FITCH AFFIRMS KAS BANK AT 'A-'; OUTLOOK STABLE

Fitch Ratings-Paris/London-16 December 2016: Fitch Ratings has affirmed KAS BANK N.V.'s Long- and Short-Term Issuer Default Ratings (IDRs) at 'A-' and 'F2', respectively. The Outlook on the Long-Term IDR is Stable. At the same time the agency has affirmed its Viability Rating (VR) at 'a-'. A full list of rating actions is available at the end of this rating action commentary.

KEY RATING DRIVERS
VR AND IDRs
The ratings are driven by the franchise of KAS BANK as a post-trade securities services provider to institutional investors, mostly Dutch pension funds and insurance companies, and by its low risk appetite. KAS BANK has an established franchise in its core business in the Netherlands, but the bank's monoline business model and geographically concentrated customer base are rating constraints.

The ratings also reflect a high, albeit well-managed, exposure to operational risk and some earnings volatility. The bank has sound risk-weighted capitalisation but a small capital base for its rating level.

KAS BANK is a niche player, with an established franchise concentrated mainly in the Netherlands. Its independent status and primary focus on the specific needs of its fairly narrow customer base differentiate it from its larger, global, competitors. Fitch expects it to maintain critical mass in its core asset administration business. Its knowledge of local reporting and regulatory requirements enables it to provide tailor-made value-added reporting services to its customers.

Management is experienced and has a track record of coherent strategy. Transparency and independence, combined with a low risk profile, are important values for the bank.
Fitch views KAS BANK's risk appetite as low. The bank's credit risk is very low and stems mainly from its intraday collateralised settlement-related facilities.

Exposure to operational risk is high, reflecting the bank's reliance on efficient IT systems, although we believe it is well-managed. KAS BANK outsources its mainframe and has recently decided to transfer further IT services to its main outsourcer. We view this positively given that KAS BANK's small size would not enable the bank to develop state-of-the-art systems on its own. Outsourcing agreements are tight and comprehensive controls are in place, and further client on-boarding and upscaling will be more cost-efficient. In addition, further process improvement and automation are reducing operational complexity and enhancing system efficiency.

Profitability is suffering from weak efficiency, which became more burdensome recently due to a decrease in revenues, and the bank only broke even in 1H16, recording a minimal net profit of EUR0.9m compared with EUR15.3m in 2015. We expect the strategic focus on asset administration and reporting services, combined with accelerated cost efficiency measures, to gradually improve earnings generation, but it will likely remain a rating weakness for the foreseeable future.

KAS BANK's common equity Tier 1 ratio was 26% at end-June 2016, reflecting management's aim to maintain the bank's regulatory capital ratios well above regulatory requirements. Capitalisation needs to be viewed in the context of the bank's high exposure to operational risks. In addition, its small equity base makes it vulnerable to shocks. Leverage is fairly high, with a tangible equity/tangible asset ratio of around 4% at end-June 2016, and fluctuates in line with customer deposits as the balance sheet is liability-driven; however, assets are generally very short-term.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that KAS BANK becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

RATING SENSITIVITIES

VR AND IDRs

Upside to the ratings is limited due to KAS BANK's fairly limited franchise and monoline business model in a global context - as reflected in Fitch's assessment of the bank's company profile - and its small equity base compared with similarly rated peers.

The ratings are primarily sensitive to significant operational loss event that could cause reputational damage and pressure business volume and revenue. A failure to restore and improve profitability would also be rating-negative.

SUPPORT RATING AND SUPPORT RATING FLOOR

KAS BANK's Support Rating and Support Rating Floor are primarily sensitive to legislative changes at national and European levels, increasing the propensity of sovereigns to support institutions such as KAS BANK. While not impossible, this is not expected by Fitch.

The rating actions are as follows:

Long-Term IDR affirmed at 'A-'; Outlook Stable
Short-Term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
Support Rating affirmed at '5'
Support Rating Floor affirmed at 'No floor'

Contact:
Primary Analyst
Olivia Perney Guillot
Senior Director
+33 144 29 91 47
Fitch France S.A.S.
60 Rue de Monceau
75008 Paris

Secondary Analyst
Konstantin Yakimovich
Director
+44 20 3530 1789

Committee Chairperson
Bjorn Norrman
Senior Director
+44 20 3530 1330

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051