FitchRatings

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Correction: Fitch Revises Outlook on Van Lanschot to Stable; Affirms at 'BBB+'

Fitch Ratings - Paris - 07 Jul 2021: This Rating Action Commentary replaces the version published on 23 June 2021 to include the XS0232745074 issuance.

Fitch Ratings has revised the Outlook on Van Lanschot Kempen Wealth Management N.V's (Van Lanschot) Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at 'BBB+' and Viability Rating (VR) at 'bbb+'. A full list of rating actions is below.

The revision of the Outlook reflects our view that Van Lanschot's ratings have sufficient headroom to withstand various downside scenarios to our updated baseline economic forecast.

Key Rating Drivers

IDRS AND VR

Van Lanschot's ratings reflect its well-established private banking franchise in the Netherlands (private banking assets under management (AuM) of EUR27 billion at end-2020), complemented by adequate diversification in asset management and merchant banking, sound asset quality and capitalisation and good funding and liquidity profile. The ratings also reflect its growth-focused strategy and moderate pricing power. We consider its moderate profitability, which is still below that of private banking peers, to be a factor of high importance for the ratings.

Van Lanschot focuses exclusively on on-shore clients and has a sound franchise in its home country where it ranks amongst the top-four private banks by AuM. The bank has also an adequate franchise in asset management (about EUR71 billion AuM at end-2020), largely in the Netherlands and in the UK, a business characterised by high-volume and low-margins given its focus on fiduciary mandates. Van Lanschot's merchant banking segment has a moderate but fairly stable contribution to revenue, supported by an adequate franchise in niche sectors.

Van Lanschot's mid-term strategic plan focuses on strengthening its wealth management franchise with the ambition of becoming a leading player in the Benelux region. Execution in terms of AuM growth has been on track so far as the bank generated positive net new money on a recurrent basis in recent years, and has added scale through the two recent bolt-on acquisitions of Hof Hoorneman Bankiers in the Netherlands and Mercier Vanderlinden in Belgium.

Risk management is generally low risk, although some weaknesses emerged in its controls over the market risk exposure embedded in its structured products. The bank is taking steps to reduce this risk although in our view, extreme market volatility may cause outsized losses and earning volatility. The bank reported a large loss on structured products in 2020 driven by materially higher hedging costs in the middle of the market dislocation of 1Q20 but has since started to fully hedge the market risk on the new issuances of structured products

We expect Van Lanschot's profitability to moderately improve in the medium term, supported by the planned increase in the AuM base and moderate efficiency gains. We believe that the bank needs to continue to steadily grow its AuM in order to progress towards its profitability ambitions. We see integration costs related to recent acquisitions as manageable.

Van Lanschot's asset quality gradually improved in recent years as a result of the successful de-risking of its corporate loan book. We believe that loan performance will be resilient as low-risk and well-performing mortgage loans granted to wealthy individuals comprise the majority of the bank's loans and risks from other private banking loans or the small residual corporate loan exposure are contained.

The sound common equity Tier 1 (CET1) ratio of 23.6% reported by the bank at end-1Q21 is a rating strength. Given Van Lanschot's growth ambitions, we expect the bank to operate with a lower CET1 ratio, although it should remain comfortably above 16% in the next 12-24 months and in line with the bank's targeted 15%-17% range. The bank's regulatory leverage ratio was adequate at 7.4% at end-2020.

Van Lanschot has a balanced and fairly-diverse funding profile, which includes a large share of deposits. Its loan-to-deposit ratio has continuously improved over the last few years and the bank's reliance on wholesale funding has now become marginal. Liquidity is sound and supported by a large buffer made of cash and well-rated fixed income securities.

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'.

DEBT RATING

Van Lanschot's long- and short-term senior unsecured debt ratings are at the same level as the bank's 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.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating (SR) and Support Rating Floor (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.

RATING SENSITIVITIES

IDRS AND VR

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The most likely trigger for an upgrade would arise from successful implementation of the private banking and asset management growth strategy, resulting in a sustained strengthening of the bank's profitability from continued steady and sizeable inflows of AuM. Positive rating action would also require the bank to maintain satisfactory capital and liquidity buffers.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Fitch could downgrade Van Lanschot's ratings if we expect its profitability to significantly deteriorate, for example if we expect its operating profit/risk-weighted assets to fall and remain below 0.5% for a prolonged period of time. The ratings could also be downgraded if there are further material losses on structured products that indicate additional weaknesses in its risk controls, and which through losses would ultimately put pressure on capital.

DEBT RATING

The senior unsecured debt ratings are sensitive to changes in the IDRs. The senior unsecured debt may receive a one-notch uplift from the Long-Term IDR if the bank builds up a significant combined buffer of qualifying junior debt and senior non-preferred notes to comply with its future minimum requirement for own funds and eligible liabilities.

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

SR AND SRF

An upgrade of the SR and upward revision of the SRF are contingent on a positive change in the Netherlands' 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 light of the resolution regime in place, in Fitch's view.

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

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Van Lanschot Kempen Wealth Management N.V.	LT IDR	BBB+ ⊙	Affirmed		BBB+ ⊖
	ST IDR	F2	Affirmed		F2
	Viability	bbb+	Affirmed		bbb+
	Support	5	Affirmed		5
	Support Floor	NF	Affirmed		NF
• senior unsecured	LT		Affirmed		
• subordinated	LT		Affirmed		
• senior unsecured	ST		Affirmed		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	⊙	

Applicable Criteria

Bank Rating Criteria (pub.28 Feb 2020) (including rating assumption sensitivity)

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