FitchRatings

Frontier Clearing Corporation B.V.

Ratings

Frontier Clearing Corporation B.V.

Insurer Financial Strength	A-

Outlook

Insurer Financial Strength	Stable

Financial Data

Frontier Clearing Corporation B.V.

(USDm)	End-2023	End-2022
Guarantee revenues	4.1	4.1
Total equity	-10	-9.9
Gross par	336.5	327.3
Net par	236	217.1
Net income	-0.0	-0.1

Note: Reported on an IFRS basis
Source: Fitch Ratings, FCC

Key Rating Drivers

Very Strong Capitalisation: Frontier Clearing Corporation B.V.'s (FCC) very strong capitalisation and leverage score is supported by its low, end-2023 par/capital ratio of 1.4x compared with a 'High Risk (with currency risk)' guarantee portfolio. FCC is primarily debt-funded through profit participating notes (PPN).

Fitch Ratings considers all PPN tiers as equity capital for financial leverage, based on the equity-like features of these instruments resulting in zero financial leverage. FCC is not subject to externally imposed minimum capital requirements and determines its risk appetite and capital leverage based on its internal capital model.

High-Risk Guarantee Portfolio: Fitch views FCC's business risk as high, based on its credit risk exposure to low rated emerging market financial institutions (typically in the 'BB' and 'B' rating categories) and debt securities as part of its normal operations. However, this is in line with general emerging market risks. FCC's risk exposures are associated with a high degree of credit risk, but the short-term maturity of guaranteed transactions and overcollateralisation reduce FCC's potential loss exposure given credit defaults.

Strong Reinsurance Protection: At end-2023, reinsurance covered USD25.5 million (end-2022: USD34 million) of FCC's gross notional exposure underwritten by syndicates of Lloyd's of London (AA-/Stable). FCC also has a USD75 million aggregate excess of loss portfolio reinsurance policy with Lloyds. In the event of FCC's insolvency, an additional USD100 million counter-guarantee from KfW (AAA/Stable) protects policyholders, but this does not enhance FCC's standalone credit quality as it is contingent upon FCC's inability to meet its obligations.

Somewhat Weak Company Profile: Fitch assesses FCC's overall company profile as 'Somewhat Weak' based on a business profile ranking of 'Moderate' compared with financial guarantors active in emerging markets, and corporate governance ranking of 'Neutral', reflecting FCC's corporate governance practices in line with market norms.

FCC's single line of business is the issuance of guarantees for short-term secured transactions typically backed by local-currency cash or domestic government securities on both a single transaction and portfolio basis. FCC has no significant direct competition due to the strict regulatory requirements involved in this type of guarantee business for regulated private companies.

Profitability Expected to Improve: As a development-focused guarantor, profitability has moderate importance for FCC's credit profile. Fitch believes FCC's financial performance will improve, and the company should achieve positive net income supported by better economic scale and favourable recurring investment returns. FCC's profitability has been weak in the last five years with average return on equity (ROE) of -1.3% and average combined ratio of 121% as the company scales its operations.

Applicable Criteria

Insurance Rating Criteria (March 2024)

Related Research

Fitch Affirms Frontier Clearing Corporation's IFS at 'A-', Outlook Stable (June 2024)

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Rating Sensitivities

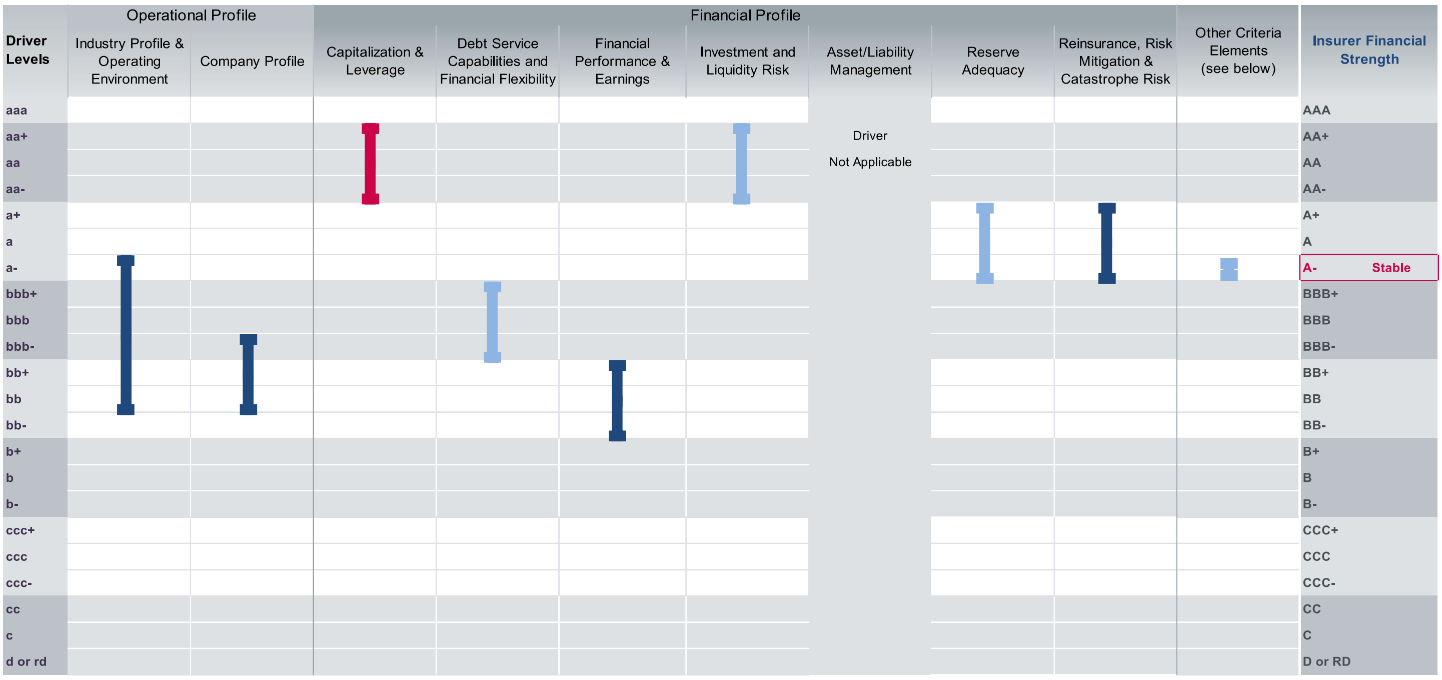
Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Seasoning of the business including but not limited to guarantee portfolio growth and diversification, ability to attract new capital investments, and positive financial performance.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Par/capital above 2.9x.
- Weakening of the business including but not limited to a decline in business volumes, inability to attract new capital and failure to achieve and sustain positive financial performance.

Key Rating Drivers – Scoring Summary



Other Criteria Elements				
Standalone Credit Quality				A-
Non-Insurance Attributes	Positive	Neutral	Negative	+0
Ownership / Group Support	Positive	Neutral	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	No	0	+0
Insurer Financial Strength Rating				A-
IFS Recovery Assumption	Average			+0
Issuer Default Rating (IDR)				n.a.

Bar Chart Legend:	
Vertical Bars = Range of Driver	
Bar Colors = Relative Importance	
■	Higher Influence
■	Moderate Influence
■	Lower Influence
Bar Arrows = Driver Outlook	
⇧	Positive
⇩	Negative
⇳	Evolving
□	Stable

Company Profile

Somewhat Weak Company Profile

Fitch assesses FCC's overall company profile as 'Somewhat Weak' based on a business profile ranking of 'Moderate' compared to financial guarantors active in emerging markets, and corporate governance ranking of 'Neutral', reflecting FCC's corporate governance practices in line with market norms.

FCC facilitates the development of well-functioning money markets in emerging countries by providing financial guarantee protection for counterparty credit risk and general country (transfer and convertibility) risks. It also provides financial support to local market infrastructure and capacity building programs. FCC's single line of business is the issuance of guarantees for short-term secured transactions typically backed by local-currency cash or domestic government securities both on a single transaction and portfolio basis. FCC has no significant direct competition due to the strict regulatory requirements involved in this type of guarantee business for regulated private companies.

Fitch views FCC's business risk as high, based on its credit risk exposure to low-rated emerging market financial institutions (typically in the 'BB' and 'B' rating categories) and debt securities as part of its normal operations. However, this is in line with general emerging market risks. FCC's risk exposures are associated with a high degree of credit risk, but the short-term maturity of guaranteed transactions together with overcollateralisation reduces FCC's potential loss exposure given credit defaults.

A guarantee payout is triggered if collateral securing a transaction becomes insufficient to fully cover the beneficiary's claim upon default of the obligor, or if collateral cannot be liquidated and repatriated.

FCC is an expanding company looking to strengthen its franchise as an established guarantor/facilitator of money market transactions, and to broaden its scope to global emerging markets including both cross-border and domestic money market transactions. Fitch expects significant demand for guarantees backing money market transactions in emerging markets to support FCC's long-term business growth.

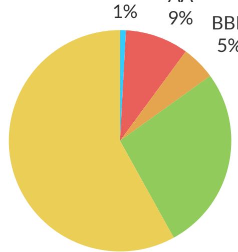
Company Profile Scoring

Business profile assessment	Moderate
Business profile sub-factor score	bb+
Corporate governance assessment	Neutral
Corporate governance impact (notches)	0
Company profile factor score	bb+

Source: Fitch Ratings

Net Maximum Exposure by Country Ratings

(March 2024)



Source: Fitch Ratings, FCC

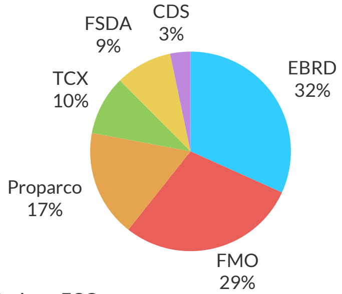
Ownership

Ownership Neutral to Rating

FCC's only shareholder is Frontclear Management B.V., which in turn is 100% ultimately owned by Stichting Cardano Development, a Dutch foundation.

FCC is primarily funded through PPNs, including subordinated, junior, and callable debt tiers primarily subscribed by government-backed development financial institutions (DFIs) and private-sector entities. At end-2023 these included the Dutch Entrepreneurial Development Bank (FMO), the European Bank for Reconstruction and Development (EBRD), Proparco, The Currency Exchange Fund (TCX), FSD Africa Investments (FSDA), and Cardano Development Services (CDS). Fitch does not consider PPN investors as "owners" for FCC's ownership assessment and therefore notching adjustment to the standalone credit profile is not applied.

PPN Investors
(excluding callable notes, end-2023)



Source: Fitch Ratings, FCC

Capitalisation and Leverage

Very Strong Capitalisation

FCC's very strong capitalisation and leverage score is supported by its low, end-2023 par/capital ratio of 1.4x compared to a 'High Risk (with currency risk)' guarantee portfolio. FCC is primarily debt-funded through PPNs. Fitch treats all PPN tiers as equity capital for the financial leverage calculation, based on the equity-like features of these instruments resulting in zero financial leverage.

Fitch primarily considers the company's net maximum exposure (NME) to assess guarantee exposure for the par/capital calculation. NME could differ from net notional guarantee exposure as exposure on certain transactions are established based on a potential exposure metric instead of guaranteed principal.

PPNs are fully loss absorbing and their repayment is conditional to the orderly liquidation of FCC's guarantee portfolio. Principal is paid back only up to the notes' redemption value, which is determined based on available cash attributed to each class of PPN in the case of both early and scheduled redemptions. PPNs mature on 2 December 2034 with an option to extend until 2 December 2044, but investors could also trigger early repayment (liquidation) at any time subject to the supermajority vote of PPN investors.

FCC is not subject to externally imposed minimum capital requirements, and calculates its capital needs based on its internal capital model which primarily determines FCC's risk appetite and capital leverage.

Financial Highlights

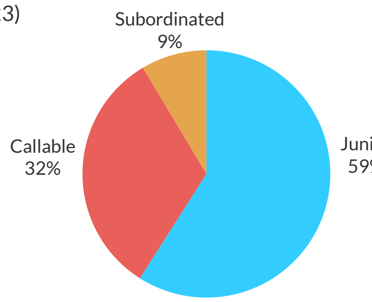
(x)	End-2023	End-2022
Net par/capital (based on net notional)	1.7	1.6
Net par/capital (based on net maximum exposure)	1.4	1.5
Financial leverage (%)	0	0

Note: Reported on an IFRS basis.
Source: Fitch Ratings, FCC

Fitch's Expectations

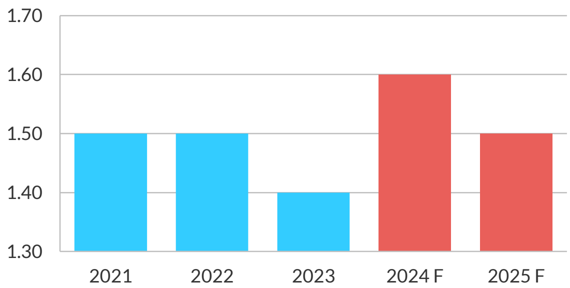
- Par/capital could increase driven by expected business growth but should remain below the rating sensitivity trigger of 2.9x.

PPN Tiers
(End-2023)



Source: Fitch Ratings, FCC

Net Par/Capital (x)



Source: Fitch Ratings, FCC

Debt Service Capabilities and Financial Flexibility

Development Focus Supports Financial Flexibility

Subordinated and junior PPNs bear fixed coupons while callable notes, if drawn, pay floating. Coupons on junior notes are calculated based on the level of excess cash available to the company (i.e. performance driven), while subordinated notes pay fixed 2%. Payment on junior notes was zero in 2023. Failure to pay interest on PPNs would be considered an event of default. The 2023 fixed-charge coverage ratio was affected by deferred performance fees, a significant non-cash item on the income statement. Excluding this, the FCC would be broadly in line with the previous year at 5.2x.

Barring its status as a development-focused financial guarantor primarily backed by multiple DFIs, FCC's standalone financial flexibility would be limited. However, Fitch believes FCC could attract investments from DFIs and potential other investors thanks to its development focus which generally aligns with the goals and targets of international DFI's. Accordingly, Fitch assesses FCC's financial flexibility as 'Good'.

Financial Highlights

(%)	End-2023	End-2022
Fixed-charge coverage	1.1	5.6

Note: Reported on an IFRS basis.
Source: Fitch Ratings, FCC

Financial Performance and Earnings

Profitability Expected to Improve

As a development-focused guarantor, profitability has limited importance for FCC's credit profile. FCC is scaling up operations and its profitability has been weak with five-year average ROE of -1.3% (-0.3% excluding PPN revaluations) and five-year average combined ratio of 121%. Although the 2023 technical result remained under pressure from higher expenses related to the scaling up of operations, profitability significantly improved supported by higher recurring investment income helped by higher interest rates and positive asset revaluations.

The company has not incurred any guarantee calls since its inception, including 2023. A wider technical loss in 2023 resulted from broadly flat business volumes while operating expenses significantly increased. Operating expenses mainly include management fees paid to FCM and performance fees based on the realisation of performance targets.

Fitch believes FCC's financial performance will improve supported by better economic scale and favourable recurring investment returns, and the company should achieve positive net income. The company applied for a zero-income tax status and is tax exempt from 2023.

Financial Highlights

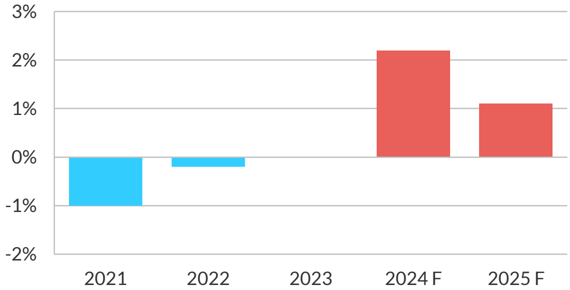
(%)	End-2023	End-2022
Net income return on equity (%)	-0.0	-0.2
Combined ratio (%)	126	103

Note: Reported on an IFRS basis.
Source: Fitch Ratings, FCC

Fitch's Expectations

- Positive ROE is possible but unlikely to be above 3%.

Return on Equity



Source: Fitch Ratings, FCC

Investment and Asset Risk

Low Investment and Liquidity Risks

The investment portfolio is conservative, including very high credit quality short-to medium-term bonds rated 'AA-' or higher, 'AAA' rated money market funds, and cash/deposits with highly rated financial institutions. At end-2023, FCC had no investment assets subject to significant market risk.

FCC is generally not exposed to foreign-currency risk. However, foreign-currency risk could arise when FCC has to offtake collateral following an obligor's default. To limit foreign-currency risk in such scenarios, FCC established a prudent internal risk limit at 10% of available capital (defined as cash, callable capital and the excess of loss policy).

FCC is subject to liquidity risk in the event of guarantee calls, in particular if many guarantee calls occur simultaneously. To manage this risk, FCC evaluates its liquidity requirements by simulating the sufficiency of its liquidity buffer across diverse stress scenarios. At end-2023, liquidity stress-test results demonstrated robust liquidity.

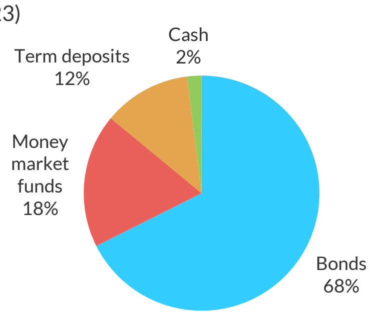
Given the unique activities of FCC, traditional balance-sheet-based liquidity ratios do not provide a meaningful measure for liquidity. Fitch, therefore, places a greater emphasis on a qualitative approach when assess liquidity risk, primarily considering the composition of the investment portfolio and FCC's overall risk management capabilities.

Financial Highlights

(%)	End-2023	End-2022
Risky assets/equity	0.0	0.0

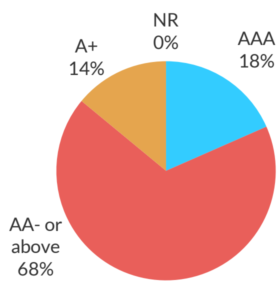
Note: Reported on an IFRS basis.
Source: Fitch Ratings, FCC

Investment Portfolio Assets
(end-2023)



Source: Fitch Ratings, FCC

Investment Portfolio Assets by Ratings
(end-2023)



Source: Fitch Ratings, FCC

Reserve Adequacy

Prudent Reserve Calculations

Accounting methods used by FCC to determine the fair value of financial guarantees contracts are established based on a valuation model including management assumptions for unobservable inputs in line with IFRS accounting rules. The calculation of credit value adjustments (including expected credit losses) and the calculated fair value of guarantee contracts are therefore subject to model risk and assumption changes.

The company's investment committee conducts a comprehensive review of the appropriateness of the input parameters used in the valuation model at a minimum on an annual basis, ensuring their continued relevance and accuracy. According to the company's disclosed sensitivity analysis, a 10% increase or decrease in a single significant model input could range between a gain of USD304,000 and a loss of USD374,000 depending on the particular input affected. Such fair value fluctuations would directly impact the income statement, and could result in income volatility.

At end-2023, the most critical model inputs were assumptions regarding the recovery rate and probability of default. However, these metrics could be estimated with relative certainty based on empirical data.

Reinsurance, Risk Mitigation and Catastrophe Risk

Strong Reinsurance Protection

To effectively manage country and counterparty exposure limits and to alleviate concentration risks, FCC obtains per risk reinsurance aligned with the maturity of underlying risk exposures for which they are obtained. Concentration risks in FCC's guarantee portfolio, have also reduced in the past five years, in line with portfolio growth and could further reduce in coming years as FCC's business expands.

At end-2023, reinsurance covered USD25.5 million (end-2022: USD34 million) of gross notional exposure underwritten by Lloyd's of London syndicates. As an additional layer of protection, FCC also entered into a USD 75 million aggregate excess of loss portfolio reinsurance policy with Lloyd's, structured to pay out based on specific liquidity triggers including a 180-day waiting period.

In the event of FCC's insolvency, an additional USD100 million counter-guarantee provided by KfW offers protection to policyholders. However, this facility does not enhance FCC's standalone credit quality as its pay-out is contingent upon FCC's inability to meet its obligations.

Financial Highlights

(%)	End-2023	End-2022
Net par/gross par	70	67
Single risk par/capital	29	35

Note: Reported on an IFRS basis.
Source: Fitch Ratings, FCC

Appendix A: Peer Analysis

Peer Comparison

Click here for a report that shows a comparative peer analysis of key rating driver scoring.

Appendix B: Industry Profile and Operating Environment

Industry Profile and Operating Environment (IPOE)

Click here for a link to a report that summarises the main factors driving the above IPOE score.

Appendix C: Other Rating Considerations

Below is a summary of additional ratings considerations that are part of Fitch's *Insurance Rating Criteria*.

Group Insurance Financial Strength (IFS) Rating Approach

Fitch rates FCC on a group consolidated basis including its wholly owned subsidiary FCC Securities B.V.

Notching

FCC is not subject to capital regulations such as Solvency II or Basel III. Although Fitch views the regulatory environment of the Netherlands as being 'Effective' and classified as following a group solvency approach, we apply regulatory environment of 'Other' for notching purposes to reflect that the company is not subject to capital regulations.

Notching Summary

IFS Ratings
Given the limited scope of regulation assumed by Fitch, a recovery assumption of 'Average' applies to the IFS rating, and standard notching associated with the noted recovery assumption was used from the IFS anchor rating to the implied operating company IDR.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating
Source: Fitch Ratings

Debt Maturities

(As of end-2023)	(USDm)
2034	104

Source: Fitch Ratings, FCC

Short-Term Ratings

Not applicable.

Hybrid – Equity/Debt Treatment

Fitch considers all classes of PPNs as equity capital for the purpose of capital adequacy and financial leverage ratios.

Hybrids Treatment

Hybrid	Amount (USDm)	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
Frontier Clearing Corporation B.V.				
Junior PPN		100	n/a	0
Subordinated PPN		100	n/a	0

CAR – Capitalisation ratio. FLR – Financial leverage ratio. For CAR, % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override. For FLR, % shows portion of hybrid value included as debt in numerator of leverage ratio.
Source: Fitch Ratings

Recovery Analysis and Recovery Ratings

Not applicable.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

About Fitch Forecasts

The forecasts shown in the main body of this report reflect Fitch's forward views from a credit perspective. They are based on a combination of Fitch's macroeconomic forecasts and viewpoints, outlook at the sector level and company-specific considerations developed by Fitch. As a result, Fitch's forecasts may differ, at times materially, from earnings and other guidance provided by a rated entity to the market. To the extent Fitch is aware of material, non-public information on likely future events, such as a planned recapitalisation or M&A activity, Fitch will not reflect these likely future events in its forecasts. This practice is to assure that such material non-public information is not inadvertently disclosed. However, as relevant, such information is considered by Fitch as part of the broader ratings process

Appendix D: Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Frontier Clearing Corporation B.V. has 6 ESG potential rating drivers

- Frontier Clearing Corporation B.V. has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to own cyber risk but this has very low impact on the rating.
- Frontier Clearing Corporation B.V. has exposure to social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	6	issues	3
not a rating driver	2	issues	2
	6	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events/natural catastrophes on operations or asset quality; credit concentrations	Financial Performance & Earnings; Investment and Asset Risk	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to own cyber risk	Industry Profile & Operating Environment; Company Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Company Profile; Investment and Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Company Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Company Profile	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile; Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Company Profile	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.
The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit http://www.fitchratings.com/esg.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.