

June 2010

KAS BANK

Banks • Netherlands



KEMPEN & CO
Merchant Bank

Sensitive to low interest rates

Company profile KAS BANK is a Dutch-based custodian and processing bank, specialized in custodian and processing services to institutional investors and financial institutions. This includes core offerings in custody, settlement and securities lending, but is increasingly being extended to other "value added services" to institutional investors. Inherent to its niche, KAS BANK also does a certain amount of deposit gathering and lending from/to its client base within the framework of short-term cash management operations. As a custodian, Kas is also active in securities lending as both agent and principal. With a small market cap, a low free float, and a number of core Dutch shareholders, Kas Bank shares have very limited liquidity.

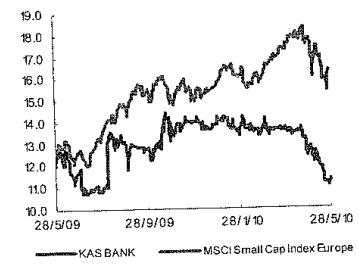
Investment case Our low level of enthusiasm and conviction on Kas Bank's shares is driven by what we perceive to be a challenged position in a scalable market, with deteriorating fundamentals. As a competitor against mammoth-sized custodians, we think that Kas Bank is seeing gradual margin depletion in its core custody business. At the same time, securities lending, one of its core profit drivers in times past, has come to a screeching halt and is showing no sign of returning to its previous glory. In order to combat this trend, Kas Bank is focussing on offering value-added services to custody clients, as well as some external growth opportunities in Germany. However, unless interest rates (currently at very low levels) start rising again and unless the short end of the yield curve becomes steeper, we think that revenues could show a drop-off in late 2010 and 2011 as trading gains abate. On this basis, we do not yet see the case for meaningful revenue improvement at Kas Bank. We think that the company remains a consolidation candidate as both a potential buyer of custody and asset servicing companies, as well as a potential seller at some point down the line.

Developments and outlook In a Q1 2010 trading statement published in late April, the company noted the revenue pressure it is experiencing as a result of low interest rates and the flat short end of the yield curve. At the same time, pressure on commissions was continuing due to low trading volumes. Costs are expected to be lower than 2009. Kas Bank's management has not articulated an outlook for the full year of 2010 due to uncertain prospects.

Valuation Due to the uncertainty surrounding the revenue outlook of Kas Bank, we continue to view book value as normative. Although our current estimates call for an ROE of only 8% in 2010e and 4.8% in 2009e, our 10% ROE estimate for 2012e is closer to our estimated cost of capital. Due to the uncertainty around interest rates and market levels, we think that there are meaningful drivers which could drive considerable volatility around book value, and hence would elect to apply a 5-10% discount. With our 2012e BVPS estimate of €13.2, we view our previous €12.2 price target as within range.

Rating	HOLD
Price target (12m)	€12.2
Closing price (28 May 2010)	€11.3
Upside / downside	7.8%
Date	30 May 2010

KA NA vs MSCI Small Cap Index Europe



Source: Factset

Price Performance (%)	-1m	-3m	-12m
Absolute	-9.1%	-16.0%	-10.3%
Rel. to MSCI Small Cap Index Europe	-2.6%	-18.2%	-30.5%

Source: Factset

Company data	
52-Week range	€10.75 - 14.40
Market cap	€177.6m
Number of shares	15.7m
Free float	52%
Average daily volume	11,476
Company data	
Bloomberg / Reuters	KA NA / KA.AS
Next announcement	26 August 2010 H1 2010 Results

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