

## Consolidated Annual Report 2005

*The 2005 financial year was particularly successful for Keytrade in terms of business and finance. The number of clients and the amount of assets deposited rose considerably. Consolidated net profit stood at €7.8 million, representing a substantial increase of 35%. 2005 will also be memorable for the major changes made to Keytrade's shareholder base and the ensuing takeover bid and delisting. The arrival of Crédit Agricole as the majority shareholder was perceived very favourably by clients and the market. Bolstered by the support of a major banking group, Keytrade will be able to roll out its efficient economic model and to continue its dynamic growth in the years ahead.*

### Shareholder base

On 23 June 2005, a sale and purchase agreement was concluded, under the terms of which Crédit Agricole acquired 1,438,183 shares, representing 40.9% of Keytrade Bank's capital, held by Van Moer Santerre SA, Compagnie Centrale 1909 SA, Jean-Guillaume Zurstrassen, José Zurstrassen and Grégoire de Streel. Following approval obtained from the Belgian Banking, Finance and Insurance Commission (BFIC) and the competition authorities, this agreement was implemented on 24 August 2005.

Between 19 September and 14 October 2005, Crédit Agricole launched a takeover bid at the price of €31.22 per share, relating to shares held by the public, extended by a public buyout bid between 20 October and 15 November 2005. Pursuant to Article 513 of the Belgian Company Code, Keytrade Bank's non-presented shares were transferred by law to Crédit Agricole. Following these transactions, the total thus held amounted to 2,128,735 shares, i.e. 63.1% of the capital.

We should also highlight that, under the agreement of 23 June 2005, Crédit Agricole has an option to purchase the remaining shares held by Van Moer Santerre SA, Jean-Guillaume Zurstrassen, José Zurstrassen and Grégoire de Streel, who have an option to sell the same shares to Crédit Agricole. These options may be exercised at the beginning of 2007.

On 10 August 2005, an agreement was concluded between Crédit Agricole and Keytrade Bank staff holding warrants, under the terms of which they waived the right to exercise their warrants in return for payment of a sum corresponding to the intrinsic value (i.e. the difference between the bid price and the strike price), plus the time value.

On 16 January 2006, 120,000 new shares were issued following a capital increase amounting to €523,200, resulting from the exercise of warrants by Jean-Guillaume Zurstrassen, José Zurstrassen, Grégoire de Streel and Thierry Ternier. Thus, the share capital was increased to €15,315,164.27. Under the agreement of 23 June 2005, these new shares were acquired by Crédit Agricole at the price of €31.22 per share.

Since that date, Crédit Agricole has held a total of 2,338,432 shares out of a total 3,636,200 issued, which represents a 64.3% holding. The other shareholders, namely Van Moer Santerre SA, Jean-Guillaume Zurstrassen, José Zurstrassen and Grégoire de Streel, hold 18.3%, 5.7%, 5.9%, and 5.7% respectively of the shares. All the shares thus held are registered and make up all the shares representing the capital. In addition, there are no further warrants issued by Keytrade Bank.

#### **Board of Directors**

The composition of the Board of Directors was reviewed following the change to the shareholder base. On the day the sale agreement was implemented, Jean-Marie Laurent Josi, Jean-Louis Laurent Josi, Christian Varin, Cédric Van Moer and Bernard Paqui resigned as Directors, and the Board appointed by cooption Roude sprl, permanently represented by Jacques Rousseaux, Luc Versele, Fernand George, Alain Diéval and Bernard Mary. Roude sprl, permanently represented by Jacques Rousseaux, was appointed as Chairman of the Board of Directors. On presentation of the new shareholder, Crédit Agricole, the Extraordinary General Meeting of 17 October 2005 definitively appointed the Directors proposed by the Board and also appointed Bernard De Wit, Jean-Pierre Champagne, Patrick Lewahert and Patrick Boulin as Directors.

Following this reorganisation, the Audit Committee now comprises Eric De Keuleneer, Chairman, Roude sprl, permanently represented by Jacques Rousseaux, and Patrick Lewahert.

#### **Executive Committee**

The agreement of 23 June 2005 confirmed that the three founder managers, Jean-Guillaume Zurstrassen, José Zurstrassen and Grégoire de Streel, will continue to perform their duties on the Executive Committee at least until 31 December 2006. An incentive system, outlined in the prospectus, was introduced for the founder managers, with a view to developing loyalty, motivating them to achieve ambitious growth targets and to generate business, as well as facilitating Keytrade Bank's transition and changeover under the aegis of Crédit Agricole.

In accordance with Article 22 of the articles of association and the advice given by the BFIC, the Board appointed Patrick Boulin as a member of the Committee with effect from 1 November 2005.

Since then, the Executive Committee has been composed of the following: Jean-Guillaume Zurstrassen, Chairman, José Zurstrassen, Grégoire de Streel, Thierry Ternier and Patrick Boulin.

### **Activities**

The firm equity markets bolstered the volume of stock-market transactions, with a considerable acceleration as from the third and especially the fourth quarter of 2005. Some 644,000 securities transactions were carried out by clients on Keytrade's Belgian and Luxembourg websites in 2005, representing a 24% increase compared with 2004.

Keytrade attracted new clients (+13%) thanks to a major advertising campaign and to the reputation and financial security generated by Crédit Agricole's entry into the shareholder base during the summer of 2005. Keytrade had 52,700 clients at the end of December 2005, in addition to 2,200 Keytrade Luxembourg clients.

Another favourable effect of having the backing of a major European group is that existing clients have increased their portfolios deposited with Keytrade. During the last quarter of 2005, client deposits in the form of financial instruments (equities, bonds, options and funds) increased by €600 million. Overall, assets deposited by clients in the form of bank deposits or financial instruments rose to €2.7 billion as at the end of 2005, representing remarkable growth of almost €1 billion, or 58%.

The new online investment advice module, « ADVICE », one of a kind in the market, was quickly adopted by clients, reinforcing Keytrade's leading online financial services position in the Belgian market. As at the end of 2005, ADVICE was used by some 12,000 clients.

We are also pleased to point out that the changeover of correspondent bank for the US markets was seamless thanks to flawless preparation.

### **Synergies**

Synergies with Crédit Agricole are being implemented.

Since early 2006, the Back Office activities for equities held by Crédit Agricole's clients have been carried out at Keytrade. A tool to monitor and detect suspected laundering transactions was jointly acquired by the entities making up the Crédit Agricole Group. Internal audit was entrusted to Crédit Agricole's Audit Department. Collaborations are under way within the Group to manage the financial aspects and the borrowing requirements.

## Risk management policy

Keytrade Bank has a unit to monitor the risks relating to its business. The aim of this unit is to gather relevant information, to monitor the various risks to which the bank is exposed, and to advise the management by formulating proposals regarding the action to be taken to control risks.

The bank has set up an Investment Committee that specifically monitors the risks associated with the financial structure and informs the Executive Committee of action to be taken and opportunities that it could capitalise on.

In tandem, a Risks Committee analyses and informs the Executive Committee with regard to matters relating to the organisation, from both an operational and an IT point of view.

The bank also has a Credits Committee whose objective is to grant and monitor credit facilities provided to clients.

### Interest rate risk:

The interest rate risk is the main risk factor by which the bank is confronted with regard to its banking business. The risk unit informs the Investment Committee and the Executive Committee of the bank's sensitivity to interest rate fluctuations in the market and of the knock-on effect on profits.

These analyses are conducted based on the duration of shareholders' funds and on the budgeting of daily receipts relating to the balance sheet, staggered over the next few years.

### Credit risk:

The credit risk consists of the potential loss that the bank could incur following default by a counterparty. The risk associated with bonds in the portfolio is monitored on the basis of the quality of issuers, their rating, and thanks to monitoring by the Front Office team who track investments under the responsibility of the Chief Financial Officer.

With regard to granting credit facilities to clients (essentially leasing and margin accounts), the Credits Committee informs the Executive Committee about the status of credit facilities and their guarantees.

The monitoring of concentrations refers to the maximum level of concentrations authorised by the Board of Directors. This is carried out beforehand by the Front Office when new positions are taken up and subsequently on a monthly basis. This monitoring is carried out monthly by the Investment Committee.

Faced with the changes introduced by Basle II and included in the new European Directive, the bank has opted to monitor its credit risks according to the standardised approach. The bank's main exposure in this respect lies in its bond and cash investments.

### Liquidity risk:

The liquidity risk lies in a banking institution's inability to have the necessary funds to honour its obligations within a reasonable period. The bank ensures that it constantly has sufficient funds available in line with its clients' business and its own investment activity. The Investment Committee monitors this specific risk.

### Exchange risk:

The exchange risk consists of the variation in value of the bank's foreign currency positions following a change in the exchange rate of various currencies. The bank is not permitted to maintain net exchange exposure. This check is carried out on a daily basis, and the necessary adjustments are made daily on the spot market. The Investment Committee and the Executive Committee are informed about changes in our exchange exposure.

### Operational risk:

The operational risk is the risk of loss that could result from substandard procedures, staff action, systems problems, or even external events beyond the bank's control.

The Risks Committee monitors these risks and analyses the bank's potential exposure. It identifies any action to be taken.

The bank has introduced an Operational Risk Self Assessment analysis, which heightens managers' awareness to the risks inherent in their departments; the outcome of analyses is summarised by the risk unit and forwarded to the Investment Committee.

The bank has also introduced a Business Continuity Plan aimed at dealing with not only disaster scenarios, but also with less critical problems which the bank could have to tackle. The Board of Directors has approved the continuity policy drafted pursuant to the BFIC circular relating to sound business practices aimed at ensuring the continued activities of financial institutions.

### Reputation risk:

The reputation risk occurs when the institution's name is associated with a case of fraud or money-laundering or any illegal transaction. The Compliance Officer oversees and monitors all the preventive measures put in place by the bank.

The Compliance Officer also ensures that these measures are adequate and comply with the relevant statutory requirements. The Compliance function was bolstered by the recruitment of an employee in early 2006.

The Compliance Officer also monitors internal and external disputes and all cases of fraud.

A client acceptance policy has been prepared for submission to the Board of Directors.

A transaction monitoring tool was acquired by the bank and is used to identify instances of improper use of the methods offered by the bank to its clients. A dedicated unit has been set up and monitors clients' transactions on a daily basis.

Staff regularly attend internal trainings on the prevention of fraud and money-laundering.

The IT security systems used correspond to the best tools available in the market, and the IT team is responsible for updating the technology. The bank makes regular investments to improve the security of its systems.

### **Human resources**

On 31 December 2005, Keytrade and its subsidiaries employed 68 staff, i.e. one more than at the end of 2004. Expressed in full-time equivalents (FTEs), the total workforce was 66.6 at the end of 2005, compared with 64.2 the previous year.

### **Balance sheet and profit and loss account (consolidated figures<sup>1</sup>)**

#### **Balance sheet**

Consolidated total assets amounted to €554.33 million at the end of 2005, representing a 28% increase.

On the assets side, the total financial portfolio (bonds, Treasury bonds and interbank deposits) was €509.57 million at the end of 2005, representing 32.5% growth. Government securities account for almost half (49%) of the portfolio. The bank does not hold equities for own account in its financial portfolio.

Under the agreement of 23 June 2005, the participating interest in ViewTrade Holding Inc (941,704 shares, i.e. 19.9% the capital) was sold at the value stated in Keytrade Bank's accounts. Similarly, the subordinated loans granted to ViewTrade Holding Inc were repaid in full to Keytrade Bank.

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<sup>1</sup> The company's included in the Keytrade consolidation are Keytrade Bank SA, Keytrade Luxembourg SA, RealLease SA, and Keytrade Insurance SA.

On the liabilities side, the increase was mainly due to client deposits (€494.24 million, or 31%), primarily in the form of demand deposits and deposit accounts. Outstandings of bank savings certificates (€4.99 million) declined, however, by 36%, as the bank has stopped issuing this type of product.

Interbank debts stood at €15.95 million, representing 11% growth.

On 31 December 2005, shareholders' funds had increased by 18% to €24.92 million.

With regard to off-balance sheet items, we should highlight the spectacular rise in deposited assets (73%), which soared from €1,056.96 million on 31 December 2004 to €1,825.10 million at the end of 2005.

The risk assets ratio was 12.83% at the end of 2005.

#### Profit and loss account

€mio	2004	2005	% variation
Operating income	21.16	27.27	+29%
Operating expenses	12.77	14.90	+17%
Operating profit	8.39	12.37	+47%
Net profit	5.75	7.76	+35%

(\*) In order to give an "economic" view of the annual change in the company's result, certain items in the profit and loss account have been grouped together under operating income and expenses, which may explain certain differences compared with the presentation of the annual accounts.

Income from banking and stock-market activities (including Luxembourg) rose by 29%. All the income items contributed to the increase, namely brokerage of transferable securities in Belgium and Luxembourg (€12.29 million, +34%), banking business, including leasing (€9.57 million, +27%), and sundry income (€5.41 million, +21%). These items include, inter alia, realised capital gains (€1.03 million, compared with €0.32 million in 2004) and the exchange gain (€1.62 million, +46%).

At €12.27 million, operating costs increased by 17%, mainly owing to a major marketing drive conducted in 2005. Disregarding this item, which posted a considerable increase of €2.02 million, other expenses remained almost unchanged (+1%).

The cost-income ratio stood at 54.6%, compared with 60.4% in 2004, which highlights the ongoing cost-control process.

Operating profit stood at €12.37 million, representing a considerable increase of 47%.

Keytrade posted an extraordinary loss of €0.46 million, compared with an extraordinary profit of €0.15 million in 2004. This is explained by the funding of some of the costs associated with modifying the shareholder base.

At €4.14 million, tax expenses increased by 49%.

Overall, consolidated net profit for the 2005 financial year stood at €7.76 million, representing a 35% increase.

ROE was 33.8% for 2005, compared with 27.2% for 2004.

#### Profit appropriation

Subject to approval of the accounts by the various general meetings of the companies included in the consolidation, the profit for the 2005 financial year (€7,763,958.77) will be appropriated as follows:

Allocation to the legal reserve: €346,000.00

Allocation to other reserves: €78,588.52

Profit carried forward: €3,452,272.44

Return on capital (gross dividends): €3,887,097.81

#### Outlook

Following the signing of the agreement with Crédit Agricole, the support given to Keytrade and its online investment service platform paves the way for fresh development and growth prospects. The enhanced profile, the availability of tools to aid investment decisions such as ADVICE, and a transparent pricing policy should convince an increasing number of investors to use Keytrade for the direct management of their financial assets. Keytrade has enormous growth potential, therefore, owing to the increasing number of internet users in Belgium.

Brussels, 21 April 2006

The Board of Directors