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Van Lanschot Kempen Wealth Management N.V.

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Major Rating Factors

Issuer Credit Rating
BBB+/Negative/A-2

Strengths:	Weaknesses:
• Solid brand name recognition in the Netherlands and a focused wealth management strategy. • Strong capitalization. • Sound funding and liquidity position.	• Modestly sized player in a competitive segment, in which scalability is critical. • High fixed-cost base and still low, albeit rising, share of high-margin fees from private banking assets under management (AuMs). • Asset-quality indicators that are less favorable than peers', largely due to legacy loans exposures.

Outlook

S&P Global Ratings' outlook on Netherlands-based Van Lanschot Kempen Wealth Management N.V. (VLKWM), the operating bank of the Van Lanschot Kempen group (VLK), is negative. This is primarily because of our expectation that profitability could remain under pressure in 2021, especially due to heightened risk to revenue generation.

Downside scenario

We would take a negative rating action if the bank cannot restore its profitability in the next 12 months, which suffered in 2020 from the economic and financial markets' weakness caused by the pandemic. Specifically, this would mean not returning cost to income below 80% by 2021, and further improving in 2022. It would signal that the downturn is longer and deeper than expected, with durably lower interest and fee income. We could also downgrade VLKWM if the risk-adjusted capital (RAC) ratio falls and stays below 10%--for example, because of much higher losses than expected in the legacy loan portfolio, or a departure from the conservative capital policy.

Upside scenario

We could revise the outlook to stable in the next 12 months if, despite still-difficult economic conditions and the potential for more market volatility, VLKWM demonstrates profitability in line with that of local and international private banking peers in 2021 and beyond, and its franchise in asset-gathering businesses continues to improve, with a growing based of fee-paying AuMs.

Rationale

In April 2020, S&P Global Ratings revised its outlook on the Dutch banking sector to negative from stable due to a weaker economy and substantial risks from the COVID-19 pandemic. At the same time, we revised our outlook on VLKWM to negative to reflect the vulnerability of the bank's operating performance due to the continued market and economic stress, in particular potential lower fees due to weaker market values of the AuM base, pressure from the low interest rates, and the high fixed-cost base. Our base-case scenario assumes the bank's profitability will continue to recover gradually in 2021 thanks to net new money and the market recovery. However, the bank will not reach a below 75% cost efficiency ratio (like in 2019, ahead of the pandemic) before 2022.

The ratings on VLKWM reflect the bank's path toward delivering its strategic objectives and growing as a pure wealth manager, combining private banking and asset management activities. The pandemic-induced economic weakness and market volatility slowed the realization of strategic objectives, however. Of note, efficiency programs started to deliver promising results in 2019 with cost to income improving to 75% from the 80%-85% seen in previous years, but the revenue shock following the pandemic put a temporary halt to this. We also view positively the group's strong capitalization, with an RAC ratio before diversification expected to remain well above 10% in the next 24 months. VLKWM faces mostly operational risks, in line with peers, because credit risk is now limited thanks to the continuous de-risking of the now-very small legacy corporate loan portfolio. Market risk should also lower following the new hedging strategy relating to structured products offered to clients, on which the bank suffered heavy losses in first-quarter 2020 when extreme volatility started and markets dislocated. Like all wealth managers, VLKWM enjoys robust funding and liquidity metrics thanks to larger-than-average customer deposits from wealthy individuals.

Anchor:'bbb+' for a bank operating in the Netherlands

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment methodology and reflects Van Lanschot's strong focus on the Netherlands, despite some small operations in Belgium. The economic risk score for the Netherlands is '3' on a scale of '1' to '10' ('1' being the lowest risk). The industry risk score is also '3'.

Our assessment of Dutch economic risk balances the economy's wealthy, diversified and competitive nature, which also translates into a wealthy sovereign able to support the real economy, against its sensitivity to international trade volatility, which the COVID-19 pandemic has radically amplified. Preexisting concerns related to global trade tensions remain. We expect the Netherlands to enter a 3% GDP rebound in 2021 after the 3.8% contraction in 2020, but risks remain, which could affect the credit quality of export-oriented corporates, small and midsize enterprises (SMEs), or other cyclical sectors. Although declining, gross private sector leverage in the Netherlands remains among the highest in the world, constraining the Dutch economy's structural ability to easily withstand external shocks. Economic imbalances have not receded in recent years because of a very dynamic real estate market. Household indebtedness will continue to fall with a gradual move away from interest-only (nonamortizing) mortgages and additional restrictions of the lending with more than 100% loan-to-value (LTV) ratios, but improvements so far have been barely visible in absolute terms. Positively, authorities in the Netherlands and across many other European countries have delivered unprecedented policy responses in the form of monetary, fiscal, and regulatory support to their economies. Still, we expect the COVID-19-related short-term shock will have a meaningful impact on banks' asset quality, revenue, and profitability. Therefore, we consider the economic risk trend for banking activities in the Netherlands as negative.

Our assessment of industry risks for Dutch banks incorporates high domestic concentration and our view of a stable competitive environment. We consider the prospective profitability of domestic banking activities adequate despite pressure on interest income stemming from the lower-for-longer rates. We observe relatively supportive price discipline in the competitive mortgage segment. The system's relatively heavy reliance on wholesale funding is partly attributable to households' propensity to save in life insurance and pension products, rather than in bank deposits. We consider that Dutch systemwide funding benefits from, among other things, the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support. We view the trend on industry risk as stable.

Table 1

Van Lanschot Kempen Wealth Management N.V.--Key Figures					
	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	14,994.0	14,177.5	13,796.9	14,440.5	14,683.0
Customer loans (gross)	8,512.4	8,661.7	8,674.3	9,223.7	9,786.1
Adjusted common equity	1,019.4	1,091.7	1,034.9	1,030.9	1,065.1
Operating revenues	442.7	553.2	506.3	567.3	524.4
Non-interest expenses	386.7	410.8	440.2	455.8	425.5
Core earnings	49.5	133.0	68.2	95.6	76.3

Business position: A sound domestic wealth manager franchise, but still-limited scale

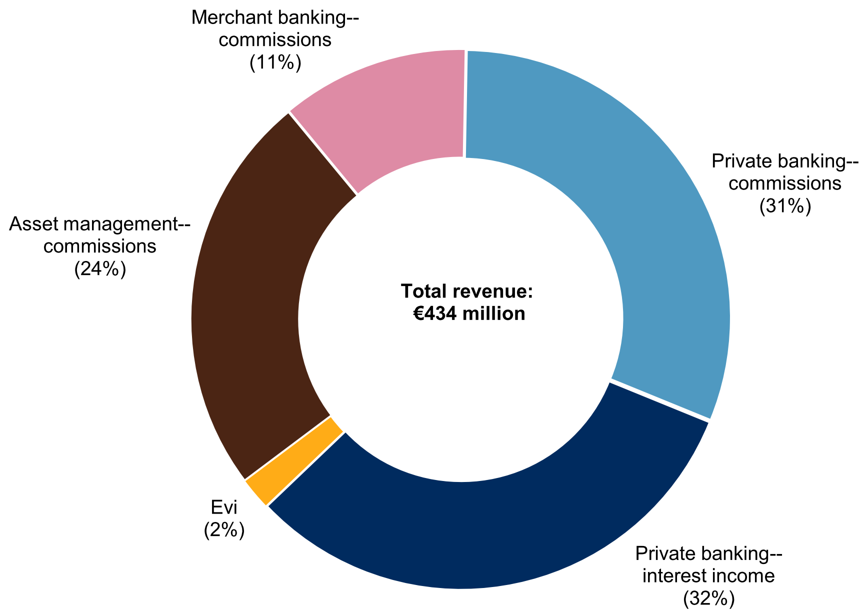
VLKWM's business position reflects the bank's relatively niche, albeit domestically well established, franchise in wealth management. We believe the bank succeeded in its strategic shift after the financial crisis by focusing on increasing private banking and asset management activities, while actively de-risking its legacy corporate loan book, which is now small. VLKWM also operates a merchant banking business unit, advising midsize companies on equity and debt financing on capital markets. The bank has witnessed a bounce back in AuMs to €99.0 billion at end-2020 (see chart 1) after bottoming out at €80.6 billion at first-quarter-end 2020 after the sharp fall in equity markets in March. This large variation was mainly due to the market effect, but also net new money of €5.4 billion in asset management and €1.4 billion in private banking over 2020. This growing level of AuM should support fee income in 2021 and beyond. The bank could also look to expand inorganically via some bolt-on acquisitions once that it sees the cost of acquisitions are justified, as it did with the small Dutch boutique Hof Hoorneman. However, net interest income has been comparatively lower than in 2019 due added pressure on margins and slightly declining-to-flat loan growth.

Compared with commercial banks, we believe VLKWN is better placed to face the pandemic due to the nature of its business and low credit exposure to corporates and SMEs, but it is not immune to external factors. The main concern is medium-term profitability and how the bank continues its rebound in 2021 and beyond. With total assets of €15.1 billion and AuM of €99.0 billion, VLK remains a midsize player within the Dutch banking system, but the second-largest private bank in this market after ABN AMRO. Even if wealth levels are high in the Netherlands, focusing on onshore clients also limits scale prospects compared with geographically diversified peers based in Switzerland.

Chart 1

VLK Revenue By Segment In 2020

Diversified income streams within its niche wealth management focus

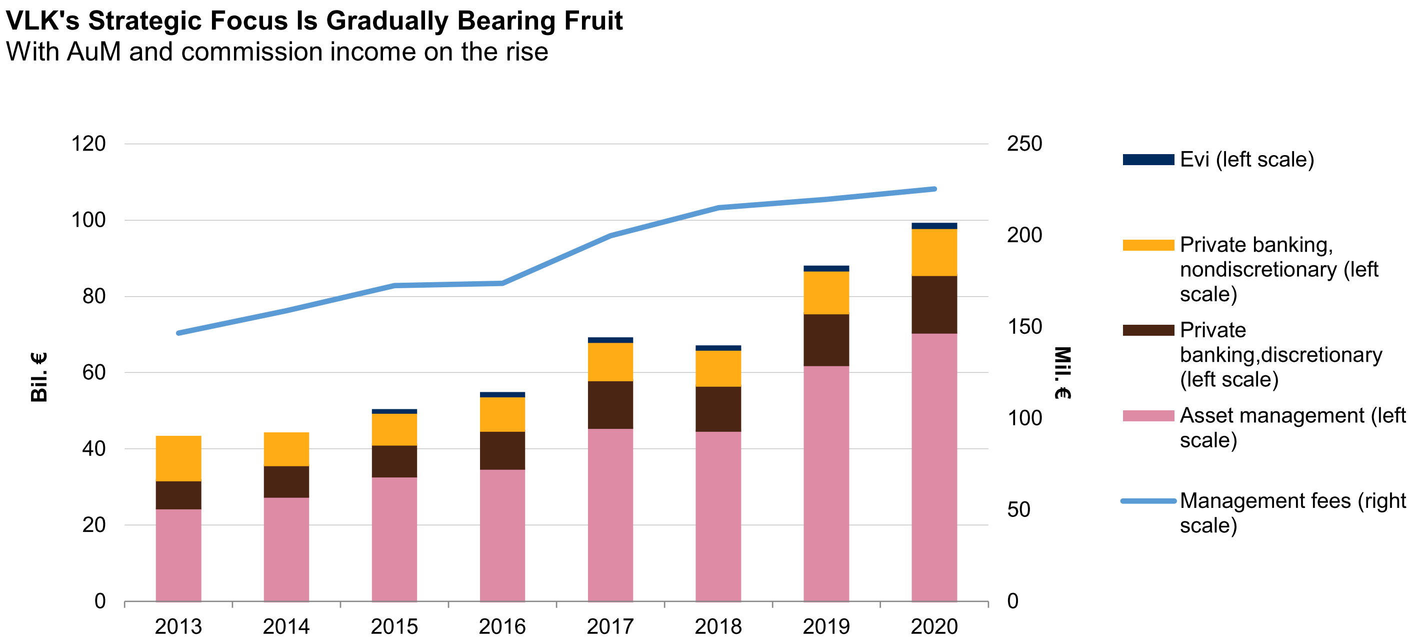


Source: S&P Global Ratings. VLK financial reporting

Most of the bank's revenue comes from private banking and asset management (more than 50% of operating revenue; see chart 2) in the Netherlands, where it enjoys a good franchise. The bank also intends to develop AuM activities in the U.K. and private-banking activities in Belgium, but we expect that it will take time before representing a material source of revenue. Its franchise in those countries is weaker than in the Netherlands. The fee and commission income has grown in 2020 due to increasing asset prices and participation, contrary to our expectation of a decline. Net interest income remains a considerable part of the bank's revenue. The loan book was almost stable year on year and primarily consists of low-risk residential mortgages (€6.4 billion of loan portfolio of €8.4 billion) in a strong housing market in Netherlands. However, we expect net interest income to continue declining in next two years given the persisting ultra-low interest rate environment.

The refocus on an integrated wealth management proposition included the reduction in corporate-lending activities to a negligible €195 million at end-2020. In our opinion, this strategic move makes sense, but success depends on the bank's capacity to continue scaling up AuM and improve the buffer to cover fixed costs, which we believe are high currently. Historically, the net interest income from VLK's customer loan book has buffered volatility in other income streams, but this will gradually reduce. Nevertheless, we think that fees coming from AuM are better quality than the interest earnings on corporate-banking activities, a segment in which the bank has a modest market share and pricing power, and in which credit losses could be high, especially in commercial real estate.

Chart 2



Source: S&P Global Ratings. VLK financial statements. Evi: Online wealth management services for the mass affluent and millennials.

The bank achieved 85.7% cost-to-income and 4.4% return on equity ratios, compared with 70%-72% and 10%-12% respective targets for 2025. We believe those objectives are achievable but ambitious, conditional on the bank's success in improving efficiency. Its adaptation to digitalization includes the implementation of its omnichannel private-banking model and IT transformation as part of its medium-term plan, with total investment of €60 million invested over 2016-2019. We understand VLKWM will launch other medium-to-long-term savings measures to further control expenses.

Rated peers with similar business models or operating in countries with a similar banking industry risk profile include Liechtenstein-based VP Bank AG and LGT Bank AG; J. Safra Sarasin Group in Switzerland; Banque Internationale a Luxembourg; and Swiss cantonal banks that have a more pronounced retail focus and stronger franchise in wealth management. The bank's activities are less diversified than those of larger commercial banks in Western European countries (France, Germany, and the U.K.), including domestic peers such as ABN AMRO, which is VLK's main competitor in the Netherlands.

Table 2

Van Lanschot Kempen Wealth Management N.V.--Business Position					
	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	442.7	553.2	519.2	567.3	524.4
Commercial banking/total revenues from business line	N/A	N/A	4.5	N/A	N/A

Table 2

Van Lanschot Kempen Wealth Management N.V.--Business Position (cont.)					
	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Retail banking/total revenues from business line	N/A	51.6	51.2	N/A	N/A
Commercial & retail banking/total revenues from business line	61.6	51.6	55.7	55.1	57.7
Trading and sales income/total revenues from business line	11.7	9.9	11.3	8.1	9.2
Asset management/total revenues from business line	23.8	18.3	19.2	16.1	16.4
Other revenues/total revenues from business line	2.9	20.3	13.7	20.7	16.6
Investment banking/total revenues from business line	11.7	9.9	11.3	8.1	9.2
Return on average common equity	4.0	7.9	5.7	6.6	4.5

N/A--Not applicable.

Capital and earnings: Strong capitalization supported by significant deleveraging, but active capital optimization strategy

Our assessment of VLKWM's capital and earnings reflects our expectation that the projected RAC ratio before adjustments will be 13%-14% in the next 12-24 months, lower than our estimated RAC ratio of 15.0%-15.5% at end-2020. We consider that the group will pursue its "asset-light" balance sheet, with most asset being low-risk loans (mortgages and private banking assets) and highly rated financial instruments. At the same time, with VLK's regulatory 24.3% CET 1 ratio well above its 15%-17% medium-term target, we could see some excess capital used for bolt-on acquisitions and anticipate capital returns to shareholder over the next two years.

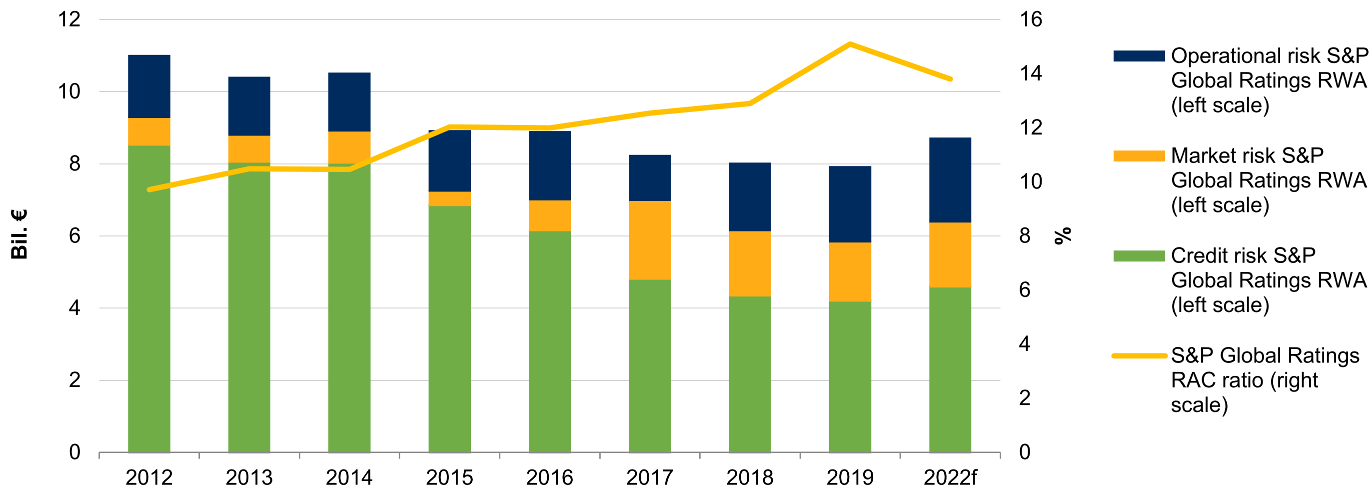
Our main assumptions supporting our forecasts are the following:

- Operating revenue bouncing back by 10%-15% in 2021 compared to 2020 (includes the structured product loss), and low-single-digit growth in 2022. We factor in our projections a continued pressure on interest income more than offset by the growth in management fees and assume merchant banking revenue to be stable;
- A mid-single-digit percentage point operating expense increase, because we assume some cost savings in 2020 were one-offs and not structural. But as expense increase more slowly than revenue, we expect cost to income to improve toward 75% in 2022;
- Loan impairment charges to remain at marginal levels (less than 5 basis points) given clients' high net worth profile;
- A dividend of €2.15 per share on 2019 and 2020 results as communicated by the bank. We assume a payout ratio in the high area of the 50%-70% financial policy range on 2021 and 2022 net incomes. We also assume a capital return to shareholders in line with what VLK has done in 2018 and 2019; and
- S&P Global Ratings-adjusted risk-weighted assets increasing 3%-4% every year, mainly reflecting the higher AuM and consequent higher operational risk, low loan growth, and gradual run-off of the corporate-lending portfolio.

Chart 3

VLK's Capitalization Strengthens

Thanks to lower credit risk as corporate loans exit



RAC--Risk-adjusted capital. f--Forecast. Source: S&P Global Ratings.

Under the supervisory review and evaluation process, regulatory authorities set a 2021 overall capital requirement of a 10.3% common equity tier 1 (CET1) ratio. We expect VLKWM will maintain, for some time, an extra cushion of capital above the preferred target (15%-17%). The bank estimates the impact of Basel IV will be controllable, but we understand management will keep part of the current extra cushion for these future new requirements. VLK reported a relatively high leverage ratio of 7.1% at end-2020, above the target level contemplated by the Dutch National Bank for domestic systematically important banks in the 4% range. The quality of capital is high since the capital base is mainly made of CET1 capital.

Van Lanschot's net earnings weakened in 2020 as pressure mounts on interest income and because of the one-off loss on structured products. The bank's targeted efficiency ratio of 70%-72% by 2025 (originally 2023) will still likely be among the highest for commercial banks we rate in the Netherlands, but comparable with that of other rated private banks. VLKWM would need to increase its revenue base by 15% with stable costs to achieve this target, which will be challenging in an ultra-low interest rate environment, and because acquiring AuMs inorganically often comes with incorporating costly commercial relationship managers. We expect net profit to be in the €75 million-€100 mil range in 2021, with a 6% return on equity.

Table 3

Van Lanschot Kempen Wealth Management N.V.--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	26.7	26.2	21.4	20.5	19.0
S&P Global Ratings' RAC ratio before diversification	N/A	15.1	12.9	12.5	12.0

Table 3

Van Lanschot Kempen Wealth Management N.V.--Capital And Earnings (cont.)					
	--Year ended Dec. 31--				
(%)	2020	2019	2018	2017	2016
S&P Global Ratings' RAC ratio after diversification	N/A	12.7	10.9	10.5	10.5
Adjusted common equity/total adjusted capital	90.9	91.5	100.0	100.0	100.0
Double leverage	100.0	100.0	100.0	100.0	N.M.
Net interest income/operating revenues	34.3	31.6	34.6	34.4	40.0
Fee income/operating revenues	66.9	52.5	57.9	47.1	46.5
Market-sensitive income/operating revenues	(6.2)	8.3	0.4	(0.6)	(0.4)
Noninterest expense/operating revenue	87.3	74.3	86.9	80.3	81.1
Preprovision operating income/average assets	0.4	1.0	0.5	0.8	0.7
Core earnings/average managed assets	0.3	0.9	0.5	0.6	0.5

N/A--Not applicable. N.M.--Not meaningful.

Risk position: Receding credit risk exposure, but structural exposure to operational risk

We view VLKWM's risk position as a neutral rating factor, meaning that, on balance, we believe that our RAC ratio adequately captures the bank's specific risks and that there is no other major risk weighing on its profile. We expect a slight increase in risk to the asset quality given the economic weakness from COVID-19, but not a meaningful one because VLKWM's clients are usually wealthy individuals. Still, the bank will continue its corporate loan book in run-off and does not plan to expand other loan books materially. Operational and legal risk are inherent to wealth management.

As part of its strategy to focus on wealth management, the bank has separated its mainly Netherlands-based loan portfolio into two main segments. The first one includes private banking loans (€7.8 billion as of end-2020), which are at the core of the strategy and mostly include mortgages (€6.0 billion or 77% of the total private banking loan portfolio); and other loans, including financing to entrepreneurs, business professionals, and the health care sector (€1.8 billion at end-2020). The second segment comprises corporate lending in run-off, specifically loans to SMEs; remaining exposure was €195 million only at end-2020. We understand this segment, now of marginal size, has no significant exposure to sectors that are most severely hit by current market conditions, like the oil sector, airlines, and the leisure industry. Given the successful run-off, the remaining corporate banking activities will be integrated in the private banking business line.

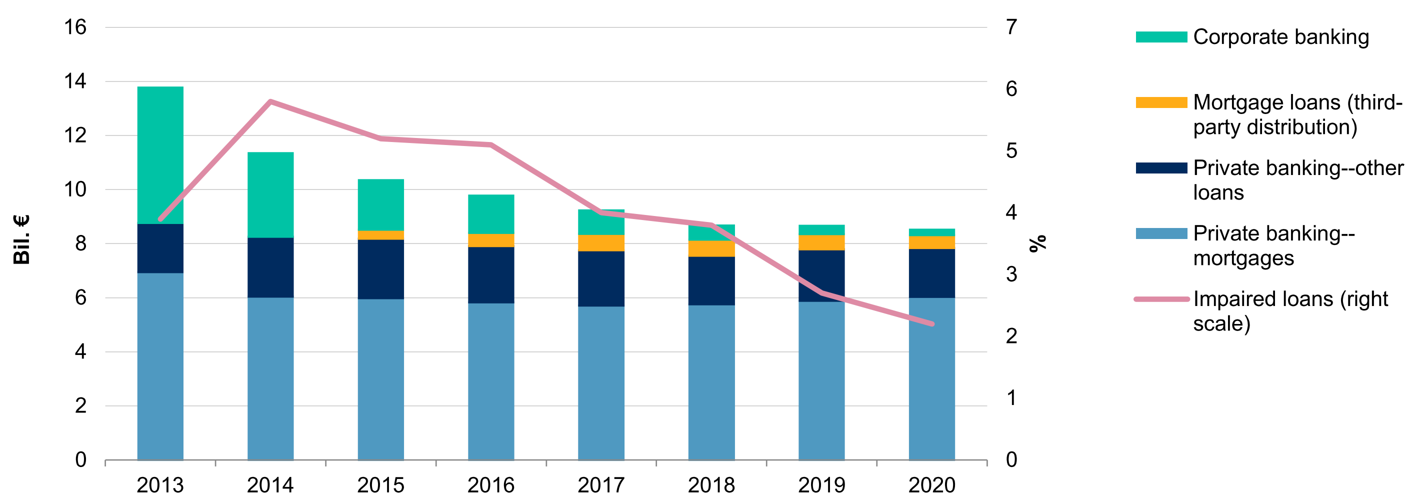
Since 2015, VLKWM provides mortgages distributed by third-party brokers under the Hypotrust brand. It amounted to €476 million at end-2020 or 5.6% of total loans (€553 million at end-2019 and €602 million at end-2018). This portfolio is recorded as part of the investment portfolio and is designed to enhance its average performance in the low-interest-rate environment, which we view as sensible alternative to high rated bonds given the good risk and return of Dutch mortgages.

In 2020, the bank's asset-quality metrics improved despite the pandemic, but are still higher than those of peers in the industry (except Safra Sarasin and BIL). Impaired loans stood at 2.2% of total loans at end-2020, compared with 2.7% a year before (see chart 4). The improvement came from the mortgage book and mainly the corporate run-off while there was an uptick in loans to professionals. The situation could deteriorate for the latter depending on the evolution of restrictions in the Netherlands and their impact on the local economy. The mortgage book's risk profile is gradually improving in our opinion, along with market trends, with a rise portion of amortizing loans, and a seasoned book. Still, given the nature of the clientele, some aspects compare less favorably than for retail-oriented banks, for instance considering the portion of loans exceeding €1 million or the loan-to-value (LTV) ratio. The percentage of residential mortgages with an LTV higher than 100% continued to reduce to 9% at end-2020 from 29% at end-2015. The average weighted LTV declined slightly to 74% from 76% in 2019, whereas for some Dutch commercial banks, the decline was much greater. The coverage ratio stood at 28% (23% at end-2019), which can seem low compared with that of international peers, but this is partly explained by the full recourse banks have on borrowers under the Dutch legal framework.

Chart 4

Reported Loan Portfolio And Impaired Loan Ratios

The corporate book run-off had a material impact, before a pick-up because of COVID-19



Source: S&P Global Ratings, VLK Financial Reporting.

We consider the risks in VLKWM's securities portfolio limited, with about 38% in cash at central banks, 27% of government exposures, 19% in covered bonds, and the remaining in highly rated corporates and residential mortgage backed securities with a focus on Western European countries.

The major risks are reputational and market ones, because they are inherent in the bank's private-banking activities. VLKWM had never suffered any material setback on the legal and compliance front, but we acknowledge the Dutch regulator is increasingly intrusive and demanding on how banks take on new clients. However, it incurred a loss on its hedges of structured products in 2020. We understand the market dislocation made the macro hedges ineffective on a portfolio of structured products offered to private banking clients, creating a €35 million loss in 2020 (with €21.9 million losses incurred in first-quarter 2020). VLK wants to continue offering these products to clients, so it started micro-hedging these positions with global banks, meaning passing the full market risk to them while lowering the product profitability. We view positively the shift from macro- to micro-hedging, but it will be done over the next years as the current book matures and is replaced by a new production, so it leaves part of the book still at risk in case other extreme events comparable to March 2020 occur.

Table 4

Van Lanschot Kempen Wealth Management N.V.--Risk Position

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	(1.7)	(0.1)	(6.0)	(5.7)	(5.4)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	18.8	18.2	19.3	14.3
Total managed assets/adjusted common equity (x)	14.9	13.1	13.5	14.2	14.0
New loan loss provisions/average customer loans	0.0	(0.1)	(0.1)	(0.1)	(0.0)
Net charge-offs/average customer loans	0.0	0.4	0.1	0.3	0.1
Gross nonperforming assets/customer loans + other real estate owned	2.2	2.7	3.8	4.4	5.2
Loan loss reserves/gross nonperforming assets	34.4	27.3	34.1	29.5	32.0

N/A--Not applicable.

Funding and liquidity: Smaller wholesale reliance than some domestic peers

We view VLKWM's funding and liquidity positions as supportive for the rating. This mainly reflects our view of the bank's better-than-domestic peer reliance on customer deposits balanced by the potentially higher confidence sensitivity of private banks' deposits compared with that of retail banks, and a relatively small base.

VLKWM's customer deposit base broadly covers the loan portfolio, with net loans to customer deposits of 83% at end-2020 (compared with 90% at end-2019 and 94.2% at end-2018), which is better than that of large Dutch peers. The improvement in 2020 was due to a larger share of deposits amid the pandemic. The volatility of the loan-to-deposit ratio in recent years reflected the time lag between the shrinking loan book and the corresponding adjustment of the deposit base. Retail customer deposits are less granular than peers', reflecting the bank's focus on private banking.

We believe private banks are more sensitive to reputational issues and, if the market environment brightens, customers may switch to other asset classes. We regard the composition and maturity profile of VLKWM's funding as adequate, illustrated by a stable funding ratio on an improving trend in recent years (139% at end-2020 compared with 118% at end-2016). We understand that management intends to adjust its funding profile to reducing asset exposure by relying more on customer savings and deposits, and less on unsecured wholesale sources. So far, Van Lanschot has issued €1.5 billion in conditional pass-through covered bonds, with no issuance since 2017 because of the bank's high liquidity buffer.

We do not see a meaningful negative impact on VLKWM's liquidity metrics from the pandemic. We expect that the bank will maintain a satisfactory buffer of liquid assets, including a large share of government bonds. Its vulnerability to short-term wholesale funding is limited, as indicated by a high ratio of broad liquid assets to short-term wholesale funding of 6x at end-2020. We consider liquidity generally neutral to ratings on private banks. This is because the main business of private banks, unlike pure retail and commercial banks, is not generated on the balance sheet, which should increasingly be the case for VLKWM as the bank sharpens its wealth-management focus.

VLKWM has a high regulatory liquidity coverage ratio of 177.4% and a net stable funding ratio of 161.8% at end-2020, and we expect both to remain well above the minimum required.

Table 5

Van Lanschot Kempen Wealth Management N.V.--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	77.5	77.1	75.4	71.5	74.5
Customer loans (net)/customer deposits	83.3	90.1	94.2	99.5	99.4
Long-term funding ratio	94.4	92.8	90.6	92.3	92.6
Stable funding ratio	139.4	128.0	121.0	122.0	118.6
Short-term wholesale funding/funding base	6.1	7.9	10.2	8.4	8.0
Broad liquid assets/short-term wholesale funding (x)	6.3	4.1	3.0	3.4	3.2
Net broad liquid assets/short-term customer deposits	42.7	33.1	27.8	29.5	24.8
Short-term wholesale funding/total wholesale funding	26.3	33.2	41.4	29.4	31.6
Narrow liquid assets/3-month wholesale funding (x)	6.4	4.2	3.5	3.4	3.2

Support: Low systemic importance in the Netherlands

We do not include notches of uplift for VLKWM under our additional loss-absorption capacity (ALAC) methodology, contrary to our approach for some large Dutch banks. This is because we see it as being of lower systemic importance in the Netherlands, due to its modest share of the overall Dutch banking system and focus on private banking. This implies to us that the bank might be put into bankruptcy if regulators determined it to be nonviable, as opposed to a bail-in resolution process for the most systemically important Dutch banks.

When we see a feasible plan for a bank to build a substantial ALAC buffer, we include some uplift in the issuer credit rating. Given VLKWM's modest size and focus on private-banking activities, we believe that, if the bank were to run into severe difficulties, the regulators' preferred approach would rather be an orderly liquidation or potential sale to a larger player, rather than a bail-in resolution scenario. Therefore, we don't see a credible resolution plan to build a substantial buffer of ALAC, or the possible eligibility for ALAC uplift.

Environmental, social, and governance (ESG)

We consider ESG credit factors for VLK broadly in line with those of the industry and country peers. Our view is supported by the bank's sustainability ambitions that include encouraging clients shifting to sustainable investments, enhancing the offering of ESG funds, and limiting its own carbon emissions. We view positively the disclosure of some nonfinancial environmental and social targets, although these are in line with the industry and not overly difficult to achieve, in our view. These disclosures are a first step ahead of upcoming ESG regulation at European level that are setting higher standards for sustainable and responsible investments along with improved disclosing for ESG risks. As a listed entity, governance standards are robust, and the experienced management team has been fairly stable. The CEO's stepdown by the end of 2021 is well planned in our view, as he will remain until a suitable successor is found. Compared to other Dutch banks, VLKWM did not suffer material misconduct cases in the past decade, which is a favorable advantage in particular in the wealth management industry.

Hybrids ratings

Our 'BB' rating on Van Lanschot's additional tier 1 instrument stand four notches below the bank's 'bbb+' group SACP. We deduct notches as follows:

- One notch for subordination;
- Two additional notches to take into account the risk of nonpayment at the full discretion of the issuer and the hybrid's inclusion in Tier 1 regulatory capital; and
- Another notch because of the mandatory contingent capital clause leading to the securities' temporary write-down. According to this clause, the write-down would occur if Van Lanschot's CET1 ratio falls below 5.125%, which we do not consider a going concern trigger.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of March 25, 2021)*	
Van Lanschot Kempen Wealth Management N.V.	
Issuer Credit Rating	BBB+/Negative/A-2
Junior Subordinated	BB
Senior Secured	AAA
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB-
Issuer Credit Ratings History	
23-Apr-2020	BBB+/Negative/A-2
04-Nov-2014	BBB+/Stable/A-2
15-Mar-2013	BBB+/Negative/A-2
Sovereign Rating	
Netherlands	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.