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CREDIT OPINION

24 July 2026

Update

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RATINGS

Frontier Clearing Corporation B.V.

Domicile	Amsterdam, Netherlands
Long Term Rating	Baa1
Type	Insurance Financial Strength - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Frontier Clearing Corporation B.V.

Update to credit analysis

Summary

Frontier Clearing Corporation B.V.'s (Frontclear) Baa1 Insurance Financial Strength (IFS) rating reflect its unique market position, strong capitalization with modest guaranteed portfolio leverage and low investment risk, its demonstrated track record of delivering on its mandate, as well as investment and technical support from several large European development finance institutions.

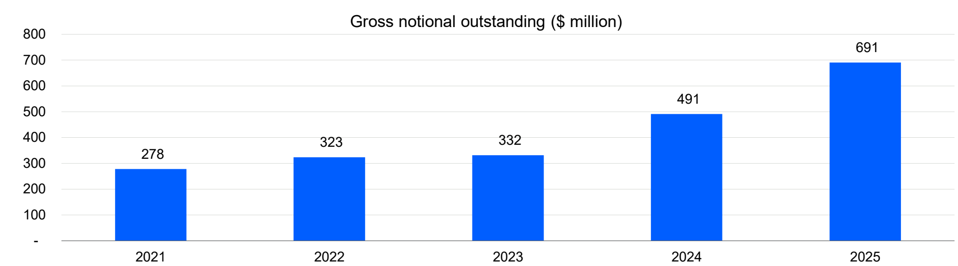
These strengths are offset by Frontclear's still modest size, limited risk diversification, and exposures to counterparties in non-investment grade countries, with elevated wrong-way risk, as well as modest profitability.

On April 21st Moody's affirmed the Baa1 IFSR of Frontclear and change the outlook to positive from stable. The positive outlook reflects our expectation that Frontclear will continue to expand its business and underlying earnings base as well as making tangible progress with planned changes to its capital structure.

Exhibit 1

Frontclear reached strong growth over recent periods

Development of the gross notional exposure



Sources: Company reports and Moody's Ratings

Credit strengths

- Unique market position and product offering with the potential to make a significant impact on the development of financial markets in frontier economies
- Strong track record of selecting and managing risks, including in stressed environments
- Strong capitalization with low guaranteed portfolio leverage and low investment risk
- Financial support from large development finance institutions, although no explicit support beyond committed capital

Credit challenges

- Need to strengthen its funding base to sustain its current growth trajectory
- Still relatively modest size, profitability still hampered by start up costs
- Limited risk diversification in guaranteed portfolio, and exposures to banks in non-investment grade countries, with elevated wrong-way risk
- Some reliance on key members of management despite a growing team
- No formal regulatory oversight with reliance on self-regulation through corporate governance structures

Rating outlook

The positive outlook reflects our expectation that Frontclear will continue to expand its business and underlying earnings base as well as making tangible progress with planned changes to its capital structure. It also reflects our view that Frontclear has built a strong track record in scaling its business while ensuring adequate governance and risk management along the way.

Factors that could lead to an upgrade

The rating could be upgraded if Frontclear:

- successfully implements the planned changes to its capital structure and attracts additional funding (a prerequisite for further business expansion),
- continues on its growth trajectory while upholding strong underwriting standards and preserving healthy capital metrics, and
- maintains strong risk management practices and governance while improving underlying profitability.

Factors that could lead to a downgrade

Given the positive outlook, there is limited downward pressure on the rating. However, the outlook could revert to stable if Frontclear

- fails to improve capital quality or attract additional funding,
- fails to demonstrate its ability to fulfil its development mandate (for example, through a contraction in business volume), or
- materially increases capital and liquidity risk-taking relative to its funding base, including due to a weakening in portfolio quality.

Profile

Frontclear is a financial markets development company focused on catalyzing more stable and inclusive financial markets in emerging and developing countries. Its primary operations include providing guarantees on swap and repo transactions, and providing capacity building technical assistance services.

Frontclear is the active company issuing guarantees and is a limited liability company incorporated in the Netherlands and is a wholly owned subsidiary of Frontclear Management B.V. (“FCM”). Frontclear is funded through the issuance of profit participating notes (“PPNs”) to the different Frontier Clearing Funds (collectively “FCFs”), and ultimately to external development-focused investors.

Detailed credit considerations

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

Market environment and product strategy: Growing participant in nascent inter-bank markets, but elevated product risk profile

Our adjusted score is Baa, adjusted from the unadjusted of A, reflects operations in new markets with elevated inherent risks and relatively concentrated exposures.

Frontclear occupies a specialized position in emerging and frontier markets by providing counterparty guarantees and technical assistance that support liquidity generation and the development of inter-bank and repo markets.

Frontclear's technical expertise, its association with major development finance institutions, and established role in market development strengthen its competitive position. While still modest in scale, the company has expanded in recent years, partly through its growing role as an intermediary in back-to-back transactions, whereby exposures to emerging-market counterparties are offset by corresponding positions with higher-credit-quality international banks. Its continued ability to deliver development impact, alongside ongoing support from institutional partners, remains a key determinant of its market position.

Tradeclear, launched in 2022, aims to facilitate the domestic and cross-border exchange of liquidity and risk between local and international financial institutions through a scalable trading and guarantee platform. While the platform continues to expand into new markets, transaction volumes remain constrained by limited market adoption and liquidity.

Frontclear has also taken steps to diversify and strengthen its revenue base beyond its traditional guarantee business. In addition to facilitating inter-bank markets, the company now participates directly in repo transactions by providing liquidity to banks and has expanded its presence in trade finance activities across its target markets. These initiatives broaden its product offering while remaining closely aligned with its core mission of supporting financial market development.

We consider Frontclear's product strategy to present an elevated level of risk to its credit profile. While its products - primarily plain-vanilla swaps and repos - are not inherently complex, the regulatory and legal environments in which the company operates are often underdeveloped and more susceptible to event risk, resulting in inherently higher operating and credit risks.

Portfolio characteristics and capital adequacy: Increasing operating leverage increases the need to raise capital

Our adjusted score is A, adjusted from Aa, balancing multiple layers of protection, support from development finance institutions, and robust group risk governance against the absence of permanent shareholders’ equity and increasing capital consumption.

Frontclear maintains relatively low operational leverage, although its recent growth has increased gross guaranteed exposures to about 3.1x paid-in capital, callable capital and available insurance protection at year-end 2025, from 1.5x in 2023. If additional exposures linked to Frontclear’s intermediary role were fully incorporated, this ratio would be closer to 5x. This reflects the company's increasing role in facilitating transactions between emerging-market banks and higher-credit-quality developed-market banks, where Frontclear takes exposure to the emerging-market counterparty while entering into offsetting positions with developed-market financial institutions. These offsetting positions attract lower capital charges under Frontclear’s internal model, reflecting the stronger credit quality of the counterparties, but they nevertheless consume capital and liquidity.

As a result, continued portfolio growth will depend on Frontclear's ability to expand and strengthen its capital base. To address this, Frontclear is planning Frontclear 2.0, an initiative aimed at transforming its capital structure into a limited liability framework supported by shareholders' equity investments. We view both the transition toward shareholders' equity and the expansion of the capital base as credit positive, provided Frontclear successfully executes the initiative. A broader and more permanent equity base would support higher business volumes, reduce reliance on callable capital and insurance protection, and provide greater flexibility in managing liquidity demands arising from larger or more complex transactions.

The short duration of Frontclear's guarantee book, at around one year on average, partly mitigates the risks associated with higher exposure levels by limiting default risk and allowing the company to adjust exposures relatively quickly in response to changing credit conditions.

Frontclear benefits from a counter-guarantee provided by Kreditanstalt fuer Wiederaufbau (KfW, Aaa stable), extended through 2030, which enhances protection for guarantee beneficiaries. However, we do not consider the counter-guarantee as support for Frontclear's own capital adequacy because it is only available following a Frontclear default and is paid directly to beneficiaries. Frontclear's capital resources also include subordinated, junior and callable notes, all subordinated to guarantee obligations and exhibiting equity-like characteristics because repayment is contingent on the wind-down of guarantee liabilities. In addition, the company utilizes $75 million of non-payment insurance capacity to support transaction limits and entered into a term loan with FMO in 2026, providing additional funding flexibility. While these arrangements support business growth, we consider insurance protection a lower-quality substitute for on-balance-sheet capital. Furthermore, the insurance structure introduces a liquidity consideration because claims reimbursements are generally subject to a 90-day waiting period, requiring Frontclear to fund claim payments upfront.

Frontclear's value proposition is to facilitate hard-currency swaps and repos for frontier-market banks using local-currency collateral. Beneficiary banks are willing to accept local collateral because of Frontclear's guarantee, while the company mitigates collateral value volatility through substantial overcollateralisation, haircut requirements and frequent margining.

Risk concentrations are partly mitigated through country and counterparty exposure limits, although beneficiary banks often require larger transaction sizes and capacity commitments to justify market participation.

The main source of liquidity risk stems from a conditional put option that may require Frontclear to take ownership of collateral and pay the full guaranteed amount if liquid markets for the collateral do not exist. Although stress testing indicates sufficient liquidity resources, a scenario involving multiple such events could pressure liquidity even if capital remains adequate. Frontclear is mitigating this risk through growth in its capital base, liquidity resources, and additional funding flexibility.

As part of its growth strategy, Frontclear has diversified its guarantee portfolio and improved the credit quality of risks through portfolio guarantees. The company has also expanded beyond guarantees into direct repo financing and trade finance activities, allowing it to broaden its product offering while remaining closely aligned with its core mandate.

Profitability: growth initiatives will drag profitability in the medium term

Our assigned score is Baa, adjusted from Ba, reflecting Frontclear's low-to-no profitability, as the company continues to focus on expanding its activities and fulfilling its development mandate rather than maximizing earnings. This is balanced by the non-fully commercial nature of its business model.

Frontclear's profitability remains modest and somewhat volatile, primarily reflecting the high expense base associated with scaling its operations. While underwriting margins have generally remained under pressure, investment income from its conservatively managed portfolio continues to support overall earnings.

Profitability is an important indicator of Frontclear's long-term sustainability; however, as a development institution, the company is not primarily profit-driven. Its objective is to generate sufficient earnings to preserve capital and support its mandate rather than maximize shareholder returns. Furthermore, because growth is not dependent on retained earnings, we have lower profitability expectations for Frontclear than for comparable commercial financial institutions. However, to implement Frontclear 2.0 will likely require the company to generate positive returns on a sustainable basis.

Financial flexibility: supportive anchor investors improve access to capital and underpin creditor-focused financial policy

Our assigned score is A, in line with the unadjusted score, reflecting Frontclear’s demonstrated support from development finance institution partners, balanced by its concentrated investor base, lack of direct access to public capital markets, and limited earnings coverage while it continues to scale.

Frontclear's access to capital remains a key rating consideration given its development-focused mandate and reliance on a relatively small group of development finance institution partners. Continued support from these institutions is influenced by their own funding availability and the evolving policy environment surrounding development finance.

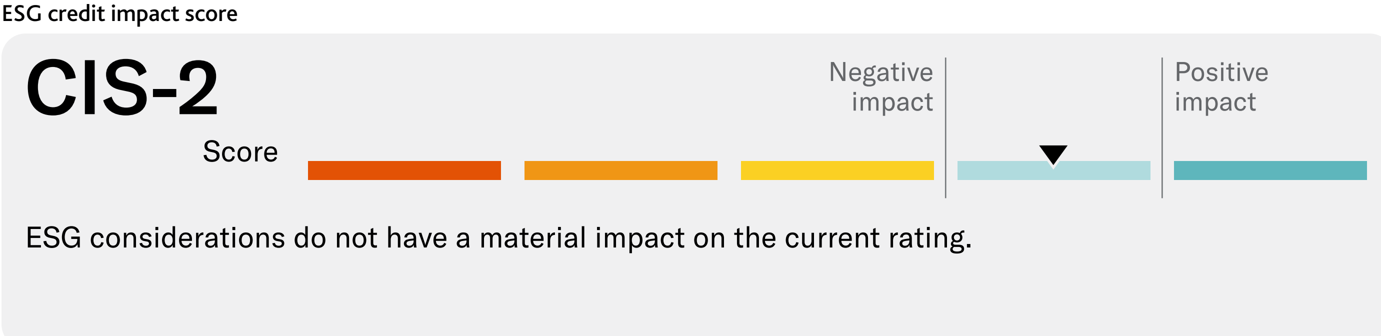
To date, Frontclear has benefited from strong partner support, evidenced by capital contributions across multiple funding rounds, the conversion of unfunded commitments into funded junior notes in 2019, additional callable commitments obtained in 2022, and continued backing for the company's growth strategy. Frontclear's recent business expansion and demonstrated development impact should support its relationships with funding partners, although further growth will require additional capital and liquidity resources. In this context, the planned Frontclear 2.0 initiative, which aims to broaden the investor base and increase shareholders' equity, would be credit positive if successfully implemented.

The development-oriented objectives of Frontclear and its investors support a creditor-focused financial policy, reducing incentives to prioritize capital distributions over financial strength. Nevertheless, our assessment of financial flexibility remains constrained by the company's reliance on a limited group of development-focused investors, lack of direct access to public capital markets, and modest earnings generation. Greater diversification of funding sources, whether through new investors, capital providers, or guarantee partners, would be credit positive.

ESG considerations

Frontier Clearing Corporation B.V.'s ESG credit impact score is CIS-2

Exhibit 2
ESG credit impact score

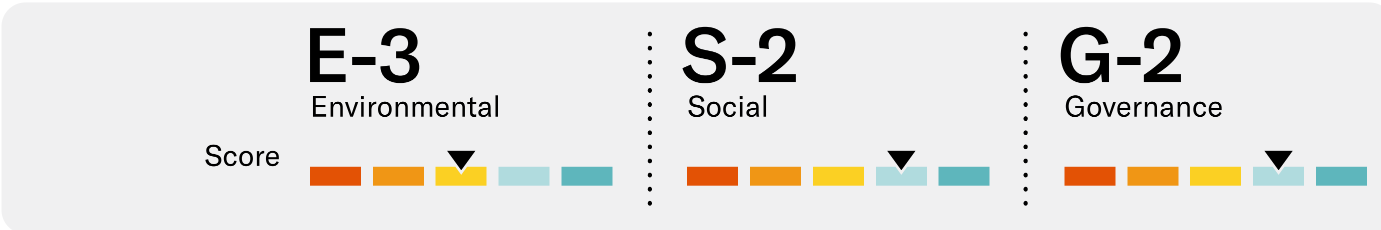


Source: Moody's Ratings

Frontclear's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating. The group’s good risk management and capitalisation help reduce its indirect exposure to physical climate and social risks. We also view the company's mandate to support inter-banking markets and ultimately the economy of developing countries as a positive feature of Frontclear's credit profile.

Exhibit 3

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Frontclear faces moderate environmental risks, notably because it is active in emerging markets and frontier economies with often high exposures to environmental risks. These indirect risks are partly mitigated by some level of geographic diversification of Frontclear's portfolio and the relatively short-term nature of these exposures, which allows Frontclear to manage down its exposure if the credit quality of a country does not fit with its risk appetite.

Social

Frontclear faces low social risks. The company has some indirect exposure to social risks as it operates in countries or delivers guarantees to banks exposed to these risks. However, we consider Frontclear's responsible production to be a positive feature of its issuer profile, given its mandate to develop interbanking markets to support economic growth in emerging and frontier markets.

Governance

Frontclear faces low governance risks. Frontclear maintains a strong level of capital and operates under a clear risk management and risk appetite framework which has protected the company efficiently in stress situations. Nonetheless, given its modest scale and the recent launch of new products, the company still needs to demonstrate a track record of profitable growth. The company's governance and management also relies on a small number of key individuals.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Frontclear's investors include European governments – specifically the UK and German government - and a number of large, highly-rated development finance institutions, notably the European Bank for Reconstruction and Development (EBRD, Aaa stable), Proparco – the private sector financing arm of Agence Française de Développement (AFD), and FMO – the Dutch bilateral development bank. The guarantee obligations are counter-guaranteed by Kreditanstalt fuer Wiederaufbau (KfW, Aaa stable), the German Development Bank. While these investors provide ongoing technical and leadership support to Frontclear, we do not expect that they would provide financial support in excess of their already committed capital in the event of a stress scenario.

Rating methodology and scorecard factors

Exhibit 4

Rating Factors

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	<B	Score	Adj Score
Business Profile									
Market Environment and Product Strategy (25%)								A	Baa
Industry Environment		X							
Market Position and Product Strategy					X				
Financial Profile									
Portfolio Characteristics and Capital Adequacy (40%)								Aa	A
- Risk-adjusted capital coverage		X							
Profitability (20%)								B	Baa
- Underwriting Margin (5 yr average)						-10.7%			
- Return on Capital (5 yr average)					-0.2%				
- Sharpe Ratio of ROC (5 yr)							NM		
Financial Flexibility (15%)								A	A
- Financial Policy		X							
- Ease of Access to Capital					X				
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome			X					A2	Baa1
Adjustments for Other Considerations (+/- notches):									
Management, Governance and Risk Management									
Accounting Policy & Disclosures									
Sovereign & Regulatory Environment									
Standalone Scorecard-Indicated Outcome									Baa1
Nature and Terms of Explicit Support									
Nature and Terms of Implicit Support									
Scorecard-Indicated Outcome									Baa1
Notching for Priority of Claim (+/- notches)									-
Indicated Instrument-Level Outcome									Baa1

[1] Information based on financial statements as of Fiscal YE December 31. [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Ratings

Ratings

Exhibit 5

Category	Moody's Rating
FRONTIER CLEARING CORPORATION B.V.	
Rating Outlook	POS
Insurance Financial Strength	Baa1

Source: Moody's Ratings

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Japan	81-3-5408-4100
EMEA	44-20-7772-5454