Fitch Ratings

30 Jul 2019 | Affirmation

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

Fitch Ratings-Paris-30 July 2019:

Fitch Ratings has affirmed Van Lanschot N.V.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook, Short-Term IDR at 'F2' and Viability Rating (VR) at 'bbb+'. A full list of rating actions is at the end of this rating action commentary.

Key Rating Drivers

IDRS, VR AND SENIOR UNSECURED DEBT

The ratings of Van Lanschot reflect its focus on low-risk wealth and asset management as well as its niche merchant banking franchise. This, combined with the continued run-off of its legacy corporate loan book, drives the bank's adequate and gradually improving asset quality. The ratings also factor in the bank's sound capitalisation, good funding and liquidity profile, conservative risk appetite and our expectation that the bank's adequate profitability will gradually improve.

Van Lanschot is a well-established mid-sized private bank operating principally in the Netherlands. It repositioned its business model to focus on wealth management after a strategic review in 2013. Its strategy is aimed at growing assets under management (AuM) organically and through acquisitions and improving cost efficiency through digitalisation and data-driven client solutions.

The bank's asset quality is adequate, with an improving impaired loan ratio (i.e. IFRS 9 stage 3 loans) of 3.9% at end-2018, which is still weaker than that of more diversified Dutch banks. This is partly due to its legacy corporate loan book, which exhibits a high share of impaired loans (30% at end-2018 with low coverage by loan loss allowances due to availability of collateral). However, after several years in run-off, the corporate loan book has been reduced to a manageable EUR0.5 billion at end-2018, equivalent to 6% of the bank's gross loans. The quality of the core private banking loan book is good, with an impaired loan ratio of 2.3% at end-2018.

Van Lanschot's profitability is average compared with private banking peers', but we expect it to improve in the medium term. Given industry-wide pressure on margins in asset management, the bank's capacity to steadily increase its AuM and maintain adequate pricing will be key to meeting the bank's profitability objectives. In 2018, Van Lanschot had a second consecutive year of net AuM inflows in private banking (EUR0.5 billion) and a third consecutive year of net inflows in asset management (EUR0.4 billion, albeit mostly in less remunerative fiduciary mandates). We expect the additional fees and commission income from AuM inflows to mitigate the pressure on net interest income arising from the shrinking legacy loan book.

Van Lanschot's sound fully loaded CET1 ratio of 21.4% and good fully loaded leverage ratio of 6.9% at end-2018 compare well with private banking peers' and large universal Dutch banks'. Our assessment of capitalisation takes into account the bank's above-average exposure to unreserved impaired loans in relation to capital.

Deposits fully fund the loan book, and Van Lanschot's reliance on wholesale funding is now limited. The bank has reasonable access to wholesale markets, in recent years mostly through covered bonds as the shrinkage of its loan book has limited its funding needs. Liquidity is sound, underpinned by a large buffer of highly liquid assets well in excess of wholesale funding maturities through end-2020.

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'.

SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

The SR and SRF reflect Fitch's view that Van Lanschot's senior creditors cannot rely on receiving full extraordinary support from the Dutch sovereign if the bank becomes non-viable. This reflects the bank's lack of systemic importance in the Netherlands, as well as the EU's Bank Recovery and Resolution Directive and 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.

TIER 2 SUBORDINATED DEBT

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

Rating Sensitivities

IDRS, VR AND SENIOR UNSECURED DEBT

A positive rating action could arise from successful implementation of the private banking and asset management strategy. We would expect in particular a sustainable strengthening of the bank's profitability from a track record of steady and sizeable AuM inflows. A rating upgrade would also hinge on significant progress in reducing the bank's stock of non-performing corporate loans. The ratings could be downgraded in case of significant deterioration of asset quality, particularly if this results in a weakening of the bank's capitalisation.

SR AND SRF

An upgrade of the SR and an upward revision of the SRF are contingent on a positive change in the Netherland's propensity to support its banks, as well as a significant increase in Van Lanschot's systemic importance. While not impossible, this is highly unlikely, in Fitch's view.

TIER 2 SUBORDINATED DEBT

The Tier 2 subordinated debt's rating is primarily sensitive to the same factors as the bank's VR, from which it is notched.

Van Lanschot N.V.; Long Term Issuer Default Rating; Affirmed; BBB+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F2
; Viability Rating; Affirmed; bbb+
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
----senior unsecured; Long Term Rating; Affirmed; BBB+
----subordinated; Long Term Rating; Affirmed; BBB
----senior unsecured; Short Term Rating; Affirmed; F2

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Additional information is available on www.fitchratings.com

Applicable Criteria
Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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