

## RATING ACTION COMMENTARY

# Fitch Upgrades Van Lanschot to 'A-'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 22 May 2024: Fitch Ratings has upgraded Van Lanschot Kempen N.V.'s Long-Term Issuer Default Rating (IDR) to 'A-' from 'BBB+' and Viability Rating (VR) to 'a-' from 'bbb+'. The Outlook on the Long-Term IDR is Stable. Fitch has affirmed Van Lanschot's Short-Term IDR at 'F2'. A full list of ratings is below.

The upgrades primarily reflect Van Lanschot's stronger business profile, following further franchise growth due to steadily increasing assets under management (AuM), and the durable improvement in its core profitability, which benefits from growing fee-generating business.

## KEY RATING DRIVERS

**Entrenched Wealth-Management Franchise:** Van Lanschot's ratings are underpinned by its well-established, albeit niche, franchise in wealth management, asset management, and investment banking, as well as its sound asset quality and capitalisation, and stable funding and liquidity profile. The ratings also factor in the bank's improved profit-generation from steadily increasing AuM.

**Solid Growth in Private Banking:** Van Lanschot's strategy aims for increasing its AuM through organic growth and targeted acquisitions. The bank has a good record of organically generating net new money (averaging EUR1.9 billion net inflows annually over the past five years) and integrating acquired businesses. In addition to its strong presence in the Netherlands, which accounted for 82% of its 2023 income, the bank is progressively enhancing its footprint in Belgium, where it has a moderate but growing franchise.

**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 higher-risk relationship-driven loans to continue to account for a low proportion of the loan book. Market and operational risks are moderate and the risk management framework has been strengthened since 2020.

**Sound Asset Quality:** Van Lanschot's loan book is larger than its traditional private banking peers (end-2023: 54% of total assets) and mostly comprises low-risk and well-performing Dutch residential mortgage loans. The bank's impaired loans ratio was a low 1.4% at end-2023 and we expect credit quality to remain resilient to lingering macroeconomic challenges in the near term, with the ratio remaining below 2%. The bank's securities portfolio is predominantly invested in highly-rated counterparties.

**Adequate, Structurally Improved Profitability:** Van Lanschot's ability to attract AuM inflows in recent years resulted in improvement in its through-the-cycle profitability. Operating profit increased to 4.1% of risk-weighted assets (RWAs) in 2023. Net interest income contributed strongly to the bank's 2023 earnings due to Van Lanschot's proportion of lending activities, which is higher than peers. We expect the ratio to decline but remain above 3% over the next two years, due to resilient revenue and controlled cost increases.

**Strong Capitalisation:** Van Lanschot's risk-weighted capital ratios are solid, with a common equity Tier 1 (CET1) ratio of 19.6% at end-2023. We expect Van Lanschot to operate with a lower CET1 ratio as operations continue to grow and management aims to return excess capital to shareholders, although it should remain above the bank's target of at least 17.5%, including a 2.5% add-on for potential bolt-on acquisitions. The 5.8% leverage ratio is sound in the context of universal Dutch banks and compares favourably with most private banking peers.

**Stable Funding, Ample Liquidity:** Van Lanschot has some funding diversification, although it is primarily funded through its private banking customer deposits (end-2023: 84% of total funding) that have good granularity compared with typical private banks. Private banking customer deposits can be more volatile during periods of stress, but the bank maintains a large liquidity buffer (end-2023: EUR6.3 billion; 37% of total assets) made of cash and highly-rated fixed-income securities, which effectively mitigates liquidity risks.

## **RATING SENSITIVITIES**

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

Van Lanschot's ratings would be downgraded if its franchise durably weakens or if a structural decline in its AuM margins weakens the bank's operating profit below 3% of

RWAs on a sustained basis.

The ratings would also be pressured following 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 leading to a considerable weakening of asset quality, material acquisitions, or substantial operational losses, which would also lead to a reassessment of the bank's risk profile. A considerable 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 of the ratings in the near-term is unlikely and would require significantly greater business diversification and a considerable narrowing of the scale gap to higher-rated private banking peers with more diverse franchises.

### **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 'A-' Long-Term IDR. This is because our 'a-' assessment of the bank's funding and liquidity is below the minimum 'a' required 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 it views senior unsecured obligations 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 (GSR) 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**

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 junior debt and senior non-preferred notes equivalent to at least 10% of its RWAs.

A downgrade of the bank's IDRs would result in a downgrade of the senior unsecured debt ratings. The subordinated debt rating is sensitive to a change in Van Lanschot's VR, from which it is notched.

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 business profile score of 'a-' is above the 'bbb' implied category score due to the following adjustment reason: business model (positive).

The capitalisation & leverage score of 'a' is below the 'aa' implied category score due to the following adjustment reason: size of capital base (negative).

## 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ⇅

RATING ⇅

PRIOR ⇅

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Van Lanschot Kempen N.V.	LT IDR	A- Rating Outlook Stable			BBB+ Rating Outlook Positive
	Upgrade				
	ST IDR	F2	Affirmed		F2
	Viability	a-	Upgrade		bbb+
	Government Support	ns	Affirmed		ns
senior unsecured	LT	A-	Upgrade		BBB+
subordinated	LT	BBB	Upgrade		BBB-
senior unsecured	ST	F2	Affirmed		F2

[VIEW ADDITIONAL RATING DETAILS](#)

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Van Lanschot Kempen N.V.

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