

## RATING ACTION COMMENTARY

# Fitch Revises Frontier Clearing Corporation's Outlook to Negative; Affirms IFS Rating at 'A-'

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Fitch Ratings - Frankfurt am Main - 22 May 2026: Fitch Ratings has revised the Outlook on Frontier Clearing Corporation B.V.'s (FCC) Insurer Financial Strength (IFS) Rating to Negative from Stable and affirmed its IFS Rating at 'A-'

The Negative Outlook reflects our expectation of a deterioration in FCC's capital position should the company fail to attract additional capital to support its strong business growth, as measured by a deteriorated net par-to-capital ratio.

FCC's rating continues to reflect its strong capitalisation, partly offset by its position as a niche financial guarantor with a focus on emerging markets.

## KEY RATING DRIVERS

**Weaker Capitalisation:** Fitch sees FCC's capital position as weaker because the company's larger risk exposure is not adequately compensated for by capital growth. We expect FCC's net par-to-capital ratio to rise further to above 3.0x in 2026 (2025: 3.0x, 2024: 1.9x). FCC plans to convert its profit participating notes (PPNs) into equity and add new investors as part of its ongoing capital raising plans. We believe the successful execution of this conversion could improve capital quality and reduce FCC's net par-to-capital ratio, although risks related to regulatory hurdles and dependence on investors remain.

FCC is primarily funded with PPNs, which Fitch treats as equity capital in the financial leverage ratio calculation based on these instruments' equity-like features. FCC entered into a USD50 million senior unsecured debt facility with the Dutch entrepreneurial development bank FMO in October 2025, of which USD30 million was drawn in 2025. Fitch treats this facility as debt, which increases FCC's financial leverage ratio to 25% in 2025

from 0% in 2024. FCC is not subject to regulatory capital requirements and manages capital adequacy using its internal capital model.

**High-Risk Guarantee Portfolio:** FCC's business risk is high, based on its credit risk exposure to low-rated financial institutions and collateral in emerging markets (typically in the 'BB' and 'B' rating categories) as part of its normal operations. However, this is in line with general credit risk conditions in emerging markets. FCC's exposures carry high credit risk, but the short-term maturity of guaranteed transactions and over-collateralisation mitigate potential losses from credit defaults.

**Niche Financial Guarantor:** FCC is a financial guarantor with a mission to facilitate the functioning of money markets in emerging markets through the provision of financial guarantees and its role as a principal trading counterparty. Fitch expects strong demand for guarantees on money market transactions in emerging markets to support FCC's long-term expansion. The company expects another year of strong growth in 2026, following growth of 46% in 2025.

**Weak Profitability:** FCC's profitability is weak, with a five-year average return-on-equity of 0.2% and 2.3%, adjusted for PPN revaluations, and a five-year average combined ratio of 116%. Fitch expects reported profitability to stabilise following the planned conversion of PPNs into equity, as PPN revaluations would no longer affect net income or return-on-equity.

**Strong Reinsurance Protection:** At end-2025, reinsurance covered USD43 million (end-2024: USD33 million) of FCC's USD690 million gross notional exposure and was underwritten by syndicates of Lloyd's of London (AA-/Stable). The company also has a USD75 million aggregate excess-of-loss portfolio reinsurance policy with Lloyd's. In the event of insolvency, an additional USD100 million counter-guarantee from KfW (AAA/Stable) protects policyholders. However, this guarantee does not enhance FCC's standalone credit quality, because its payout is contingent on its inability to meet obligations.

## **RATING SENSITIVITIES**

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

-- Failure to successfully attract additional funding and complete capital restructuring, leading to a net par-to-capital ratio above 2.9x on a sustained basis

-- Weakening in FCC's business profile, as measured, for example, by a decline in business volumes

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

-- The Outlook could be revised to Stable if FCC manages to successfully raise additional capital and restructure existing capital, resulting in a net par-to-capital ratio below 2.9x on a sustained basis

### REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### EXTERNAL APPEAL COMMITTEE OUTCOMES

In accordance with Fitch's policies the Issuer appealed and provided additional information to Fitch that resulted in a rating action that is different than the original rating committee outcome.

### ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or 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

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### RATING ACTIONS

| ENTITY / DEBT ↕                    | RATING TYPE ↕ | RATING ↕                   | RATING ACTION ↕            | PRIOR ↕                  |
|------------------------------------|---------------|----------------------------|----------------------------|--------------------------|
| Frontier Clearing Corporation B.V. | LT IFS        | A- Rating Outlook Negative | A- Rating Outlook Negative | A- Rating Outlook Stable |

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Finn Dirks**

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**APPLICABLE CRITERIA**

## [Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

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Frontier Clearing Corporation B.V.

EU Issued, UK Endorsed

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