FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Paris - 15 Jun 2022: Fitch Ratings has affirmed Van Lanschot Kempen N.V.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. Fitch has also affirmed Van Lanschot's Viability Rating (VR) at 'bbb+' and Short-Term IDR at 'F2'.

Fitch has withdrawn Van Lanschot's Support Rating of '5' and Support Rating Floor of 'No Floor' as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria in November 2021.

In line with the updated criteria, Fitch has assigned Van Lanschot a Government Support Rating (GSR) of 'no support' .

KEY RATING DRIVERS

Satisfactory Standalone Credit Profile: Van Lanschot's ratings are underpinned by its well-established, albeit niche franchise in wealth management, investment banking and asset management, as well as sound asset quality and capitalisation, and a stable funding and liquidity profile. The ratings also consider profitability, which is below international peers with a similar business mix.

Implied VR Adjusted Downwards: The assigned VR is one notch below the 'a-' implied VR since the bank's business profile has a high influence on its ratings, as we believe this could have a negative impact on the stability of earnings and profitability. Van Lanschot has a niche and regional franchise in its key operating segments (wealth and asset management) and operates with a high cost base, resulting in weaker profitability relative to peers with larger and more diversified assets under management (AuM).

Entrenched Wealth Management Franchise: Fitch's assessment of the bank's business profile reflects its established wealth management franchise in the Netherlands, small size compared with leading domestic players, and adequate geographic diversification, particularly in Belgium. Van Lanschot's asset management and investment banking businesses provide a moderate degree of diversification to its revenue streams.

Reduced Risk Profile: Fitch expects Van Lanschot to maintain a conservative risk appetite, given its focus on low-risk mortgage lending in the Netherlands. Fitch expects other inherently riskier private-banking relationship-related loans to continue to account for a low proportion of the loan book. Fitch raised the risk profile score to 'a-' from 'bbb+' following the tightening of the bank's risk controls and hedging policy on its structured products.

Stable Asset Quality: We expect Van Lanschot's loan performance to remain resilient to macroeconomic challenges as low-risk and well-performing residential mortgage loans comprise the majority of the bank's gross loans. Its Stage 3 loans ratio fell to 1.7% by end-2021 (end-2020: 2.2%), helped by improved operating conditions and further de-risking of its corporate loan book.

Moderate Profitability: Van Lanschot's profitability suffers from a high cost base and we believe achieving significant improvement in profitability will depend on its ability to increase the scale of its AuM, as well as generating higher-margin business. We do not expect the improvement in operating profit/risk-weighted assets in 2021 (4.6% compared with 1.4% in 2020) to be sustainable and we expect the ratio to fall back to its four-year average of around 2.5%.

Capitalisation a Rating Strength: Van Lanschot's risk-weighted capital ratios are solid with a common equity Tier 1 (CET1) ratio of 20.8% at end-1Q22. We expect Van Lanschot to operate with a lower CET1 ratio in future as operations will continue to grow, although it should remain above 15% in the next two years and commensurate with the current 'a' score.

Stable Funding, Ample Liquidity: Van Lanschot has a stable and fairly diverse funding profile, the majority of which consists of its private banking customer deposits. Liquidity is sound and supported by a large buffer made of cash and highly-rated fixed income securities.

No Government Support: Van Lanschot's Government Support Rating 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.

RATING SENSITIVITIES

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

Van Lanschot's ratings have sufficient headroom to absorb a moderate deterioration of some of its financial metrics. Therefore, its ratings would most likely be downgraded upon a greater than expected decrease in its capitalisation, with the CET1 ratio falling to below 15% for a prolonged period. This could be driven by a greater appetite for risk, acquisitions, or substantial operational losses, which would also lead to a reassessment of the bank's risk profile.

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

An upgrade would most likely arise from successful implementation of Van Lanschot's private banking and asset management growth strategy, resulting in continued steady and sizeable inflows of AuM that strengthened the bank's business profile while maintaining its current risk profile. This would likely be reflected in an improvement in profitability that generated an operating profit/average total assets sustainably at around 1%, in line with higher rated peers. An upgrade would be dependent on the bank maintaining its satisfactory capital and liquidity buffers.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

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.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

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

A downgrade of the senior unsecured debt ratings would follow a downgrade of the bank's IDRs.

A downgrade of the subordinated debt rating would result from a downgrade of the VR, from which it is notched.

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

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. The long-term 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.

An upgrade of the subordinated debt rating would result from an upgrade of the bank's VR.

VR ADJUSTMENTS

The Viability Rating has been assigned below the implied Viability Rating due to the following adjustment reason: Business Profile (negative).

The Earnings & Profitability score has been assigned below the implied score due to the following adjustment reason: Revenue Diversification (negative).

The Capitalisation & Leverage score has been assigned below the implied score due to the following adjustment reason: Historical and Future Metrics (negative).

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, visitwww.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Van Lanschot Kempen N.V.	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
	Viability	bbb+	Affirmed	bbb+
	Support	WD	Withdrawn	5
	Support Floor	WD	Withdrawn	NF
	Government Support	ns	New Rating	
subordinated	LT	BBB-	Affirmed	BBB-
senior unsecured	LT	BBB+	Affirmed	BBB+

senior unsecured	ST	F2	Affirmed	F2

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 12 Nov 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Van Lanschot Kempen N.V.	EU,UK Endorsed

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