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Research Update:

Euroclear Bank Proposed Senior Debt Program Rated; Issuer Rating Affirmed At 'AA', Outlook Stable

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Overview

- Euroclear Bank will shortly launch a €5 billion euro medium-term note program, primarily to increase its available liquidity to satisfy the EU's Central Securities Depositories Regulation requirements.
- We consider senior debt issuance under the program will be leverage neutral and that the broader initiative will support the group's creditworthiness.
- We are therefore affirming our ratings on Euroclear Bank and Euroclear Investments.
- We are assigning 'AA' ratings to the senior unsecured issuance under the program, and 'AA-' ratings to the senior nonpreferred issuance.
- The stable outlook reflects our view that Euroclear Group will maintain a low risk profile, satisfactory profitability, strong capitalization, and leading position in securities settlement and associated post-trade activities.

Rating Action

On June 25, 2018, S&P Global Ratings affirmed its 'AA/A-1+' issuer credit ratings on Euroclear Bank S.A./N.V. and 'AA-/A-1+' issuer credit ratings on intermediate holding company Euroclear Investments S.A. The outlook on both entities is stable.

At the same time, we assigned our 'AA' issue credit rating to Euroclear Bank's proposed senior unsecured bonds under the EMTN program, and our 'AA-' issue credit rating to the proposed senior nonpreferred bonds under the EMTN program.

Rationale

The rating actions follow the announcement by Euroclear Bank that it is establishing a euro medium-term note (EMTN) program to issue senior unsecured and senior nonpreferred bonds.

The principal purpose of this EMTN program is to issue securities to increase the buffers of available liquidity in order to satisfy the tighter regulatory

requirements under the EU's Central Securities Depositories Regulation (CSDR). While CSDR became effective in September 2014, additional provisions are coming in force this year. In particular Euroclear Bank must demonstrate that it can pass the "cover 2" requirement under CSDR (i.e., withstand the potential stress if the two counterparties giving rise to the largest liquidity outflows fail simultaneously). In our view, increasing available liquidity at the bank through the issuance of long-term bonds will help Euroclear Bank satisfy those requirements without introducing significant refinancing risk.

Our affirmation of the ratings on Euroclear Bank reflects our view that the strengthening of the bank's safeguards and preparedness to cope with such a stressful event supports our already highly favorable view of the Euroclear group's creditworthiness. Specifically, we anticipate no rise in net debt from this issuance, given that the proceeds will be reinvested in very highly rated, liquid bonds that would also be eligible for European Central Bank funding. Our view of Euroclear group's financial risk profile is therefore unchanged. We also do not expect the likely negative cost-of-carry of the bond issuances to materially affect Euroclear Bank's profitability or that of the wider group.

Euroclear Bank may also use the EMTN program to issue senior nonpreferred bonds that qualify for the regulatory minimum requirement for own funds and eligible liabilities (MREL). Assuming the additional debt from senior nonpreferred bonds would not increase Euroclear group's gross debt-to EBITDA ratio materially beyond our base case, we would rate these bonds 'AA-', one notch lower than the issuer credit rating on Euroclear Bank, to reflect the subordination risk relative to senior unsecured bonds. Our base case takes into account our expectation that Euroclear group's debt to EBITDA will increase to 2.1x-2.2x by year-end 2018, following recent issuance by intermediate holding company Euroclear Investments S.A. This will support the ramp-up of MREL at Euroclear Bank.

Outlook

The stable outlook reflects our view that Euroclear Bank's creditworthiness will remain resilient. We expect it 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 in case of 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

Issuer credit rating: 'AA/Stable/A-1+'

Business risk: Strong

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

Financial risk: Modest

Preliminary anchor: a+

Clearing and settlement risk: 0 (no impact)

Modifiers

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

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: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate 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

- Euroclear Investments And Euroclear Bank Ratings Affirmed; Proposed Senior And Hybrid Debt Issues Rated; Outlook Stable, Mar. 22, 2018
- 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

Ratings Affirmed

Euroclear Bank S.A./N.V.

Issuer Credit Rating AA/Stable/A-1+

Euroclear Investments S.A.

Issuer Credit Rating AA-/Stable/A-1+

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

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