



RATING ACTION COMMENTARY

Fitch Revises Van Lanschot's Outlook to Positive; Affirms IDR at 'BBB+'

Fri 02 Jun, 2023 - 12:01 PM ET

Fitch Ratings - Frankfurt am Main - 02 Jun 2023: Fitch Ratings has revised Van Lanschot Kempen N.V.'s (Van Lanschot) Outlook to Positive from Stable while affirming its Long-Term Issuer Default Rating (IDR) at 'BBB+' and Viability Rating (VR) at 'bbb+'. A full list of ratings is detailed below.

The Positive Outlook reflects Van Lanschot's improving business profile and profitability, and reduced balance-sheet risks as a result of the improved execution record of its capital-light growth strategy. It also reflects our expectation that the bank will maintain its conservative risk appetite and satisfactory capital and liquidity buffers.

KEY RATING DRIVERS

Niche Business Profile Drives Ratings: Van Lanschot's ratings are underpinned by its well-established, albeit niche, franchise in wealth management, asset management and investment banking, as well as sound asset quality and capitalisation, and a stable funding and liquidity profile. The ratings also factor in the bank's improved profit generation capability from steadily increasing assets under management (AUM).

The VR is one notch below its 'a-' implied VR since the bank's business profile has a high influence on its rating. Van Lanschot operates with a high cost base, partly explained by its

niche franchise, resulting in weaker earnings stability relative to that of peers with larger and more diversified AUM.

Entrenched Wealth Management Franchise: Van Lanschot's wealth management franchise is well-established but small in the Netherlands, and with adequate geographic diversification, particularly in neighbouring Belgium. Its asset management and investment banking businesses provide moderate revenue diversification. We expect Van Lanschot's recently improved execution record and capacity to develop its franchise to gradually lead to a more resilient through-the-cycle performance.

Moderate Profitability: Van Lanschot's ability to attract AUM inflows in recent years has resulted in improvement in its profitability that, if sustained, would make it less vulnerable to cyclical performance swings. Its operating profit fell to 3.6% of risk-weighted assets (RWAs) in 2022 following a very strong 2021 (4.8%) but remains well above the 2018-2020 average of 1.8%. We expect the ratio to remain above 3% over 2023-2024, due to stronger revenue and disciplined cost management.

Moderate Risk Profile: We expect Van Lanschot to maintain a conservative risk appetite, given its focus on low-risk mortgage lending in the Netherlands. Underwriting standards for these loans are sound, consistent and based on affordability, resulting in good credit quality, which we expect to continue. Fitch expects other inherently higher-risk private banking relationship-related loans to continue to account for a low proportion of the loan book. Market and operational risks are moderate and well-managed.

Sound Asset Quality: Fitch expects Van Lanschot's credit quality to remain resilient to macroeconomic challenges, as low-risk and performing residential mortgage loans will continue to comprise the majority of the bank's loan portfolio. Its Stage 3 loans ratio fell to 1.1% by end-2022 (end-2021: 1.7%), helped by further progress on the run-off of its corporate loan book, and we expect it to remain below 1.5% in the near term, which is line with higher-rated peers'.

Strong Capitalisation: Van Lanschot's risk-weighted capital ratios are solid, with a common equity Tier 1 (CET1) ratio of 20.6% at end-2022. We expect Van Lanschot to operate with a lower CET1 ratio as operations will continue to grow and management aims to return excess capital to shareholders, although it should remain above the bank's target of at least 15%.

Stable Funding and Liquidity: Van Lanschot has some funding diversification, although it is primarily funded through its private banking customer deposits (end-2022: 84% of total

funding) that display good granularity. Deposits fell to EUR11.6 billion by end-March 2023 (or around -9% compared with end-2022), mostly due to clients converting savings into higher-yielding AUM, resulting in a reduction of the liquidity buffer. However, liquidity remains sound, supported by a large buffer of cash and highly rated fixed-income securities that we expect to exceed 25% of assets in the short term.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The Outlook on Van Lanschot's Long-Term IDR would be revised to Stable if Fitch believes that franchise growth and profitability improvement would not be sustained. This would likely be reflected in a significant slowdown of inflows of AUM and a fall of the operating profit to below 3% of RWAs.

Fitch believes a downgrade of Van Lanschot's ratings is unlikely, as reflected in the Positive Outlook. However, the ratings would most likely be downgraded on a greater-than-expected decrease in its capitalisation, with the CET1 ratio falling to below 15% for a prolonged period. This could result from a greater risk appetite, material acquisitions, or substantial operational losses, which would also lead to a reassessment of the bank's risk profile.

A significant weakening of the bank's liquidity buffer or evidence of diminished deposit franchise strength would also be negative for the ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would most likely arise from further franchise growth, in particular in wealth management with similar trends in inflows of AUM as observed in recent years, resulting in structural improvements to Van Lanschot's earnings stability and levels. We would upgrade the bank on a consistent record of operating profit of above 3% of RWAs, while maintaining its risk profile, and solid capital and liquidity buffers.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Van Lanschot's Short-Term IDR of 'F2' is the lower of the two options mapping to a 'BBB+' Long-Term IDR. This is because our 'a-' assessment of the bank's funding and liquidity is below the minimum 'a' expected for a Short-Term IDR of 'F1'.

Van Lanschot's long- and short-term senior unsecured debt ratings are at the same level as its IDRs. Fitch believes the default risk of the bank's senior unsecured debt is equivalent to the default risk implied by the IDR since senior unsecured obligations are viewed as having average recovery prospects.

The Tier 2 subordinated debt securities issued by Van Lanschot are rated two notches lower than its VR, reflecting Fitch's baseline notching for loss severity.

No Government Support: Van Lanschot's Government Support Rating of 'no support' is driven by Fitch's view that sovereign support for the bank, while possible, cannot be relied on, primarily given the Bank Resolution and Recovery Directive in place in the Netherlands.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

A downgrade of the bank's IDRs would result in a downgrade of the senior unsecured debt ratings.

A downgrade of the subordinated debt rating would result from a downgrade of the VR, from which it is notched.

An upgrade of the bank's IDRs would lead to a corresponding upgrade of the bank's long- and short-term senior unsecured debt ratings. Although not expected by Fitch as the bank is not subject to resolution debt requirements, the long-term senior unsecured debt rating could be rated one notch above the Long-Term IDR if the bank builds up and maintains a combined buffer of qualifying junior debt and senior non-preferred notes equivalent to at least 10% of its RWAs.

An upgrade of the subordinated debt rating would result from an upgrade of the bank's VR.

An upgrade of the GSR would be contingent on a positive change in the sovereign's propensity to support Dutch banks. While not impossible, this is highly unlikely, in Fitch's view.

VR ADJUSTMENTS

The earnings & profitability score of 'bbb+' is below the 'a' implied category score due to the following adjustment reason: earnings stability (negative).

The capitalisation & leverage score of 'a' is below the 'aa' implied category score due to the following adjustment reason: historical and future metrics (negative).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Van Lanschot Kempen N.V.	LT IDR	BBB+ Rating Outlook Positive	BBB+ Rating Outlook Stable
	Affirmed		
	ST IDR	F2 Affirmed	F2

	Viability	bbb+	Affirmed	bbb+
	Government Support	ns	Affirmed	ns
senior unsecured	LT	BBB+	Affirmed	BBB+
subordinated	LT	BBB-	Affirmed	BBB-
senior unsecured	ST	F2	Affirmed	F2

[VIEW ADDITIONAL RATING DETAILS](#)

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Van Lanschot Kempen N.V.

EU Issued, UK Endorsed

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Structured Finance: Covered Bonds Structured Finance Banks Europe Netherlands
