

PRESS RELEASE

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Recovery of profits held back by low interest rates

- **Total profit down 5% at €11.0 million, mainly due to sharply reduced interest income reflecting the very low interest rates**
- **Commission income stable despite lower transaction volumes and a further decline in income from securities lending**
- **Expenses continuing to fall, with operating expenses down 4% in H1 2010 compared with H2 2009**
- **Interim dividend maintained on €0.33 (H1 2009: €0.33) per KAS BANK ordinary share**

Key figures

	First half of 2010 (in euro)	First half of 2009 (in euro)	Mutation
Operating profit	8.9 mln	11.5 mln	-22%
Total profit	11.0 mln	11.5 mln	-5%
Operating profit per share	0.61	0.79	-23%
Total profit per share	0.75	0.79	-5%
Dividend per share	0.33	0.33	
BIS ratio (year-end)	21%	22%	

Chairman's statement

Albert Röell, chairman of KAS BANK's Managing Board: "The first half of 2010 has shown that it is still too early to speak of a definite recovery in the financial markets, but it is encouraging that the stress testing recently conducted in Europe found most of the major European banks to have become more resilient. The stress test served to confirm KAS BANK's low risk profile and its high capital ratio of over 20% in the worst-case scenario at year-end 2011. Market conditions are not good: commission income is under constant pressure from the lower market activity and lower volumes. In spite of the impact of the very low interest rates on our interest income, KAS BANK generated a net return on equity of 10% in the first half of 2010."

Interim dividend

It has been decided, with the approval of the Supervisory Board, to distribute an interim dividend in cash of €0.33 per KAS BANK ordinary share (H1 2009: €0.33).

Outlook

Given the uncertain outlook for the financial markets, the Managing Board prefers not to give a firm forecast of the bank's full-year results for 2010.

Financial targets

The financial targets set by the Managing Board and achieved results are detailed in the table below. Circumstances may arise in any year which make it necessary to depart from these targets.

	Target*	First half 2010	2009	First half 2009
Growth in operating income versus growth in operating expenses**	≥3%	-4%	2%	-6%
Operating efficiency ratio	70-77%	81%	79%	77%
Return on equity***	10-yrs interest rate +5-8%	10%	12%	13%
Growth in earnings per share	>8%	-23%	13%	-19%
Dividend pay-out ratio****	60-80%	54%	61%	60%
Average BIS ratio	Basel II ≥12,5%	21%	21%	20%

* Excluding non-operational items

** Growth operational income minus operational expenses

*** 10-year interest rate H1 2010: 3.3%; 2009: 3.7%; H1 2009: 3.8%

**** Adjusted for investments in intangible assets re acquisitions

Results

Profit in the first half of 2010 was 5% lower at €11.0 million (H1 2009: €11.5 million). The total effect of non-operating items on profit was €2.1 million (H1 2009: nil). The operating profit for the first half of 2010 was €8.9 million (H1 2009: €11.5 million).

Operating income was down 7% compared with the first half of 2009, reflecting lower interest income due to the combination of narrower interest margins, low market interest rates and the bank's policy of mitigating risk by reducing the maturities of its financial assets. Commission income showed little change from the first half of 2009.

Operating expenses were again lower, down 2% compared with the first half of 2009 to €50.2 million (H1 2009: €51.3 million) and down 4% compared with the second half of 2009, due primarily to lower staff costs.

The total effect of non-operating items on net profit in the first half of 2010 was €2.1 million (H1 2009: nil). Of this total, €1.3 million related to the partial reversal of impairments recognised in 2008 and the partial recovery in the market prices of several bonds on which impairments had been recognised in the second half of 2008. Other effects included results on the sale of equities in the investment portfolio and the release of part of a provision formed in 2008.

The return on equity in the first half of 2010 was 10% (H1 2009: 13%) and the operating efficiency ratio was 81% (H1 2009: 77%). The operating efficiency ratio for the whole of 2009 was 79%.

Solvency

KAS BANK's efforts to maintain a low risk profile are reflected in the quality of its balance sheet and its relatively high capital ratio. The BIS ratio averaged 21% in the first half of 2010 (H1 2009: 21%). As at 30 June 2010, the BIS ratio stood at 21% (year-end 2009: 25%), comfortably higher than the external target of 12.5%. The Tier 1 ratio as at 30 June 2010 was 19% (year-end 2009: 22%).

Operating income

Operating income was down 7% in the first half of 2010 at €62.2 million (H1 2009: €66.6 million) and was 4% lower compared with the second half of 2009.

Analysis of operating income

<i>(in millions of euros)</i>	H1 2010	H1 2009	change	%
Net interest	11.2	18.5	-7.3	-39%
Net commission	37.4	37.5	-0.1	0%
Result on investments	12.4	9.9	2.5	25%
Other income	1.2	0.7	0.5	
Total operational income	62.2	66.6	-4.4	-7%
Non-operational income	0.8	0.1	0.7	
Total income	63.0	66.7	-3.7	-6%

Income from net interest was 39% down in the first half of 2010 at €11.2 million (H1 2009: €18.5 million). The narrower interest margins are caused by a combination of low market interest rates and the bank's policy of mitigating risk by reducing the maturities of its financial assets. Commission income showed little change at €37.4 million (H1 2009: €37.5 million).

Analysis of commission income

<i>(in millions of euros)</i>	H1 2010	H1 2009	change	%
Custody and investment management services	18.6	13.9	4.7	34%
Clearing and settlement	13.7	17.7	-4.0	-23%
Securities lending	2.2	2.9	-0.7	-24%
Other	2.9	3.0	-0.1	-3%
Total commission income	37.4	37.5	-0.1	0%

Income from custody and investment management services was 34% higher at €18.6 million (H1 2009: €13.9 million). Additional income from Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, which was acquired on 1 August 2009, was a significant factor in this growth.

Commission on clearing and settlement was down 23% in the first half of 2010 at €13.7 million (H1 2009: €17.7 million), reflecting lower settlement transaction volumes and intense competitive pressure on prices.

The operating result on investments rose 25% to €12.4 million (H1 2009: €9.9 million), boosted by positive results on trading and investment positions including gains realised on sale of the bonds in the investment portfolio in pursuit of the policy of reducing the maturities of the financial assets. Income from client-related transactions in foreign currency accounted for €7.0 million (H1 2009: €7.2 million) of the operating result on investments.

Non-operating income

Net non-operating income in the first half of 2010, which comprised three items, amounted to €0.8 million (H1 2009: €0.1 million). There was negative non-operating income of €1.8 million in the first half of 2010 (H1 2009: €1.1 million negative) in the form of a loss on an interest derivative. This charge is accounted for as a non-operating item because the compensatory positive item is recognised in equity under IFRS. There was also a gain of €2.0 million on the sale of equities in the investment portfolio in the first half of 2010 (H1 2009: nil). Lastly, non-operating income of €0.6 million was realised in the first half of 2010 (H1 2009:

€1.2 million) by the partial recovery in the market prices of several bonds on which impairments had been recognised in the second half of 2008.

Operating expenses

Operating expenses in the first half of 2010 were down 2% compared with the first half of 2009 at €50.2 million (H1 2009: €51.3 million) and 4% lower compared with the second half of 2009.

Analysis of operating expenses

<i>(in millions of euros)</i>	First half 2010	First half 2009	change	%
Staff costs	33.1	34.4	-1.3	-4%
Other administrative expenses	13.0	12.9	0.1	0%
Depreciation/amortisation	4.1	4.0	0.1	3%
Operating expenses	50.2	51.3	-1.1	-2%
Exceptional expenses	-1.9	-	-1.9	
Total	48.3	51.3	-3.0	-6%

Staff costs in the first half of 2010 amounted to €33.1 million (H1 2009: €34.4 million), down 4% compared with the first half of 2009. The decrease reflects the lower cost of both temporary and permanent staff. The number of FTEs fell 8% to 739 between 30 June 2009 and 30 June 2010.

Non-operating expenses

Two non-operating items in the first half of 2010 reduced the operating expenses by a total of €1.9 million. With the subletting of the property concerned since the beginning of 2010, the provision of €0.7 million formed in 2008 against a loss-making lease was released. An impairment applied to lending business in 2008 was partially reversed by an amount of €1.2 million. Including non-operating items, operating expenses were 7% lower compared with the second half of 2009. There were no non-operating expenses in the first half of 2009.

Balance sheet

The bank's balance sheet total grew 20% in the first half of 2010 to €7.6 billion (year-end 2009: €6.3 billion). Some variation in the balance sheet total as a function of client transaction volume is inherent in KAS BANK's business. The balance sheet total was 3% lower than at the end of June 2009. The quality of KAS BANK's balance sheet is largely reflected in the development of its risk-weighted assets, its liquidity and the composition of its portfolio of available-for-sale investments.

Risk-weighted assets

The risk-weighted assets increased 21% in the first half of 2010 to €855 million (year-end 2009: €707 million). Compared with 30 June 2009, the risk-weighted assets increased 10%.

<i>(in millions of euros)</i>	Carrying amount		Risk-weighted value	
	30/06/2010	30/06/2010	31/12/2009	31/12/2009
Banks	2,795.3	140.5	2,707.4	83.2
Loans and advances	1,731.2	59.8	907.2	45.4
Reverse repurchase agreements	703.3	0.5	584.3	0.6
Derivative financial instruments	134.8	68.0	92.1	74.7
Investments at fair value through profit or loss	193.6	15.2	154.6	-
Available-for-sale investments	1,069.6	154.1	1,289.3	126.1
Property and equipment	42.9	42.9	44.1	44.1
Other balance sheet items	946.1	58.9	550.7	59.9
	7,616.8	539.9	6,329.7	434.0
Contingent liabilities	28.3	1.7	30.8	5.5
Irrevocable facilities	55.5	-	62.8	-
Operational risk		269.9		252.4
Securities lending		43.3		14.9
Total of the risk-weighted items		854.8		706.8
	30/06/2010	30/06/2010	31/12/2009	31/12/2009
Tier 1	157.3	19%	153.2	22%
Tier 2	18.2		21.9	
Total BIS	175.5	21%	175.1	25%

Because loans and advances are generally granted against collateral of securities or subject to netting arrangements, the risk-weighted value of the portfolio of loans and advances, which amount to €1,731.2 million (year-end 2009: €907.2 million), is only €59.8 million (year-end 2009: €45.4 million).

Liquidity

The following maturity calendars as at 30 June 2010 and year-end 2009 show the relative apportionment of the contractual non-discounted cash flows from KAS BANK's financial assets (excluding equities):

<i>(in percentages)</i>						
Maturity calendar as at 30/06/2010	Direct	< = 3 months	< = 1 year	< = 5 year	> 5 year	Total
Banks, loans and advances and other financial assets	84%	16%	0%	0%	0%	100%
Available-for-sale investments	42%	11%	11%	20%	16%	100%
Total financial assets	77%	15%	2%	3%	3%	100%

<i>(in percentages)</i>						
Maturity calendar as at 31/12/2009	Direct	< = 3 months	< = 1 year	< = 5 year	> 5 year	Total
Banks, loans and advances and other financial assets	76%	20%	1%	1%	2%	100%
Available-for-sale investments	20%	4%	20%	46%	10%	100%
Total financial assets	63%	17%	5%	11%	4%	100%

As at 30 June 2010, 92% (year-end 2009: 80%) of the financial assets had a maturity of three months or less.

As at 30 June 2010, the liquidity surplus by the Financial Supervision Act's definition was €1.4 billion (year-end 2009: €1.6 billion).

Quality of the investment portfolio

The quality of KAS BANK's investment portfolio is reflected in the ratings of the securities it contains. The bonds, money-market paper and equities in the available-for-sale portfolio and the investments classified as assets at fair value through profit or loss are analysed by rating (Moody's) as follows:

<i>(in millions of euros)</i>	30/06/2010	Percentage of portfolio	31/12/2009	Percentage of portfolio
Government/government guaranteed	475	38%	938	65%
Other Aaa – Aa3	710	56%	401	28%
Total Aaa – Aa3	1,185	94%	1,339	93%
A1 – A3	27	2%	37	3%
Baa1 – Baa3	32	3%	40	3%
Shares	19	1%	28	1%
Total available-for-sale investments and investments at fair value through profit or loss	1,263	100%	1,444	100%

The decrease in investments in loans issued or guaranteed by government in the first half of 2010 was due to the sale of part of these investments with a view to shortening the maturities of the financial assets and mitigating interest rate risk.

The figures in this press release have not been examined by external auditors.

Enclosure:

- Consolidated income statement
- Consolidated balance sheet

Profile of KAS BANK N.V.

KAS BANK is a European specialist in wholesale securities services. As an independent bank, we connect professional financial institutions within Europe and across the globe.

We focus on providing added-value services to national and international organisations active in the pensions and securities industries. We view the market from the perspective of our clients – tailor-made services and complete transparency are paramount in helping them to meet their business objectives.