KAS BANK N.V.
Report on the first half of 2018

Enabling prosperity
for future generations

KAS BANK
CLEARLY DIFFERENT

Contents

Report on the first half of 2018

Chairman's statement

"We are transforming our organisation into an innovative administration bank and accordingly have accelerated investments. In the first half of 2018, our operating income amounted to EUR 51.8 million, with the operating income level in the second quarter at the same levels we saw in the first quarter. On balance, the impact of consolidation and competition in the pension and insurance segment resulted in a lower number of clients and a decrease of commission income. We have broadened the scope of our services in our international branches. In the UK, we now offer clients a full suite of pension services. In Germany our visibility continues to increase, leading to new client wins. The Pensions-Akademie initiative underlines our commitment to the German pension market. In the Netherlands, we have further developed our ESG proposition and expanded our business with family offices.

We have decided to phase out our investment in a Dutch mortgage fund to avoid volatility in results due to the implementation of IFRS9. In the first half of this year, we sold part of this investment and used the positive investment result to accelerate improvements of our core processes and innovations. These investments include the recently launched robot-overlay service, expected launch of a new client front-end, and improvement in data quality and processes. This led to an increase in operating expenses of 7% to EUR 45.4 million. At the same time, our continued focus on efficiency resulted in a significant decrease in run rates in the last two years. We have implemented several new robotics processes and will continue with continuous improvement and robotics initiatives to become more efficient, improve quality and internal control for our clients. Our business is supported by continued high capital and liquidity ratios and a transparent and robust balance sheet.

The world around us is changing rapidly. Clients' needs are changing, and new technologies are on the rise. Regulatory developments pose both challenges and opportunities to our business. Our traditional source of income, custody, is impacted by the unbundling of the value chain and the scale effect of globalisation. On the other hand, we can benefit from the same trends by launching sourcing of investment administration as a new service.

We are running a transformation programme, aimed at improving our financial as well as our operational performance, whilst at the same time broadening our business base through investing in new sources of income. Our change program continues to strengthen our entrepreneurial culture.

Our cost programme is progressing according to plan. Excluding the accelerated strategic investments, our cost levels are coming down in line with the targeted EUR 20 million structural savings by the end of this year. We are now entering the second phase of our transformation programme in which we focus on innovations, further optimising our processes and accelerate investments. In Kas Lab, our 'nursery' for innovations, we use new technologies and focus on new markets to develop additional sources of income to support our growth for the future. Almost a year ahead of planning, we intend to launch the first initiatives in the coming months. We also see opportunities for smaller add-on acquisitions, strengthening our existing business and developing new activities relevant for our clients. Although investments needed for this transformation impact our net profit levels in the coming years, we believe this positions us better for a future as a healthy and innovative administration bank. We have exciting times ahead, but it's also good to see that after 212 years, our purpose remains unchanged. With our transformation well underway, we are confident KAS BANK will continue to "enable prosperity for future generations."

Dividend

We will distribute an interim dividend of EUR 0.21 in cash (interim dividend 2017: EUR 0.33 in cash). Our dividend policy remains unchanged (pay-out ratio: 60-80% of net profit).

Outlook

We do not foresee major changes in the macro-economic conditions impacting our results, capital and liquidity ratios in the next half year. Looking ahead, we believe that the second half of 2018 and 2019 will be an exciting period. We will continue our transformation, while fierce competition and consolidation of our client base result in a decrease of our 2019 Assets under Custody and operating income. We will continue our focus on cost control and improvement of processes and also develop new sources of income to adapt ourselves for the future, as we have done since 1806.

Results

IN MILLIONS OF EUROS	First half of 2018	First half of 2017	change	%
Operating income	51.8	53.6	-1.8	-3%
Operating expenses	-45.4	-42.4	-3.0	7%
Impairment results	0.4	0.2	0.2	100%
Tax expense	-1.7	-2.9	1.2	-41%
Net result for the period	**5.1**	**8.5**	**-3.4**	**-40%**

We realised a net half year result of EUR 5.1 million (H1 2017: EUR 8.5 million) and a return on equity of 4% (H1 2017: 8%). Lower commission income and interest results were the main reason for this decrease. The main part of the result of the divestment of our investment in a Dutch Mortgage Fund of EUR 5.7 million is invested in strategic and improvement projects (about EUR 3.0 million), overall resulting in a higher cost level.

The positive impairment result in the first half of 2018 mainly relates to a partial reversal of an impaired loan. The impact of IFRS 9 expected loss on performing loans is accounted for in the opening balance.

Tax expense over the first half of 2018 amounts to EUR 1.7 million; the amount is almost equal to the notional rate of 25%.

Operating income

Breakdown of income

IN MILLIONS OF EUROS	First half of 2018	First half of 2017	change	%
Net interest result	5.8	7.4	-1.6	-22%
Net commission result	30.0	35.1	-5.1	-15%
Result on investments	15.8	10.8	5.0	46%
Other income	0.2	0.3	-0.1	-33%
Total income	**51.8**	**53.6**	**-1.8**	**-3%**

Interest

Breakdown of net interest result

IN MILLIONS OF EUROS	First half of 2018	First half of 2017	change	%
Loans and deposits	1.1	1.3	-0.2	-15%
Bonds and non-trading derivatives (hedge)	4.7	6.1	-1.4	-23%
Total net interest result	**5.8**	**7.4**	**-1.6**	**-22%**

Net interest result decreased by 22% to EUR 5.8 million (H1 2017: EUR 7.4 million) mainly due the low interest rates.

Commission

Breakdown of net commission result

IN MILLIONS OF EUROS	First half of 2018	First half of 2017	change	%
Asset Servicing	16.9	19.8	-2.9	-15%
Transaction Servicing	9.2	10.8	-1.6	-15%
Treasury	3.9	4.5	-0.6	-13%
Total net commission result	**30.0**	**35.1**	**-5.1**	**-15%**

Net commission result decreased by 15% to EUR 30.0 million (H1 2017: EUR 35.1 million). Commission income relating to Asset Servicing decreased by 14% to EUR 16.9 million. The inflow of new clients only partially compensated for the impact of the decrease in Assets under Administration. Average Assets under Administration decreased by EUR 44 billion to EUR 446 billion in the first half of 2018.

Result on investments

Breakdown of result on investments

IN MILLIONS OF EUROS	First half of 2018	First half of 2017	change	%
Trading - foreign exchange transactions	9.5	8.1	1.4	17%
Trading - securities and derivatives	0.2	0.3	-0.1	-33%
Investments - investment portfolio	6.1	2.4	3.7	154%
Result on investments	**15.8**	**10.8**	**5.0**	**46%**

Result on investments increased by 46% to EUR 15.8 million (H1 2017: EUR 10.8 million) mainly due to positive FX-results/spreads and an increase of the realized result on the investment portfolio of EUR 3.7 million. The divestment of EUR 150 million (notional) of the investment in a Dutch

Mortgage Fund contributed EUR 5.7 million in the first half of 2018. The remaining investment in a Dutch Mortgage Fund amounts to EUR 150 million.

Increasing spreads between the euro and relevant foreign currencies resulted in a positive development of the FX-results on client transactions during the first half of 2018.

Operating expenses

Breakdown of operating expenses

IN MILLIONS OF EUROS	First half of 2018	First half of 2017	change	%
Personnel expenses	24.3	23.7	0.6	3%
General and administrative expenses - IT	13.8	11.9	1.9	16%
General and administrative expenses - other	6.5	6.1	0.4	7%
Depreciation and amortisation	0.8	0.7	0.1	14%
Total operating expenses	**45.4**	**42.4**	**3.0**	**7%**

Personnel expenses

Personnel expenses increased by 3% to EUR 24.3 million (H1 2017: EUR 23.7 million). The cost of external employees increased (EUR 1.0 million) compared to the first half of 2017 due to investments in strategic and improvement projects. The personnel expenses relating to running the bank have decreased year-on-year. In the first half of 2018 the average number of FTE was 446, compared to an average number of FTE of 490 during the first half of 2017.

General and administrative expenses, including depreciation and amortisation

General and administrative expenses related to IT increased by 16% to EUR 13.8 million (H1 2017: EUR 11.9 million). Our IT expenditures increased due to the mentioned investments in strategic and improvement projects (EUR 1.5 million) during the first half of 2018, compared to the first half of 2017.

Other general and administrative expenses increased by 7% to EUR 6.5 million (H1 2017: EUR 6.1 million). This line item also includes the contribution to the single resolution fund. Depreciation and amortisation increased slightly to EUR 0.8 million (H1 2017: EUR 0.7 million). This increase is mainly caused by investments in the new office building.

Tax expenses

Tax expenses are calculated based on the notional tax rate in the Netherlands (25%).

Quality of the investment portfolio

The table below shows the credit rating of the investment portfolio securities.

IN MILLIONS OF EUROS	30 June 2018	Percentage of Portfolio	31 December 2017	Percentage of Portfolio
AAA - AA-	794	74.0%	654	58.1%
A+ - A-	29	2.7%	24	2.1%
BBB+ - BBB-	65	6.1%	70	6.2%
BB+ - BB-	5	0.5%	5	0.4%
Total Bonds (rated)	**893**	**83.3%**	**753**	**66.9%**
Mortgage Fund (unrated)	165	15.3%	340	30.2%
Shares	15	1.4%	33	2.9%
Total Investments	**1,073**	**100.0%**	**1,126**	**100.0%**

The investment in a Dutch Mortgage Fund consists for a large part (45%) of mortgages guaranteed by the Dutch government (Nationale Hypotheek Garantie, NHG) which is considered as a high credit quality investment. During the first half of 2018 we sold 50% of the investment.

Solvency

IN MILLIONS OF EUROS	30 June 2018		31 December 2017	
	Carrying amount	Risk-weighted value	Carrying amount	Risk-weighted value
Loans and advances to banks	386.1	30.7	315.4	26.4
Loans and advances to customers	792.0	53.4	932.8	38.7
Trading assets	230.0	17.8	271.3	22.8
Investments securities	1,073.4	197.1	1,126.1	206.7
Other assets	1,913.6	135.4	1,553.6	58.9
Total	**4,395.1**	**434.4**	**4,199.2**	**353.5**
Off-balance sheet exposure	-	265.5	-	264.9
Total of the risk-weighted items	**-**	**699.9**	**-**	**618.4**
Capital and ratios	**Capital**	**Ratio**	**Capital**	**Ratio**
Capital ratio	215.2	31%	218.4	35%

The high capital ratio reflects our low risk profile. Our capital ratio, excluding interim profits, was 31% at the end of June 2018 (31 December 2017: 35%). The December 2017 ratio was relatively high compared to the average. The June 2018 ratio is in line with our average ratio.
As from 2018, the leverage ratio requirements are also applicable to KAS BANK. At 30 June 2018 our leverage ratio amounts to 4.6% (31 December 2017: 4.9%). The minimum level of the leverage ratio is 3%.

Liquidity

IN MILLIONS OF EUROS	30 June 2018	31 December 2017	Change	%
High quality liquid assets	2,288	2,150	138	6%
Net cash outflow < 30 days	1,077	971	106	11%
Liquidity coverage ratio	**213%**	**221%**	**-9%**	**-4%**

The high level of liquidity is demonstrated by the Liquidity Coverage Ratio, which is the outcome of the high-quality assets divided by the net cash outflow within 30 days. As per 30 June 2018, this ratio is 213% (31 December 2017: 221%). The regulatory minimum of the Liquidity Coverage Ratio is 100%.

Financial calendar

To further emphasize the long-term view of our business operations, we have decided to discontinue our quarterly trading updates. Our annual results will be published on 7 March 2019. We plan to organize an investor day before the end of the year. The exact date will be announced in the coming weeks.

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 2018, 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, 5 September 2018

Managing Board
Sikko van Katwijk, chairman
Mark Stoffels, Chief Financial & Risk Officer
Jaap Witteveen, Chief Operations Officer

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

IN THOUSANDS OF EUROS	First half of 2018	First half of 2017
Income		
Interest income from financial assets using the effective interest method	14,963	17,419
Other interest income	94	-
Interest expense	9,285	10,032
Net interest result	**5,772**	**7,387**
Commission income	37,434	43,080
Commission expense	7,417	7,942
Net commission result	**30,017**	**35,138**
Net trading income	9,742	8,301
Result from financial transactions	6,085	2,444
Other income	164	310
Total operating income	**51,780**	**53,580**
Expenses		
Personnel expenses	24,291	23,721
General and administrative expenses	20,239	17,998
Depreciation and amortisation	845	662
Total operating expenses	**45,375**	**42,381**
Impairments	-379	-182
Total expenses	**44,996**	**42,199**
Result before tax	**6,784**	**11,381**
Tax expense	1,712	2,881
Net result for the period	**5,072**	**8,500**
Earnings per share		
- basic (in euros)	0.34	0.58
- diluted (in euros)	0.34	0.58

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN THOUSANDS OF EUROS	First half of 2018	First half of 2017
Net result	5,072	8,500
Items that may be reclassified to profit or loss		
Gains and losses on investments in available-for-sale	n/a	7,673
Gains and losses on investments in available-for-sale assets reclassified to profit or loss on disposal	n/a	-1,441
Gains and losses on investments in debt instruments measured at FVOCI	-5,345	n/a
Gains and losses on financial assets measured at FVOCI reclassified to proft or loss on disposal	-6,014	n/a
Income tax relating to these items	2,837	-1,558
Items that may be reclassified to profit or loss	**-8,522**	**4,674**
Items that will not be reclassified to profit or loss		
Gains or losses on investments in equity instruments designated at fair value through other comprehensive income	517	n/a
Income tax relating to these items	-129	-
Items that will not be reclassified to profit or loss	**388**	**-**
Other comprehensive income, net of tax	**-8,134**	**4,674**
Total comprehensive income, net of tax	**-3,062**	**13,175**

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

CONSOLIDATED BALANCE SHEET

In thousands of euros	30 June 2018	1 January 2018	31 December 2017
Assets			
Cash and balances with central banks	1,704,467	1,504,060	1,504,060
Loans and advances to banks	386,136	315,201	315,358
Loans and advances to customers	792,037	932,753	932,760
Trading assets	226,197	264,783	264,783
Hedging derivatives	3,812	6,455	6,455
Financial assets at fair value through profit or loss	15,507	64,757	n/a
Financial assets at fair value through other comprehensive income	1,057,856	1,061,290	n/a
Available-for-sale financial assets	n/a	n/a	1,126,126
Investments in associates	55	157	157
Current tax assets	3,666	1,027	966
Other assets	189,452	34,756	34,756
Property and equipment	2,033	1,994	1,994
Intangible assets	5,058	3,361	3,361
Deferred tax assets	8,870	8,414	8,414
Total assets	**4,395,146**	**4,199,008**	**4,199,190**
Equity and liabilities			
Deposits from banks	98,426	172,789	172,789
Deposits from customers	3,760,457	3,455,162	3,455,162
Trading liabilities	211,401	266,220	266,220
Hedging derivatives	7,635	8,481	8,481
Current tax liabilities	123	161	161
Other liabilities	87,110	55,187	55,187
Deferred tax liabilities	4,076	8,097	8,097
Total liabilities	**4,169,228**	**3,966,097**	**3,966,097**
Issued capital	15,699	15,699	15,699
Treasury shares	-21,866	-21,866	-21,866
Share premium	21,569	21,569	21,569
Revaluation reserve	8,453	16,587	25,096
Other reserves (including profit for the period)	202,063	200,922	192,594
Total equity	**225,918**	**232,911**	**233,092**
Total equity and liabilities	**4,395,146**	**4,199,008**	**4,199,190**
Contingent liabilities	1,003	2,205	2,205
Irrevocable facilities	13,100	12,147	12,147

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

IN THOUSANDS OF EUROS	Issued Capital	Treasury Shares	Share Premium	Revaluation Reserve	Other Reserves (Incl. Profit for the Period)	TOTAL EQUITY
Balance as at 1 January 2017	**15,699**	**-21,980**	**21,569**	**17,763**	**191,934**	**224,985**
Comprehensive income	-	-	-	7,333	15,099	**22,432**
Final dividend 2016	-	-	-	-	-9,434	**-9,434**
Interim dividend 2017	-	-	-	-	-5,181	**-5,181**
Purchase/sale of treasury shares	-	114	-	-	-114	**-**
Share-based payments	-	-	-	-	109	**109**
Other movements	-	-	-	-	181	**181**
Balance as at 31 December 2017	**15,699**	**-21,866**	**21,569**	**25,096**	**192,594**	**233,092**
Changes on initial application of IFRS 9	-	-	-	-8,509	8,327	**-182**
Comprehensive income	-	-	-	-8,134	5,072	**-3,062**
Final dividend 2017	-	-	-	-	-4,253	**-4,253**
Other movements	-	-	-	-	323	**323**
Balance as at 30 June 2018	**15,699**	**-21,866**	**21,569**	**8,453**	**202,063**	**225,918**

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

The impact of the initial application of IFRS 9 is included as part of the Accounting Policies section in this report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

IN THOUSANDS OF EUROS	First half of 2018	First half of 2017
Condensed Consolidated Cash Flow Statement		
Net result	5,072	8,500
Other cash flow from operating activities	187,959	539,306
Total net cash flow from operating activities	193,031	547,806
Total net cash flow from investment activities	42,566	-111,623
Total net cash flow from financing activities	-4,253	-9,434
Net cash flow	**231,344**	**426,749**
Cash and cash equivalents at 1 January	1,601,333	1,602,934
Cash and cash equivalents at 30 June	**1,832,677**	**2,029,683**
Reconciliation of Cash Flow Statement with Balance Sheet Items		
Cash and balances with central banks	1,704,467	1,866,576
Due on demand from banks	128,210	163,107
Cash and cash equivalents at 30 June	**1,832,677**	**2,029,683**

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 2018 include the parent company and all its subsidiaries, together referred to as 'KAS BANK'. An overview of the principal subsidiaries is included in the 2017 annual report.

The condensed consolidated interim financial statements were approved by the Managing Board on 5 September 2018. These condensed consolidated interim financial statements have been reviewed by an independent auditor. 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 2017 annual report of KAS BANK. KAS BANK's annual report for 2017 is available on KAS BANK's website.

The condensed consolidated financial statements are presented in euros, which is the functional currency of KAS BANK, rounded to the nearest thousands (unless stated otherwise). Critical accounting estimates and judgements are based on the same assumptions as used for the year ended 31 December 2017. The accounting policies as used in preparing the condensed consolidated interim financial statements are revised as a result of the implementation of IFRS 9 as per 1 January 2018. See for more details 'Changes in accounting policies'.

Statement of compliance

The condensed consolidated interim financial statements for the period ending 30 June 2018 are presented in accordance with accounting standard IAS 34 'Interim Financial Reporting', as adopted by the European Union.

Changes in accounting policies

During the first half of 2018, new EU endorsed standards became effective. The following standards have been adopted by KAS BANK.

IFRS 9 Financial Instruments

KAS BANK has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

IFRS 9 has an impact on the financial statements in two areas: classification and measurement of financial assets and liabilities and impairment of financial assets. KAS BANK elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.
As permitted by the transitional provisions of IFRS 9, KAS BANK elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in

the opening balance of retained earnings and other reserves of the current period. We refer to the section Transition to IFRS 9.

Classification and measurement

IFRS 9 requires that an entity's business model and a financial instrument's contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition each financial instrument is classified as either fair value through profit or loss (FVTPL), amortized cost or fair value through other comprehensive income (FVOCI). A financial instrument is measured at amortized cost or FVOCI if it meets both the following conditions and is not designated as FVTPL.

- It is held within a business model whose objective is to hold assets to collect contractual cash flows or is achieved by both collecting contractual cash flows and selling financial assets, and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount of outstanding.

Business models are determined at a portfolio level. Portfolios are based on how KAS BANK manages financial assets. The business model assessment is based on the level of sales, risk management, management compensation and performance evaluation.

IFRS 9 distinguishes three business models:

- A 'hold to collect' business model, in which cash flows are primarily generated by collecting contractual cash flow until maturity of the financial instrument.
- A 'hold to collect and sell' business model, in which selling of financial assets is integral to achieving the business objective.
- 'Other' business models not meeting the criteria of the business models as mentioned above.

After determining the business model, the contractual cash flows of financial instruments have to be assessed. Debt instruments solely can be classified at amortised cost or FVOCI if the contractual cash flows are SPPI (solely payments of principal and interest) compliant. SPPI consistent cash flows are consistent with a basic lending arrangement in which consideration for the time value of money and credit risk are typically the most significant interest components. Instruments not meeting the SPPI requirements are mandatorily measured at FVTPL.

KAS BANK performed an analysis of the business models and contractual cash flows of all financial assets. This resulted in some non-significant changes in the opening balance. These changes are discussed below, reference is made to 'Transition to IFRS 9'.

KAS BANK elected the FVOCI option for equity instruments. Therefore, these instruments are measured at FVOCI. As a consequence, the proceeds out of derecognition of these instruments will no longer be recognised within the income statement.

IFRS 9 distinguishes three measurement categories:

- Amortised cost – financial instruments measured at amortised cost are debt instruments within a hold to collect business model with fixed or determinable payment which meet the SPPI criteria.
- FVTPL –FVTPL instruments are measured at fair value with recognition of unrealised fair value movements within the income statement.
- FVOCI – FVOCI instruments are measured at fair value with recognition of unrealised fair value movements within the OCI statement.

Within the balance sheet KAS BANK classified the FVTPL and FVOCI instrument as Investment securities.

Impairments

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI (except equity instruments) and off-balance sheet items as contingent liabilities and irrevocable facilities. The determination of impairment losses and allowance moved from an incurred credit loss model where credit losses were recognized when a defined loss event occurred, to an expected credit loss (ECL) model where provisions are taken upon initial recognition of the financial instrument, based on expectations of potential credit losses at that time. ECL reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months (Stage 1) or (ii) over the expected life of a financial instrument depending on credit deterioration form inception (Stage 2). Credit-impaired financial instruments (Stage 3) are defaulted and consequently a lifetime ECL is recognized.

Transfers from stage 1 to stage 2 are mainly based on probability of default estimates. The replacement of an incurred loss model to an ECL model did not have significant impact on the level of credit provisioning of KAS BANK in line with the business model in which loans are fully collateralised. The impact at the opening balance amount EUR 0.2 million (net of tax impact).

IFRS 15 Revenue from Contracts with Customers

KAS BANK adopted IFRS 15 'Revenue from contracts with customers' on its effective date of 1 January 2018. IFRS 15 replaces IAS 18 'Revenue' and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements. There was no impact of adopting IFRS 15 for KAS BANK.

New standards, amendments and interpretations not yet effective

The following relevant amendments to IFRS have been issued by the IASB and endorsed by the EU but are not yet effective.

IFRS 16

In 2016 the IASB issued IFRS 16 'Leases', which introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. As a result of IFRS 16 KAS BANK expects to recognize on the balance sheet the rented office building and some leased equipment as company cars and office supplies. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. KAS BANK is currently assessing the impact of IFRS 16.

Transition to IFRS 9

The adoption of IFRS 9 has resulted in changes in KAS BANKs accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The table set out below presents the adjustments relating to IFRS 9 as recorded in the opening balance as per 1 January 2018.

	IAS 39				IFRS 9	
	31 December 2017		Reclassifications	Remeasurement	1 January 2018	
IN THOUSANDS OF EUROS	Measurement Category	Carrying amount	From AFS (FVOCI) to FVTPL	Expected Credit Loss	Carrying amount	Measurement Category
Cash and balances with central banks	Amortised cost	1,504,060			1,504,060	Amortised cost
Loans and advances to banks	Amortised cost	315,358		-157	315,201	Amortised cost
Loans and advances to customers	Amortised cost	932,759		-6	932,753	Amortised cost
Trading assets	Fair value	264,783			264,783	Fair value
Hedging derivatives	Fair value	6,455			6,455	Fair value
Financial assets at Fair value through profit or loss (FVTPL)	Fair value		64,757		64,757	Fair value
Financial assets at Fair value through OCI (AFS)	Fair value	1,126,126	-64,757	-79	1,061,290	Fair value
Other assets		49,649		60	49,709	Amortised cost
Total assets		**4,199,190**	**-**	**-182**	**4,199,008**	
Deposits form banks	Amortised cost	172,789			172,789	Amortised cost
Deposits form customers	Amortised cost	3,454,966			3,454,966	Amortised cost
Trading liabilities	Fair value	266,220			266,220	Fair Value
Hedging derivatives	Fair value	8,481			8,481	Fair Value
Other liabilities		63,642			63,642	-
Total liabilities		**3,966,098**			**3,966,098**	
Equity		233,092		-182	232,910	
of which: Revaluation reserve		25,096	-8,509		16,587	
of which: retained earnings		192,594	8,509	-182	200,921	
Total equity and liabilities		**4,199,190**	**-**	**-182**	**4,199,008**	

The transition to IFRS 9 resulted in the following changes as recorded in the opening balance of KAS BANK at 1 January 2018.

- Equity decreased by EUR 0.2 million relating to the impact of the ECL- remeasurement.
- A small number of interest-earning securities (bonds) and the investments within Money Market Funds, with a fair value of EUR 64.8 million as per 31 December 2017, did not pass the IFRS 9 SPPI test. As a result, these instruments were reclassified from FVOCI - previous Available-for-sale - to FVTPL.
- The revaluation reserve that was recorded until the first of January 2017 amounting to EUR 8.5 million, which corresponds with the fair value revaluation of instruments not passing the SPPI test, is reclassified to retained earnings as per 1 January 2018. This amount cannot be recycled through the income statement.
- ECL remeasurement has led to EUR 0.2 million increase in allowances for credit losses before tax. This increase fully relates to Stage 1 loans and investments. As per 31 December 2017 KAS BANK already recorded credit impairments of EUR 15.1 million. The provision recorded in the 2017 figures fully relates to Stage 3 impaired assets.
- The impact of IFRS 9 on regulatory capital and capital ratios is limited as equity declines by EUR 0.2 million and the risk weight of the reclassified instruments has not changed.

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, non significant, 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 2018 IN THOUSANDS OF EUROS	**Level 1**	**Level 2**	**Level 3**	**Cost**	**ECL Provision**	**Total**
Trading assets	117,518	108,679	-	-		226,197
Hedging derivatives	-	3,812	-	-		3,812
Financial assets at fair value through profit or loss	15,507	-	-	-		15,507
Financial assets at fair value through OCI	696,033	195,507	166,216	170	-70	1,057,856
Total financial assets	**829,058**	**307,998**	**166,216**	**170**		**1,303,372**
Trading liabilities	118,105	93,296	-	-		211,401
Hedging derivatives	-	7,635	-	-		7,635
Total financial liabilities	**118,105**	**100,931**	**-**	**-**		**219,036**

31 december 2017 IN THOUSANDS OF EUROS	Level 1	Level 2	Level 3	Cost	ECL Provision	Total
Trading assets	69,197	202,041	-	-		271,238
Hedging derivatives	-	-	-	-		-
Available-for-sale assets	567,792	206,448	351,716	170		1,126,126
Total financial assets	**636,989**	**408,489**	**351,716**	**170**		**1,397,364**
Trading liabilities	69,197	197,023	-	-		266,220
Hedging derivatives	-	8,481	-	-		8,481
Total financial liabilities	**69,197**	**205,504**	**-**	**-**		**274,701**

Reclassifications from level 2

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements see table below. KAS BANKs policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Reconciliation of fair value at level 3

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

Financial investments IN THOUSANDS OF EUROS	30 June 2018	31 December 2017
Position as at 1 January	351,716	382,049
Reclassification to Level 1	-	-737
Reclassification to Cost		-170
Purchases (sale) of assets	-185,555	-31,380
Revaluation recognised in equity during the year	55	1,954
Level 3 assets at balance date	**166,216**	**351,716**

The financial instruments which are valued based on Level 3 almost fully relate to a high-quality Dutch Mortgage Fund. KAS BANK classifies the investment in this fund as FVOCI. KAS BANK sold 50% of this investment during the first half of 2018. As per 30 June 2018 the book value of the mortgage fund amounts EUR 164.7 million. Besides the Dutch Mortgage Fund, KAS BANK values a number of equity investments based on Level 3.

Financial instruments for which carrying value approximates fair value

The balance sheet items Central banks, due from other banks, loans, reverse repurchase agreements, due to banks, due to customers are valued against amortised costs. The amortised cost approximates the fair value due to their short-term nature and generally negligible credit risk.

2. Other liabilities

As at 31 December 2017 the restructuring provision amounted EUR 6.4 million. During 2018 EUR 1.5 million was used. At the end of June 2018, the restructuring provision amounts EUR 5.0 million.

Changes in restructuring provision IN THOUSANDS OF EUROS	2018
Balance as at 1 January	6,448
Used during year	-1,459
Balance as at 30 June	**4,989**

3. 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 2018 **IN MILLIONS OF EUROS**	**Core segments**	**Treasury**	**Other**	**Total**
Interest income and expenses	5.5	-0.2	0.5	**5.8**
Commission income and expense:				
- Asset Servicing	16.5	-	0.4	**16.9**
- Transaction Servicing	8.8	-	0.4	**9.2**
- Treasury	3.0	0.7	0.2	**3.9**
Result on financial transactions and trading income	3.1	12.7	-	**15.8**
Other income	-	-	0.2	**0.2**
Total income	**36.9**	**13.2**	**1.7**	**51.8**
Operating expenses (direct)	-17.6	-0.6	-1.1	**-19.3**
Contribution	**19.3**	**12.6**	**0.6**	**32.5**
Operating expenses (other)	-	-	-25.7	**-25.7**
Result for the period before tax				**6.8**

First half of 2017 **IN MILLIONS OF EUROS**	**Core segments**	**Treasury**	**Other**	**Total**
Interest income and expenses	5.9	1.0	0.5	**7.4**
Commission income and expense:				
- Asset Servicing	19.4	-	0.4	**19.8**
- Transaction Servicing	9.3	-	1.5	**10.8**
- Treasury	3.5	0.8	0.2	**4.5**
Result on financial transactions and trading income	3.4	7.2	0.1	**10.7**
Other income	-	-	0.4	**0.4**
Total income	**41.5**	**9.0**	**3.1**	**53.6**
Operating expenses (direct)	-14.6	-1.0	-1.3	**-16.9**
Contribution	**26.9**	**8.0**	**1.8**	**36.7**
Operating expenses (other)			-25.3	**-25.3**
Result for the period before tax				**11.4**

4. Dividend

Following the approval at the General Meeting of Shareholders of 25 April 2018, the proposed final dividend for 2017 of EUR 4.3 million (EUR 0.31 per share) was distributed to the shareholders in the first half of 2018.

5. Impairments

In the first half of 2018 KAS BANK reversed a provision relating to a previously impaired loan. This reversal is classified as impairment (recovery).

6. Companies acquired and divested

The liquidation of KAS BANK Deutschland Holding GmbH and KAS Investment Servicing GmbH is in progress. KAS BANK expects that the liquidation of these companies will be finalised at the end of 2018.

7. 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 BTN Förvaltning AB. Transactions between related parties have taken place on an arm's length basis. Transactions with related parties are disclosed in Note 43 'Related parties' in the annual report 2017 of KAS BANK.

8. Subsequent events

There are no subsequent events that have an impact on the statement of financial position and/or the results for the first half of 2018 or the comparative figures.

Amsterdam, 5 September 2018

Managing Board
Sikko van Katwijk, chairman
Mark Stoffels, Chief Financial & Risk Officer
Jaap Witteveen, Chief Operations Officer

REVIEW REPORT

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements for the six-month period ended 30 June 2018 of KAS BANK N.V., Amsterdam, which comprises the consolidated balance sheet as at 30 June 2018, 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. The managing board is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements 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 statements or the six-month period ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 5 September 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by C.C.J. Segers RA

Disclaimer

Although the information in this document is drawn up with the utmost precision and in KAS BANK's judgement is a true reproduction of the state of affairs at the time of publication of this report, KAS BANK cannot guarantee that this information is or continues to be correct and/or complete. KAS BANK does not accept any liability for losses as a consequence of the use of, the trust in the information in this report or acting or refraining as a result of the information in this Annual Report.

Enquiries

KAS BANK Headquarters

De Entree 500
1101 EE Amsterdam
The Netherlands
T: +31 20 557 59 11
www.kasbank.nl

KAS BANK London

11 Westferry Circus
London, E14 4HE
United Kingdom
T: +44 20 7153 36 00
www.kasbank.co.uk

KAS BANK Frankfurt

Mainzer Landstraße 51
60329 Frankfurt am Main
Germany
T: +49 69 5050 679-20
www.kasbank.de

Secure
Protect
Develop

KAS BANK
COMMITTED SINCE 1806