.3

Up to year-end 2006, a cumulative amount of €5.4 million had been recognised in the profit and loss account in respect of actuarial losses. Contribution payments for 2007 are expected to amount to €8.5 million.

The other provisions mainly relate to technical reserves of the insurance activities, particularly unearned premium reserves. Under the terms of insurance policies, there is a risk of having to refund premiums received if a contract is cancelled before it is due to expire. The amount of the provision is calculated on the basis of historical data.

	2006	2005
Movements in this item were as follows:		
Opening balance	357	335
- Added	4	22
- Utilised	-	-
	<hr/>	<hr/>
Closing balance	361	357

19. Subordinated liabilities

The liabilities included in this item are subordinated to all current and future liabilities of Friesland Bank N.V.; premature or partial redemption is not possible. The average interest rate on the subordinated liabilities amounts to 5.3% (2005: 5.3%) and the average remaining term to maturity is 7.0 years (2005: 7.2 years).

20. Shareholders' equity

Shareholders' equity is the same for the Group and for the company. Reference is accordingly made to the notes to the consolidated balance sheet for full details.

21. Contingent liabilities and irrevocable facilities

This includes contingent liabilities in respect of transactions where the bank has given guarantees for the liabilities of third parties together with irrevocable facilities which are potential credit risks, for example, unutilised overdraft facilities.

	2006	2005
Contingent liabilities in respect of guarantees etc.	63,419	58,754
Contingent liabilities in respect of irrevocable letters of credit	5,695	10,148
	<hr/>	<hr/>
Contingent liabilities	69,114	68,902
Irrevocable facilities	677,617	845,626

Board of Management and Supervisory Board

For details of the remuneration of the members of the Board of Management and Supervisory Board as well as loans granted to Board members, reference is made to the consolidated financial statements (note 48).

3 Other information

Provisions of the Articles of Association concerning profit appropriation

Profit is appropriated pursuant to Articles 25 and 26 of the Articles of Association of Friesland Bank N.V., the essential provisions of which are as follows:

Of the profits shown by the duly adopted financial statements, such amounts shall be added to reserves as the Board of Management, with the approval of the Supervisory Board, shall determine. The remaining profit shall be at the disposal of the General Meeting of Shareholders.

The company may only make a distribution to shareholders insofar as its shareholders' equity is greater than the amount of issued share capital plus the reserves required to be maintained by law.

A deficit may only be offset against the statutory reserves to the extent that this is permissible by law.

Profit appropriation

The proposed profit appropriation is as follows:

	2006	2005
Result for the year	106,871	76,725
Interim dividend on ordinary shares, €1,787.30 (2005: €0.00) per share	-66,958	-
Interim dividend on the perpetual bonds	-4,789	-4,514
	35,124	72,211
To be appropriated as follows:		
- Final dividend on ordinary shares, €0.00 (2005: €73.88) per share	-	2,768
- Addition to statutory reserves and reserves pursuant to articles	36,628	30,446
- Addition to other reserves	-1,504	38,997
	35,124	72,211

Auditors' report

Report on the financial statements

We have audited the accompanying financial statements 2006 of Friesland Bank N.V., Leeuwarden. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2006, the company profit and loss account for the year then ended and the notes.

Management's responsibility

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board of Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Friesland Bank N.V. as at December 31, 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Friesland Bank N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, April 5, 2007

for Ernst & Young Accountants

G.H.C. de Méris

Particulars of the members of the Board of Management and the Supervisory Board

Situation as at 31-12-2006

Board of Management

W.F.C. Cramer (1961)

Member of the Board of Management since 01-12-2004
Chairman of the Board of Management since 27-04-2005

A. Vlaskamp (1956)

Member of the Board of Management since 01-07-2004

T. Branbergen (1951)

Member of the Board of Management since 01-06-2001

Supervisory Board

K. Wezeman (1940), Chairman

Appointed in 1999, term of office ends 2007
Former principal occupation: Professor of Administrative Organisation, Groningen University

Other positions:

Chairman of the Supervisory Board of Hordijk Holding B.V.
Chairman of the Supervisory Board of Koopman Holding B.V.
Chairman of the Executive Committee of Stichting Woningmaatschappen VSN

L. Lindner (1944), Secretary

Appointed in 2005, term of office ends 2009
Former principal occupation: General Manager at Koninklijke Friesland Foods N.V.

Other positions:

Member of the Supervisory Board of Royal Schouten Group N.V.
Member of the Supervisory Board of Neerlands Glorie B.V.
Member of the Supervisory Board of Koninklijke Tichelaar N.V.
Vice-Chairman of Lauswolt Golf & Country Club

J. Keijzer (1942)

Appointed in 2000, term of office ends 2008
Former principal occupation: Member of the Executive Board of NPM Capital N.V.

Other positions:

Director of Bosplaat Advies
Adviser to the National Register of Supervisory Directors
Chairman of the Supervisory Board of Koopmans Koninklijke Meelfabrieken N.V.
Member of the Supervisory Board and Chairman of the Audit Committee of Stern Groep N.V.
Member of the Supervisory Board of Wadinko Beheer B.V.
Chairman of the Board of Governors of Nederlands Astma Fonds
Member of the Supervisory Board of W&S Holding B.V.
Chairman of the Executive Committee of Stichting Arbo Unie Nederland
Member of the Executive Committee of Het Internationaal Danstheater

H. Visser (1944)

Appointed in 2001, term of office ends 2009
Former principal occupation: CFO of NUON N.V.

Other positions:

Chairman of the Supervisory Board of Royal Huisman Shipyard B.V.
Member of the Supervisory Board of Vion N.V.
Member of the Board of AGCO Corporation
Member of the Executive Committee of Stichting Preferente Aandelen OPG N.V.
Chairman of Koninklijke Vereniging Warmbloedpaarden Stamboek (KWPN)
Member of the Board of Sterling Investments Ltd.
Former member of the Board of Management of Rabobank Nederland

L.M.L.H.A. Hermans (1951)

Appointed in 2004, term of office ends 2008

Principal occupation: Chairman of Koninklijke Vereniging MKB Nederland

Other positions:

Chairman of Nederlands Uitgevers Verbond

Member of the Supervisory Board of Sportclub Heerenveen

Member Executive Committee of the Social and Economic Council

Adviser to Ernst & Young

G. Benedictus (1952)

Appointed in 2004, term of office ends 2008

Principal occupation: Owner/director of management consultancy (veterinary consultant)

Other positions:

Chairman of AOC Friesland

Chairman of Agrarische Natuurvereniging "Tusken Skarren en Marren"

Member of the Agricultural Advisory Committee of Van Hall Larenstein

Member of the Provincial Council of Friesland

Chairman of Indoor Friesland

Member of the Supervisory Board of LTO Vastgoed

A. Oosterhof (1947)

Appointed in 2004, term of office ends 2008

Principal occupation: Farmer

Other positions:

Member of HZPC Growers' Council

Member of the Dongeradeel District Committee

Branches

Leeuwarden Region

Berlikum	It Skil 2
Damwoude	Hoofdweg 10
Dokkum	De Dijk 4
Franeker	Voorstraat 2
Gytsjerk	R. van Nautaweg 51
Hurdegaryp	Easteromwei 1
Leeuwarden	Borniastraat 2
Leeuwarden	Brandemeer 98
Leeuwarden	Havingastate 5
Leeuwarden	Zaailand 108
Sint Annaparochie	Statenweg 11
Stiens	Wythústerwei 14

Drachten Region

Buitenpost	Kuipersweg 32
Burgum	Bulthuisingel 1
Drachten	Burg. Wuiteweg 27
Grootegast	Hoofdstraat 96
Oosterwolde	Dertien Aprilstraat 2
Surhuisterveen	Torenplein 7
Zwaagwesteinde	Schoolstraat 30

Heerenveen Region

Gorredijk	Hofland 2
Grou	Mr. P.J. Troelstrawei 6
Heerenveen	Nieuwstraat 4
Joure	Midstraat 20
Wolvega	Van Harenstraat 46

Sneek Region

Balk	Van Swinderenstraat 59
Bolsward	Jongemastraat 41
Harlingen	Noorderhaven 114
Koudum	Hoofdstraat 1
Lemmer	Vissersburen 88
Sneek	Hegedyk 9
Witmarsum	Kerkplein 1

Groningen Region

Groningen	Paterswoldseweg 811
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Alkmaar Region

Alkmaar	Robijnstraat 96
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Assen Region

Assen	Oostersingel 11
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Zwolle Region

Zwolle	Burg. Van Royensingel 10
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Enschede Region

Enschede	M. Harpertsz Tromplaan 52
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Amsterdam region

Amsterdam	Museumplein 17
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Subsidiaries

Subsidiaries

Situation as at 31-12-2006

FBA/Aecum B.V., Leeuwarden	Th. van der Meulen, manager A.R. Damhof, manager
FB/Aecum Assurantiën B.V., Leeuwarden	Th. van der Meulen, manager A.R. Damhof, manager
Friesland Bank Assuradeuren B.V., Leeuwarden	Th. van der Meulen, manager A.R. Damhof, manager
Friese Participatie Maatschappij B.V., Leeuwarden	J. Ritchi, manager
Friesland Bank Investments B.V., Leeuwarden	J. Ritchi, manager
Friesland Bank Participaties B.V., Leeuwarden	J. Ritchi, manager
B.V. Haarlemse Participatie Maatschappij, Haarlem	J. Ritchi, manager
Overijsselse Participatie Maatschappij B.V., Enschede	J. Ritchi, manager

COLOPHON

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