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Research Update:

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

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Overview

- Euroclear Investments S.A. plans to issue a €600 million 10-year senior unsecured bond to strengthen its financial flexibility.
- We project that the Euroclear group's leverage and cashflow metrics will remain consistent with a minimal financial risk profile.
- We view Euroclear Investments as an intermediate non-operating holding company that will to a large extent rely on distributions from subsidiaries to service the bond.
- We are assigning 'AA-/A-1+' long- and short-term counterparty credit ratings to Euroclear Investments and a 'AA-' issue rating to the proposed bond, and affirming our 'AA/A-1+' ratings on core operating subsidiary Euroclear Bank S.A./N.V.
- The stable outlook reflects our view that Euroclear group will maintain its low risk profile, satisfactory underlying profitability, strong capitalization, and leading position in securities settlement and associated post-trade activities.

Rating Action

On Nov. 17, 2016, S&P Global Ratings assigned its 'AA-/A-1+' long- and short-term counterparty credit ratings to Luxembourg-incorporated Euroclear Investments S.A. The outlook is stable.

At the same time, we assigned our 'AA-' issue rating to Euroclear Investments' proposed €600 million 10-year senior unsecured bond.

We also affirmed the 'AA/A-1+' long- and short-term counterparty credit ratings rating on Belgium-incorporated Euroclear Bank S.A./N.V. The outlook is stable.

Rationale

The Euroclear group announced today that it intends to issue a €600 million 10-year senior unsecured bond to improve financial flexibility. We understand that the primary rationale for the bond is to boost free cash following increases in subsidiaries' regulatory capital requirements, investment in new initiatives such as TARGET2-Securities (T2S), and previous levels of shareholder distributions. We believe the majority of the bond proceeds will

be invested on a relatively short-term basis to support cash and working capital needs.

The Euroclear group currently has no issued debt. In our view, our leverage and cashflow ratios for the group will remain consistent with a minimal financial risk profile assessment following the proposed bond issuance. The other rating factors are also unchanged and we are therefore maintaining the group credit profile (GCP) at 'aa'. We project our adjusted debt-to-EBITDA metric will increase to about 1.0x and the funds from operations (FFO)-to-debt ratio will comfortably exceed 50%. We currently apply a 100% haircut to Euroclear group's cash and short-term investments but our projected ratios reflect a change in our approach following the bond issue. Specifically, we intend to recognize half of the bond proceeds as surplus cash that we will offset against gross debt.

We view Euroclear Investments as a non-operating holding company (NOHC) because it does not directly generate client revenues. It sits immediately beneath Euroclear PLC, the ultimate group NOHC, in the legal structure and has very little activity on its balance sheet other than investments in subsidiaries and corresponding shareholders' funds. Therefore, we believe Euroclear Investments will to a large extent rely on cash flows from regulated operating subsidiaries to service its debt. We reflect this structural subordination by rating Euroclear Investments one notch below the 'aa' GCP, consistent with our usual approach to rating NOHCs. We could widen this notching further if, for example, the Euroclear group introduced meaningful double leverage into its NOHCs that created heightened sensitivity for NOHC creditors.

We are affirming our ratings on operating subsidiary Euroclear Bank S.A./N.V. at 'AA/A-1+', in line with the GCP. We assess Euroclear Bank as a core group member due to the crucial role it plays in supporting the Euroclear group's leading franchise in the international securities markets.

Outlook

The stable outlook reflects S&P Global Ratings' view that the Euroclear group's creditworthiness will remain resilient. We expect it will maintain a low risk profile, satisfactory underlying 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 Euroclear's business or financial profile were to deteriorate materially such that the projected debt-to-EBITDA and FFO-to-debt ratios appeared likely to breach our 1.75x and 50% thresholds, respectively. 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 and potential challenges to the group's business model and competitive position arising from industry changes such as T2S and the proposed merger between Deutsche Boerse AG (parent of Clearstream Banking S.A., Euroclear's closest competitor) and London Stock Exchange Group PLC. Nevertheless, we could raise the rating if we believed that the group would be able to materially strengthen its already very strong business profile; for example, if earnings were rising strongly as a result of it expanding its franchise across a widening base of users.

Rating Score Snapshot

Business risk: Strong

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

Financial risk: Minimal

Preliminary anchor: aa

Clearing and settlement risk: 0 (no impact)

Modifiers

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

Group credit profile: aa

N.B. The above scores reflect the components of the GCP of Euroclear group. We classify Euroclear Bank S.A./N.V. as a core subsidiary and therefore rate it in line with the GCP. We rate non-operating intermediate holding company Euroclear Investments S.A. one notch lower to reflect structural subordination.

Related Criteria And Research

Related criteria

- General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- General Criteria: Group Rating Methodology - November 19, 2013
- General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General: Key Credit Factors For Financial Market Infrastructure Companies - December 09, 2014
- Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related research

- Rating Factor Assessments For Global Financial Market Infrastructure Companies (January 2016), Jan. 13, 2016
- The Outlook For Global Financial Market Infrastructure Companies Is Stable For 2016, But Rising Leverage Could Pressure Ratings, Dec. 11, 2015
- Euroclear Bank S.A., Nov. 11, 2015

Ratings List

New Rating

Euroclear Investments S.A.
Counterparty Credit Rating
Senior Unsecured

AA-/Stable/A-1+
AA-

Ratings Affirmed

Euroclear Bank S.A./N.V.
Counterparty 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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at 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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