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## Research Update:

# Euroclear Investments And Euroclear Bank Ratings Affirmed; Proposed Senior And Hybrid Debt Issues Rated; Outlook Stable

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## Research Update:

# Euroclear Investments And Euroclear Bank Ratings Affirmed; Proposed Senior And Hybrid Debt Issues Rated; Outlook Stable

## Overview

- Euroclear Investments S.A. plans to issue a senior unsecured bond and a dated hybrid instrument to strengthen the recovery capacity of its operating subsidiaries, principally Euroclear Bank S.A./N.V. Each issue will be a minimum of €300 million and the aggregate issuance will be a maximum of €700 million.
- Although Euroclear group's leverage and cash flow metrics will deteriorate moderately, we believe this is mitigated by its stable cash flow generation and the increased protection provided to the bank's senior creditors through the planned transactions.
- We are affirming our 'AA-/A-1+' issuer credit ratings on Euroclear Investments and our 'AA/A-1+' ratings on Euroclear Bank.
- We are assigning our 'AA-' issue rating to the proposed senior unsecured bond and our 'A' issue rating to the proposed hybrid instrument.
- The stable outlook reflects our view that Euroclear group will maintain a low risk profile, satisfactory profitability, strong capitalization, and a leading position in securities settlement and associated post-trade activities.

## Rating Action

On March 22, 2018, S&P Global Ratings affirmed its 'AA-/A-1+' long- and short-term issuer credit ratings on intermediate non-operating holding company Euroclear Investments S.A. and the 'AA/A-1+' long- and short-term issuer credit ratings on operating subsidiary Euroclear Bank S.A./N.V. The outlook is stable.

At the same time, we assigned our 'AA-' issue rating to Euroclear Investments' proposed senior unsecured bond, and our 'A' issue rating to its proposed 30-year subordinated notes.

## Rationale

The rating actions follow the announcement by Euroclear Investments that it plans to issue a 12-year senior unsecured bond and 30-year subordinated, resettable, and callable fixed-rate notes. Each issue will be a minimum of

€300 million and the aggregate issuance will be a maximum of €700 million. We understand that Euroclear Investments will downstream the majority of the proceeds to subsidiary Euroclear Bank in a form that qualifies for the regulatory minimum requirement for own funds and eligible liabilities (MREL). The downstreamed instruments are intended to protect the bank's senior creditors by financing a recapitalization in a recovery or resolution scenario.

We have revised our assessment of Euroclear group's financial risk profile downward to modest from minimal as a result of the planned issuance. This change lowers the preliminary anchor to 'a+' from 'aa'. According to our ratio definition, we estimate that Euroclear group's debt to EBITDA was 1.1x at year-end 2017 and we expect it to increase to 2.1x-2.2x at year-end 2018, depending on the mix of senior and hybrid debt issued. Consistent with our corporate hybrid criteria, we treat the planned hybrid instrument as having intermediate equity content in our leverage and cash flow metrics until the first call date. This is because interest payments are fully discretionary, the first call option comes 10 years after the issue date, and there is no step-up. The intermediate equity content status means that we treat 50% of the hybrid issue as debt and 50% as equity. We continue to assume that Euroclear group will maintain €300 million of surplus cash that we offset against gross debt in our metrics.

We are affirming the issuer credit ratings on Euroclear Investments and Euroclear Bank because we believe that the group's increased debt load is mitigated by its stable and predictable cash flows. Euroclear group is one of the world's largest providers of cross-border settlement services and it recorded a €403 million pretax operating profit in 2017, down 2% on the previous year due to time-limited investments linked to regulatory changes and cyber risk management. We additionally take note of the increased protection that the downstreamed MREL provides to the bank's senior creditors, although Euroclear Bank is not within the scope of our additional loss-absorbing capacity methodology.

We have introduced a positive adjustment under our comparable rating analysis due to Euroclear group's competitive advantages and financial strengths relative to peers. We maintain a positive view of Euroclear group's capital structure, reflecting its healthy risk-adjusted capital ratio, and this adds one notch to the issuer ratings from the lower anchor level.

The 'AA-' issue rating assigned to the planned senior unsecured bond is consistent with the issuer credit rating on Euroclear Investments and the issue rating on its existing €600 million 1.125% senior notes due 2026. We have rated the planned hybrid instrument under our bank hybrid capital criteria because we believe this methodology best reflects non-payment risk arising from Euroclear's status as a prudentially-regulated banking group. Our 'A' issue rating on the planned hybrid is two notches lower than the issue rating on the planned senior unsecured bond due to one-notch deductions for subordination and discretionary payments.

## Outlook

The stable outlook reflects our view that Euroclear group's creditworthiness will remain resilient. We expect that the group will maintain a low risk profile, satisfactory profitability, strong capitalization, and a leading position in securities settlement and associated post-trade activities, despite a highly competitive environment and structural changes in the European securities industry.

### Downside scenario

We could lower the ratings in the coming 12-24 months if we believe that Euroclear group's earnings and franchise prospects are less supportive of its increased indebtedness. A downgrade could also be triggered by an unexpected deterioration in the group's very strong market position or an increase in its risk appetite. While we consider this exceptionally unlikely, we could also lower the rating on Euroclear Bank if we changed our view of its core status to the wider group.

### Upside scenario

We consider an upgrade unlikely at this time, given the already high rating, increased debt, and potential medium-term challenges to the group's business model and competitive position arising from industry changes and economic developments.

## Ratings Score Snapshot

Business risk: Strong

- Country risk: Low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Modest [previously Minimal]

Preliminary anchor: a+ [previously 'aa']

Clearing and settlement risk: 0 (no impact)

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Positive (+1 notch) [Previously Positive (no impact)]
- Financial policy: Neutral (no impact)
- Liquidity: Exceptional (no impact)
- Management and governance: Strong (no impact)

- Comparable rating analysis: Positive (+1 notch) [Previously Neutral (no impact)]

Group credit profile (GCP): aa

N.B. The above scores reflect the components of the GCP of Euroclear. We classify Euroclear Bank as a core subsidiary and rate it in line with the GCP. We rate Euroclear Investments one notch below the GCP due to its status as a non-operating holding company.

## Related Criteria

- 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: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Financial Institutions - General: Key Credit Factors For Financial Market Infrastructure Companies, Dec. 9, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Related Research

- Global Financial Market Infrastructure Operators To Focus On Data And OTC Products Amid Flatlined Volatility In 2018, Jan. 10, 2018
- Euroclear Bank S.A./N.V., Nov. 7, 2017
- Rating Factor Assessments For Global Financial Market Infrastructure

Companies (July 2017), July 21, 2017

- Euroclear Investments S.A.'s Proposed Senior Issue Rated 'AA-'; 'AA-/A-1+' Issuer Ratings Affirmed; Outlook Stable, Nov. 17, 2016

## Ratings List

### New Ratings

Euroclear Investments S.A.	
Senior Unsecured	AA-
Subordinated	A

### Ratings Affirmed

Euroclear Investments S.A.	
Issuer Credit Rating	AA-/Stable/A-1+
Senior Unsecured	AA-

Euroclear Bank S.A./N.V.	
Issuer Credit Rating	AA/Stable/A-1+

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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