FitchRatings

Fitch Affirms Van Lanschot at 'BBB+'; Outlook Stable

Fitch Ratings-London-23 August 2018: Fitch Ratings has affirmed Van Lanschot N.V.'s Long-Term Issuer Default Rating (IDR) at 'BBB+'. The Outlook is Stable. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS
IDRS, VIABILITY RATING AND SENIOR DEBT
Van Lanschot's ratings reflect the bank's established, albeit regional, franchise in wealth and asset management as well as merchant banking. The ratings are underpinned by the bank's sound capital ratios, balanced funding profile and fairly conservative risk appetite. They also reflect Van Lanschot's improving profitability and good quality core loan book.

Van Lanschot continues to execute its ambitious strategic plan to run down legacy non-core activities and significantly boost its earnings by 2020. Profitability has improved in recent years but operating profit remains moderate relative to larger private banking peers. Improvements reflect higher fee and commission income, which was sufficient to offset shrinking net interest income, and a sharp reduction in loan impairment charges (LICs), with the bank reporting releases of provisions in 2016,-2017 and 1H18.

Fitch believes a further structural improvement in earnings is possible, but this will depend on the bank's continued ability to grow its assets under management (AuM) while keeping costs under control. Van Lanschot has been able to expand its AuM through a combination of acquisitions, strong market performance and by attracting several large, albeit less remunerative, asset management mandates. Positively, the bank appears to have achieved a turnaround in its private banking business, reporting net new money inflows in 2017 and 1H18, although their absolute volumes remain muted. We also expect Van Lanschot's profitability to continue to benefit from low LICs, reflecting the benign operating environment in the Netherlands and the loan book's improving risk profile.

Van Lanschot's impaired loans/gross loans ratio (4.5% at end-June 2018) is considerably higher than private banking peers. This is mainly due to the weak quality of the bank's non-core book, which accounts for half of total impaired loans and is in run-down (real estate and SME loans, about 8% of gross loans at end-June 2018). The core loan book, which is dominated by mortgage loans, is overall healthy (impaired loans ratio of 2.7%) and we expect it to remain resilient.

Van Lanschot's capital ratios are solid, with a fully loaded common equity Tier 1 (CET1) ratio of 21.4% at end-June 2018. The leverage ratio (7.2%) is strong compared with larger Dutch banks but in line with private banking peers. The bank committed to distribute at least EUR250 million to its shareholders by 2020, of which in total EUR210 million will have been distributed after the shareholders' approval of the proposed EUR60 million special capital return announced with the 1H18 results. Despite this, we expect the capital ratios to remain sound. Our assessment of capitalisation also takes into account the bank's higher than peers' exposure to unreserved impaired loans in relation to capital, which is driven by elevated impaired loans in the non-core loan book and the mostly collateralised nature of the bank's lending.

The bank has a balanced funding profile largely made up of customer deposits. Liquidity is sound, underpinned by a large buffer of highly liquid assets well in excess of wholesale funding repayments in the remainder of 2018 and in 2019.

SUPPORT RATING AND SUPPORT RATING FLOOR
The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if Van Lanschot becomes non-viable. This reflects the bank's lack of systemic importance in the Netherlands, as well as the recent implementation of the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism. These provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBORDINATED DEBT
Van Lanschot's Tier 2 subordinated debt is notched once off the bank's VR to reflect higher-than-average loss severity of this type of debt.

RATING SENSITIVITIES
IDRS, VIABILITY RATING AND SENIOR DEBT
Positive rating action could arise from a further strengthening of Van Lanschot's franchise, as demonstrated in consistent net AuM inflows, provided the bank has built a sufficient record of improved operating profitability. The ratings could be downgraded in case of significant deterioration of asset quality, particularly if it results in a weakening of the bank's capitalisation, or reduced focus on liquidity.

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of the Support Rating and upward revision of the Support Rating Floor would be contingent on a positive change in the Netherland's propensity to support its banks, as well as a significant increase of Van Lanschot's systemic importance. While not impossible, this is highly unlikely, in Fitch's view.

SUBORDINATED DEBT
The ratings of Van Lanschot's subordinated debt are primarily sensitive to the same factors as the bank's VR, from which they are notched.

The rating actions are as follows:
Long-Term IDR: affirmed at 'BBB+'; Outlook Stable
Short-Term IDR: affirmed at 'F2'
Viability Rating: affirmed at 'bbb+'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior debt long-term rating: affirmed at 'BBB+'
Senior debt short-term rating: affirmed at 'F2'
Subordinated debt: affirmed at 'BBB'

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Applicable Criteria

Bank Rating Criteria (pub. 22 Jun 2018) (https://www.fitchratings.com/site/re/10034713)

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