

KAS BANK N.V.
REPORT ON THE FIRST HALF OF 2016

CONTENTS

REPORT ON THE FIRST HALF OF 2016	3
RESPONSIBILITY STATEMENT	9
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	10
CONSOLIDATED INCOME STATEMENT	11
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	12
CONSOLIDATED BALANCE SHEET	13
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	14
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	15
SELECTED EXPLANATORY NOTES	16
ACCOUNTING POLICIES	16
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	18
REVIEW REPORT	23

REPORT ON THE FIRST HALF OF 2016

Chairman's statement

"The markets remain challenging. We are disappointed that fee income growth and initiated cost reductions have not yet compensated for the decrease in Treasury income. We are positive about KAS BANK's continued growth in our core custody and investment accounting services. We also detect greater market demand for our expanding range of back office services for institutional investors. Our initiated actions have not yet fully impacted, resulting in a lower first half year profitability," says Sikko van Katwijk, Chairman of KAS BANK's Managing Board.

General overview

In the first half year of 2016 the market conditions were challenging, resulting in a lower profitability. Extremely low interest rates and market response following political instabilities have impacted our financial performance. However, the growth in commission income on asset services (administration, data and reporting) supports our strategic ambitions for growth. KAS BANK's cost level needs to change in order to restore better financial performance. To achieve this we have begun executing initiatives we have identified to achieve efficiencies and resulting in lower costs in the future. KAS BANK expects to see the impact of these as of the second half of this year and onwards. KAS BANK has identified a structural annual efficiency potential of EUR 20 million to be implemented in the period up to and including 2019.

KAS BANK provides financial services to institutional investors including pension funds, insurance companies, funds and wealth companies. As our clients require full compliance with continuously changing and increasing rules and regulations, it is our mission to support them to be in control. In order to allow our clients to focus on their core objectives of creating maximum asset value for their clients, at KAS BANK we increasingly find ourselves a back office partner to our clients supporting their core activities and providing them a fully continued compliant process.

Through this way KAS BANK now facing adds an important new focus to its current range of client activities. Our core markets represent an enormous potential for these investor back office services that is fully aligned with our core competences. In the past years we have seen healthy growth in areas related to administration, data and reporting services. It is our ambition to strengthen and expand this administrative role for our clients. In order to achieve this, we will execute plans to adjust our operating model, putting more focus on this new core of service activities. As we have recently begun a process with ATOS for our IT-services, we intend to cooperate with outsourcing partners to combine the strength of these institutions with the strengths of KAS BANK, enhancing our push for focus on areas where we have the largest added value for our clients.

Results

<i>Operating expenses</i>	First half of 2016	First half of 2015	change	%
Operating income	51.6	62.4	-10.8	-17%
Operating expenses	-46.7	-47.8	1.1	-2%
Tax	-0.6	-3.7	3.0	-82%
Net result from operations	4.3	10.9	-6.7	-61%
Impairments losses (recovery)	-0.0	0.2	-0.3	
Resolution levy and contribution to resolution fund and deposit guarantee scheme	-1.6	-	-1.6	
Expenses related to the 2014-2017 investment plan	-2.9	-3.7	0.8	
Tax	1.1	0.9	0.3	
Net result - other	-3.4	-2.6	-0.8	
Net result for the period	0.9	8.3	-7.5	-89%

KAS BANK realised a net result of EUR 0.9 million (H1 2015: EUR 8.3 million) for H1 2016 and a return on equity of 1% (H1 2015: 8%). Net result from operations decreased with 61% to EUR 4.3 million (H1 2015: EUR 10.9 million). Extremely low interest rates, challenging market conditions and limited sales from the investment portfolio resulted in a 17% decrease of operating income to EUR 51.6 million (H1 2015: EUR 62.4 million). The operating expenses decreased with 2% to EUR 46.7 million (H1 2015: EUR 47.8 million), lower personnel expenses exceeded the increase in mainly the higher IT expenses. The efficiency ratio, based on operating income and operating expenses, amounted to 90% (H1 2015: 77%).

Other items

Other items as specified above are excluded from the Results from operations.

The contribution to the Single Resolution Fund (EUR 1.5 million) and the deposit guarantee scheme (EUR 0.1 million) amounts EUR 1.6 million (H1 2015: nil). This is almost the total of the estimated contribution of EUR 1.7 million. For H2 2016, we estimate the contribution to the deposit guarantee scheme at EUR 0.1 million, there will be no further contributions in 2016 to the Single Resolution Fund.

In H1 2016, the expenses related to the 2014-2017 investment plan of EUR 16 million (part of the compensation received from dwpbank in 2014 of EUR 20 million) to improve the operations and to strengthen the strategic approach amounted to EUR 2.9 million (H1 2015: EUR 3.7 million). These expenses were classified as personnel expenses (H1 2016: EUR 1.6 million; H1 2015: EUR 1.7 million) and as general and administrative expenses (H1 2016: EUR 1.3 million; H1 2015: EUR 2.0 million). In the period 2014 till June 2016, we have spent EUR 12.1 million of the total of EUR 16 million. This related to amongst others external employees supporting projects to increase competitiveness and investments in various programs on culture, continuous improvement (LEAN), risk and compliance resulting in higher consultancy costs.

In H1 2016 there were no material (reversals of) impairments. In H1 2015, the impairments related to credit facilities (EUR 0.5 million positive) and to investments (EUR 0.3 million negative) with a positive net impact of EUR 0.2 million.

The disclosed operating income and operating expenses below are exclusive of the items mentioned as 'Net result - other'.

Operating income

Breakdown of income

In millions of euros	First half of 2016	First half of 2015	change	%
Net interest result	8.0	12.7	-4.7	-37%
Net commission result	35.8	37.2	-1.4	-4%
Result on investments	7.3	12.1	-4.8	-40%
Other income	0.5	0.4	0.1	25%
Total income	51.6	62.4	-10.8	-17%

Interest

Breakdown of net interest result

In millions of euros	First half of 2016	First half of 2015	change	%
Loans and deposits	3.1	6.4	-3.3	-52%
Bonds and non-trading derivatives (hedge)	4.9	6.3	-1.4	-22%
Total net interest result	8.0	12.7	-4.7	-37%

Due to the UK Brexit vote, and other events, the yield curve flattened further in the Eurozone. Total net interest result decreased by 37% to EUR 8.0 million (H1 2015: EUR 12.7 million). Interest relating to loans and deposits decreased by 52%. The increased volume in client deposits could not compensate the decreased margins due to declining spreads.

The interest result on KAS BANK's investment portfolio decreased by 22% to EUR 4.9 million (H1 2015: EUR 6.3 million). The low duration – most investments have a variable interest rate for a maximum of three months – resulted in a decrease of the interest return on the portfolio.

Commission

Breakdown of net commission result

In millions of euros	First half of 2016	First half of 2015	change	%
Asset Servicing	19.4	18.2	1.2	7%
Transaction Servicing	11.4	11.7	-0.3	-3%
Treasury	5.0	7.3	-2.3	-32%
Total net commission result	35.8	37.2	-1.4	-4%

Net commission result decreased with 4% to EUR 35.8 million (H1 2015: EUR 37.2 million). The decrease was mainly affected by the lower commission income relating to securities lending.

The result of Asset Servicing commission (mainly Custody, Investment Management Services and Depositary Services) increased by 7% to EUR 19.4 million (H1 2015: EUR 18.2 million). Client wins and higher asset values resulted in an increase of Assets under Administration by 9% to EUR 500 billion at 30 June 2016 (June 2015: EUR 460 billion). Furthermore services like tax reclaim and the regulatory reporting line (services related to Alternative Investment Fund Managers Directive (AIFMD), European Market Infrastructure Regulation (EMIR), look through and Financial Assessment Framework (*Financieel Toetsingskader*)) contributed to this increase.

Lower volumes resulted in a slight decrease of the result of Transaction Servicing commission to EUR 11.4 million (H1 2015: EUR 11.7 million).

The result of Treasury commission, mainly consisting of securities lending, decreased by 32% to EUR 5.0 million (H1 2015: EUR 7.3 million). The high liquidity in the market resulted in pressure on the prices and lower volumes within the securities lending services.

Result on investments

Breakdown of result on investments

<i>In millions of euros</i>	First half of 2016	First half of 2015	change	%
Trading - foreign exchange transactions	6.4	6.7	-0.3	-4%
Trading - securities and derivatives	1.0	3.0	-2.0	-67%
Investments - investment portfolio	-0.1	2.4	-2.5	-104%
Result on investments	7.3	12.1	-4.8	-40%

In 2016, the main part of the result on investments consisted of client-driven foreign exchange transactions. These results showed a decrease of 4% to EUR 6.4 million in H1 2016 in comparison with H1 2015 (EUR 6.7 million). The trading results on securities and derivatives consist of duration overlay services (Institutional Risk Management) to clients and interest rate hedging transactions.

The result on investments of the investment portfolio consisted mainly of sales of bonds (H1 2016: EUR 0.6 million; H1 2015: EUR 2.2 million) and changes in the fair value of two distressed bonds (H1 2016: EUR 0.7 million negative; H1 2015: EUR 0.2 million positive).

The revaluation reserve of KAS BANK's investment portfolio decreased in 2016 by EUR 5.9 million to EUR 6.7 million (December 2015: EUR 12.6 million), mainly due to a widening between the interest rates of the mortgages and the hedge instruments in the first half of 2016.

Operating expenses

Breakdown of operating expenses

<i>In millions of euros</i>	First half of 2016	First half of 2015	change	%
Personnel expenses	32.2	32.9	-0.7	-2%
General and administrative expenses - IT	8.6	7.6	1.0	13%
General and administrative expenses - other	4.3	5.5	-1.2	-22%
Depreciation and amortisation	1.6	1.8	-0.2	-11%
Total operating expenses	46.7	47.8	-1.1	-2%

Personnel expenses

Personnel expenses decreased by 2% to EUR 32.2 million (H1 2015: EUR 32.9 million). This decrease is mainly due to a lower number of external employees. Pension expenses increased with EUR 0.8 million to EUR 5.4 million (H1 2015: EUR 4.6 million) mainly due to an additional contribution to the pension fund relating to 2015 of EUR 0.5 million.

General and administrative expenses

The general and administrative expenses decreased with EUR 0.2 million to EUR 12.9 million (H1 2015: EUR 13.1 million). The increase of data requests to provide KAS BANK's services to clients and investments in the investment accounting platform resulted in an increase of the IT expenses with EUR 1.0 million. The other general and administrative expenses decreased with 20% as a result of the cost restructuring program and lower advisory costs.

Tax expenses

Due to a positive outcome of a settlement of previous tax years we record a tax benefit in H1 2016. As a result the effective tax rate differs substantially from the statutory tax rate of 25%. In H1 2015 the statutory and effective tax rate was 25%.

Quality of the investment portfolio

The table below shows the credit rating of the investment portfolio securities which are classified as Investments available for sale and Investments at fair value through profit or loss (based on Moody's Investor Services).

<i>In millions of euros</i>	30 June 2016	Percentage of bond portfolio	31 December 2015	Percentage of bond portfolio
Aaa - Aa3	341	63%	339	59%
A1 - A3	122	23%	146	25%
Baa1 - Baa3	45	8%	54	9%
Ba1 - Ba3	30	6%	46	8%
< Ba3	1	0%	4	1%
Total bonds	539	100%	589	100%
Mortgage fund	233		225	
Shares	2		2	
Total	774		816	

As per 2014 KAS BANK invests in a high quality mortgage fund which does not have a credit rating. This mortgage fund mainly invests (at least 75%) in new mortgages which are guaranteed by the Dutch government (*NHG hypotheek*) and the fund therefore has the characteristics of an investment with a high credit rating.

Capital adequacy

<i>In millions of euros</i>	30 June 2016		31 December 2015	
	Carrying amount	Risk-weighted value	Carrying amount	Risk-weighted value
Cash and balances with central banks	1,858	-	799	-
Due from banks	632	128	418	82
Loans	605	30	561	29
Reverse repurchase agreements	755	-	1,091	-
Derivative financial instruments	426	42	326	37
Financial assets designated at fair value	-	-	56	-
Financial investments available-for-sale	774	180	760	203
Financial investments held-to-maturity	-	-	-	-
Other assets	79	80	93	97
	5,129	460	4,103	449
Market risk		10		2
Operational risk		200		200
Other off-balance sheet risk	35	82	35	89
Total of the risk-weighted items		752		740
Capital and ratios	Capital	Ratio	Capital	Ratio
Common equity tier 1	192	26%	183	25%
Capital ratio	192	26%	183	25%

The high capital ratio reflects KAS BANK's low risk profile. KAS BANK's common equity tier 1 and capital ratio, excluding interim profits, are 26% at the end of June 2016 (31 December 2015: 25%).

Liquidity

At the end of June 2016, 83% of KAS BANK's financial assets have a maximum maturity of three months (at the end of December 2015: 78%).

As of October 2015 a new liquidity ratio, the liquidity coverage ratio, has been initiated for KAS BANK. Under the Capital Requirement Regulation, financial institutions are required to hold an amount of high quality liquid assets equal to or greater than their outflow over a 30 day period (having at least 100% coverage). As per 30 June 2016 the Liquidity Coverage Ratio of KAS BANK amounts to 171% (31 December 2015: 143%).

Dividend

KAS BANK will not distribute interim dividend (interim dividend 2015: EUR 0.33 per ordinary share).

KAS BANK's policy is to pay out an interim dividend based on actual performance in the first half year. In light of the first half year results, we will forego the interim-dividend. We repeat the bank's aim to meet our long term external financial objectives, including adhering to a dividend pay-out ratio of 60-80%.

Outlook

In the second half of 2016 KAS BANK expects an improvement of the bank's net result in comparison to the first half of 2016 supported by a stable level of income and a lower cost level. In addition, we have non-recurring expenses related to IT outsourcing (substantial part of the transition costs of EUR 10 million will impact the result of 2016). Furthermore, the bank investigates the sale of the office building in Amsterdam in H2, with an expected gain when effectuated. In the second half of 2016 KAS BANK will also finalise plans to realise a structural annual cost reduction of EUR 20 million in the period up to and including 2019 (based on the current income level). Part of these plans is the adjustment of the operating model, resulting in improving the quality and efficiency of the processes. This adjustment is expected to result in non-recurring expenses in H2.

RESPONSIBILITY STATEMENT

In respect of Article 5:25d, section 2 (c) (1 and 2) of the Dutch Financial Supervision Act, the members of the Managing Board of KAS BANK hereby confirm, to the best of our knowledge, that

- The interim financial statements for the six months ended 30 June 2016, which have been prepared in accordance with IAS 34 'Interim Financial Reporting', give a true and fair view of the assets, liabilities, financial position and profit or loss of KAS BANK and its consolidated group companies;
- The interim report includes a fair review of information required pursuant to Section 5, subsection 25d, paragraphs 8 and 9, of the Financial Supervision Act.

Amsterdam, 24 August 2016

Managing Board

Sikko van Katwijk, Chairman

Mark Stoffels, Chief Financial & Risk Officer (as of 1 February 2016)

Jaap Witteveen, Chief Operations Officer

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

<i>In thousands of euros</i>	First half of 2016	First half of 2015
INCOME		
Interest income	16,300	21,375
Interest expense	8,264	8,658
Net interest result	8,036	12,717
Commission income	43,090	44,823
Commission expense	7,339	7,667
Net commission result	35,751	37,156
Net trading income	7,468	9,686
Result from financial transactions	-144	2,413
Other income	482	461
Total operating income	51,593	62,433
EXPENSES		
Personnel expenses	2 33,794	34,585
General and administrative expenses	14,233	15,159
Depreciation and amortisation	1,613	1,771
Total operating expenses	49,640	51,515
Impairment losses (recovery)	5	-200
Resolution levy and contribution to resolution funds	1,586	-
Total expenses	51,231	51,315
Result before tax	362	11,118
Tax expense	-511	2,811
Net result for the period	873	8,307
Attributable to:		
KAS BANK shareholders	873	8,290
Non-controlling interests	-	17
EARNINGS PER SHARE		
- basic (in euros)	0.06	0.56
- diluted (in euros)	0.06	0.56

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of euros</i>	First half of 2016	First half of 2015
Net result	873	8,307
<i>Items that will be reclassified subsequently to profit or loss</i>		
Gains and losses on financial investments available-for-sale	-7,305	12,199
Gains and losses on financial investments available-for-sale transferred to profit or loss	-503	-2,179
Items that will be reclassified subsequently to profit or loss before tax	-7,808	10,020
Income tax relating to items that will be reclassified to profit or loss	1,952	-2,491
Items that will be reclassified subsequently to profit or loss after tax	-5,856	7,529
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Revaluation on land and buildings	-	10,622
Actuarial gains and losses on pensions	-	-26
Items that will not be reclassified subsequently to profit or loss before tax	-	10,596
Income tax relating to items that will be reclassified to profit or loss	-	-2,647
Items that will not be reclassified subsequently to profit or loss after tax	-	7,950
Net total other comprehensive income	-5,856	15,479
Net total comprehensive income	-4,983	23,786
Attributable to:		
KAS BANK shareholders	-4,983	23,769
Non-controlling interests	-	17

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED BALANCE SHEET

<i>In thousands of euros</i>	30 June 2016	31 December 2015
Assets		
Cash and balances with central banks	1,858,288	798,754
Due from banks	631,549	418,009
Loans	604,812	561,310
Reverse repurchase agreements	755,010	1,091,034
Derivative financial instruments	425,762	325,539
Financial assets designated at fair value	-	56,659
Financial investments available-for-sale <i>of which pledged as collateral</i>	774,221 468,243	759,759 315,060
Current tax assets	6,689	2,042
Other assets	29,008	46,263
Property and equipment	3 32,538	33,345
Intangible assets	2,789	2,736
Deferred tax assets	7,882	7,515
Total assets	5,128,548	4,102,965
Equity and liabilities		
Due to banks	428,388	270,121
Due to customers	3,960,344	3,180,146
Repurchase agreements	361	240
Derivative financial instruments	447,400	334,293
Financial liabilities designated at fair value	-	60,853
Current tax liabilities	2,760	1,947
Other liabilities	4 83,025	37,526
Deferred tax liabilities	6,299	8,325
Total liabilities	4,928,577	3,893,451
Issued capital	15,699	15,699
Treasury shares	-21,980	-22,444
Share premium	21,569	21,569
Revaluation reserve	18,655	24,733
Other reserves (including profit for the period)	166,028	169,957
Equity attributable to KAS BANK shareholders	199,971	209,514
Non-controlling interests	-	-
Total equity	199,971	209,514
Total equity and liabilities	5,128,548	4,102,965
Contingent liabilities	20,873	20,665
Irrevocable facilities	14,100	14,100

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of euros</i>	Issued capital	Treasury shares	Share premium	Revaluation reserve	Other reserves (incl. profit for the period)	Total attributable to shareholders	Non-controlling interests	Total equity
Balance as at 1 January 2015	15,699	-22,740	21,569	14,740	164,969	194,237	98	194,335
Comprehensive income	-	-	-	15,498	8,271	23,769	17	23,786
Purchase/sale of treasury shares	-	256	-	-	-256	-	-	-
Share-based payments	-	-	-	-	62	62	-	62
Final dividend 2014	-	-	-	-	-4,565	-4,565	-	-4,565
Other movements	-	-	-	-	-139	-139	-115	-254
Balance as at 30 June 2015	15,699	-22,484	21,569	30,238	168,342	213,364	-	213,364
Balance as at 1 January 2016	15,699	-22,444	21,569	24,733	169,957	209,514	-	209,514
Comprehensive income	-	-	-	-5,856	873	-4,983	-	-4,983
Purchase/sale of treasury shares	-	464	-	-	-464	-	-	-
Share-based payments	-	-	-	-	-202	-202	-	-202
Final dividend 2015	-	-	-	-	-4,569	-4,569	-	-4,569
Other movements	-	-	-	-222	433	211	-	211
Balance as at 30 June 2016	15,699	-21,980	21,569	18,655	166,028	199,971	-	199,971

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

<i>In thousands of euros</i>	First half of 2016	First half of 2015
Net result	873	8,307
Other cash flow from operating activities	1,179,025	-275,408
Total net cash flow from operating activities	1,179,898	-267,101
Total net cash flow from investment activities	20,681	90,947
Total net cash flow from financing activities	-4,569	-4,565
Net cash flow	1,196,010	-180,719
Cash and cash equivalents at 1 January	1,182,965	759,756
Cash and cash equivalents at 30 June	2,378,975	579,037
<i>Reconciliation of cash flow statement with balance sheet items</i>		
Cash and balances with central banks	1,858,288	140,467
Due on demand from banks	520,687	438,570
Cash and cash equivalents at 30 June	2,378,975	579,037

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SELECTED EXPLANATORY NOTES

ACCOUNTING POLICIES

Corporate information

KAS BANK is a public limited liability company, incorporated under Dutch law and registered in Amsterdam, the Netherlands (Registration Chamber of Commerce: 33001320). KAS BANK, founded in 1806, is listed on the stock exchange of NYSE Euronext Amsterdam.

KAS BANK's condensed consolidated interim financial statements for the period ending 30 June 2016 include the parent company and all its subsidiaries, together referred to as 'KAS BANK'. An overview of the principal subsidiaries is included in the 2015 annual report.

The condensed consolidated interim financial statements were approved by the Managing Board on 24 August 2016. These condensed consolidated interim financial statements have been reviewed. The review report is included on page 23.

Basis of presentation

The condensed consolidated interim financial statements do not include all information and disclosures required in annual financial statements and should therefore be read in conjunction with the 2015 annual report of KAS BANK. KAS BANK's annual report for 2015 is available on KAS BANK's website.

In preparing the condensed consolidated interim financial statements for the first half of 2016, the same accounting policies, critical accounting estimates and judgements are used as for the consolidated financial statements for the year ended 31 December 2015. The financial statements are presented in euros, which is the functional currency of KAS BANK, rounded to the nearest thousand (unless stated otherwise).

In accordance with IFRIC 21 a liability is recognised for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

Statement of compliance

The condensed consolidated interim financial statements for the period ending 30 June 2016 are presented in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union.

Changes in accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are consistent with those used for the 2015 consolidated financial statements. The following changes in IFRS had no financial impact:

- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 1: Disclosure Initiative
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Annual improvements to IFRSs (2012-2014 cycle)

New IFRS standards and interpretations not yet adopted

A number of new, amended or revised standards were not applied in preparing these condensed consolidated financial statements as these standards were either not effective for the current period or have not been

adopted by the EU. We do not expect these standards will have a significant impact on the preparation of the financial statements in the near future. These new, amended or revised standards are listed below:

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception, effective as of 2016 (endorsement expected Q3 2016)
- Amendments to IAS 7: Disclosure Initiative, effective as of 2017
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses, effective as of 2017
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions, effective as of 2018
- IFRS 9: Financial instruments, effective as of 2018
- IFRS 15: Revenue from Contracts with Customers, effective as of 2018
- Clarifications to IFRS 15: Revenue from Contracts with Customers, effective as of 2018
- IFRS 16: Leases, effective as of 2019
- IFRS 14: Regulatory Deferral Accounts, the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, postponed

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Fair value measurement

The following table presents the financial instruments carried at fair value, broken down according to the fair value hierarchy. The fair value hierarchy distinguishes three levels of fair value:

- Level 1: Unadjusted quoted prices obtained in an active and liquid market.
- Level 2: Valuation techniques based on observable market data other than quoted prices included in level 1. This level includes quoted prices in less active markets and derivatives that are valued using inputs from observable market data.
- Level 3: Valuation techniques using variables other than observable market data. This level includes all instruments of where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation, these instruments are valued mainly by third parties.

Some equity instruments are measured at historical cost since no market data exists. There were no changes in valuation techniques during the period.

The fair value of a financial instrument is the price that would be received to sell or paid to transfer a particular asset or liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which KAS BANK has access at that date. KAS BANK determines fair value either by reference to quoted market prices or dealer price quotations without adjustment for transaction costs for those financial instruments that are currently traded in an active market. The fair value measurement is based upon the bid price for financial assets and the ask price for financial liabilities. These financial instruments are reported as level 1 in the fair value hierarchy.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The fair value of financial instruments not quoted in an active market is determined using specific valuation techniques. These valuation techniques are applied using, where possible, relevant market observable inputs (level 2). Valuation techniques include:

- Use of quoted market prices or dealer tickets for similar instruments
- Estimated future cash flows based on observable yield curves (fair value of interest rate derivatives and unlisted debt instruments)
- Use of forward exchange rates at the balance sheet date (fair value of foreign exchange derivatives)

30 June 2016					
<i>In thousands of euros</i>	Level 1	Level 2	Level 3	Cost	Total
Derivative financial instruments (assets)	54,416	371,346	-	-	425,762
Financial assets designated at fair value	-	-	-	-	-
Available-for-sale debt instruments	193,983	303,520	274,240	-	771,743
Available-for-sale equity instruments	-	833	1,474	170	2,477
Total financial assets	248,399	675,699	275,714	170	1,199,982
Derivative financial instruments (liabilities)	54,416	392,984	-	-	447,400
Financial liabilities designated at fair value	-	-	-	-	-
Total financial liabilities	54,416	392,984	-	-	447,400

31 December 2015					
<i>In thousands of euros</i>	Level 1	Level 2	Level 3	Cost	Total
Derivative financial instruments (assets)	45,216	280,323	-	-	325,539
Financial assets designated at fair value	56,659	-	-	-	56,659
Available-for-sale debt instruments	280,491	210,078	266,872	-	757,441
Available-for-sale equity instruments	-	833	1,315	170	2,318
Total financial assets	382,366	491,234	268,187	170	1,141,957
Derivative financial instruments (liabilities)	45,216	289,077	-	-	334,293
Financial liabilities designated at fair value	60,853	-	-	-	60,853
Total financial liabilities	106,069	289,077	-	-	395,146

Reclassifications from level 2

In H1 2016, unadjusted quoted prices in an active and liquid market for a number of debt instruments formerly classified as level 2 were obtained. As a consequence, assets with a fair value of EUR 13.2 million were transferred from level 2 to level 1 (2015: EUR 46.3 million). Assets with a fair value of EUR 55.6 million were reclassified from level 1 to level 2, as prices of these assets were no longer based on unadjusted quoted prices.

In H1 2016 no assets were reclassified to level 3 (2015: EUR 40.4 million).

Reconciliation of fair value at level 3

The movements in financial instruments measured using a level 3 method were as follows:

<i>In thousands of euros</i>	Financial investments available-for-sale	
	30 June 2016	31 December 2015
Position as at 1 January	268,187	215,427
Reclassification to Level 3	-	40,397
Redemptions	-	-11
Purchases of assets	-	-
Revaluation recognised in equity during the year	7,527	12,301
Total income and charges		
· Unrealised gains/losses	-	8
· Fair value movement recognised in the income statement	-	65
Level 3 assets at balance date	275,714	268,187

The instruments valued by a third party represent a fair value of EUR 274.2 million (December 2015: EUR 266.9 million). The other investments are based on an internal analysis of the assets and liabilities and represent a fair value of EUR 1.5 million (December 2015: EUR 1.3 million).

Since mid-2014, KAS BANK invests in a high quality mortgage fund, classified as Financial instruments available-for-sale. The fund has a joint account structure in which the investor has a direct exposure on the underlying mortgages. Around 75% of the mortgages are guaranteed by the Dutch guarantee scheme (*Nationale Hypotheekgarantie*). The fund is long term in nature but given the size of the fund and the prepayment rate an early exit is a likely possibility. Redemptions occur at the prevailing Net Asset Value. Each month the fund manager calculates the Net Asset Value. The calculation is based on the discounted cash flows of the underlying assets (Dutch mortgages). KAS BANK has committed EUR 200 million to the fund in two equal instalments as one of the first investors in the fund. At the end of June 2016 the fair value of KAS BANK's investment in this mortgage fund amounts EUR 233.0 million (at the end of 2015: EUR 225.2 million). At the end of June 2016 the total value of this mortgage fund amounts to EUR 7.5 billion (at the end of 2015: EUR 5.5 billion).

A movement of 25 basis points in either direction of the discount rate applied in the calculation of the Net Asset Value results in a change of 1.9% (December 2015: 2%) of the Net Asset Value of the fund.

Financial instruments for which carrying value approximates fair value

Certain financial assets and liabilities that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These financial assets and liabilities include cash and balances with central banks, due from other banks, loans, reverse repurchase agreements, due to banks, due to customers, and repurchase agreements.

Non-financial assets valued at fair value

Land and buildings are valued at fair value. The carrying amount of the land and buildings (level 3) as of 30 June 2016 was EUR 29.2 million (31 December 2015: EUR 29.4 million). The land and buildings were revalued as of June 2015 based on an external appraisal.

2. Personnel expenses**Change in accounting estimates (IAS 8)**

In 2015, KAS BANK agreed with the individual active participants a new pension plan starting as at 1 January 2016. This new pension plan, that also includes all benefits accrued up to 31 December 2015, qualifies as a (collective) defined contribution plan under IAS 19. The plan change results in the settlement of the entire defined benefit obligation and related plan assets at 31 December 2015 to the income statement as an additional pension expense.

With regard to the plan assets as at 31 December 2015 KAS BANK estimated the employers contribution at EUR 7.8 million based on the Dutch Central Bank's determined discount rate as per 31 December 2014. In June 2016, KAS BANK received the final employers contribution related to 2015, which was EUR 0.5 million higher than the estimation as per 31 December 2015, resulting in an additional pension expense in 2016.

The difference of EUR 0.5 million was caused by a change of the interest methodology to calculate the employers contribution. As per 1 January 2015, the Dutch Central Bank cancelled the temporary measure to calculate the discount rate based on a three months average. Due to this change the Dutch Central Bank permitted pension funds to choose between both discount rates to calculate the contribution. In June 2016, the board of the pension fund decided to calculate the 2015-contribution based on the Dutch Central Bank's determined discount rate as per 1 January 2015.

3. Property and equipment

In June 2015, an independent external appraiser performed a valuation of KAS BANK's head office in Amsterdam. This office is measured according to the valuation model with the assumption that the head office would continue to be used. The value concept of 'continuing use of the head office' is the amount that could reasonably be realised in a private sale to a third party, whereby the aim would be to continue the activity established in the buildings in the same or a similar way.

4. Other liabilities

A restructuring provision of EUR 4.7 million was recognised in 2013, which is aimed at structural improvement of the results as of 2014. The restructuring programme started in the first quarter of 2014. As per June 2016 EUR 4.1 million (December 2015: EUR 3.5 million) of the total restructuring provision is paid to employees in the restructuring programme, the other EUR 0.6 million (December 2015: EUR 1.2 million) is subject to constructive obligations and will be used in 2016 and the beginning of 2017.

Changes in restructuring provision	
<i>In thousands of euros</i>	
	2016
Balance as at 1 January	1,154
Used during year	-541
Balance as at 30 June	613

5. Segment information

KAS BANK's products and services focus primarily on the core segments: pension funds, insurance companies, investment funds and wealth management. Another important activity at KAS BANK is Treasury. KAS BANK does not report assets and liabilities on a segment level to the Managing Board. This segmentation overview reflects the structure of the internal management information provided to the Managing Board.

First half of 2016 <i>In millions of euros</i>	Core segments	Treasury	Other	Total
Interest income and expenses ¹	6.4	0.9	0.7	8.0
<i>Commission income and expense:</i>				
- Asset Servicing	19.1	-	0.3	19.4
- Transaction Servicing	9.1	-	2.3	11.4
- Treasury	3.1	1.8	0.1	5.0
Result on financial transactions and trading income	3.6	3.7	-	7.3
Other income	-	-	0.5	0.5
Total income	41.3	6.4	3.9	51.6
Operating expenses (direct)	-16.5	-1.1	-1.7	-19.3
Contribution	24.8	5.3	2.2	32.3
Operating expenses (other)			-31.9	-31.9
Result for the period before tax				0.4

First half of 2015 <i>In millions of euros</i>	Core segments	Treasury	Other	Total
Interest income and expenses ¹	8.0	3.6	1.1	12.7
<i>Commission income and expense:</i>				
- Asset Servicing	17.8	-	0.4	18.2
- Transaction Servicing	9.4	-	2.3	11.7
- Treasury	6.4	0.8	0.1	7.3
Result on financial transactions and trading income	6.4	5.5	0.1	12.0
Other income	-	-	0.5	0.5
Total income	48.0	9.9	4.5	62.4
Operating expenses (direct)	-15.4	-1.6	-2.8	-19.8
Contribution	32.6	8.3	1.7	42.6
Operating expenses (other)			-31.5	-31.5
Result for the period before tax				11.1

6. Dividend

After the General Meeting of Shareholders of 20 April 2016, the proposed final dividend for 2015 of EUR 4.6 million (EUR 0.31 per share) was distributed to the shareholders in the first half of 2016.

7. Companies acquired and divested

Acquisitions

There were no acquisitions in H1 2016 and H1 2015.

Divestments

There were no divestments in H1 2016. In May 2015, KAS BANK sold its entire interest of 50.25% in Addition Knowledge House (AKH) to the remaining shareholder of AKH. The transaction did not have an impact on the result of KAS BANK. The transaction settled on 1 May 2015.

In June 2015, KAS BANK liquidated Secpoint. The liquidation of KAS BANK Deutschland Holding GmbH and KAS Investment Servicing GmbH is still in progress. KAS BANK expects that the final liquidation of these companies will be finalised at the end of 2016, we don't expect material results related to these liquidations.

8. Related parties

In the normal course of business, KAS BANK enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of KAS BANK include the members of the

Managing Board, the members of the Supervisory Board, the company pension fund "Stichting Pensioenfonds van de KAS BANK" and the associate Neonet. Transactions between related parties have taken place on an arm's length basis. Transactions with related parties are disclosed in Note 44 'Related parties' in the annual report 2015 of KAS BANK.

In June 2015, KAS BANK invested EUR 0.3 million (total issue of EUR 1.5 million) in an investment (perpetual convertible debentures) of KAS BANK's associate Neonet (20% interest), a European broker. KAS BANK's part in this investment equals KAS BANK's interest in Neonet. This investment allows Neonet the right to convert the debenture to additional tier 1 capital at predetermined capital ratio triggers. This transaction has no impact on the capital position of KAS BANK. In November 2015, Neonet converted the debenture to shares due to a capital ratio below the trigger. In June 2016, Neonet's shareholders provided a loan facility of EUR 1 million to Neonet. KAS BANK's part amounts EUR 0.2 million and is fully collateralised.

9. Off balance sheet commitments

As per April 2016 KAS BANK has committed EUR 100 million to an investment fund (which invests in Dutch residential mortgages). Payment is due in the third quarter of 2016.

10. Subsequent events

On 1 July 2016, KAS BANK has signed a seven-year partnership with Atos SE for the management of its IT services. The agreement is part of the further optimisation of the services provided by KAS BANK and the reduction and flexibility of its IT costs. The agreement with Atos fits in the objectives of the bank to reduce the costs to a lower level. In total, over the term of the contract it is expected that a saving of nearly € 30 million will be realised. Within this reduction the costs of the transition of roughly € 10 million is taken into account, of which a substantial portion will be taken in the second half of the current year. Part of the agreements is the transfer of approximately 70 IT employees from KAS BANK to Atos.

On 27 July 2016, Knight Capital Group (KCG) announced that it has entered into a definitive agreement to acquire Neonet Securities AB ("Neonet"). Up to 27 July 2016 KAS BANK holds 20% of the interest in Neonet, which was classified as an associate. The transaction will not have a significant impact on the 2016-result of KAS BANK.

In 2008, KAS BANK impaired a perpetual bond with a face value of EUR 5.0 million. As per June 2016 the fair value of this bond is EUR 2.5 million. In August 2016, the issuer of the bond announced the full redemption of the bond on 24 September 2016. This redemption will result in a profit of EUR 2.5 million in Q3 2016.

Amsterdam, 24 August 2016

Managing Board

Sikko van Katwijk, Chairman

Mark Stoffels, Chief Financial & Risk Officer (as of 1 February 2016)

Jaap Witteveen, Chief Operations Officer

REVIEW REPORT

To: the Managing Board and the Supervisory Board of KAS BANK N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim financial information for the six-month period ended 30 June 2016 of KAS BANK N.V., Amsterdam, which comprises the consolidated balance sheet as at 30 June 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the condensed consolidated statement of cash flows for the period then ended and the selected explanatory notes. Managing board is responsible for the preparation and presentation of this (condensed) interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, Review of Interim Financial Information Performed by the Independent Auditor of the company. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information for the six-month period ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Rotterdam, 24 August 2016

PricewaterhouseCoopers Accountants N.V.
drs. S. Barendregt-Roojers RA

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