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Euroclear Bank S.A./N.V.

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Table Of Contents

Euroclear Bank S.A./N.V.

Credit Highlights

Issuer Credit Rating
AA/Stable/A-1+

Overview

Key strengths	Key risks
Leading franchise in international securities settlement and depositary activity.	Dynamic operating environment requiring constant adaptation to mitigate potential threats and leverage opportunities.
Strong risk-management controls and a track record of very low losses arising from operational and credit risks.	Moderate core efficiency.
Minimal financial leverage, along with strong capitalization at Euroclear Bank and robust balance sheet liquidity.	

The Euroclear group is one of the world's largest providers of domestic and cross-border settlements services. The group held assets under custody of €37 trillion as of Sept. 30, 2023, reflecting a 6% increase year-on-year. In the first nine months of 2023, it processed 224 million transactions, equivalent to €813.1 trillion (up 3% year-on-year). While we will continue to monitor developments in the area of decentralized finance, we currently see no significant risk that this will undermine Euroclear's role as a critical operator of national and international central securities depositories (CSDs) and provider of ancillary post-trade and financing services. Further, as part of Euroclear Digital Financial Market Infrastructure (D-FMI) strategy, the group intends to continue to improve its digital offering.

Tailwinds from rising interest rates are largely responsible for Euroclear's elevated underlying profitability since 2022. In the first nine months of 2023, the group's underlying net profit (that is, excluding profits from assets under international sanctions on Russia) grew by a high 96% year-on-year, to €822 million. This stemmed from the sharp increase in interest rates, which propelled financial operating income to €813 million (€176 million in the same period of 2022), while the growth in business operating income was a lower 3%. In our view, this increase in business income reflects the resilience of Euroclear's core settlement activities, as well the progress made in delivering its client-centric strategy, digitization, and ongoing business diversification. In the full-year 2022, the group's underlying net profit had increased by 32%, on the back of interest, banking, and other income of €348 million (€90 million in 2021).

Including interest income from assets under international sanctions, Euroclear's reported net profit rose multifold in the first nine months of 2023 (more than €3.0 billion, compared with €667 million in the same period of 2022). The European Commission is currently analyzing whether profits from the reinvestment of certain immobilized Russian assets could be used to support rebuilding in Ukraine. Euroclear acknowledged this uncertainty by separating the sanction-related earnings from the underlying financial results when assessing the company's performance and resources. Euroclear did not distribute the profits generated in 2022 relating to the assets immobilized under international sanctions on Russia.

We see Euroclear's leverage as minimal, reflecting strong cash generation supported by its elevated financial income, and resilient business income. We forecast that leverage, measured as S&P Global Ratings-adjusted net debt to EBITDA, will decrease to 0.5x-1.0x and that funds from operations (FFO) to debt will exceed 100% in 2023-2024.

Euroclear remains exposed to additional litigation risk on its implementation of Russian sanctions in its capacity as an FMI provider. Being an FMI player in a highly regulated environment, Euroclear is exposed to legal, compliance, and conduct risks. The scale and complexity of international sanctions on Russia and Russian countersanctions has amplified these risks since 2022, in our view. However, the group believes that it has implemented all relevant sanctions and is in continued compliance with relevant legislation, and as such, provisions for litigation remained at a modest €1.3 million as of year-end 2022.

We see Euroclear's risk management policies and procedures as being broadly comparable with those of the FMI industry globally. Euroclear Bank faces material credit and intraday liquidity risks arising from its client activity. However, we see its customer and membership bases as being of generally good credit quality and well diversified, and its credit risk as heavily mitigated by collateralization. Already strong, liquidity risk management is now even tighter after the implementation of the European Union's Central Securities Depository Regulation (CSDR).

Outlook

The stable outlook reflects our view that the Euroclear group's creditworthiness will remain resilient. We expect Euroclear to maintain a leading position in securities settlement and post-trade activities, combined with satisfactory profitability and a favorable capital structure.

Downside scenario

We could lower our ratings in the coming 12-24 months if Euroclear's very strong market position deteriorated markedly and unexpectedly. Although unlikely, a sizable debt-funded acquisition that raised our debt-to-EBITDA ratio toward 2.5x could lead us to downgrade Euroclear. We could also lower the rating on Euroclear Bank if we changed our view of its core status to the wider group, but we consider this scenario to be remote.

Upside scenario

We consider an upgrade unlikely, given the already high rating and possibility for medium-term challenges to the group's business model and competitive position arising from industry changes and geopolitical risks.

Our Base-Case Scenario

In our base case for 2023 and 2024, we expect that Euroclear will continue to enjoy tailwinds from high interest rates, supporting further improvement in leverage despite our expectations of some moderation in the growth rate of core business income. In our analysis, we exclude the interest income earned from cash balances subject to Russian sanctions and we primarily refer to the underlying business performance as published by Euroclear.

Assumptions

- We expect that Euroclear's business income (that is, excluding interest rate, banking, and other income) will increase at a modest rate of below 3% in 2023 and be broadly flat in 2024, as volume will moderate along with volatility.
- Underlying revenue will increase by 55%-60% in 2023, supported by elevated net interest income in the high-interest-rate environment, then will recede in 2024-2025, along with normalizing interest rates and reducing client cash balances.
- The adjusted EBITDA margin will improve to about 65% in 2023, despite a 20% increase in operating expenses. It will normalize into a 50%-60% range in 2024-2025 on lower banking revenue and still significant 5%-10% annual increase in costs due to inflation and continued digitization expenditures.
- At least €200 million yearly budget in mergers and acquisitions, but no transformative acquisition.
- Common dividend payout in 55%-65% (under its strategic plan presented in 2022, Euroclear mentioned that it could additionally do limited share buybacks, but we assume this would happen in the absence of external growth transactions).
- Broadly stable net debt of €1.0 billion-€1.2 billion, in line with the €1.15 billion we calculated as of year-end 2022, including some increase in accessible cash from the €300 million at year-end.

Key metrics

Euroclear Holding Group--Key metrics*

	--Fiscal year ended Dec. 31--		
	2022a	**2023e**	**2024f**
EBITDA margin (%)	54.7	64-66	58-60
Net debt/EBITDA* (x)	1.2	0.5-1.0	0.5-1.0
Funds from operations/debt (%)	59.0	>100	>100

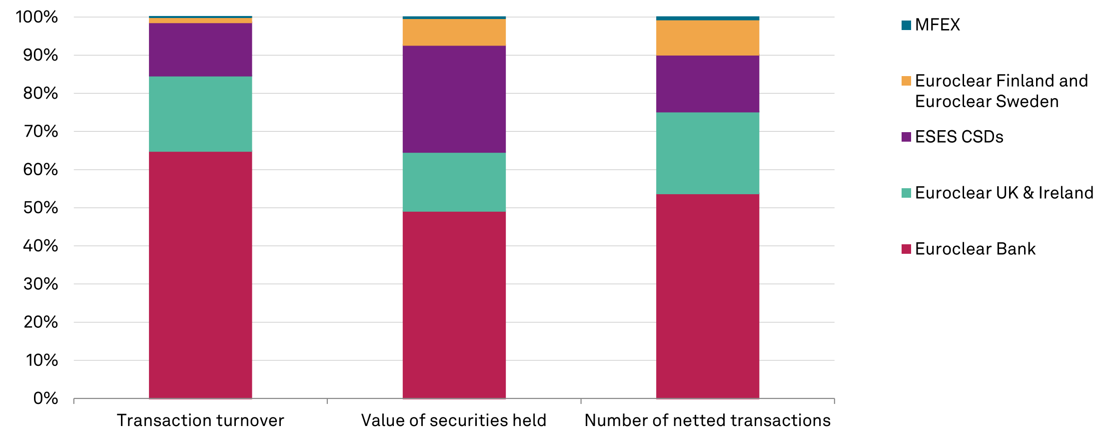
*Adjusted for operating leases. a--Actual. e--Estimate. f--Forecast. These metrics and those cited in other tables in this report are for the consolidated Euroclear group. Source: S&P Global Ratings' calculations and projections.

Company Description

Euroclear is one of the world's largest providers of cross-border settlement services, covering domestic and international bonds, equities, and investment funds. Euroclear Bank, which represents the majority proportions of the group's activity (chart 1), also provides related activities such as asset servicing, securities lending and borrowing, collateral management, money transfer, and ancillary banking services. In addition to the bank's role as an international central securities depository (ICSD), Euroclear operates the national CSDs for seven countries in north-west Europe: Belgium, Finland, France, Ireland, The Netherlands, Sweden, and the U.K. Euroclear held €37 trillion of client assets under custody as of Sept. 30, 2023.

Chart 1

Contributions to Euroclear Group's activity in 2022



ESES--Euroclear Settlement of Euronext-zone Securities. CSDs--Central securities depositaries. Sources: Euroclear. S&P Global Ratings' calculations.

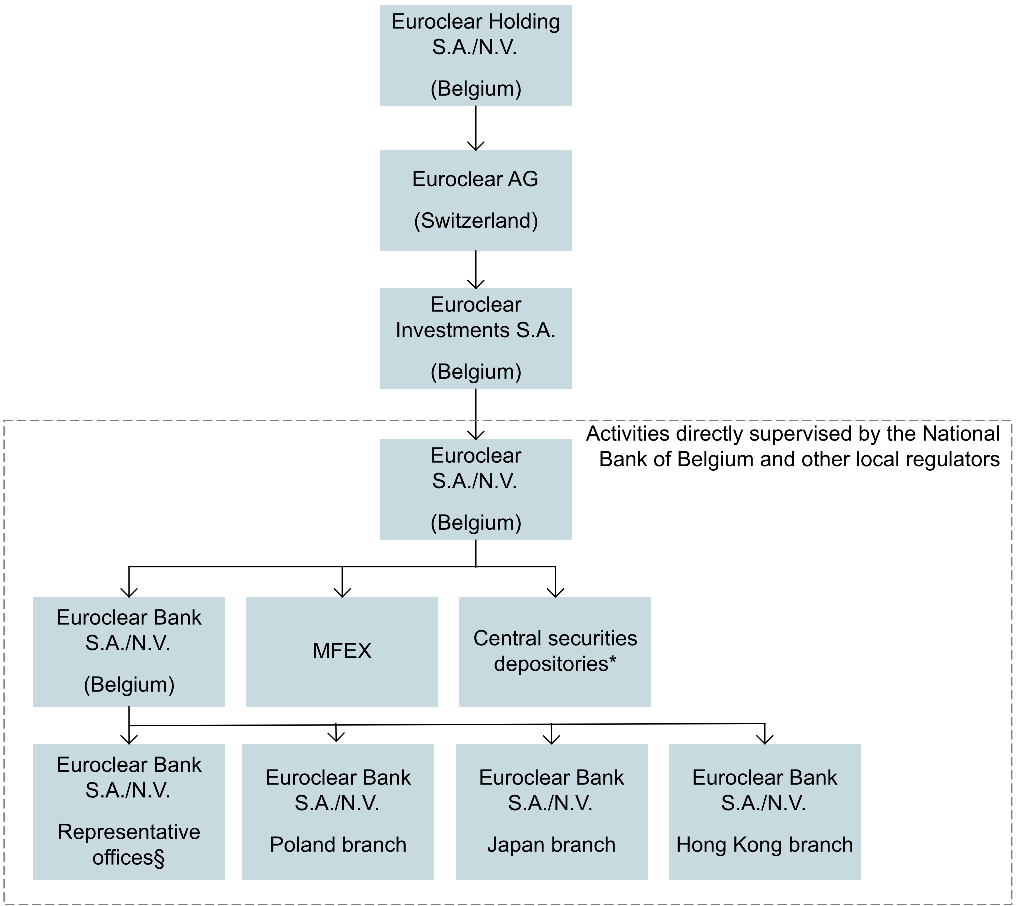
We rate Euroclear under our FMI criteria because we consider that the bank's and the wider group's creditworthiness are more closely linked to the risks and trends in the FMI sector than in the banking sector. In our view, Euroclear's business model is based on its crucial role in the global capital markets and transaction volumes drive its fee-based revenues.

Euroclear is mostly owned by its clients, however, over the past couple of years we saw a shift from its traditional user-owned model to increasing ownership by long-term institutional investors, thus moving to a more traditional corporate governance. In 2022, ICE sold its 9.85% stake in Euroclear Holding to French state-owned Caisse des Dépôts et Consignations (CDC) and to Belgium state owned Société Fédérale de Participations et d'Investissement SA (SFPI-FPIM), and BNP Paribas sold its 3.62% stake to SFPI-FPIM. Following this, CDC and SFPI-FPIM are now the second and third largest shareholders with stakes of 12.92% and 10.91%, respectively. Further in September 2023: NZSF Euro Limited, the New Zealand's pension fund, acquired a 4.99% stake in Euroclear Holding, making it the fifth largest shareholder; and Novo Holdings, a Danish based trust holding company acquired a 3.22% stake and is one of top 10 shareholders. Sicovam Holding, the previous owner of the French CSD, remains the largest shareholder with 15.89% stake, and the Chinese central bank unit Kuri Atyak Investment Ltd. is the fourth-largest shareholder with a 7.25% stake.

Euroclear Holding S.A. (the ultimate holding company) owns both Euroclear Investments S.A. and Euroclear S.A./N.V., which are Belgium based intermediate nonoperating holding companies (NOHCs) and sit above Euroclear Bank and the national CSDs, in the ownership structure (see chart 2). Euroclear's shares are not listed, but the multiple transactions carried out over the past couple of years show there is a market for them.

Chart 2

Euroclear Holding Group main entities



*Includes France, Belgium, the Netherlands, the U.K., Sweden, and Finland. The first three together form Euroclear Settlement for Euronext Securities (ESES).

§Beijing, Dubai, Frankfurt, Singapore, and New York.

Source: S&P Global Ratings.

Peer Comparison

Euroclear's closest peer is the Clearstream group, which is the other leading ICSD operator in Europe. However, Clearstream is part of the vertically integrated Deutsche Boerse AG (DB1) group, whereas Euroclear is a stand-alone, post-trade services provider in the settlement layer of the securities trading process. We also compare Euroclear with DTCC's U.S. CSD subsidiary The Depository Trust Co. (DTC), but we note that DTC has a quasi-monopolistic market position. When considering rating comparability, we also look at other highly-rated FMI providers, including CME Group Inc. (CME), ICE, LCH Group, and LSEG.

Business Risk

As the largest CSD operator in Europe, including one of the two dominant ICSDs, we believe Euroclear has a strong business risk position. We see barriers to entry into this market as high, reinforced by the tighter standards under CSDR. It is also expensive and time-consuming for customers to switch between ICSDs, although this is not unseen.

To broaden its franchise, Euroclear has invested in collateral management and fund services that address customers' evolving regulatory requirements. Over the past decade, Euroclear has benefited from strong client demand for collateral, supported notably by a push for centralized derivative clearing. Its collateral outstanding stood at €1.67 trillion as of Sept. 30, 2023 (about €1.3 trillion in 2019). Euroclear is looking to increase the range of securities eligible for its settlement, including outside Europe, through direct links with emerging countries' capital markets.

In line with its FMI peers, Euroclear exhibits significant operating scale benefits as its expenses are mostly fixed, while its revenue is partly a function of transaction throughput, although about half of revenue is linked to fixed income, whereby fees are calculated on nominal values. We see technology as supportive of the franchise, with the performance and capacity of the settlement system well proven. In October 2023, Euroclear launched its first CSDR-compliant, fully digital international securities (called Digitally Native Notes) on Distributed Ledger Technology. When combined with its vast assets under custody and a steady client demand for collateral management services, Euroclear's collateral access service differentiates its business from that of most CSD peers, as it does for Clearstream.

In the past years, Euroclear prioritized cost efficiency to mitigate revenue pressures from low interest rates. Costs have increased in absolute terms since 2019 because of spending on cyber risk management and CSDR implementation, combined with investments in TARGET2-Securities or digitalization. Nevertheless, costs have remained in line with underlying business income, which reflects Euroclear's stringent cost control and highlights its resilience to economic cycles.

Also, we understand that Euroclear progressed well on its integration of MFEX and is on track to realize revenue and cost synergies anticipated from the acquisition, despite the challenging market conditions for investment funds.

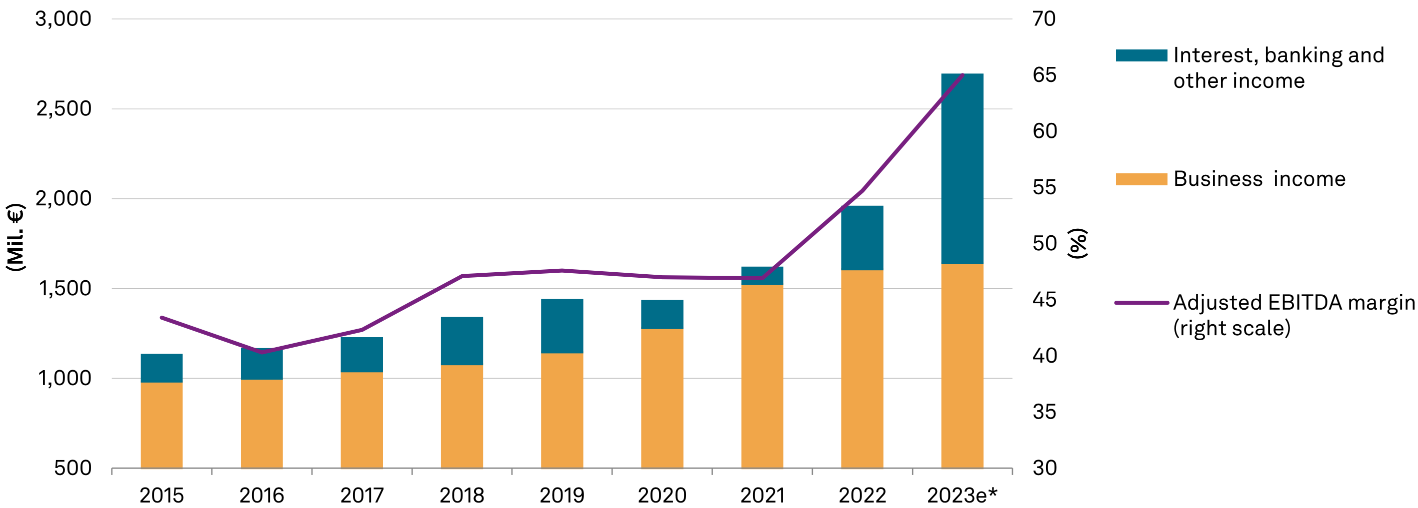
Euroclear's S&P Global Ratings-adjusted EBITDA margin improved significantly to 55% in 2022 from about 47-48% seen previously, supported by the higher interest rate environment. Euroclear's three-year average adjusted EBITDA margin for 2020-2022 stood at 50%, well within the 43%-66% average for the FMI sector. We expect the adjusted EBITDA margin to increase further to 65% in 2023 before gradually declining from 2024, with the normalization in interest rates (see "Global Economic Outlook Q4 2023: Nearing The Rate Plateau," published on Sept. 27, 2023).

The rapid increase in interest rates created some earnings volatility for Euroclear (see chart 3). The underlying interest, banking and other income stood at €813 million for the first nine months of 2023 and we expect this could well exceed €1.0 billion for full-year 2023, well above the €90 million reported in 2021.

Euroclear faces a high degree of operational risk amid the web of international sanctions on Russia and Russian countermeasures. The group has years of experience in sanctions compliance, but the spread and complexity of the current exercise is unusually high.

Chart 3

Euroclear Holding Group's underlying EBITDA margin improved in 2022 on tailwinds from high interest rates



Note: Business Income and Interest, Banking and Other Income definitions are as reported by Euroclear.
2022 numbers are on a underlying basis excluding the impact of income from assets under Russian sanctions. EBITDA margin is on an S&P Global Ratings-adjusted basis. *Our expectations. Sources: Euroclear. S&P Global Ratings' calculations.

Financial Risk

We assess Euroclear's financial risk profile as minimal and a relative strength for the overall rating, which we expect will continue to be the case over our two-year forecast horizon. As of year-end 2022, we calculated net debt to EBITDA of 1.2x and FFO to net debt of 59%. When calculating our weighted-average measure of leverage, we apply a 20% weight to the level achieved at year-end 2022, and 40% to each of our year-end 2023 and 2024 projections. On this basis, we project our weighted-average adjusted net debt-to-EBITDA ratio in 0.5x-1.0x and FFO to debt of above 100% in 2023-2024 for the Euroclear group. We remain mindful that current EBITDA includes a substantial cyclical portion of interest income, but these base-case ratios provide a significant cushion against any unexpected underperformance.

Unchanged, we treat the debt issued by Euroclear Investments (EINV) and Euroclear Bank differently for analytical purposes. We view the notes issued by EINV as being used for acquisition finance. Therefore, as of year-end 2022, we included in our measure of debt the €1.65 billion of outstanding notes issued by EINV, and offset €300 million in accessible cash that we calculated at the EINV level. Of note, we would see any debt meeting regulatory loss-absorbing capacity (MREL) requirements through downstreaming to the regulated banking group, as meeting a quasi-capital requirement and hence not freely redeemable.

Euroclear Bank's euro medium-term note (EMTN) issuance and certificates of deposit (CD) are primarily used to bolster the bank's liquidity in light of tighter requirements under CSDR since 2018. In particular, Euroclear Bank must demonstrate that it can pass the "cover 2" requirement under CSDR (that is, 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 issuances under its EMTN and CD program has helped Euroclear Bank satisfy these requirements, although it could have alternatively chosen to do so through other means, such as committed facilities. The carefully laddered maturities of long-term bonds under the EMTN program reduces refinancing risk, in our view. Proceeds are reinvested in very highly rated liquid assets that would also be eligible for European Central Bank funding, and we believe any potential use of these assets would be only in a stress scenario and for just a few days. As a result, we recognize the reinvested proceeds as surplus cash that is offset against gross debt in our leverage metrics.

Thus, our measure of net debt of €1.15 billion as of year-end 2022 considers:

- Gross debt of €6.1 billion;
- Less cash of €4.4 billion held against the €2.4 billion of EMTN and €2.0 billion CD issued out of Euroclear Bank;
- Less surplus cash of €300 million held at Euroclear Investments;
- Less €375 million assigned equity content out of the €400 million and €350 million hybrid notes under EINV; and
- Plus lease liabilities and pension fund deficit of €129.6 million and €43.7 million, respectively;

Accounting

In view of the importance of group's financial strength to Euroclear Bank's creditworthiness and franchise, we analyze the consolidated Euroclear group's financial statements as well as those for the bank. The data tables in this report contain Euroclear Holding's consolidated figures.

As for FMI peers that operate clearinghouses or ICSDs, we exclude related asset and liability balances in our analysis of the group's leverage and liquidity. For Euroclear, this means that we omit the cash deposits that clients place with Euroclear Bank and also the related liquid assets.

Preliminary anchor

Our view of Euroclear's strong business risk profile and minimal financial risk profile lead to a preliminary anchor of either 'aa' or 'aa-'. We select 'aa' due to the comparative strength of Euroclear's business risk profile. Other rated FMI sector entities with a strong business risk profile include notably CME, DB1, ICE, and LSEG.

Clearing and settlement risk

We assess Euroclear's clearing and settlement risk as neutral, based on our view of the highly diverse and generally good quality of participants of Euroclear Bank and the group's other CSDs, and its risk management policies and procedures. Based on the group's disclosure framework, Euroclear Bank and the other CSDs "fully observe" or "broadly observe" the key industry standards prescribed in the Principles for FMIs (PFMI), published in April 2012 by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions. Finally, although Euroclear Bank's business model as an ICSD exposes it to banking risks that most other CSDs do not face, we consider these risks to be well controlled in practice.

We consider Euroclear's risk monitoring procedures and systems to be robust. The group's leading position in the international capital markets leads to a hugely diverse participant base. Euroclear reports that it has over 2,000 financial institutions in its client base, including more than 100 central banks and 90% of the world's 50 largest banks. Through its surveillance systems, it closely monitors each participant's unsettled positions, values each member's collateral, and controls collateral movements throughout the trading day. These disciplines are particularly important in Euroclear Bank, which, unlike most other CSDs, extends credit to participants to facilitate settlement efficiency and the delivery of ancillary services such as collateral management and stock borrowing.

The credit facilities for settlement are mainly uncommitted and intraday (sometimes overnight) overdraft lines, provided to clients that do not have sufficient funds on account with the bank. We see the credit risk incurred through these facilities as very low because the overwhelming part is secured by collateral and the unsecured exposures are typically to highly rated clients. Unsecured intraday overdrafts, which are of insignificant amounts, are primarily to central banks that are unable to grant liens on their assets. For secured facilities, we believe that Euroclear Bank applies conservative haircuts to pledged securities collateral, which is marked-to-market on a daily basis and carefully monitored to avoid build-up in concentrations. In line with CSDR, the haircut for collateral accepted by Euroclear are at least as high as those required by central banks. The haircuts are managed actively, aided by the back-testing and stress-testing of valuations.

Banking exposure arises mostly from the investment of client balances, which stood at €107.4 billion as of end-2022, with the significant increase from €17.7 billion at end-2021 stemming essentially from counterparties subject to Russian sanctions. While deposit balances have continued to rise through 2023, we expect the rate of increase will slow. Euroclear reinvests its client cash balances with the dual objectives of limiting credit exposure and maintaining very high liquidity. The majority is invested in reverse repurchase agreements with central banks. The remainder is placed on an unsecured basis or left with cash correspondents, essentially with counterparties rated 'A-' or higher.

We consider Euroclear's appetite for risk arising from the investment of its capital and of proceeds from its debt issues to be similarly low. Its main objectives are capital preservation and liquidity, with yield a secondary focus. Euroclear invests these resources in short-dated bonds issued by some of the strongest eurozone governments and agencies, with the remainder being placed with the Eurosystem via the National Bank of Belgium.

In line with PFMI Principle 7, the Euroclear CSDs size their liquidity so that they have sufficient resources to satisfy the single-largest family default under stressed but plausible conditions (also known as "cover 1"). Further, since 2020, all of Euroclear's CSDs have been approved under CSDR and as such have to maintain sufficient liquidity resources to satisfy the default of the two-largest families under stress but plausible conditions ("cover 2"). In practice, liquidity risks are very limited for the national CSDs due to their use of Delivery Versus Payment settlement, lack of banking activities, and use of central bank money for settlement. We consider that the main source of liquidity risk to the group therefore comes from Euroclear Bank, which has intraday mismatches and uses commercial bank money for settlement.

Euroclear is also subject to the bank regulatory requirements relating to the liquidity coverage ratio and net stable funding ratio, which remained strong at 240% and 246%, respectively, as of June 30, 2023 (Pillar 3 disclosure at the Euroclear Holding group level).

In practice, we consider Euroclear Bank's balance sheet liquidity risk to be modest, due to its liability-driven nature and aided by the high quality and short tenor of its financial assets, and its access to contingent sources of liquidity. In our view, the bank's main liquidity risk can arise intraday because it needs sufficient liquidity to manage the billions of euros of transactions for real-time daily settlement routines. Inflows and outflows match very closely, but the bank allows sizable mismatches to occur during the day as it bridges clients' liquidity gaps with its discretionary extension of intraday overdrafts. To cover these potential gaps, sources of cash include Euroclear Bank's own on-balance-sheet resources, sizable intraday multi-currency credit lines with cash correspondent banks, committed and backstop facilities, and the ability to monetize client securities at the discount window. We understand that, in practice, the bank rarely moves beyond using its on-balance-sheet sources of cash and some operational intraday facilities. It has taken measures to reduce reliance on intraday facilities, as the bond and CD issuances since 2018.

Finally, given the enormous value of the transactions settled, and the number of transactions and counterparties involved, we consider operational risk as a key source of latent risk within Euroclear's settlement process. However, in our opinion, the risk is well managed and the level of operational risk losses--typically in the low-single-digit millions annually--is limited, and litigation expenses remained modest in recent years.

Liquidity

At the group level, we assess Euroclear's structural liquidity position as exceptional, reflecting our view that liquidity sources will remain comfortably in excess of 200% of liquidity uses, and that liquidity sources would comfortably exceed liquidity uses even if forecast EBITDA declines by 50%. A positive liquidity assessment directly benefits a rating only if the anchor is relatively low, but we regard the maintenance of comfortable liquidity metrics as supportive, if not necessary, for FMIs such as Euroclear that have very high GCPs.

Principal sources of liquidity are FFO and the sizable high-quality investment portfolio held by Euroclear S.A./N.V. The principal uses of liquidity currently are servicing the outstanding debt, dividends, and capital expenditures.

Modifiers

We assess Euroclear's capital structure as positive because our risk-adjusted capital (RAC) ratio estimated at the Euroclear Holding group level stood at 16.3% at year-end 2022 (see table 1). The slight decline from 18.8% at year-end 2021 is largely due to the client balance subject to Russian sanctions, which inflate the total balance-sheet. The negative impact from these exposures is mitigated by the low risk weights applied to the invested cash balances, as these are almost entirely placed with central banks. We expect that our RAC ratio will remain around 15%, but this does not benefit the GCP as the 'aa' anchor on Euroclear already reflects its financial strength. Euroclear's target to maintain a common equity tier 1 ratio above 34%, presented as part of the strategic plan up to 2026, underpins our expectations. The tier 1 ratios for the Euroclear Holding group and for the Euroclear Bank parent company stood at 38% at end-2022.

Table 1

Euroclear Holding Group--Risk-adjusted capital framework data					
(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	99,730.6	1,116.1	1.1	480.2	0.5
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	55,839.9	558.4	1.0	2,557.8	4.6
Corporate	15,133.4	216.6	1.4	2,448.2	16.2
Retail	0.0	0.0	0.0	0.0	0.0
Of which mortgage	0.0	0.0	0.0	0.0	0.0
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	964.8	1,102.0	114.2	1,066.2	110.5
Total credit risk	171,668.7	2,993.1	1.7	6,552.4	3.8
Credit valuation adjustment					
Total credit valuation adjustment	--	18.0	--	0.0	--
Market Risk					
Equity in the banking book	395.9	1,253.3	316.5	2,984.4	753.7
Trading book market risk	--	227.3	--	341.0	--
Total market risk	--	1,480.6	--	3,325.4	--
Operational risk					
Total operational risk	--	5,891.3	--	14,511.3	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	10,383.1	--	24,389.1	100.0
Total diversification/ Concentration adjustments	--	--	--	1,490.3	6.1
RWA after diversification	--	10,383.1	--	25,879.4	106.1
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		3,900.1	37.6	3,980.0	16.3
Capital ratio after adjustments‡		3,900.1	37.6	3,980.0	15.4

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g., transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2022, and S&P Global Ratings.

Table 2

Euroclear Holding Group--Financial summary

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2022***	**2021**	**2020**	**2019**	**2018**
Revenue	1,696.7	1,544.2	1,395.8	1,433.4	1,302.7
EBITDA	928.0	724.1	656.4	682.3	614.0
Funds from operations (FFO)	675.7	556.3	512.8	477.5	437.0
Net income from continuing operations	1,200.0	462.6	431.9	430.8	322.1
Debt	1,148.3	1,243.2	1,103.2	1,072.3	1,056.6
Equity	5,772.5	5,157.3	4,987.7	4,429.6	4,039.1
Adjusted ratios					
EBITDA margin (%)	54.7	46.9	47.0	47.6	47.1
Return on capital (%)	12.6	10.3	10.2	11.7	11.0
EBITDA interest coverage (x)	31.1	26.6	26.6	26.9	20.4
FFO cash interest coverage (x)	16.6	19.6	17.7	17.0	28.3
Debt/EBITDA (x)	1.2	1.7	1.7	1.6	1.7
FFO/debt (%)	58.8	44.8	46.5	44.5	41.4

*Figures for 2022 are on an underlying basis, that is, excluding the impact of income from assets under Russian sanctions.

Table 3

Reconciliation of Euroclear Holding reported amounts with S&P Global Ratings' adjusted amounts

	--Fiscal year ended Dec. 31, 2022--						
(Mil. €)	**Debt**	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**
Reported	6,091.7	5,397.5	2,510.7	1,718.3	1,625.3	28.0	928.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	--	(209.0)
Cash interest paid	--	--	--	--	--	--	(43.3)
Reported lease liabilities	129.6	--	--	--	--	--	--
Intermediate hybrids (reported as debt)	(375.0)	375.0	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	43.7	--	--	1.8	1.8	1.8	--
Accessible cash and liquid investments	(4,741.7)	--	--	--	--	--	--
Income (expense) of unconsolidated companies	--	--	--	1.9	--	--	--
Nonoperating income (expense)	--	--	--	--	7.9	--	--
Revenue: Other (situational)	--	--	(814.0)	(814.0)	(814.0)	--	--
SG&A: Other nonoperating nonrecurring items	--	--	--	20.0	20.0	--	--
Total adjustments	(4,943.4)	375.0	(814.0)	(790.3)	(784.3)	1.8	(252.3)

Table 3

Reconciliation of Euroclear Holding reported amounts with S&P Global Ratings' adjusted amounts (cont.)

	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations
Adjusted	1,148.3	5,772.5	1,696.7	928.0	841.0	29.8	675.7

Rated entities

We classify Euroclear Bank as a core subsidiary of Euroclear Holding S.A. and, as a result, we rate it at the level of the GCP. We regard the bank as an integral part of the group's operations, and expect that it will remain the principal contributor to the group's earnings and balance sheet.

We view Euroclear Investments as an intermediate holding company because it does not undertake cash-flow-generating business activity. Therefore, we believe it will largely 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 GCP.

Environmental, Social, And Governance

Euroclear's environmental, social, and governance (ESG) risks and opportunities are overall in line with those of FMI peers. Euroclear's exposure to direct greenhouse gas emissions and resource utilization is relatively low compared with other industries, in line with FMI peers and other bank and nonbank financial institutions. Over the past decade, via its Global Reach program, Euroclear has acted as a means for inclusion by providing governments around the globe with cheaper financing from the international investor community. This funding is frequently used for infrastructure and local development projects. Also, as a systemic operator, Euroclear's governance framework is crucial to a well-functioning market, and we consider the group's risk management framework to be robust.

Rating Score Snapshot

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

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

Note: 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 an intermediate NOHC.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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 | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Euroclear Bank 'AA/A-1+' Ratings Affirmed On Resilient Business Income And Reducing Leverage; Outlook Stable, Oct. 20, 2023
- Operational Resilience Is Key To Global FMIs' Rating Strength, Oct. 4, 2023
- Global Economic Outlook Q4 2023: Nearing The Rate Plateau, Sept. 27, 2023

- Key Rating Metrics For Global Financial Market Infrastructure Companies (July 2023), July 6, 2023
- S&P Global Ratings Definitions, June 9, 2023
- FMIs Will Ride Out Economic Gloom, But Beware Financial Stability Risks, Jan. 31, 2023
- Euroclear Investments Debt Ratings Affirmed On Potential Domiciliation In Belgium And Updated Documentation, Feb. 24, 2022

Ratings Detail (As Of December 14, 2023)*	
Euroclear Bank S.A./N.V.	
Issuer Credit Rating	AA/Stable/A-1+
Certificate Of Deposit	A-1+
Senior Subordinated	A-1+
Senior Subordinated	AA-
Senior Unsecured	A-1+
Senior Unsecured	AA
Issuer Credit Ratings History	
24-Feb-2012	AA/Stable/A-1+
07-Dec-2011	AA+/Watch Neg/A-1+
01-Aug-2000	AA+/Stable/A-1+
Sovereign Rating	
Belgium	AA/Stable/A-1+
Related Entities	
Euroclear Investments S.A.	
Issuer Credit Rating	AA-/Stable/A-1+
Senior Unsecured	AA-
Subordinated	A

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.