Important note

The information on which the statements herein are based is derived from the audited consolidated financial statements of Euroclear Holding SA/NV for the year ended 31 December 2018. These will be submitted for approval to the annual general meeting of shareholders in May 2019 and will be filed in accordance with applicable requirements under Belgian law.
ANNUAL REVIEW 2018

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The group delivered record levels of financial performance, with net profit rising 36% year on year to €322 million, while also completing several important corporate evolutions.
Dear shareholders,

In the year that it celebrated its 50th anniversary, I am delighted to report that Euroclear made remarkable progress in 2018.

The group delivered record levels of financial performance, with net profit rising 36% year on year to €322 million, while also completing several important corporate evolutions.

Having consulted with a number of shareholders and taken into consideration the implications of the corporate restructuring on the shareholder base as a whole, the Board envisages approving the payment of a dividend in the fourth quarter of 2019 under the form of an interim distribution.

As such, the Board is not recommending to shareholders to approve the payment of a dividend at the Annual General Meeting as part of the usual yearly profit allocation process. Instead, the Board will decide on an interim dividend in accordance with the Belgian Companies Code and Euroclear Holding SA/NV’s Articles of Association. The Board expects the timing of future dividend payments to revert back to normal after this exceptional payment has taken place.

As guidance, the Board indicates that a dividend in the order of magnitude of €55 per share (up 41% compared to 2017 full year dividend) would be consistent with the company distribution policy, and represent a slight increase in the pay-out ratio from 52% to 54%.

In November, after almost unanimous approval from our shareholders, we successfully completed the relocation of the group’s ultimate holding company to Belgium, therefore guaranteeing that your Company’s legal seat remains located inside the European Union. With the transfer scheme becoming effective, each share in Euroclear plc was exchanged for an equivalent share in Euroclear Holding SA/NV.

Euroclear has long benefited from having a committed community of shareholders who are invested in the future vision for your group. Since 2017, we have welcomed several new shareholders who support the group’s model as an independent open architecture financial market infrastructure.

While the incoming shareholders have provided significant liquidity at market prices, your Board recognises the need to provide a long-term liquidity solution available to all shareholders and is currently reviewing potential options. We will keep shareholders updated on our progress as and when appropriate.

Corporate evolutions

A key focus for your Board this year has been overseeing several important corporate evolutions that Euroclear has been implementing. These have been focused on modernising the group’s governance, securing a stable regulatory environment ahead of Brexit, and undertaking preparatory work for a long-term liquidity initiative benefitting all shareholders.

The Board proposed amendments to modernise your company’s Articles of Association, which were subsequently ratified by shareholders. As a result, Euroclear now benefits from having a single class of ordinary shares with the principle of one share, one vote enshrined for all our existing shareholders.

Governance reform

In 2018, the Board embarked on a governance reform aimed at better reflecting the respective roles and responsibilities of the Boards of Euroclear SA and Euroclear Holding, and at improving their effectiveness.

The two Boards have been traditionally composed of a large number of same directors. Going forward, the two Boards will be composed of different directors (with the exception of the Chairman and the Deputy-Chairman, who will remain joint), and of a much smaller size. We plan to complete this reform by the 2019 general meetings.
Euroclear SA is the main regulated company of the group, subject to consolidated supervision by the National Bank of Belgium, and the Board is to set the strategic objectives and policies for the group and to oversee Euroclear SA’s compliance with all its regulatory duties. Euroclear Holding is the controlling shareholder of Euroclear SA, subject to limited regulation, provided it does not intervene in the operational management of Euroclear group companies.

We started to implement that reform at the level of Euroclear SA/NV Board in 2018, as several directors resigned. It is proposed that, following the 2019 AGM the Board be composed of ten non-executive directors, with a diverse international origin and a broad business and area expertise; plus the three executive directors required by the Belgian law.

Meanwhile, the Board of Euroclear Holding recommends that the 2019 AGM elects a new Board of 12 directors (as all mandates expire), with three independent directors and nine directors proposed by our largest shareholders.

Corporate Social Responsibility

Euroclear’s business model is founded on the trust that clients place in us to deliver safe and reliable post-trade services that are open to all, and we have a responsibility to behave as a good corporate citizen.

In 2018, we published Euroclear’s first sustainability report, outlining our achievements in corporate social responsibility in accordance with the Global Reporting Initiative (GRI) Standards. This report sets out how we aim to continuously improve the workplace environment, including by developing a strong, diverse and inclusive corporate culture; contribute to a more ethical and sustainable marketplace; reduce the impact we have on the environment; and how our people contribute to the community. I strongly encourage you to read the report and its next iteration to be published in May 2019.

50 successful years and a bright future ahead

Over the past 50 years, Euroclear has built an important position at the centre of financial markets, contributing to their stability and efficiency. The strong performance in 2018, resulting in increasing shareholder returns, is testament to the success of Euroclear’s consistent strategy that continuously responds to the evolving needs of financial market participants.

On behalf of the Board, I would like to congratulate senior management, under the stewardship of Lieve Mostrey, and thank all the group’s colleagues for the steadfast delivery of the group’s customer-focused business strategy.

Marc Antoine Autheman • Chairman of the Board
Euroclear’s business model is founded on the trust that clients place in us to deliver safe and reliable post-trade services that are open to all.
Our key business metrics reached new record levels throughout the year, demonstrating the attractiveness of our product proposition to customers.
Interview with Lieve Mostrey

Euroclear group CEO

Q. Euroclear achieved record levels of financial performance in 2018. What was behind this better-than-expected growth?

Lieve Mostrey. 2018 was a very strong year for Euroclear. We saw revenue growth of 9% as we captured the benefit of positive market conditions. Business income grew by 4%, as we benefited from the consistent implementation of our strategy and position at the heart of the financial market ecosystem.

Our key business metrics reached new record levels throughout the year, demonstrating the attractiveness of our product proposition to customers.

In total, the Euroclear group settled 230 million transactions, up 7% compared to 2017, which is the equivalent of €791 trillion! Assets under custody peaked at a record €29.2 trillion before ending the year at a similar level to 2017, while average collateral outstanding grew over 6% to reach €1.2 trillion at year end.

We also saw the benefit of a substantial increase in net interest earnings, up 39%, predominantly due to the benefit of US interest rate rises at this point in the economic cycle.

Revenues are only one half of the story. While we continue to invest at elevated levels in both regulatory-driven and business initiatives, expenses plateaued in 2018 in line with our plans.

Given the strong revenue growth and close management of costs, Euroclear delivered adjusted operating profit of €514 million, an increase of 27% compared to the prior year.

Q. 2018 also marked a special anniversary for the Euroclear group. Can you tell us more about this milestone year?

LM. Yes, we celebrated Euroclear’s 50th anniversary this year so it was especially pleasing that our business performance was something to celebrate too!

As the Chairman noted in his statement, 2018 was extra special as we completed a number of important corporate evolutions. These required tremendous focus from both management and the teams involved, as well as active engagement with shareholders and our regulators.

Reaching a milestone age is often a time to consider and celebrate the journey so far. That Euroclear is a systemically-important element of the world’s global financial market infrastructure is testament to the trusted relationships we have built with our clients, under the supervision of our regulators, and thanks to the efforts of our people over the years.

We have grown to become a company in a privileged position. Being a socially-responsible company is very important to us and, on behalf of all our people, Euroclear decided to gift an additional €1 million to 20 charity projects this year to celebrate our anniversary. This is in addition to the regular contributions we make to charity partners in each of our locations as well as at corporate level. Through these projects, we will make a tangible difference to many people who are less fortunate than ourselves.

A major birthday is also a time to look at what we can become in the future. As you will read on page 15 of this report, our strategy seeks to build on our already strong European foundations, to continue to grow internationally, and to explore how to reshape our network as a global collateral and liquidity hub.
I believe that implementing this vision positions Euroclear for continued growth and opportunities in the years to come.

Q. What are your top business highlights from 2018?

LM. There has been a lot of progress, but I have to highlight the launch of our Single Central Securities Depository (CSD) model. This is a business initiative that really strengthens our core European network. Global investors can now choose to access pan-Eurozone security settlement either on the European Central Bank’s TARGET2-Securities (T2S) settlement platform via ESES or through Euroclear Bank.

Meanwhile, we have been upgrading our core systems in a number of our CSDs, including steps to meet the more stringent regulatory standards required under Central Securities Depositories Regulation (CSDR) and to strengthen our business’s cyber resilience. These investments reinforce the foundations of our business model which is to provide safe, efficient post-trade services that meet our regulatory requirements.

I would also certainly highlight the progress made in collateral management. In addition to the growth in the business line, we were very proud that clients once again named Euroclear as their provider of choice in the Global Custodian Magazine Tri-Party Securities Financing Survey.

Q. How well is Euroclear prepared to navigate Brexit?

LM. We have been monitoring Brexit closely ever since the referendum in June 2016. With operations in both the United Kingdom and Europe, we believe that Euroclear is well placed to navigate Brexit with only minimal impact on day-to-day operations. This position was strengthened by the domiciliation of the group’s parent company in Belgium, as the Chairman outlined in his statement.

We continue to work with a wide group of stakeholders to secure continuity of settlement for Irish corporate securities post-Brexit. This includes ensuring Euroclear UK & Ireland can continue to service the Irish market in the period immediately following the UK leaving the European Union, as well as to provide a long-term solution.
We welcome the temporary equivalence decision of the European Commission allowing Euroclear UK & Ireland to continue servicing the Irish market in a no-deal Brexit scenario.

Q. Aside from Brexit, what do you expect from 2019?

LM. It is hard to escape the uncertainty for the financial markets that come from issues like Brexit, and I wouldn’t like to make a prediction for 2019 from this perspective.

The way we approach the future is therefore to look at the areas we can control and where we can add increased value to financial market participants. We will therefore continue to invest for growth and in the resilience of our services, while keeping close control of our costs. This will make us well-placed to continue to deliver positive financial performance through-the-cycle.

With our open philosophy, Euroclear is well placed to work with a range of participants to bring continued innovation and efficiencies to the markets we serve.

Q. Closing thoughts?

LM. Of course, I would like to say a big thank you to our people for their continued dedication during a time of change for our industry and our company.

We are continually striving to make Euroclear a better performing organisation. Our actions include strengthening colleagues’ level of risk-consciousness and to implement more efficient ways of working, such as introducing an agile approach to software development. It’s our people’s energy and efforts that make these programmes successful.

I would also like to say thank you to our partners from outside Euroclear. We remain grateful to our clients for entrusting their business with Euroclear, to suppliers for their contribution and to our regulators as we strive towards our shared goal of making financial markets a safer place.

And finally, I would like to welcome those new investors who have an interest in the company’s direction. This includes both new equity shareholders in the company, and those investors who participated in our successful debt issuances this year.

Thank you.
Euroclear processed transactions with a €-equivalent value of €791 trillion, which is about 10x global GDP.
The Management Committee of Euroclear SA/NV is responsible for managing the operations of the Euroclear group. It is chaired by the group Chief Executive Officer.

Euroclear group
Management Committee

Lieve Mostrey • Chief Executive Officer

Frederic Hannequart • Chief Business Officer

Bernard Frenay • Chief Financial Officer

Yves Dupuy • Chief Information Officer

Peter Sneyers • Chief Risk Officer
Euroclear’s business model
Meeting our commitments to stakeholders

Our business model enables Euroclear to deliver its corporate commitments to a broad range of stakeholders. We aim to create long-term value as a trusted cornerstone of the capital markets by providing robust and relevant services as a financial market infrastructure.

**We are dedicated to reducing risk and providing liquidity to make global financial markets safer and more efficient**

As an open-architecture financial market infrastructure, we have created a global network and client franchise by working with market participants across financial markets, including growth economies.

**€28.8 trillion**
assets held in our custody for our clients

| 60% Eurobond holdings |
| >50% European capital market security |

| 230 million | €791 trillion | >1.5 million |
| transactions processed | in turnover | Securities worldwide |
| +7% y-o-y growth | +12% y-o-y growth |

**We have built our position as a scale provider of post-trade services through the expertise of our people, client engagement and reliable technology**

We continue to develop products and services that make it easier for clients to manage risk and liquidity in a more robust regulatory context, including through collateral management solutions.

Underpinning our role as a market infrastructure is our prudent and structured approach to risk management and strong financial position.
We generate net fee income and interest income, predominantly through the provision of settlement and custody services.

We charge clients fees on the volume of transactions that we process, as well as fees for value-add services and interest earnings on deposits. Custody fees charged to clients are primarily based on the nominal values of the securities we hold, resulting in a very stable annuity-like income.

The income generated by our products and services is offset by costs to provide our products and services, as well as investments in future opportunities, to derive sustainable levels of profitability, return on equity and earnings per share.

Collateral Highway

€1.2 trillion collateral outstanding mobilised daily

+7% y-o-y growth

The place for funds

145,000 investment funds processed by Euroclear

>1200 fund administrators

€2 trillion funds under custody

11 million funds orders routed annually

Profits are invested into new products and services for clients

We continue to invest into training and development opportunities for our people; strong levels of regulatory capital; and, ultimately, in delivering robust returns and long-term sustainable value to our shareholders.

These investments also contribute to the broader public good by contributing to the efficiency of financial markets, actively enabling risk reduction and by acting as a responsible corporate citizen.
We have a strong pipeline of future opportunities as we seek to bring the benefits of being ‘Euroclearable’ to growth economies.
Our strategy for evolving capital markets

Our business strategy builds on Euroclear’s position as a systemically important infrastructure, at the centre of the global financial market ecosystem.

In realising this vision, we are focused on delivering three strategic objectives:
1. Strengthening our network in our core Eurobonds, European securities and fund asset classes
2. Growing our network by expanding internationally (including in emerging markets), and by connecting global collateral pools
3. Reshaping our network by exploring innovative value-add solutions that ensure our long-term relevance to clients

In 2018, Euroclear reported record operating metrics and financial performance, which is testament to strategic progress made in previous years to develop Euroclear’s attractive network proposition.

Our open-architecture approach has enabled Euroclear to build an important network of issuers, intermediaries and investors around the world. By bringing together this network, we aim to facilitate financing in capital markets by reducing risk, increasing process efficiency in post-trade activities, and optimising collateral mobility and access to liquidity.

Delivery of these strategic objectives will help clients navigate safely a rapidly changing operating environment, while contributing to a sustained long-term financial performance.
Strengthening our core European network

Euroclear has a long-standing commitment to Europe, holding 60% of Eurobonds and over 50% of European capital market securities. The group also provides significant coverage of the European funds industry, with access to over 1,200 fund administrators and 145,000 funds. Our core European network generates 75% of the group’s total business income.

Investing in relevant, efficient and safe (I)CSDs

We continually invest in providing robust and relevant market infrastructure services for the markets we serve through our international CSD (Euroclear Bank) and the group’s six domestic CSDs.

One of the most important post-trade industry developments in recent years was the setup of the European Central Bank’s TARGET2-Securities (T2S) platform, which established a single settlement platform for Eurozone securities. Since autumn 2016, Euroclear has been connected to T2S through the ESES CSDs.

T2S provides potential opportunities for investors who wish to have a single gateway to Eurozone securities and for issuers who can attract a broader investor community more easily. We have been working to support global custodian clients in maximising the opportunities of having a single CSD access to T2S, which becomes increasingly attractive as the platform continues to gain volumes.

Having increased interoperability between ESES and Euroclear Bank, international clients can now choose to access European liquidity in central bank money or commercial bank money, while benefiting from a range of value-add services. During 2018, we successfully launched the single CSD service with our first clients, major global custodians, and anticipate growth in the model in the years to come.

We continue to invest in connectivity and communications products that benefit clients’ experience and increase efficiency.

EasyWay™ is Euroclear’s web-based interface that offers clients the ability to have a clear overview of settlement, collateral management and corporate actions activity.

With accurate, real-time data at their fingertips, EasyWay helps users work efficiently and make fast, effective decisions to manage operational risks. We continue to see increasing usage of the EasyWay platform with over 250 active clients on the platform.

Underpinning our proposition is Euroclear’s capacity to deliver operationally stable platforms and we continuously invest to enhance our delivery against this customer promise. We have a number of programmes underway to further enhance our systems resilience and reduce operational risk.

A major focus of our investments is reinforcing our cyber security capabilities to counteract the evolving threat posed by cyber criminals, who have shown increasing levels of sophistication and a propensity to target our sector in recent years. As well as enhancing systems and controls, we have invested in increasing the maturity of our cyber security risk culture and collaborated in efforts to heighten cyber resilience in the financial industry.

We also continue to invest in developing the offer that our domestic CSDs provide to local markets.

The ESES CSDs continued to support market participants through regulatory changes. Having implemented changes to become compliant with new corporate actions standards, we are now assisting investors and the asset manager community in preparation for incoming transparency legislation in the form of the new Shareholder Rights Directive (SRD2). We also continue to increase proximity with the issuer community as the full benefits of access to T2S markets through ESES become apparent.

2018 saw Euroclear UK & Ireland become the first foreign infrastructure to be given direct access to the Federal Reserve’s National Settlement Service.
We continue to invest in **connectivity** and **communications** products, like EasyWay, that benefit clients’ experience and increase efficiency.

Clients are now able to settle US dollar transactions in central bank money which addresses credit and operational risks between settlement banks and allows for greater market efficiencies. Euroclear UK & Ireland is now able to offer central bank money settlement in three currencies - sterling, euro and US dollars. We continue to develop our IT infrastructures in both Euroclear Finland and Euroclear Sweden. The multi-year project to replace Euroclear Finland’s entire securities processing infrastructure reached a milestone in May 2018 as all assets under custody were transferred to a single and modern platform.

**Enhancing access to funds**

Asset managers’ objectives as funds promoters are similar to those of debt management offices in enabling broad and efficient access to their issuances. We support their distribution strategies by developing a range of funds-specific post-trade services, known together as Euroclear FundsPlace.

Our platform provides automated order routing, settlement, and asset servicing for fund assets. With our network of over 1,200 fund administrators, we routed 11 million funds orders in 2018, an increase of 4% year on year. We continue to deliver a more flexible service while allowing clients to leverage automation to reduce the cost, risks and complexity associated to processing fund trades.
The funds industry is embarking on a period of significant evolution. New innovative business models are being created to meet the expectations of an increasingly global and technologically-savvy customer base and pressures to increase transparency and efficiency throughout the investment chain. Euroclear is supporting the industry to meet these challenges.

For example, we worked with members of the French financial services community to set out a roadmap to increase attractiveness and competitiveness of the French fund distribution model. The recommendations in the report focused on opportunities from new technology and how the industry can meet Know Your Customer principles while retaining the efficiency benefits of a centralised distribution model.

A major trend in the fund management industry in recent years has been the rise of passive management. We have been at the centre of innovation in the Exchange-Traded Fund (ETF) market by developing the international ETF structure. With its simplified issuance structure, the international model is attractive to both ETF issuers and global investors. Today an important part of the European ETF industry is in the international form and major asset managers continue to migrate their ETFs to the structure.

Adapting to regulatory changes in Europe

Participants and authorities increasingly expect infrastructures, such as Euroclear, to contribute actively to developing safer, more efficient and more transparent financial markets. A stronger regulatory landscape has been established in line with this intent, shaped by incoming pan-European legislation such as MiFID II, EMIR, the CSD Regulation (CSDR), SRD2, banking regulations such as the Bank Recovery and Resolution Directive (BRRD) and Anti-Money Laundering (AML) regulation.

Euroclear has made considerable investments to adopt those rules that directly affect our business, while playing an active role in meeting new industry needs that arise as clients adapt to the new regulatory requirements.

CSDR is a regulation that applies directly to every (I)CSD in the group. As a single, pan-European rulebook for CSDs, CSDR aims to improve the safety and efficiency of settlement systems and processes. The changes required by CSDR further reinforce Euroclear’s role as a provider of a safe and efficient financial market infrastructure, while also cementing independent responsibility and accountability within the operating entities. Our application processes for authorisation under CSDR are well-advanced for each group (I)CSD.
Maintaining Euroclear’s financial strength and resilience, as demonstrated by Euroclear Bank’s AA+/AA rating, is important to all our stakeholders.

In the course of 2018, Euroclear continued to take steps to prepare for the new capital and liquidity requirements of the CSDR and BRRD, through successful issuances by Euroclear Investments SA and Euroclear Bank, respectively.

Euroclear Investments SA, the group’s financial investment holding company, successfully issued €700 million long-term fixed income instruments strengthening the group’s recovery capital.

To increase its available liquidity, Euroclear Bank established a Euro Medium Term Note (EMTN) programme, issuing €2.5 billion in the period through both public and private placements, as well as €500 million in certificate of deposits.

Preparing for the new European landscape

Over a number of years, Europe has been moving towards a more harmonised financial marketplace in line with the European Commission’s plans for a Capital Markets Union. This is reflected in a number of the new pan-European regulations described previously.

However, the United Kingdom’s (UK) decision to leave the European Union has introduced uncertainty, and we are following developments closely. Nevertheless, Euroclear is well positioned to manage the direct business implications of Brexit.

In anticipation of potential risks that may have arisen from Brexit, Euroclear took the prudent step of moving the legal seat of the group’s ultimate holding company from the UK to Belgium. This guarantees that Euroclear’s seat remains located inside the European Union. We remain firmly committed to the UK, including through the operations of our domestic CSD, and there was no business impact on day-to-day operations or jobs as a result of the reorganisation.

In addition, services currently offered by Euroclear UK & Ireland to the Irish securities market may not be possible post-Brexit. Although the European Commission’s decision to grant temporary equivalence for Euroclear UK & Ireland means that a short-term solution is now assured, we continue to work closely with authorities and market participants to work towards a long-term post-Brexit solution for Ireland.

Growing our network globally

As an open financial market infrastructure, we support the evolving requirements of our clients as they look to benefit from the opportunities created by an interconnected global economy.

We are growing our network globally by supporting financial market participants increasing requirement to mobilise collateral across borders and time zones, as well as by connecting international markets to Euroclear through our GlobalReach initiative. Together, these programmes have grown substantially over recent years and now contribute to 25% of the group’s revenues.

Providing global collateral management solutions

Through the Collateral Highway, we support the financial market’s requirement for a neutral, interoperable utility to source, mobilise and segregate collateral. It provides a comprehensive solution for managing collateral, offering clients a complete view of exposures across the full spectrum of their asset classes and enabling collateral optimisation opportunities.

In addition to more traditional collateral management activities (typically repos, securities lending, derivatives and access to central bank liquidity), our range of collateral management solutions includes dedicated services for corporate treasurers, and a specialised equities collateral management service.

By the end of 2018, the average daily collateralised outstanding on the Collateral Highway reached €1.2 trillion with growth across business lines. We were again honoured as the Global Custodian Magazine Tri-Party Securities Financing Survey awarded first place to Euroclear, with average scores up in all service areas.
Our joint venture with the Depository Trust & Clearing Corporation (DTCC), DTCC-Euroclear Global Collateral Ltd (DEGCL), is connecting two of the most important pools of collateral to provide a truly global, end-to-end collateral management solution.

The demand for collateral management services is expected to continue to accelerate, driven by the end of quantitative easing and the impact of new global regulations which require clients to post margin across transactions to reduce counterparty and systemic risk.

One area of regulatory change is the new regime for initial margin requirements for non-cleared derivatives, and we have been accompanying clients in their transition since 2016. During 2018, we continued to assist market participants to successfully on-board clients who transitioned to the new regime. Preparations are underway to support the broader range of clients who will do so in 2019 and 2020.

Global and emerging markets

Across the globe, growth economies are seeking to attract foreign investors to help fund long-term development needs. At the same time, international investors are seeking opportunities to diversify and increase the profitability of their investments around the world, particularly during a period of historically low yields in Europe and North America.

Through the Euroclear GlobalReach initiative, we connect domestic capital markets to a global investor base, with the aim of bringing more efficient capital flows and providing stability to these financial markets.

The attractiveness to both foreign investors and local issuers of a country connecting to Euroclear is illustrated by Chile. The proportion of Chilean government bonds funded by foreign investors rose from 5% in 2017 to more than 20% in their first issuance after becoming Euroclearable, and borrowing costs related to issuing local currency denominated bonds declined compared to its previous practice of issuing Global Depository Notes.

Today, our global and emerging markets business line comprises links to 30 financial markets outside of Europe, representing a total of €1 trillion of assets, establishing Euroclear as a global international network. We continue to assist local market authorities in a number of emerging markets around the world as they consider adapting legal frameworks to be in line with international standards, which is a pre-requisite for becoming Euroclearable.

Innovating to reshape our network

Our strategy extends to exploring opportunities to support our clients’ evolving needs in new areas that reflect our ambitions to increase safety, efficiency and global liquidity optimisation in capital markets. By combining new technology with new business models, we believe that there could be opportunities to reshape our network and deliver long-term sustainable business growth.

Given its role as financial market infrastructure with an average of €28.8 trillion of assets under custody, Euroclear today manages a vast amount of financial transaction data. Euroclear is looking to extend its role in bringing greater transparency and liquidity in global capital markets by harnessing this untapped data. By bringing new, valuable and actionable insights to clients, we can continue to support the development of safer, more efficient financial markets.

Euroclear is actively working on a number of innovation initiatives to explore how to reshape our network in new ways, both in-house and together with FinTech companies. For example, we are a founding shareholder in LiquidShare, a FinTech venture that aims to develop post-trade infrastructure for European small and medium enterprises (SMEs) harnessing Distributed Ledger Technology (DLT). Since being setup in 2017, LiquidShare has made good progress with the first pilot phases being launched at the end of 2018.

Another example is Taskize, which was acquired in 2017. Taskize’s innovative messaging tool helps back-offices across our network to manage their post-trade activities more efficiently. Client demand for the service has steadily increased, with over 150 active clients in 35 countries reporting high levels of user satisfaction.
By combining new technology with new **innovative** business models, we believe that there could be opportunities to reshape our network.
Managing risk

Euroclear operates within a highly regulated market infrastructure regime, and is a systemically important financial institution. Euroclear aims to maintain its strong reputation in the financial industry for its safety and resilience, and for the quality of its post-trade services.

The Euroclear Board considers that a comprehensive and effective risk governance framework, underpinned by a sound risk culture, is critical to the overall effectiveness of Euroclear’s risk management arrangements.

We continuously monitor changes to the group’s risk profile and endeavour to take appropriate steps to address significant deviations at an early stage in line with our risk profile and with the Board’s risk appetite. While primary focus is given to managing those risks that fall within Euroclear’s span of control, as a financial market infrastructure we also consider the implications of external factors, such as potential systemic risk to the financial markets, our participants and their clients and the implications of geopolitical risks and climate change.

We place special emphasis on managing legal and reputational risks, such as ethical and compliance risks through our compliance risk management framework. We do this to ensure we meet our legal and regulatory obligations on matters such as diversity and inclusion, human rights, anti-fraud and money laundering.
## Principal risks

### Operational risk
Risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. Includes custody risk, model risk, fraud and cyber, business disruption, system failures and model risk.

*Our approach*
Euroclear has reinforced its operational risk management framework in the context of CSDR licensing over the last years. Effective identification, monitoring, management and appropriate reporting are at the centre of our approach. Being a market infrastructure, the integrity, confidentiality and availability of our, and our clients’ data and the continuous availability of our services remain very important.

### Credit Risk
Risks arising from the default or failure of a participant or counterparty to meet their agreed financial obligations to Euroclear.

*Our approach*
Credit risk is borne mainly by Euroclear Bank, in its role as single-purpose settlement bank. The CSDs of the group offer only securities settlement services in central bank money and do not provide credit to clients. They do not engage in operations with counterparties, except for the investment of their own funds.

As a single-purpose settlement bank, Euroclear Bank mainly faces collateralised intra-day credit exposures on its clients. In addition, it runs credit risk resulting from the intra-day use of a high-quality correspondent network and from short-term placements, mainly by using reverse repos, of clients’ end-of-day cash positions in the market with high-quality counterparties. Euroclear Bank is continuously looking at initiatives to reduce the intra-day credit provided to its participants.

### Liquidity risk
Risks arising from being unable to settle a cash or securities obligation when contractually due, as a result of inappropriate and/or insufficient liquidity sources.

*Our approach*
Liquidity is key for the efficient functioning of Euroclear Bank. As a result, Euroclear Bank has built a robust liquidity management framework to ensure smooth day-to-day operations and maintain a high level of preparedness to cope with unexpected and significant liquidity shocks. In 2018 Euroclear Bank has increased the robustness of its liquidity arrangements including enhanced contingency capabilities.

### Market risk
Risks to our (on or off balance-sheet) positions arising from movements in market prices.

*Our approach*
Euroclear Bank’s assets are very short term by nature and the firm has very limited transformation risk on its balance sheet. Euroclear Bank is not performing any trading activity. Euroclear Bank operates with a very low level of market risk (interest rate and foreign exchange rate risks only). It only arises as a by-product of the investment of Euroclear Bank’s capital and future earnings. A hedging strategy is in place to mitigate these risks.

### Legal and compliance risk
Risks arising from applicable or upcoming laws, regulations, market rules and prescribed practices in all relevant jurisdictions, enforceability of contracts, conflicts of laws between jurisdictions.

*Our approach*
A group-wide ethical and compliance framework is operated to adequately identify, monitor and manage legal and compliance risks. The areas monitored include amongst others, fraud, market abuse and money laundering, and also consider the impacts arising from upcoming regulation.

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Further information on our risks and uncertainties, risk management strategies, policies and processes can be found in the notes accompanying the consolidated financial statements of Euroclear Holding SA/NV and in our annual Pillar 3 report on [www.euroclear.com](http://www.euroclear.com).
The Euroclear group delivered a record business performance in 2018 reflecting its continued relevance as a leading financial market infrastructure.
Financial review

The Euroclear group’s results for the year and financial position at 31 December 2018 are set out in the Euroclear Holding SA/NV audited consolidated financial statements.

Income statement review

Business income increased by 4% year on year to €1,079 million as we benefited from the consistent implementation of our strategy and positive market conditions. Net fee and commission income, which includes liquidity line fees, was €1,028 million in 2018, an increase of 2% compared to the previous year.

Interest, Banking & Other Income was €256 million, compared to €184 million last year, mainly due to higher interest rates margins (mainly in USD) and higher cash deposits on average during the year. Other income reached €51 million in 2018, a decrease of 20% compared to 2017, due to lower gains on financial assets and liabilities held for trading.

Operating income was €1,335 million in 2018, an increase of 9% compared to 2017.

Operating profit before impairment and taxation reached €514 million in 2018, an increase of 27% compared to 2017 as a result of strong revenue growth and management’s continued focus on costs.

Impairments were recorded in 2018 for €29 million, principally related to the costs that were capitalised in the context of our Nordic technology platforms.

Effective tax rate amounted to 33%, compared to 41% in 2017. After adjusting deferred tax assets for impairments on capitalised IT developments recognised in 2018 and excluding the 2017 one-off reassessment of deferred tax assets in Euroclear SA/NV, the effective tax rate in 2018 decreased by 2% compared to 2017 adjusted level.

Adjusted administrative expenses increased by 1% to €814 million in 2018 as continued investments in the business and in the corporate reorganisation were offset by tight control of operating costs. There were one-off items of €1.5 million in 2018 and €5.2 million in 2017 resulting in total administrative expenses of €816 million in 2018.

Share of results in the DEGCL joint venture amounted to a loss of €7 million in 2018 compared to a loss of €18 million in 2017, following prior year adjustments to deferred tax assets.

Profit for the year ended 31 December 2018 was €322 million, an increase of 36% compared to a profit of €236 million in 2017.
Balance sheet review

**Total assets** amounted to €28,134 million on 31 December 2018, up by €6,126 million compared to the previous year. The increase is mainly driven by higher deposits from central banks, banks and customers, in addition to debt instruments issued on the market in 2018 for a total €-equivalent of €3.0 billion at the level of Euroclear Bank and for €700 million at the level of Euroclear Investments.

**Total shareholders’ equity** totalled €3,839 million in 2018, up €168 million from the prior year, increase is mainly driven by the profits of the year, partially offset by dividends of €123 million distributed in 2018.

**Net asset value per share** (total shareholder’s equity divided by the year-end number of shares) totalled €1,220 as of 31 December 2018, compared to €1,166 in 2017.

Capital management

The Board has announced its intention to pay an interim dividend of €173 million, or €55 per share (2017: €39). This represents a dividend pay-out ratio of 54% on 2018 net profit, compared to 52% from the prior year.

As a consequence of the group restructuring, this year the Board is not recommending to shareholders to approve the payment of a dividend at the Annual General Meeting as part of the usual yearly profit allocation process. Instead, the Board envisages approving the payment of such a dividend in the fourth quarter of 2019 under the form of an interim distribution, in accordance with the Belgian Companies Code and Euroclear Holding SA/NV’s Articles of Association.

Euroclear Bank is rated AA+ by Fitch Ratings and AA by Standard & Poor’s.
Key performance indicators

Our key performance indicators reflect our stability and discipline as a company, and the effectiveness of our corporate strategy.

**Business income margin** (Business income excluding administrative expenses compared to business income) increased from 22% in 2017 to 25% in 2018 as a result of positive operating leverage.

**Operating margin** (operating profit before impairment and taxation compared to operating income). The adjusted operating margin increased from 33.0% to 38.5% in 2018.

**Unit cost ratio** (administrative expenses compared to the average value of securities held). The adjusted Unit cost ratio reduced from 0.29 basis points (bps) in 2017 to 0.28 bps in 2018, despite the slight reduction in assets under custody reported at year end.

**Return on equity** (profit for the year compared to average shareholders’ equity) increased from 6.5% to 8.6% in 2018.

**Net earnings per share** (profit for the year divided by the weighted average number of shares) increased to €102.3 in 2018 compared to €74.1 in 2017 due to higher earnings.
Being Euroclearable is becoming increasingly important for many international investors.
Netted transactions rose 12.2% year on year, resulting in an equivalent of €526 trillion being processed by our systems. The value of securities held by Euroclear Bank also increased, up 4.8% to €13.5 trillion.

As outlined in the strategic review (pages 15 to 20), we continue to invest in strengthening and growing Euroclear Bank’s network, as well as enhancing our customer proposition.

Such investments include increasing interoperability with ESES to enable our single CSD offering for international investors seeking to access Eurozone securities, our range of collateral management solutions, and further enhancing Euroclear Bank’s operational efficiency and resilience.

The role of Euroclear Bank in providing safe and efficient post-trade services is increasingly recognised internationally. Being ‘Euroclearable’ is becoming increasingly important for many international investors. Governments and central banks in emerging economies that wish to access international funding frequently recognise this and Euroclear assists them as they adopt international standards.

Meanwhile, Euroclear Bank’s centralised fund processing services continue to attract asset managers and distributors alike, with further growth in both ETFs and mutual fund segments in 2018.

We are also focused on supporting the regulatory agenda. This includes meeting the necessary standards imposed by CSDR on our sector, where we are progressing our application for Euroclear Bank, and its future settlement discipline requirements.

Moreover, as described on page 19, we have strengthened Euroclear Bank’s capital and liquidity position this year ensuring we will meet the requirements of both CSDR and MREL. We continue to assist clients as they adapt to the financial sector’s evolving regulatory environment.

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1 At December 2018.
In market conditions characterised by continued volatility, Euroclear UK & Ireland settled a similar number of transactions compared to 2017, albeit with a 13% increase in value, through its CREST platform.

However, weakening equity market valuations in the fourth quarter resulted in the value of securities held at year end reducing by 11% year on year.

We continue to invest in enhancing Euroclear UK & Ireland’s customer proposition, and it is a privilege to be the first foreign infrastructure to be given direct access to the Federal Reserve’s National Settlement Service. This enhancement means that we are now able to offer settlement through Euroclear UK & Ireland in three currencies – sterling, euro and US dollars. Meanwhile, our fund settlement service continues to attract users with clients reporting high levels of satisfaction.

We have maintained a regular and productive dialogue with the UK and Irish User Committees, both in respect to our ongoing operational enhancements, but also ahead of the UK’s scheduled exit from the European Union.

We thank members for their valuable inputs.

Brexit is a major area of focus for Euroclear UK & Ireland’s participants. We are seeking to provide continuity of service for clients holding Irish securities post-Brexit and regularly inform clients on our progress.

As outlined on page 19, the European Commission’s decision to grant temporary equivalence for Euroclear UK & Ireland means that a short-term solution is now assured for two years after Brexit occurs. We continue to work closely with authorities and market participants to work towards a long-term post-Brexit solution for Ireland.

Finally, we also continue to progress Euroclear UK & Ireland’s application for approval under the CSD Regulation.

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1 At December 2018.
The ESES CSDs together processed a total of 38 million netted transactions in 2018, which is equivalent to €98 trillion. However, weakening equity market valuations in the fourth quarter resulted in the value of securities held at year end reducing to €7.7 trillion.

Through ESES and its connection to the ECB’s TARGET2-Securities settlement platform, we provide a gateway to the Eurozone for both issuers and investors. This offering has been further developed through interoperability with Euroclear Bank, leading to the successful launch in 2018 of our Single CSD service.

In addition, ESES provides a number of value-added services, including collateral management. Today, we have developed a local ecosystem, in collaboration with the Banque de France and LCH, that connects with Euroclear’s international Collateral Highway.

We value and nurture close and collaborative relationships with financial market participants as we seek to develop our ESES services. With a value of more than €300 billion, the French commercial paper market – supported by Euroclear France – is the largest commercial paper market in the Eurozone.

Within the framework of Place de Paris 2020, the legal and regulatory framework for issuing commercial paper and medium-term notes in France has gone through a period of transformation and modernisation. We continue to accompany the needs of issuers, dealers and investors through new solutions that facilitate issuance and broader access to this market.

In addition, through Euroclear France, ESES offers access to a range of mutual funds and, as outlined on page 18, we worked with members of the financial services community to set out a roadmap to increase attractiveness and competitiveness of the French fund distribution model. We are also working closely with FinTech communities explore opportunities for collaboration and to increase the attractiveness of each of our ESES markets.

Finally, we also continue to progress the applications for our CSDR licenses in each ESES market, and submitted its documentation to the national competent and relevant authorities in autumn 2019.

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1 At December 2018.
2 The data for Euroclear France excludes ‘pensions livrées’ with Banque de France.
Euroclear Finland reported an increase of 21.9% in the number of netted transactions processed in 2018, which was equivalent to €1340 billion.

Overall the value of securities held reduced slightly by 2.0% to €357 billion.

2018 has seen the biggest changes in Euroclear Finland’s recent history with the launch of our new securities settlement and custody platform known as Infinity. Reaching this milestone follows close support and collaboration with our clients, many of whom participated in testing and migration rehearsals.

Although the project has proved to be complex and challenging, Infinity is a modern platform that allows us to develop new value-add services to issuers and participants alike.

With the launch of Infinity, Euroclear Finland significantly harmonised the settlement and corporate action processing as a precursor to joining T2S.

In the domestic market, we initiated the winding down of the Customer Account Services as legislative changes mean this service needs to be migrated to other account operators. Euroclear Finland has also progressed its CSDR filing, and submitted its documentation to the national competent and relevant authorities in early 2019.

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**Euroclear Finland**

Hanna Vainio • Chief Executive Officer

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Value of securities held</th>
<th>Number of netted transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Euroclear Finland</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>€1.3 trillion</td>
<td>€0.3 trillion</td>
</tr>
<tr>
<td>Change from 2017</td>
<td>N/A</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

1 At December 2018.
2 Implementation of Infinity platform resulted in change to turnover calculation methodology, therefore year on year evolution is not comparable.
In 2018, Euroclear Sweden processed a similar number of netted transactions compared to 2017. However, the impact of foreign exchange movements between the Swedish krona and the euro resulted in an 8.5% decline in turnover and a reduction in the value of securities held by Euroclear Sweden of 3.0% year on year.

We introduced a fully-automated solution to enable same-day issuance through Euroclear Sweden for exchange-traded standardised derivative products, responding to the evolving requirements of customers in this segment. In addition, we will provide customers with solutions for issuance in multiple currencies, allowing them to reach investors throughout the Nordic markets.

Our funds offering in Sweden continues to grow as new fund management companies and distributors join the service. Working with all fund market actors, we have now laid the foundations to expand Euroclear Sweden’s fund services scope in the years ahead.

Another focus area throughout 2018 was to strengthen Euroclear Sweden’s presence in the market through client relation and marketing activities. These initiatives have been well received by clients, resulting in higher client satisfaction survey results.

Euroclear Sweden also progressed its filing for authorisation under CSDR, and we anticipate receiving a licence during 2019.

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1 At December 2018.
As part of our 50th anniversary celebrations, we donated an additional €1 million to local and global community partners.
Our responsibility

We run our Corporate Responsibility programme in full alignment with our business strategy, by conducting business in an ethical, responsible and sustainable way, while giving back to the wider community.

Ensuring a well-trained, diverse mix of people with a wide range of skills is key to delivering our business strategy in an increasingly complex environment. The average number of people employed by the group during the year was 3,984 compared to 3,924 in 2017.

Training and development

Development is a key part of our people strategy where we actively promote internal mobility.

Ensuring employee well-being

We provide our people with a balanced approach to work/private life, offering opportunities for teleworking and flexible work arrangements, as well as a wide range of sports and leisure activities. Our staff can also take advantage of an independent Employee Assistance Programme across all locations, offering confidential advice on a wide range of social topics.

A diverse workforce

We believe that a diverse workforce and an inclusive, open environment are essential for us to reach our corporate objectives. In 2019, we will focus on growing the number of women in middle and senior management positions.
We strongly believe in creating an environment where everyone is responsible for safeguarding our reputation for reliability and resilience, supported by our Marketplace strategy.

**Know and trust your suppliers**

Ensuring that our suppliers adhere to our high standards of ethical conduct is important to us. We are including Environment, Social, Governance (ESG) topics and will publish a Supplier Code of Business Conduct in Q2 2019.

**Creating a risk-aware culture and staff awareness**

All staff and contractors follow a recurring series of risk-related training sessions.

To encourage our staff to report any area for concern, we have an external, independent ethics hotline and email inbox.

**Marketplace**

Our main environmental impacts are caused by business travel and energy consumption. We recognise our responsibility to work sustainably for the future and have created an Environmental strategy.

**Community**

We focus on reducing poverty, while contributing towards a stable and equitable economy which benefits everyone. We have been partnering with NGOs Build Africa and Junior Achievement Europe for five years, focusing on education, financial inclusion and entrepreneurship. As part of our 50th anniversary celebrations, we donated an additional €1 million to local and global community partners.

This donation reflects our belief that supporting community initiatives focused on education and equality results in better and more sustainable futures.

We also offer volunteering opportunities to our staff and encourage them to put forward local community projects for sponsorship.

**Environment**

See our sustainability reports 'Our responsibility' on Euroclear.com/Our responsibility.
Euroclear is the financial industry’s trusted provider of post-trade services. We provide settlement, safekeeping and servicing of domestic and cross-border securities transactions, from bonds, equities and derivatives to investment funds. We connect over 2,000 financial market participants across the globe and ensure securities transactions are processed safely and efficiently. As an open and resilient infrastructure, we help clients cut through complexity, lower costs, and mitigate risks.
1968
Morgan Guaranty launches the Euroclear System.

1972
Euroclear System sold to the Euroclear Clearance System Public Limited Company which is owned by over 120 major financial institutions.

2000
Euroclear Bank is created, taking responsibility for all Euroclear-related operating and banking responsibilities.

2001
Euroclear Bank merges with Sicovam, the CSD of France, which is renamed Euroclear France.

2002
NECIGEF, the Dutch CSD, joins as Euroclear Nederland. CRESTCo, the CSD for Irish equities and all UK securities, becomes part of the Euroclear group renamed Euroclear UK & Ireland.

2005
Euroclear SA/NV created as a new parent company, owning Euroclear Bank and the CSDs and the group’s shared securities-processing platforms.

2006
CIK, the CSD for Belgium joins the group as Euroclear Belgium.

2008
Euroclear acquires the Nordic Central Securities Depository, which includes the CSDs of Finland and Sweden.

2009
Euroclear Settlement of Euronext-zone Securities (ESES) is launched.

2014
Building on Euroclear’s Collateral Highway (2012), Euroclear and the Depository Trust & Clearing Corporation (DTCC) establish joint venture to deliver DTCC-Euroclear GlobalCollateral Ltd.

2016
Euroclear’s ESES CSDs (Euroclear Belgium, Euroclear France and Euroclear Nederland) connect to the ECB’s TARGET2-Securities platform.

2017
Euroclear focused on implementing CSDR programs and strengthening cyber resilience.

2018
Euroclear celebrates its 50th anniversary. The single CSD service was launched as gateway to Eurozone securities.

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