LOCAL CURRENCY MATTERS

TCX ANNUAL REPORT 2010

TCX
the currency exchange fund

CONTENTS

LETTER FROM THE MANAGING BOARD

LOCAL CURRENCY MATTERS TCX is unique in providing tools to manage currency risks in developing countries on a long-term, sustainable basis. It does so by entering into long-term swaps and forwards with international investors and their clients locally, thereby absorbing their currency mismatches and creating a more stable financial base for these institutions.

We are passionate about the urgency of our mission. We combine a profit motive with a focused approach to impacting the development of Africa, Asia, Latin America, and Emerging Europe. Our primary goal is eliminating the currency risks faced by entrepreneurs in these regions, since this is a major source of business uncertainty that is outside their control. We are proud also of the contribution we make to the better understanding of their volatile markets, and of the effective solutions we bring about as a result.

2010 was a transition year for TCX, combining very solid commercial results and a material increase of our coverage in developing countries, with substantial efforts to build on these successes in an emerging world of local currency finance. We completed the original product development plans and prepared the ground for further commercial expansion, to continue to address local currency matters and the needs of our target markets in 2011 and beyond.

We acknowledge fully that TCX's successes, since its start in 2007, were a result of the concerted efforts of our team, the active operational partners, and key shareholders. We are grateful for their commitment and rely on them to continue on this path!

TCX Managing Board 2011

Joost Zuidberg, Chief Executive Officer

KEY PRINCIPLES

FOCUSED PRODUCTS TCX invests only in market risk management products such as currency swaps. It does not provide funding.

UNIQUE RISK MANAGEMENT STRUCTURE TCX has a unique ability to assume currency risks in illiquid markets on an uncovered basis, managing its risks through diversification across all regions and countries in the developing world.

ALIGNMENT WITH SHAREHOLDERS By aligning with its shareholders, TCX has a unique origination access to their combined client networks and dealflow in the developing world. TCX tailors its investments to optimize their use for these institutions.

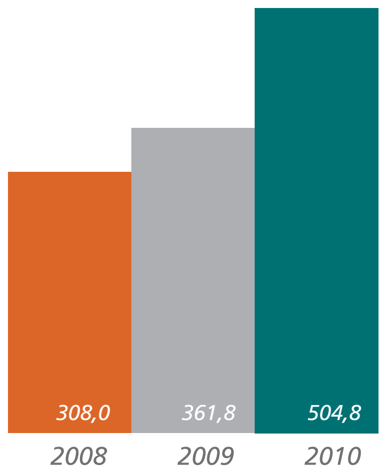
MARKET-BASED PRICING TCX invests in products that are priced in accordance with prevailing markets and market-based pricing principles, in order to provide its counterparties with a fair price.

ADDITIONALITY TCX invests only where its counterparties have no adequately priced commercial alternatives.

NON-SPECULATION TCX avoids speculative trading by only investing in situations where it offsets the open currency exposures of its counterparties.

Brice Ropion, Chief Operating Officer

Primary Investments Portfolio
(USD Million, Nominal Value as at 31 December)



KEY SUCCESSES 2010

- TCX substantially increased its primary investment activity in 2010, closing 98 separate transactions (2009: 27) in 27 currencies (2009: 17) for an aggregate USD equivalent exposure of USD 261.8 million (2009: 105.1).

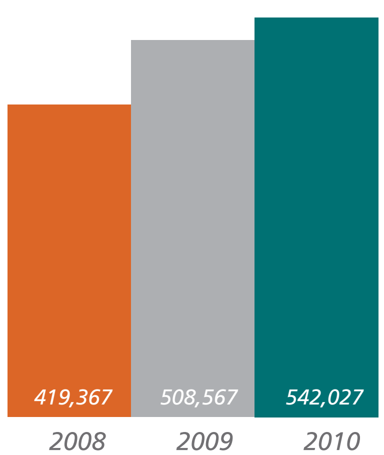
- TCX welcomed three new investors (Dexia Micro Credit Fund, Grameen Crédit Agricole Microfinance Foundation and Japan Bank for International Cooperation), and several new counterparties, substantially expanding its reach into its target markets.

- TCX operationalised the use of fundamental macro-economic models to price transactions in ultra-thin markets such as Rwanda, Cambodia, Belarus, Ethiopia and Guatemala. A first investment was closed on this basis in 2010, and TCX is actively developing the spin-off benefits offered by the enhanced understanding of these economies.

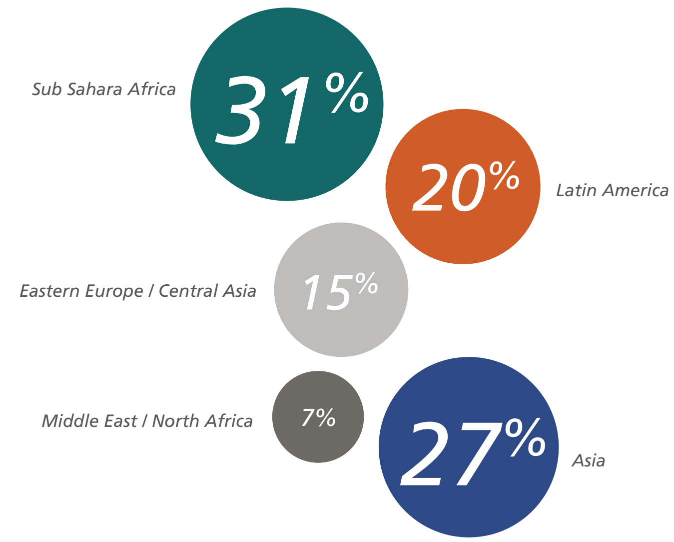
- Interest in the deliverable swap and forward solutions that TCX developed in 2009 was strong in recognition of their utility and broad applicability.

- TCX adopted a new strategy to build from the successful start-up phase. Notably, TCX reconfirmed the strategic alliance with its shareholders and expanded its reach directly into local markets.

Per-Share Net Asset Value
(Value at 31 December)



Primary Portfolio Regional Diversification



KEY CHALLENGES

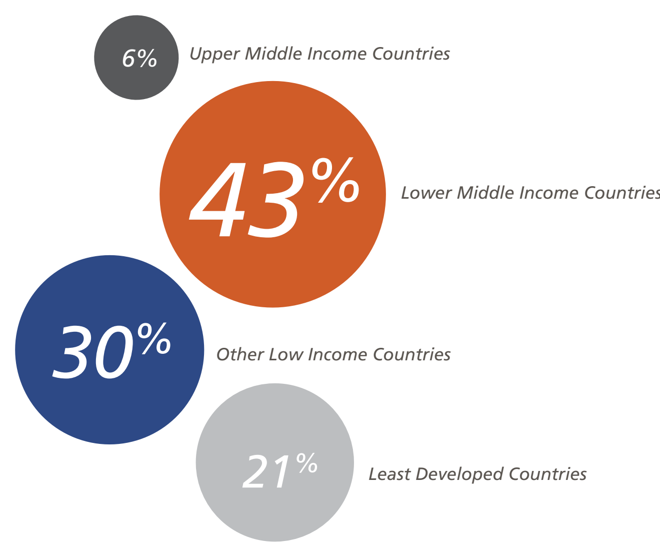
- The choice for local currency funding to match local currency assets by local entrepreneurs remains too often based on short-term economic interests rather than appropriate risk management. As a result, the low interest rates prevailing in US dollars and the Euro remain attractive alternatives for many clients.

- The growth of TCX's portfolio as well as its financial returns remain dependent on the expectations of local currency trends and shocks in comparison with hard currencies. The current market environment shows high volatility in individual currencies but global trends seem to be relatively balanced, conducive to steady growth of the portfolio.

- The low liquidity and transparency in TCX's target markets require a lot of effort and expert judgement in the application of usual pricing and valuation techniques, which increase the operational burden for our clients. This is an additional hurdle for them to overcome when considering the alternatives offered by TCX.

- The growth of the portfolio in terms of size and the number and type of investments, counterparties and markets covered requires close management attention, expert staffing, and increasingly sophisticated tools and systems to ensure the risks we take remain manageable. We must strike the right balance between these operational imperatives and market demand.

Primary Country Income Classification

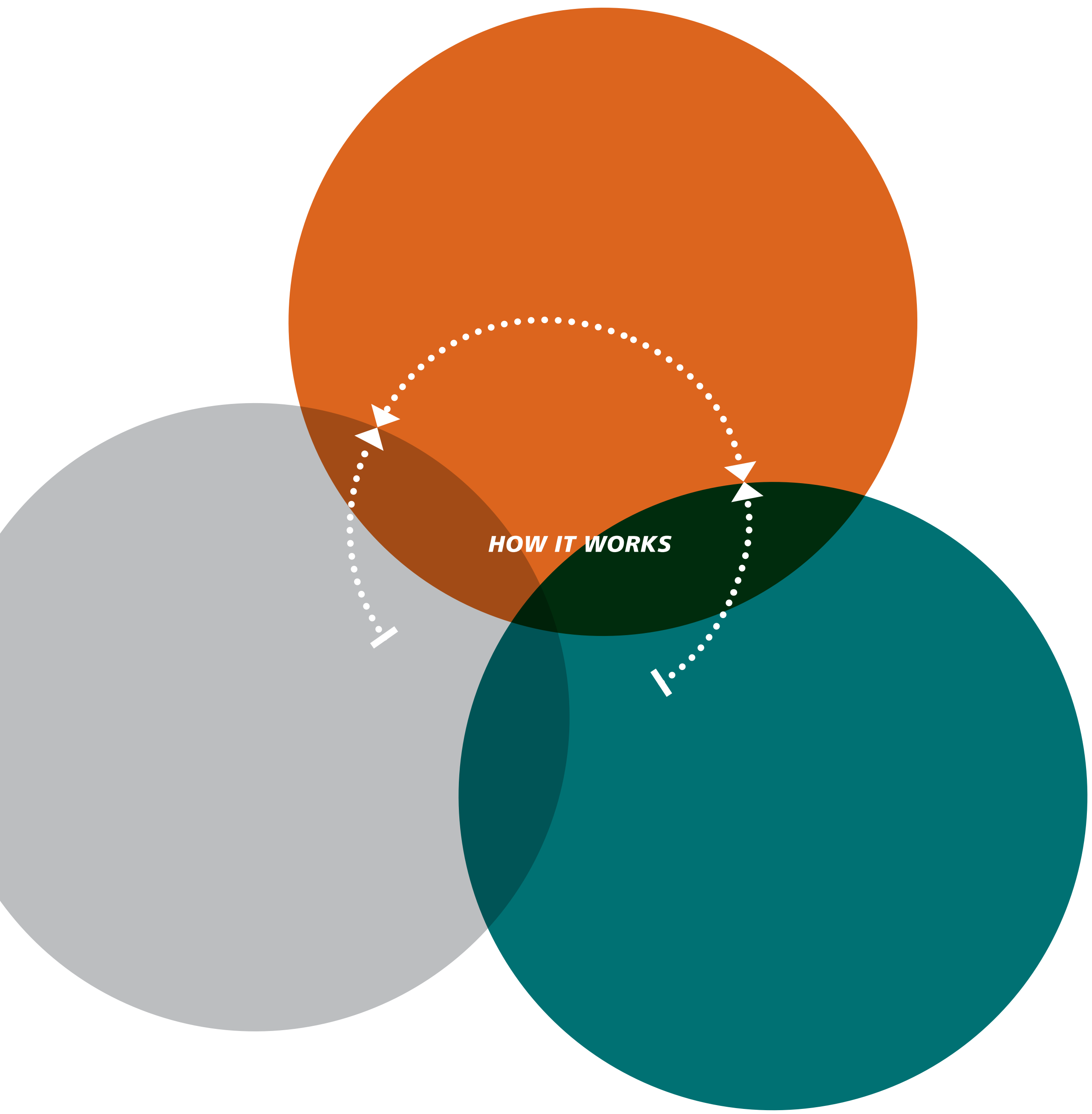


WHY TCX

Long-term finance in emerging market is often provided by development banks or other international investors. The local borrower earns local currency, and is limited in the amount of currency mismatch it wishes to incur. It therefore wishes to borrow in local currency.

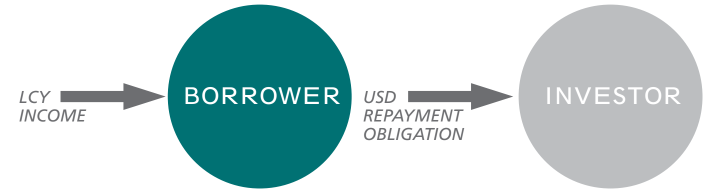
The international investor, however, can usually only provide local currency on a hedged basis. In established markets this is not a problem, but hedging is not available in many developing countries. Hedging products are provided by banks acting as intermediaries, ultimately placing the risk back into the local markets; in developing countries the local market cannot absorb these risks. Thus the intermediary model breaks down.

TCX provides its hedging by retaining the currency risks on its own balance sheet; it does not need, therefore, a functioning local market. Its model is based on the portfolio diversification effect of absorbing currency risks in some 40 currencies spread over all regions. On average, the higher interest rates prevailing in developing countries compensates for the devaluing trend of these currencies, so that TCX expects to operate on a profit.

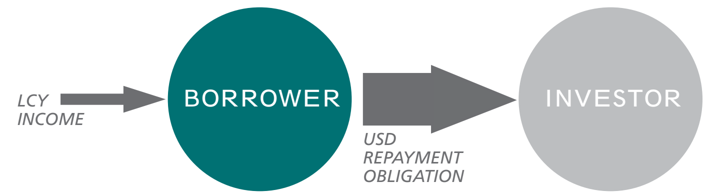


HOW TCX WORKS

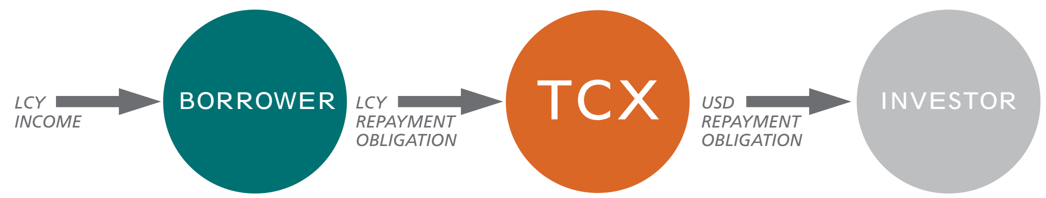
Consider a local institution in a developing country and an international investor, jointly considering a loan to support the local institution's investments in business growth. The client earns local currency, the investor insists on a fixed return on the loan in US dollars. As a result the client is placed between a US dollar repayment obligation and local currency income.



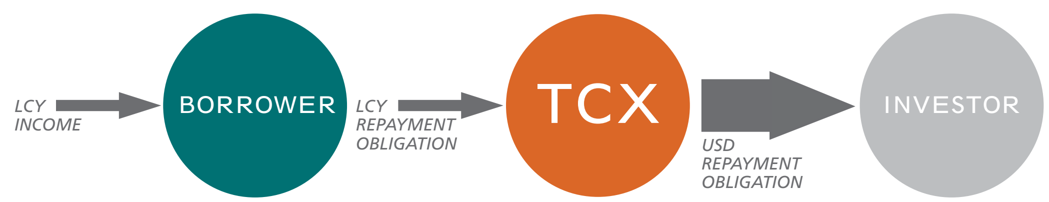
The transaction proceeds. If subsequently the local currency devalues, the US dollar payment obligations increase in local currency terms, thereby eroding the client's profitability and, in the extreme, threatening the client's continuity.



Given the high probability of currency devaluation in developing countries, this is not ideal. Keeping the position open often amounts to speculation. Equally, it may be unsustainable for the local institution to pass the currency risk onto its (retail) clients locally (e.g. by indexing to USD). A better alternative is to include TCX in the transaction. The client retains his payment obligations in local currency, the investor receives US dollars.



This shields the client from future devaluations in local currency, as TCX acts as a buffer.



INVESTMENT PRODUCTS

TCX uses a limited set of derivative investment products and delivery channels to achieve its mission. This allows it to remain focused on its primary objective - the facilitation of long-term local currency finance to an emerging world - closely aligning itself with its own shareholders.

TCX's main investment product is a cross-currency swap, often matched to the cashflow of a loan provided by one of its shareholders. The swap ensures that the borrower's obligations are in local currency, whilst the investor's income is guaranteed in USD or EUR. A simpler investment product that can achieve similar results is the FX forward, also one of TCX's products.

Figure 1: Non-Deliverable Swap (on Disbursement) *The cross-currency swap may be provided to the lender, resulting in a "non-deliverable" investment structure as presented in figure 1 below. The investor provides a local currency loan, and hedges its currency exposure with TCX. The advantage is that this structure concentrates the relationship with the local end client with one institution (the shareholder) and there are less local complexities in the TCX investment. The disadvantage is that the loan needs to include a number of additional features dealing with the complexities of the hedge.*

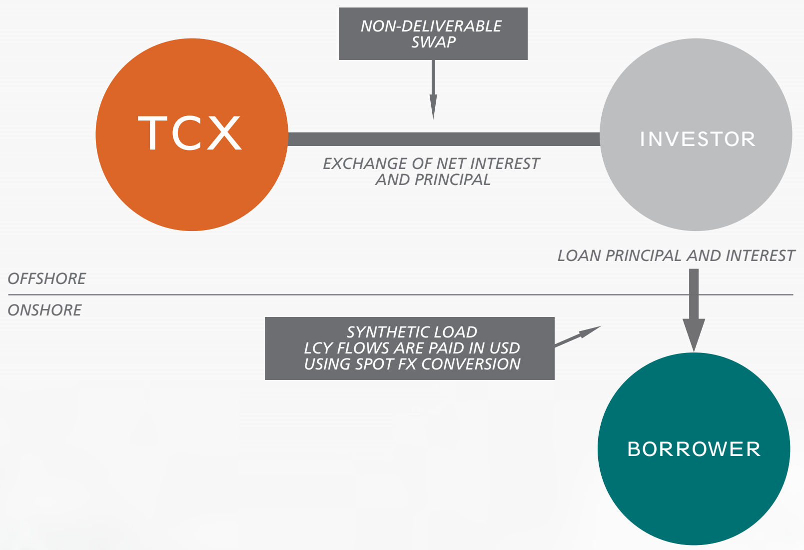


Figure 2: Conditionally Deliverable Swap (on Disbursement) *In 2010, TCX successfully implemented "conditionally deliverable" swaps. In contrast to the above, this means that the local currency obligations are paid onshore rather than off-shore (through local partners - see figure 2 below). Consequently, the local client is no longer saddled with the responsibility of the cross-border transfers, a sometimes costly and time-consuming activity that TCX can perform more effectively in several currencies.*

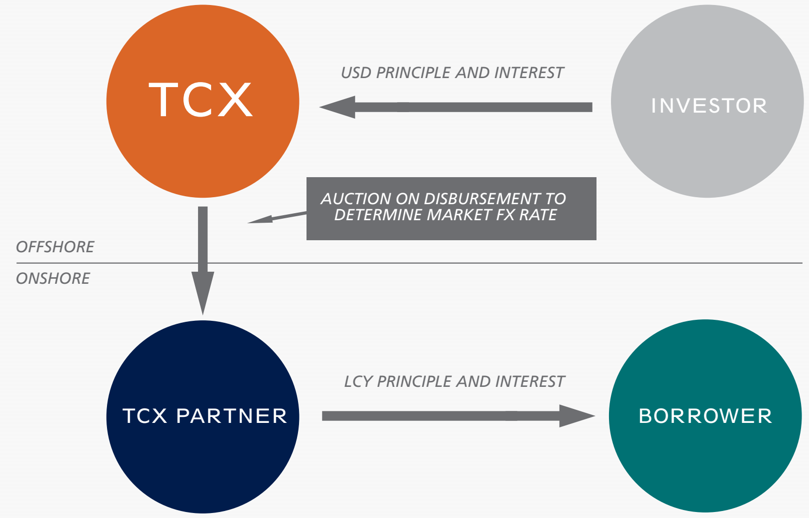
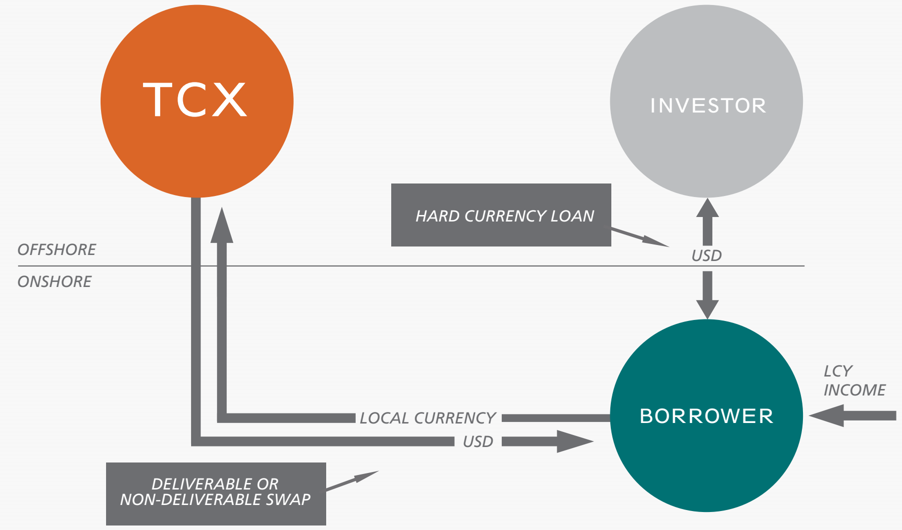


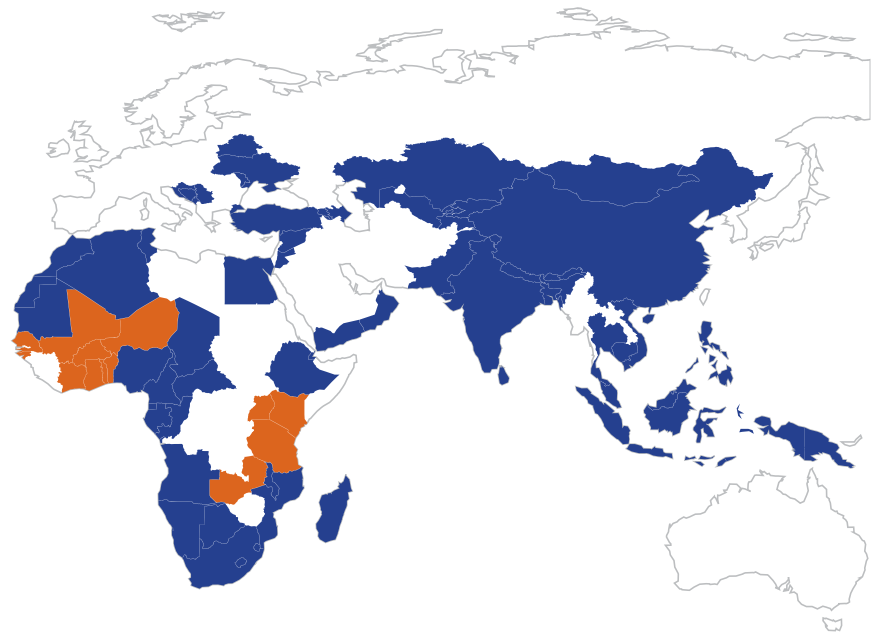
Figure 3: Swap Executed Directly with the Investor's Client *Alternatively, a TCX swap can be provided directly to the local client in a structure as presented in figure 3 below. In this case the investor provides a USD or EUR loan to the local client, who hedges the resulting obligation with TCX. This has the benefit of avoiding complications at the level of the investor and in the loan, but may have drawbacks due to the unfamiliarity with swaps in the local market, and requires TCX to accept the end client as its counterparty. An additional benefit of this structure is the ability to decouple the client's currency hedging needs from the specific investor loan, in terms of timing or other transaction terms.*



Please refer to TCX's website, www.tcxfund.com, for more details on TCX's investment products and the requirements to trade.

Commercial team
Per van Swaay, Senior Vice President
Philip Buyskes, Vice President

RESPONSIBILITY



AT TCX, OUR BUSINESS IS SOCIAL RESPONSIBILITY.

Our mission is to impact positively some of the least developed countries by reducing the risk of local currency lending. The specific impact that we offer through our absorption of currency risks is unique in the world and therefore particularly additional. Out of the 134 Official Development Assistance recipient countries, TCX presently covers 71, or approximately 90% by GDP.

All of TCX's investments are stringently guided and regulated by comprehensive environmental and social policies. We have adopted comprehensive operational policies to minimize our environmental footprint as a matter of course.

We strive to create sustainable development in emerging markets while acting with honesty and integrity. Turning social responsibility into opportunity for our investors and their clients is our business.

• *Non-deliverable products*
• *Non-deliverable and deliverable products*

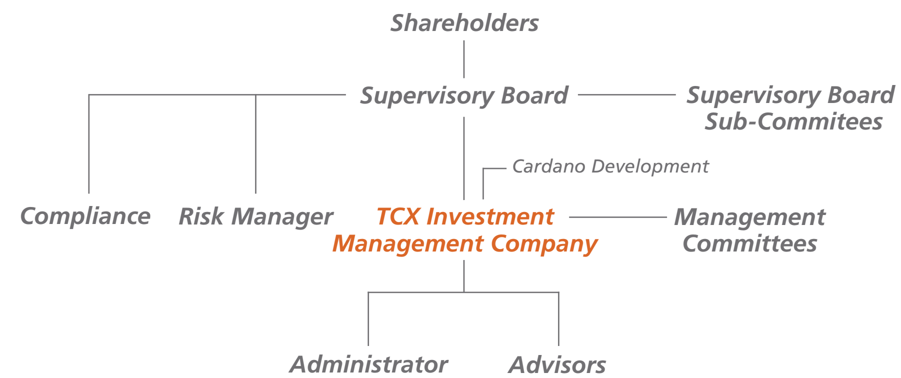
GOVERNANCE

STRONG GOVERNANCE IS A CORNERSTONE TO TCX ORGANIZATIONAL POLICIES AND RISK MANAGEMENT.

At the centre of the TCX governance structure is the Fund's Managing Board, TCX Investment Management Company B.V., which is ultimately responsible for all management matters. It has a staff of 10 people (31 December 2010) dedicated to the front office management tasks. Furthermore, it has successfully implemented a strategic outsourced-based management model. Day to day operations are thus the responsibility not just of the management company, but of the entire TCX Operational Group consisting of the TCX Investment Management Company (front-office and management), Cardano (risk management), Zanders (back-office and administration), Compliance Advies (compliance), Solutional (operational advisor), and a number of other specific advisors acting under the direct supervision of the management company.

The Managing Board is supervised by the Supervisory Board which is formally tasked with the responsibility for oversight and governance of the Fund's policies and strategy. Supervisory Board members are appointed for a two-year renewable period by the Annual General Meeting by simple majority vote. The 2010 AGM adopted a supervisory board succession plan that provides for a planned replacement of one member each year from 2011 onwards.

To further enhance governance and supervision, the Supervisory Board appoints a number of Management Committees and Supervisory Board Sub-Committees. Among the Management Committees, the Pricing Committee is a unique feature of the TCX governance structure, consisting of 5 independent professionals chosen for their expertise in derivative pricing in emerging markets. All pricing methodologies are approved by this committee, ensuring state-of-the-art market-based pricing of all transactions.



The independent risk manager Cardano and the compliance officer have a direct reporting line to the Supervisory Board next to operationally reporting to the Managing Board. The outsourced-based model not only ensures operational efficiency and minimizes operational risk, but also adds an additional layer of comfort with regards to governance.

In 2010, all shares in the management company were acquired by Cardano Development B.V., a sister company to the risk manager. The transfer was preceded by extensive review by the TCX Supervisory Board and was endorsed by the TCX shareholders.

Whilst neither the Fund nor the management company are regulated under Dutch law, it nonetheless has chosen to adopt the principles and all material guidelines in the Dutch code for regulated Fund Management Companies in The Netherlands. The management of TCX thus adheres to best practice in terms of internal control, integrity and reliability; know your customer, social, environmental and anti-money laundering procedures; as well as internal codes of conduct and whistle blowing policies. All key processes are subject to 4-eyes principle as an immediate management control and regular audits, including an annual operational audit.

IN CONTROL STATEMENT

The Managing Board of TCX Investment Management Company B.V. confirms that, since its appointment as sole member of the Statutory Managing Board of The Currency Exchange Fund N.V. on 11 May 2009, it is responsible for the risk management, internal control, integrity, and compliance systems of the Fund.

The Fund and TCX Investment Management Company B.V. have entered into long-term services agreements with a number of operational partners to appropriately manage these systems and the risks related to the Fund's operations. These notably include Cardano Risk Management B.V. regarding risk management, Zanders & Partners B.V. regarding administration and back office services, and Compliance Advies Financiële Ondernemingen regarding compliance services. Together with TCX Investment Management Company B.V., they form the TCX Operational Group.

All material processes relating to TCX's operational management, including responsibilities assigned within the TCX Operational Group in each step of management processes as well as a risk assessment thereof, are described in the TCX Operational Guidelines. Although the Fund is not subject to formal supervision as it is targeted to professional investors only, these Guidelines are drafted such that the Fund complies materially with the Dutch law for financial supervision ('Wet op het financieel toezicht'). The Guidelines are reviewed annually at least, each review possibly resulting in an amendment signed off by all members of the TCX Operational Group. All service agreements require compliance with these guidelines. Each member of the TCX Operational Group provides us with an annual statement of compliance and control concerning TCX's operations during the previous financial year.

TCX's operations are managed on the basis of strict segregation of duties, with the various members of the TCX Operational Group assuming specific responsibilities. As a result, TCX's processes have an elaborate system of built-in operational checks. All material data entry is subject to a four-eyes principle, either system-enforced or by means of written confirmations of required checks. The segregation of responsibilities is achieved, at its highest level, through independent reporting by the investment manager, risk manager and compliance officer to the TCX Supervisory Board.

All of TCX's processes include periodical controls on the effectiveness of their functioning and compliance with agreed procedures and recording. An important control function is reserved to the compliance officer's quarterly reviews. These were performed in 2010 for each calendar quarter. None mentioned the occurrence of an incident, control issue or concern of any material nature. Another important reference is the annual operational audit. The operational audit was completed in December 2010 by Solutional Advisory Services B.V., the Fund's external accounting and in-control adviser, in cooperation with the Fund's auditor, Ernst & Young. The scope of the operational audit was to report on the effectiveness of all material controls identified in the Operational Guidelines, including those related to the preparation of the financial statements. This confirmed that the control framework of the Fund is designed appropriately and is operating effectively. The main findings concerned documentation and timing issues that have been remediated or will be addressed in the normal course of business by the TCX Operational Group under the COO's supervision.

TCX performs a risk assessment on an annual basis, with input from all TCX Operational Group members. The main high-level risk issues identified in the 2010 risk assessment were:

REPUTATIONAL RISK TCX's business model gives rise to client, supplier, and employee acceptance issues that require careful attention to ensure that the Fund's reputation as a quality provider of financial services remains intact at all times. TCX manages these issues through strict adherence to Code of Conduct, Know Your Client, Anti-Money Laundering, and Environmental & Sustainability policies and procedures. Compliance with these procedures is reported on a quarterly basis by the compliance officer to the Supervisory Board.

CREDIT RISK TCX's business model requires active management of the counterparty credit risks that inevitably arise from its investment activities. TCX manages these risks by submitting regular credit reviews to ALCO, imposing minimum credit rating standards, setting maximum credit limits, and using collateral, guarantees and/or hedges to minimize or reduce the exposure under these limits. Reporting frequency is weekly to the risk manager and senior management of the investment manager, monthly to ALCO, and periodically to the Supervisory Board.

MARKET RISK TCX's business model, based on continued enforcement of diversification, requires good market information, careful balancing of exposures and excellent administrative systems. Inappropriate market risk management leads to, among other things, mispricing of transactions and misjudgment of the Fund's NAV. TCX manages these issues by a system of separate evaluation of market data between front office and risk management (both pre-trade and post-trade), as well as frequent plausibility checks between the two. Risk management monitors exposures and quotes against agreed limits on a real-time basis, with weekly reporting to the risk manager and senior management of the investment manager, monthly reporting to ALCO, and periodic reporting to the Supervisory Board.

OPERATIONAL RISK TCX is managed by a group of companies relying on each other's compliance with pre-agreed procedures that are drafted to cover all material operational processes. The material risk is that responsibilities are not appropriately allocated and/or understood, or that agreed processes that have been designed to appropriately safeguard against human error, internal fraud and other operational risks are not followed. Compliance is enforced within the steps of these processes (four-eyes principle) as well as through periodic controls.

BUSINESS CONTINUITY TCX is reliant on a number of IT-related systems for its operations, notably its back office management system managed by Zanders, its website and intranet managed by TCX Investment Management Company B.V., and the various risk management platforms operated by Cardano. Mismanagement of IT risks would lead to continuity issues, breaches of payment obligations and to the integrity of data and cash flows. Each party has in place a business continuity plan that ensures continuity of business-crucial processes which is tested periodically. Back office systems management produces monthly self-audits reviewed by ALCO.

TCX experienced a non-material NAV valuation incident in 2010, where the published net asset value was understated by 0,15%. The mistake was identified within two weeks and corrected without any financial impact. No other incident occurred during the year.

IN CONCLUSION, WE THEREFORE CONFIRM
A) that TCX has designed an adequate set of documented management controls that are appropriate to its business; B) that, based on the periodic checks which have been performed and reported on by the various operational partners and based on our direct observations of processes on an on-going basis, it is our belief that these controls exist and have functioned effectively during the financial year ending 31 December 2010; C) that no material issues or incidents have occurred in the financial year ending 31 December 2010; D) that no activities have been reported to us which are in conflict with the TCX Code of Conduct (as adopted in the current Operational guidelines); E) and that we do not expect to significantly adjust the basis of TCX's operational set-up in 2011.

Amsterdam, 12 April 2011
The Managing Board of TCX Investment Management Company B.V.

Bart Bos, Cardano Risk Management
Diederik de Leur, Zanders and Partners
Martin Stravers, Solutional Advisory Services

INVESTORS

NEW INVESTORS

JAPAN BANK FOR INTERNATIONAL COOPERATION (JBIC)

JBIC is the international wing of the Japan Finance Corporation, a 100% government-owned and policy-based financing institution. Since the days of its predecessor, the Export-Import Bank of Japan, JBIC has provided active support for the promotion of Japanese exports, imports and economic activities overseas and for the stability of international financial order, thereby contributing to the sound development of the international as well as the Japanese economy. It notably aims to contribute to the sound development of the Japanese and international economy. In conducting its operations to fulfill this mission, the role of JBIC is to complement the financing provided by private sector financial institutions. JBIC's stated intentions with its investment in TCX are to support its long-term lending business notably in Sub Sahara Africa.

The Bank joined TCX as a shareholder on 25 February 2010 with a USD 50.0 million investment.

GRAMEEN CRÉDIT AGRICOLE MICROFINANCE FOUNDATION (GCAMF)

GCAMF was created in September 2008 by Crédit Agricole SA and Grameen Trust to fight against poverty and financial exclusion in emerging countries by supporting the development of Micro-Finance Institutions and by facilitating social business projects. GCAMF's primary purpose is to provide financial support to MFIs in developing regions through loans, guarantees or equity, and to offer technical assistance adapted to their stage of development.

Up until GCAMF's recent partnership with TCX, it had used guarantees to local partnering banks in developing countries to create local currency investments. With TCX, GCAMF is now able to provide local currency loans directly and reach many more local banks, positively impacting entire communities.

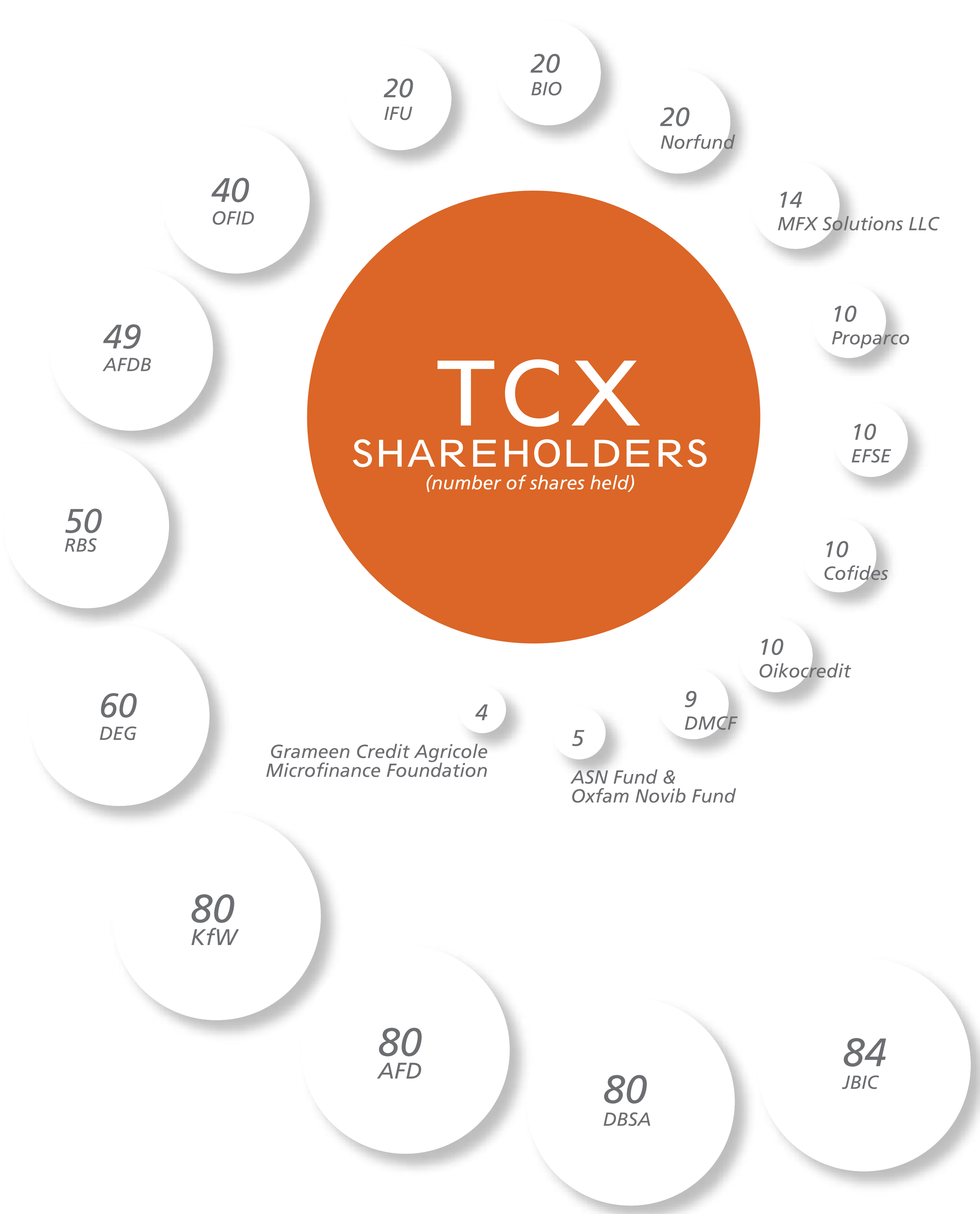
GCAMF invested in the Fund indirectly, through OIKOCREDIT, on 26 August 2010 with a USD 2.4 million investment.

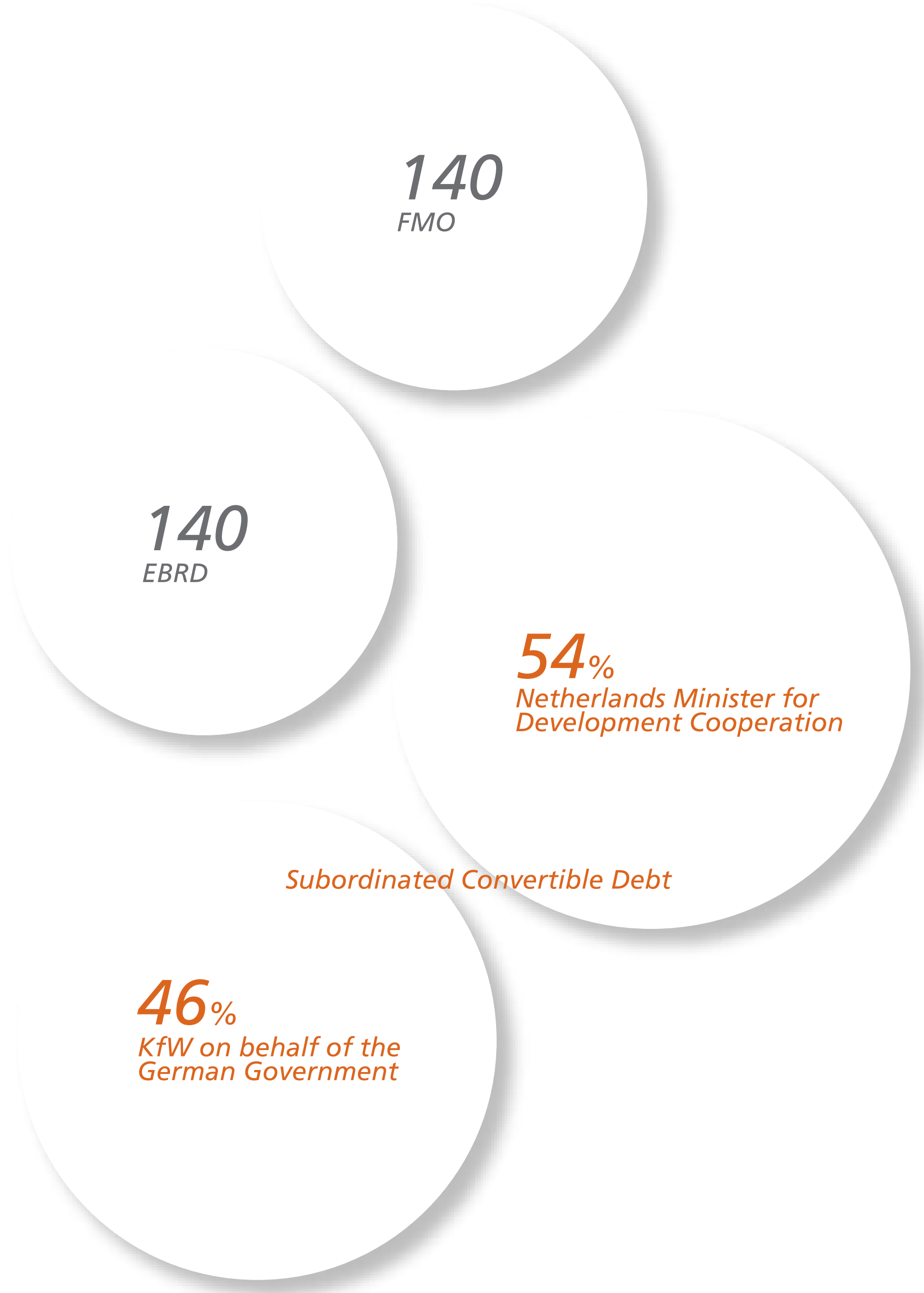
DEXIA MICRO CREDIT FUND (DMCF), MANAGED BY BLUEORCHARD

DMCF was the world's first commercial microfinance investment fund, created in 1998 by Dexia Asset Management, and managed since 2001 by BlueOrchard. BlueOrchard is a leading contributor to the development of the microfinance industry, managing approximately USD 1 billion across several funds, designed to empower the poor worldwide and improve their quality of life by promoting income-generating activities through private investments in microfinance.

In 2007, DMCF started investing in local currency using commercial swap products; it is currently driving expansion of these products further globally, hence the choice to partner with TCX.

Dexia Micro Credit Fund became shareholder on 22 December 2010 with a USD 5.5 million investment.





Grameen Credit Agricole Microfinance Foundation
Luxembourg (indirect)

ASN Fund & Oxfam Novib Fund
Netherlands (indirect)

DMCF
Switzerland

COFIDES
Spain

OIKOCREDIT
Netherlands (indirect)

PROPARCO
France

EFSE
Luxembourg

MFX Solutions LLC
United States

NORFUND
Norway

BIO
Belgium

IFU
Denmark

OFID
Austria

AFDB
Tunisia (indirect)

RBS
Netherlands

DEG
Germany

DBSA
South Africa

AFD
France

KfW
Germany

JBIC
Japan

FMO
Netherlands (indirect)

EBRD
United Kingdom

SUPERVISORY BOARD

LETTER FROM THE SUPERVISORY BOARD

COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board's composition is unchanged from 2009, and includes Mr. Cees Maas (Chairman), Mr. Paul Baloyi, Mr. Frank Czichowski, Mr. Tor Johansen, and Mr. Axel van Nederveen. All members were re-appointed at TCX's Annual General Meeting held on 11 May 2009, by unanimous approval of all shareholders, for a period of 2 years.

INDEPENDENCE OF MEMBERS OF THE SUPERVISORY BOARD

The Supervisory Board confirms that all members of the Supervisory Board are independent in the sense of best practice provision III.2.2 of the Dutch Corporate Governance Code. This means that none of the members of the Supervisory Board (or any partner or close relative):

- has been an employee or member of the Board of Management of TCX in the five years prior to appointment;
- receives personal financial compensation from TCX or an associated company other than the compensation received as member of the Supervisory Board;
- has had an important business relationship with TCX or a company associated with it, in the year prior to the appointment;
- is a member of the management board of a company in which a member of the Board of Management is a member of the supervisory board;
- holds at least 10% of the shares in TCX;
- is a member of the management board or supervisory board of a legal entity that holds at least 10% of the shares in TCX[1]; or
- has temporarily managed TCX during the period since inception.

REMUNERATION POLICY

The members of the Supervisory Board each received the following remuneration, based on an annual remuneration of EUR 20,000 (net of any VAT) for each member, except the Chairman, who is entitled to an annual remuneration of EUR 25,000 (net of any VAT).

Mr. Cees Maas (Chairman)	EUR 29,750 (including VAT)
Mr. Paul Baloyi	EUR 20,000
Mr. Frank Czichowski	EUR 20,000
Mr. Tor Johansen	EUR 20,000
Mr. Axel. van Nederveen	EUR 20,000

MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board held six meetings during 2010. Each member attended all the meetings, except for one member who missed 1 session.

Supervisory Board meetings are attended by the Managing Board and the risk manager. Each meeting covers, inter alia, a business and risk performance update regarding the Fund's portfolio. The Supervisory Board also debates and provides management guidance on all material issues regarding business strategy, product/market development, and governance. Regular face-to-face meetings with external advisors (including the auditors, Ernst & Young) and management committees are held, and all matters presented to shareholders are pre-discussed and approved, including the performance fee payable to the investment manager and the annual report.

COMPLIANCE

The Supervisory Board confirms that it took no decision that did not comply with its by-laws or the terms of TCX's constitutional agreements in 2010.

MANAGING BOARD

TCX's Managing Board has one member, TCX Investment Management Company B.V. ("TIM").

In the course of 2010, all shares in TIM were transferred from Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. to Cardano Development B.V.

On 5 September 2010, TIM appointed Mr. Brice Ropion as its Deputy Managing Director and Chief Operating Officer, after a procedure that involved the Remuneration Committee and the Supervisory Board in accordance with the terms of the Investment Management Agreement in place between TCX and TIM (any appointments to TIM's Managing Board are subject to non-objection by the TCX Supervisory Board).

MANAGEMENT COMMITTEES

The Supervisory Board has appointed a Pricing Committee, an Asset & Liability Management Committee and a Donor Committee. The Management Committee members are appointed by the Supervisory Board and report to the Managing Board. They operate pursuant to terms of reference and the Fund's code of conduct in line with the rules and regulations of the Dutch corporate governance code.

Pricing committee The Pricing Committee is tasked by the Supervisory Board to benchmark any off-market primary product proposed by TCX's investment manager, confirming that the proposal is based on best-practice pricing methodology and that the product qualifies as an arms-length transaction. Furthermore, the Pricing Committee may be requested to advise the Supervisory Board on relevant topics on an ad-hoc basis.

1) Please note, however, that two members are senior managers at institutions holding more than 10% of the shares in TCX and one member is CEO of an institution holding less than 10% of the shares in TCX.

During 2010, the Supervisory Board re-appointed Mr. Christoph Avenarius, Mr. Amaury Fonseca Junior, and Mr. Matt Vogel, and appointed Mr. Philip Stedman (as replacement for Mr. Magnus Gundersen) and Mr. Nikolaus Siegfried (as replacement for Mr. Frank Engels), as members of the Pricing Committee. All (re-)appointments are effective until 31 December 2011.

All members of the Pricing Committee are remunerated by way of an annual lump sum of EUR 20,000.

During 2010, the Pricing Committee held eleven meetings.

Asset & Liability Management Committee The Asset & Liability Management Committee ("ALCO") monitors and reports on overall financial issues impacting TCX, ensuring sound integrated risk management, and proposes and sets broad guidelines in the areas of balance sheet management, capital allocation, financial performance, and risk control. It advises the Supervisory Board in matters of the Fund's asset and liability management. ALCO is also tasked with counterparty approval and monitoring matters.

The composition of the ALCO is unchanged from 2009, comprising Mr. Joost Zuidberg, Mr. Bert van Lier, Mr. Bart Bos and Mr Diederik de Leur as the ALCO's voting members, and Mr. Frank Gosselink and Mr. Martin Stravers as non-voting members. In addition, Mr. Jeroen van der Hoek and Mrs. Judith van Paassen are alternate voting members. All appointments are effective until 31 December 2011.

Members of the Asset & Liability Committee are not separately remunerated by TCX.

During 2010, the ALCO held eleven meetings.

Donor Committee The Donor Committee approves special projects supported through Donor Assets that are proposed by the Investment Manager.

Appointments of members to the Donor Committee occur on the binding nomination of Subordinated Convertible Lenders. In 2009, the Supervisory Board appointed Mr. Wim Bekker (representing the Netherlands Minister of Development Cooperation) as current sole member of the Donor Committee. All appointments are with indefinite term.

Members of the Donor Committee are not separately remunerated by TCX.

There were no meetings of the Donor Committee during 2010, all matters having been decided on in writing.

SUPERVISORY BOARD SUB-COMMITTEES

The Supervisory Board has appointed two sub-committees: a Compliance Committee and a Remuneration Committee. There is no Audit Committee, reflecting the Supervisory Board's considered decision to fulfill this function as a whole board.

Compliance Committee The Compliance Committee discusses and approves the regular reports of TCX's compliance officer and generally considers and advises the Supervisory Board on compliance issues arising from time to time.

The Compliance Committee consists of TCX's Compliance Officer (Mr. Arjan van der Heijden), TCX Investment Management Company's Managing board (Mr. Joost Zuidberg and, since 5 September 2010, Mr. Brice Ropion) as well as all members of the Supervisory Board. Appointments are with indefinite term.

Members of the Compliance Committee are not separately remunerated by TCX.

During 2010, the Compliance Committee held four meetings.

Remuneration Committee The Remuneration Committee provides the Supervisory board with non-binding advice regarding the variable management fees payable to the Investment Manager, as well as other specific advice requested by the Supervisory Board from time to time.

The Remuneration Committee is unchanged from 2009, comprising Mr. Frank Czichowski (Chairman) and Mr. Cees Maas. Appointments are with indefinite term.

Members of the Remunerations Committee are not separately remunerated by TCX.

The Remuneration Committee held a meeting on 12 March 2010.

FINANCIAL STATEMENTS

This annual report and the 2010 financial statements, audited by Ernst & Young Accountants LLP as TCX's Independent Auditor, were presented to the Supervisory Board in the presence of the Managing Board and the Independent Auditor. The Independent Auditor's report can be found on page 54.

The Supervisory Board recommends that the general meeting of shareholders adopts the 2010 financial statements of TCX. The annual general meeting of shareholders will be asked to release the members of the Managing Board from liability for the exercise of the management of the company's affairs and management.

The appropriation of profit proposed by the Managing Board and approved by the Supervisory Board can be found on page 53 of the annual report.

The Supervisory Board wishes to thank the Managing Board and staff of TIM for their contributions in 2010.

12 April 2011
Supervisory Board

CASE STUDIES

AZERBAIJAN

"BlueOrchard has been able to do its first financing in Azerbaijan New Manat thanks to TCX. Such an investment has given a great comparative advantage to Dexia Micro Credit Fund as well as provided adequate financing to a very valuable client." Maria Teresa Zappia, Managing Director, Investment Analyst Team (BlueOrchard)

An Emerging World* ↦ *Azerbaijan

INVESTMENT DESCRIPTION
A 2-year loan of Azerbaijan New Manat 4 million (USD 5 million equivalent), hedged by TCX.

WHY LOCAL CURRENCY WAS REQUIRED
The story of local currency in Azerbaijan dates back to the introduction of the New Manat as the country's currency in 2005. In a just few years, the New Manat replaced the US Dollar in the local market. The strong performance of the New Manat has boosted the positive sentiment in the market to shift to New Manat-based pricing of products by the majority of shop owners. This led to a strong increase in demand by Small, Micro, and Medium-sized Enterprises for local currency finance, in order to avoid taking exchange rate risks and reduce conversion costs.

ABOUT THE BORROWER
FINCA Azerbaijan is the largest affiliate of the worldwide FINCA International microfinance network, and a key player in Azerbaijan's small and micro business finance segment, with a strong presence across the country's regions. The mission of FINCA Azerbaijan is to provide financial services to Azerbaijan's lowest-income entrepreneurs so they can create jobs, build assets and improve their standard of living. FINCA stands for the Foundation for International Community Assistance. Their vision is to be a global network collectively serving more poor entrepreneurs than any other microfinance institution, while operating on commercial principles of performance and sustainability.

ABOUT THE INVESTOR
The loan was provided by Dexia Micro-Credit Fund (DMCF), managed by BlueOrchard. Since 2001, BlueOrchard provides loans and equity to microfinance institutions through the funds it manages, promoting income-generating activities and contributing to a more inclusive financial system and a better quality of life for marginalized and under-privileged populations.

KENYA

"TCX is currently the most advanced and cost effective solution for our local lending operations. We could easily see that we could avoid most of our FX risks after reviewing their models. Our actual experience with TCX and its products has been very positive so far." Pascal Webanck, Head of Operations (GCAMF)

An Emerging World* ↦ *Kenya

INVESTMENT DESCRIPTION
7-year loan of Kenya Shilling 750 million (EUR 7 million equivalent), hedged by TCX.

WHY LOCAL CURRENCY WAS REQUIRED
Exchange rates in Kenya have witnessed significant volatility since liberalization in 1993, with elimination of foreign exchange license system and the liberalization of offshore borrowing by residents. This caused first a strengthening of the Kenya shilling on the back of strong increases in capital inflows, followed by a sharp depreciation end 2004 due to political uncertainties. The exchange rates have seen significant volatility since then. As a result, currency risks are well understood by borrowers and the need to hedge mismatches is a priority.

ABOUT THE BORROWER
Kenya Women Finance Trust (KWFT) is a deposit-taking Microfinance Institution aimed at supporting women micro entrepreneurs in Kenya. This means that in addition to giving loans to its clients, KWFT is also able to mobilize and intermediate savings. This new development will enable KWFT to expand the range of services it's offering in the Kenyan financial sector; demonstrating KWFT's long term commitment to eradication of poverty and reinforces its strategy to empower Kenyan families through women. KWFT is the largest regulated women only serving institution in Africa.

ABOUT THE INVESTOR
The credit line was jointly provided by Proparco and the Grameen Credit Agricole Microfinance Foundation. PROPARCO is the official French development finance institution targeting the private sector. Grameen Credit Agricole Microfinance Foundation is a non-profit organization that targets financial exclusion in emerging countries by supporting development of microfinance institutions (MFIs) and by facilitating social business projects.

CAMBODIA

“Working with TCX allowed us to lower our pricing to AMK, who are extremely active in Cambodia’s rural provinces. Given the importance of the Riel in these areas, we hope this landmark transaction paves the way for Cambodian Riel funding to become more available in the market.”
Michael Rabonza, Investment Officer (Triple Jump)

An Emerging World ↦ Cambodia

INVESTMENT DESCRIPTION

2-year loan of Cambodian Riel 4.5 billion (EUR 0,8 million equivalent), hedged by TCX.

WHY LOCAL CURRENCY WAS REQUIRED

Cambodia’s economy is dominated by micro, small and medium enterprises (MSMEs), which are largely based in the country’s rural areas. These MSMEs are beyond the reach of the formal banking sector, which traditionally focuses on serving businesses in urban areas. Moreover, despite the US dollar’s popularity in the country (the Asian Development Bank estimates that 90% of Cambodia’s currency in circulation is in US dollars), most people in rural areas depend on the Riel for their daily needs.

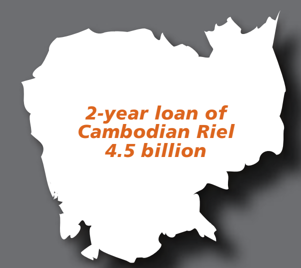
Microfinance institutions (MFIs) are stepping in to meet the substantial demand for affordable financial services in Cambodia’s rural areas. The main challenge facing rural MFIs in the country is to remain commercially sustainable while serving the lower end of the market. With most rural clients taking up loans in Riel, the lack of local currency funding both from domestic and foreign sources at affordable rates and reasonable tenors remains a key issue. With most funding to Cambodian MFIs provided by foreign lenders working in hard currency, a Cambodian Riel hedge investment by TCX provided the opportunity to avail of long-dated local currency funding from an overseas investor at competitive rates, and to help reduce net open foreign currency exposures.

ABOUT THE BORROWER

Angkor Mikroheanhvatho Kampuchea Co., Ltd (AMK), established in 2003, was the first MFI to achieve full provincial coverage in Cambodia, serving over 250,000 clients with a portfolio of US$31.7 million at the end of 2010. AMK’s 22 branches reach nearly all districts and communes in the country and cover over 8,000 of Cambodia’s 14,000 villages with innovative product offerings tailored to the needs of the poor in Cambodia.

ABOUT THE INVESTOR

The loan was provided by the Oxfam Novib Fund managed by Triple Jump, a fund manager based in the Netherlands. Triple Jump was established in 2006 and currently represents a diverse range of social investment funds. Its investment approach is firmly grounded in its social mission to improve access to financial services for MSME entrepreneurs in emerging and frontier countries. By providing capital and advisory services, Triple Jump delivers tailored solutions at market rates to viable MFIs in all stages of their development (emerging, expanding and mature).



“With a loan portfolio which is over 90% denominated in Cambodian Riel, the availability of Cambodian Riel funding and hedging products is critical to how AMK manages its currency risk. We see TCX’s decision to offer Cambodian Riel coverage as extremely positive for AMK and the entire MFI sector in Cambodia.” Pete Power, CEO (AMK)

PARAGUAY

An Emerging World ↦ Paraguay

In 2010, TCX provided hedges in 5 new currencies (Cambodian Riel, Georgian Lari, Mongolian Tugrik, Paraguayan Guarani and Uruguayan Peso), bringing the total to 46 invested currencies. Active quoting takes place in another 21 currencies, but so far without an executed investment transaction.

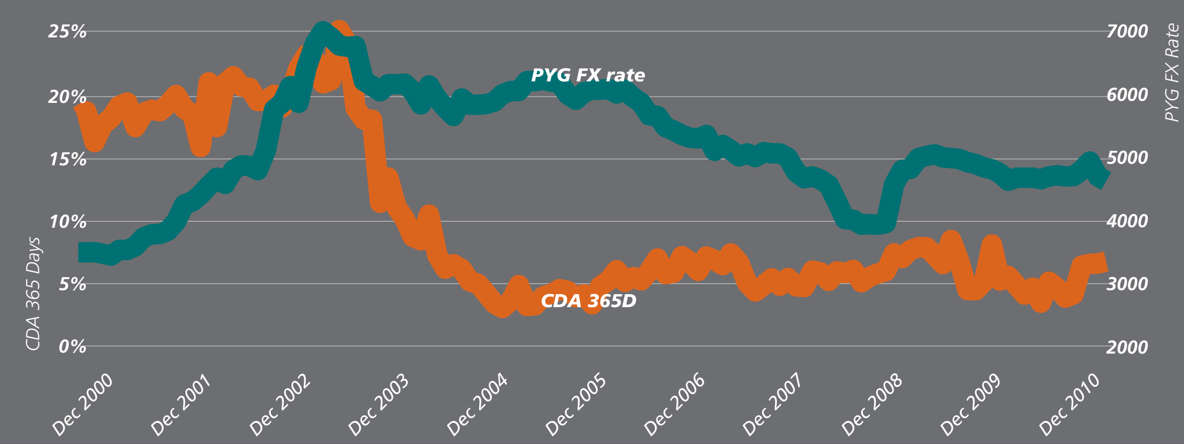
One of the currencies TCX added to the portfolio in 2010 was the Paraguayan Guarani.

In Paraguay TCX only offers floating rate hedges. There is no regular issuance of bonds in Paraguayan Guarani with tenors over 1 year, so that TCX cannot find pricing benchmarks for fixed rate long term investments.

Identifying a floating rate benchmark in Paraguayan Guarani was not easy. There is no regular issuance of government treasury bills, and the notes issued by the central bank (called LRM, Licitaciones de Instrumentos de Regulacion Monetaria) are primarily used as a monetary policy instrument, available only to banks and therefore representing a limited market segment. It is also apparent that the sovereign issuance activity is to be concentrated on the very short tenors (14, 35 days), and to stop issuing the longer tenors (66, 91 and 365 days). An interbank rate benchmark does not exist.

After extensive market sounding, talking to several shareholders, local banks and local authorities, we identified the CDA rate (Certificados de Depositos de Ahorro) as the most viable alternative. This benchmark is transparent, publicly available, and not politically influenced, the 3 main criteria for selecting a benchmark. The CDA is a monthly average rate for bank deposits with tenors between 180 and 365 days. The data is collected and published by the Central Bank of Paraguay.

The choice for this benchmark was also driven by the fact the CDA level reacts well to exchange rates movements as illustrated by the graph below (where the CDA rates increases when the currency is on a depreciation trend and vice versa). This assures a fair currency swap pricing for both TCX and its clients and illustrates the appropriateness of the benchmark.



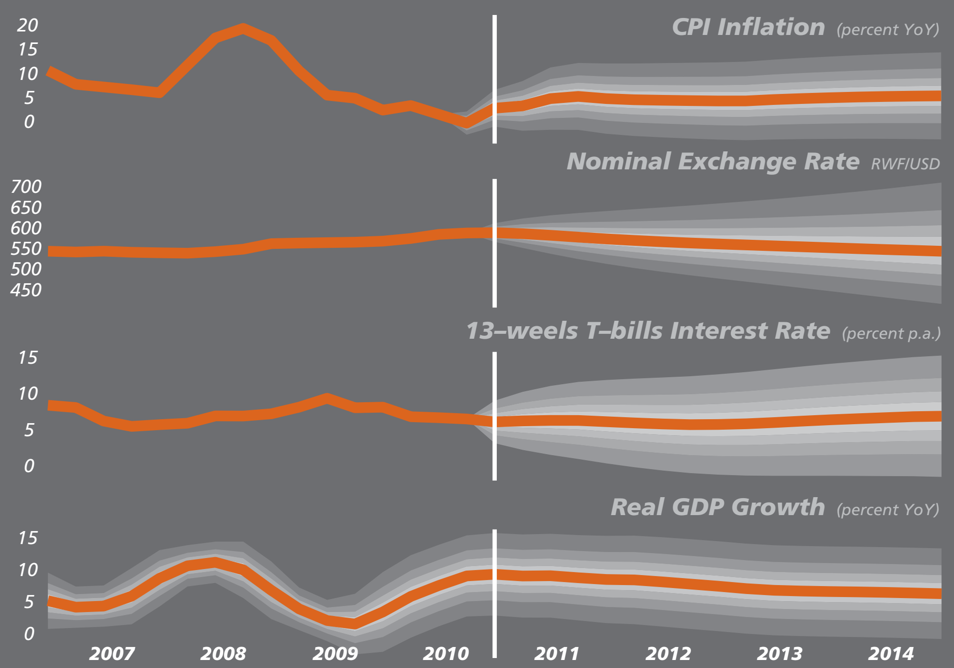
Separately, the currency hedging market in Paraguay has recently developed and is currently limited to 12 months maturities or less, through non deliverable forward contracts offered by local commercial banks for small volumes. The bid/ask spread on such hedges is wide, leading to reduced competitiveness of such products for large trades and for longer maturities.

By selecting the CDA benchmark and offering long term basis swaps hedges to its clients, TCX complements the Paraguayan market and offers visibility for further investments in the country.

An Emerging World ↦ *The TCX Forecasting and Policy Analysis System (FPAS)*

TCX provides hedging investments for currencies of developing countries. It generally derives their pricing from domestic or international local currency benchmark interest rates. In most currencies, either an interbank rate, Treasury bill and even a bond or a policy rate of the central bank can be used.

However, in some currencies the required liquid, representative benchmark rates do not exist. In order to still provide a workable solution in these cases, TCX has developed, together with its research partner OG Research, the so-called Forecasting and Policy Analysis Systems (FPAS's). FPAS estimates where interest levels in such currencies could be and how they are expected to evolve over a 3 to 4 year horizon, given the current understanding of macro-economic parameters and the state of the market.



Source: Rwanda Monthly Update January 2011, TCX

Together with OG Research, TCX has so far modeled ten countries: Cambodia, Mongolia, Belarus, Uzbekistan, Tajikistan, Rwanda, Uganda, Ethiopia, the Democratic Republic of the Congo and Guatemala. These FPAS development activities have been supported by TCX Donor funding controlled by the Dutch and German Government.

The model provides projections for short-term interest rates which can be translated to a 3 to 4 year yield curve. As expected, this type of product has turned out to be particularly attractive to the micro-finance industry.

We see that our research activities can have an important development impact in a number of ways: most directly, of course, the FPAS allows TCX to invest in currency hedging products at a fair price in the relevant countries and thus expand its reach. By engaging with other market parties, the models provide liquidity and pricing signals to the local markets and thus support their growth. Moreover, TCX makes its FPAS's available to Central Banks free of charge, and is assisting in their use to reinforce monetary policy. We believe that increased analytical and policy planning capacities at the level of the central banks are an important prerequisite for more policy predictability, lower interest rate volatility and thus a decline in the country risk premium. In its development activities, TCX seeks the active contribution of expert knowledge and/or financial means of its shareholders.

TCX is now working to make the powerful FPAS capacities available to a wider range of potential users. We are currently supporting OG Research to develop an online portal that will enable the user to freely alter the input of a baseline forecast. Users of the web portal will be able to alter forecasting parameters, assumptions, and induce shocks according to their own insight. The web portal project has been assigned the prestigious EUREKA label for European Technological Research & Development initiatives. The core forecast outputs are already available on our website.

In line with the TCX development mandate, and because the African economies are often among the least researched, our first effort will be to develop and offer FPAS models for as many as 25 African economies. Depending on the projects initial commercial success, its scope could be widened in a second stage.

Research team
Harald Hirschhofer, Senior Vice President
Annelot van Leeuwen, Analyst

"October is a risky month to run currency risk. The others are July, January, September, April, November, March, May, June, December, August and February." (Inspired by Mark Twain)

Trading Team
Othmane Boukrami, Vice President
Andrey Sorochan, Trader
Bert van Lier, Head of Trading

BANGLADESH

"TCX facilitated this important local currency housing loan to Delta Brac Housing, which is a long term client of FMO. Doing business in the financial sector in Bangladesh requires local currency funding and therefore TCX is a very valuable partner for FMO in this emerging market."

Bas Rekvelt, Senior Investment Officer Asia, FMO

An Emerging World ↦ Bangladesh

INVESTMENT DESCRIPTION

A 10-year loan of Bangladesh Taka 1.8 billion (USD 25 million equivalent), hedged by TCX.

WHY LOCAL CURRENCY WAS REQUIRED

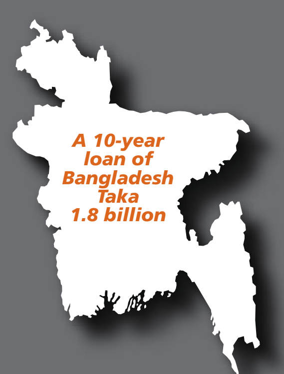
Delta Brac Housing (DBH) is a classic example of a local mortgage institution in a developing country. DBH provides mortgages in Bangladeshi Taka, the local currency; the need for Taka-denominated financing lines to enhance the country's housing stock and promote affordable home ownership speaks for itself in this case. One of the unique aspects of this investment is that the loan was actually disbursed in US Dollar, and converted onshore to Taka at the DBH's bank. DBH thus was able to use the favorable onshore FX rate, which was very competitive compared with the offshore commercial market FX rates.

ABOUT THE BORROWER

DBH is the largest housing finance institution in the private sector of the Bangladesh. DBH was established in 1996, and is a well-run, efficiency focused and profitable non-banking financing institution that has been a client of FMO for more than 10 years. The company specialises in housing finance for the middle income segment in Bangladesh. DBH's market impact is substantial since only 20% of Dhaka's population owns their own house. Each year around 100,000 new apartments are needed.

ABOUT THE INVESTOR

FMO is the entrepreneurial development bank of the Netherlands and was founded in 1970 by the Dutch government, private sector, employers and employee organizations. FMO's primary aim is to empower entrepreneurship in emerging economies in order to further development. FMO places great importance on partnerships; cooperation with partners also mobilizes more funding than any single investor could provide alone. Currently, FMO is active in over 80 developing countries and countries in transition and has an investment portfolio of EUR 4.6 billion.



FINANCIAL STATEMENTS

Statement of financial position

(As at 31 December)

(all amounts in USD)	Notes	2010	2009
ASSETS			
Cash and cash equivalents	5	24,282,112	51,518,008
Financial assets at fair value through profit or loss	6	633,165,230	513,337,316
Cash collateral given	7	12,111,490	-
Other receivables	8	841,203	232,772
Total assets		**670,400,035**	**565,088,096**
LIABILITIES			
Cash collateral received	7	2,906,841	7,464,067
Financial liabilities at fair value through profit or loss	11	27,559,815	16,795,385
Accrued expenses and other payables	12	4,365,134	3,540,667
Subordinated convertible debt	13	83,954,515	69,382,810
Grants linked to the subordinated convertible debt	13	44,818,938	41,725,643
Total liabilities (excluding class A shares)		**163,605,243**	**138,908,572**
Net assets attributable to holders of redeemable shares Class A	14	506,794,792	426,179,524
Total liabilities		**670,400,035**	**565,088,096**

Statement of comprehensive income

(for the year ended 31 December)

(all amounts in USD)	Notes	2010	2009
INVESTMENT RESULT			
Net result on financial instruments at fair value through profit or loss	15	30,999,625	80,132,378
Interest income	17	2,091,711	2,474,560
Interest expenses		-	(19,356)
		33,091,336	82,587,582
OTHER RESULTS			
Contributions to Donors Commitments	12	(1,237,101)	(2,231,371)
Foreign currency translation	16	(1,339,199)	1,105,380
		(2,576,300)	(1,125,991)
OPERATIONAL EXPENSES			
Management fee	9	(3,570,321)	(4,679,420)
Performance fee	9	(1,785,051)	(651,096)
Risk management fee	10	(1,257,000)	(1,283,789)
Administration fee	9	-	(143,249)
Audit fee	10	(247,306)	(338,695)
Governance expenses	9	(282,297)	(267,361)
Other general expenses	18	(601,134)	(1,073,381)
		(7,743,109)	(8,436,991)
Change in net assets resulting from operations attributable to holders of redeemable shares Class A		**22,771,927**	**73,024,600**

Statement of cash flows

(for the year ended 31 December)

(all amounts in USD)	Notes	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES			
Net payments for Primary and Trading financial instruments at fair value through profit or loss		35,722,004	24,720,042
Net investments in Debt instruments		(115,002,782)	(117,542,986)
Withholding tax paid		(67,318)	(59,758)
Reclaimable withholding tax received		59,758	85,553
Interest received		1,327,939	2,599,708
Interest paid		-	(19,356)
Risk management fee paid		(1,257,000)	(1,297,236)
Management fee paid		(3,837,907)	(4,306,978)
Performance fee paid		(823,800)	(651,096)
Administration fee paid		(9,816)	(226,059)
Audit fee paid		(343,113)	(291,750)
Governance expenses paid		(282,297)	(267,361)
Prepaid expenses		(6,546)	(169,440)
Cash collateral (paid) received		(16,668,716)	39,355,727
Movement of Donor Assets account		346,905	719,176
Other general expenses paid		(562,349)	(455,957)
Net cash flow used in operating activities		**(101,405,038)**	**(57,807,771)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from subscriptions of shares Class A		57,843,341	7,596,168
Proceeds from Subordinated Convertible Debt		17,665,000	74,944,580
Net cash flow generated from financing activities		**75,508,341**	**82,540,748**
Net cash flow generated (used) during the year		**(25,896,697)**	**24,732,977**
Cash and cash equivalents at beginning of the year		51,518,008	25,679,651
Foreign currency translation of cash positions		(1,339,199)	1,105,380
Cash and cash equivalents at end of period	5	**24,282,112**	**51,518,008**

Statement of changes in net assets attributable to holders of redeemable shares Class A

Movements of the shares Class A are as follows.

(for the year ended 31 December)

(all amounts in USD)	Amounts		Number of shares	
	2010	2009	2010	2009
Net assets at beginning of year	426,179,524	345,558,756	838	824
Proceeds from shares issued	57,843,341	7,596,168	97	14
Redemption of shares	-	-	-	-
Net change from transactions with shareholders	57,843,341	7,596,168	97	14
Change in net assets from operations	22,771,927	73,024,600		
Net assets at end of the year Class A	**506,794,792**	**426,179,524**	**935**	**838**

Notes to the financial statements

1. GENERAL INFORMATION

The Currency Exchange Fund N.V. ("TCX" or "the Fund") is a public limited liability company incorporated and existing under the laws of the Netherlands. The Fund started operations in October 2007.

The Fund was created with the objective to invest, along commercially sound principles, in long-term emerging-market currency and interest rate derivatives, with the purpose to complement existing available instruments in the market. Long-term investors in these markets utilize TCX as a facilitator in the mitigation of the currency and interest rate mismatches born by their local clients that require local currency products.

The financial statements were authorized for issue by the Management Board on 12 April 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and with Part 9 of Book 2 of the Netherlands Civil Code. For the Fund, the adopted IFRSs by the EU are equal to IFRSs as published by the International Accounting Standards Board (IASB). The Fund therefore also complies with IFRSs as published by the IASB.

Basis of preparation

The financial statements are prepared on a fair value basis for financial assets and financial liabilities at fair value through profit or loss. Other financial assets and financial liabilities are stated at amortized cost.

The balance sheet presents the assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items. The Fund's assets and liabilities are generally held for the purpose of being traded or are generally expected to be realized within one year with the exception of the long-term Subordinate Convertible Debt and the associated Grant element linked thereto.

The accounting policies have been consistently applied by the Fund and are consistent with those used in the previous year.

Adoption of new standards and amendments to existing standards

IAS 1 (amendment), 'Presentation of financial statements' endorsed by the EU on 23 March 2010 (as part of the annual improvements to IFRSs). The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Fund presents its liabilities in order of liquidity and as such the amendment will not affect the Fund's financial statements.

New standards, amendments and interpretations to existing standards which are relevant to the Fund and not yet effective

Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009 and endorsed by the EU on 19 July 2010. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the revised standard from 1 January 2011. No impact is expected.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010 and endorsed by the EU on 23 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Fund will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Fund's financial statements.

On 6 May 2010, the IASB issued Improvements to IFRSs 2010 – incorporating amendments to seven International Financial Reporting Standards (IFRSs). This is the third collection of amendments issued under the annual improvements process, which is designed to make necessary, but non-urgent, amendments to IFRSs. The EU endorsed the Improvements to IFRSs 2010 on 18 February 18 2011. The Improvements to IFRSs 2010 are not expected to have any impact on the Fund´s financial statements. The Fund will apply amendments included in the Improvements to IFRSs 2010, where deemed relevant, as per 1 January 2011.

Foreign currency translation

Functional currency and presentation currency

The functional currency of the Fund is the United States Dollar (USD) reflecting the fact that the majority of the transactions are settled in USD. The Fund has adopted the USD as its presentation currency as all of the contributions made by the investors of the Fund are denominated in USD.

Transactions and balances

All recognized assets and liabilities denominated in non-USD currencies are translated into USD equivalents using period-end spot rates. Transactions in foreign currencies are translated at the rates of exchange prevailing at the date of the transaction. Resulting exchange differences on the financial instruments at fair value through profit or loss in foreign currencies are recorded in the income statement as part of the investment result. Realized and unrealized exchange differences on other assets and liabilities are also recorded in the income statement and disclosed as foreign currency translation.

Financial instruments

Classification

The Fund classifies its investments in debt securities and all derivative financial instruments (which may include foreign exchange contracts and interest rate futures, forward rate agreements, currency and interest rate options, both written and purchased, and other derivative financial instruments) as financial instruments held for trading. The Fund classifies its subordinated convertible loan as financial liability in accordance with the substance of the contractual arrangement, whereby the total expected cash flows attributable to the instrument over the life of the instrument is not based substantially on the profit, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument. Other receivables, accrued expenses and other payables, cash collateral and cash and cash equivalents are classified as financial instruments at amortized cost.

The Fund's accounting policy regarding the redeemable shares Class A is described in the paragraph Shares Class A below.

Recognition

The Fund recognizes a financial instrument on its balance sheet when it becomes a party to the contractual provisions of the instrument. Financial instruments at fair value through profit or loss are initially recognized using trade date accounting. Gains and losses are recognized from this date.

Draw downs under the subordinated convertible debt loan facility from current and new investors (which are defined as government, government agencies and similar bodies) are treated as loans including grant elements (further referred to as Grants linked to the Subordinated Convertible Debt). A further description is disclosed in note 13. The Grants linked to the Subordinated Convertible Debt are calculated as the difference between the initial carrying value of the loan (fair value) and the proceeds received.

Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial instruments at fair value through profit or loss are expensed immediately. After initial recognition, financial instruments at fair value through profit or loss are measured at fair value, with changes in their fair value recognized as gains or losses in the income statement. Accrued expenses are recognized initially at fair value and subsequently stated at amortized cost using the effective interest method. The Subordinated convertible debt is recorded as a liability on an amortized cost basis until extinguished upon conversion or at the instrument's maturity date. Grants linked to Subordinated Convertible debts are amortized over the lifetime of the Subordinated Convertible Debt.

Fair value measurement principles

For all financial instruments which are listed or otherwise traded in an active market, for exchange traded derivatives, and for other financial instruments for which quoted prices in an active market are available, fair value is determined directly from those quoted market prices and is based on the current bid price (for long positions) and ask price (for short positions) and further referred to as Level 1 financial instruments. The Fund employs cross currency interest rate swaps (CCIRS) and foreign currency forward contracts in its portfolio for three reasons:

- Primary Investments: long-term investment transactions in developing country currencies directly in line with the primary purpose of the Fund;
- Trading Investments: transactions with investment banks, usually short-term, with the purpose of diversifying the Fund's overall currency exposure; and
- Hedging Investments: transactions with the purpose of hedging the Primary Investments.

Trading Investments and Hedging Investments are valued based on a valuation technique using inputs based on observable market data. In particular, the Fund uses market rates obtained from public sources, such as Bloomberg and Reuters, in the pricing of its derivative over-the-counter products. In order to classify such derivative instruments, the significance of the market observable data will classify these derivative financial instruments into "valuation techniques using inputs based on observable market data", further referred to as Level 2 investments.

Primary Investments are required to be additional, meaning that they are investment products offered by the Fund that are not available on public markets, and, as a consequence, they are valued using a combination of observable and unobservable market data. As a result, these investments may be classified as "Valuation technique using inputs that are not market observable" (Level 3 investments) or Level 2 investments. The classification primarily depends on the available market data.

When the financial instruments are valued based on Level 3 typically this is a result of maturities longer than those available in the market or where there are no observable markets at all. To manage price discovery in such an environment, TCX has instituted a Pricing Committee, which approves the pricing and valuation methodology of the Fund, based on a proposal of the Investment Manager and the Risk Manager. The Risk Manager is responsible for ensuring that the various pricing methodologies approved by the Pricing Committee are implemented correctly.

Derecognition

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition. A transfer will qualify for derecognition when the Fund transfers substantially all the risks and rewards of ownership. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liability simultaneously.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and which have a maturity of three months or less at acquisition. Bank overdrafts that are repayable on demand form an integral part of the Fund's cash management and are also included as a component of cash and cash equivalents.

Statement of cash flows
The statement of cash flows is prepared according to the direct method. The statement of cash flows shows the Fund's cash flows for the period divided into cash flows from operations and financing activities and how the cash flows have affected cash funds.

For the purposes of the statement of cash flows, financial instruments at fair value through profit or loss are included under operating activities. Cash flows from financing activities include proceeds from subscriptions and payments for redemptions of shares of the Fund. As the nature of the Fund is to invest in financial instruments, all cash flows related to investments are classified as cash flows from operating activities.

Shares Class A
The Funds Class A shares are redeemable at the shareholder's option and are classified as financial liabilities. These shares are recognized and measured at their net asset value, being the net present value of the assets minus the net present value of the liabilities. Any distribution to holders of these shares is recognized in the income statement as finance costs.

Income and expense recognition
Income is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. For zero coupon bonds, the change in fair value will be classified as result on financial instruments at fair value through profit or loss. For debt instruments, Commercial papers, cash collateral and interest received from Donor Assets, the interest revenue and expense are presented as interest income as a separate line item. The benefits of government grants are amortized and presented in the statement of comprehensive income over the lifetime of the loan facility and are deducted from the line item Contributions to Donor Commitments.

The Management fee is based on invoices as long as they do not exceed the budget approved by the Supervisory Board and the Performance fee is determined based on a separate performance determination by the Supervisory Board contract as agreed with the Investment Manager.

Taxation
The Fund has received a ruling from the Dutch tax authorities that it is eligible for an exemption from corporate tax (it is a vrijgestelde beleggingsinstelling, or VBI), under the terms of legislation passed by the Netherlands Parliament on 1 August 2007.

Events after the reporting period
The financial statements are adjusted to reflect material events that occurred between the end of the reporting period and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the reporting date. Material events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENT IN APPLYING ACCOUNTING POLICIES

Application of the accounting policies in the preparation of the financial statements requires the Investment Manager to apply judgment involving assumptions and estimates concerning future results and other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not materially differ from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment are described below.

Valuation of financial instruments
As disclosed in Note 2, the fair value measurement of financial instruments may include valuation based on non-market observable inputs, for instance where the Fund invests with maturities longer than those available on the market or where there are no markets at all. The valuation process of such investments is organized as follows.

The Investment Manager applies the commonly used, standard methodology (Discounted Cash Flow) for calculating the net present value of the Cross Currency Interest Rate Swaps (CCIRS) and foreign currency forward contracts. The procedure is as follows:

- Market data is gathered and processed in accordance with approved sources by the Funds back office;
- From the curve building algorithm, discount factors are derived for each leg of the CCIRS. When necessary, the back office valuation desk assists the pricing process.
- For each leg, if the future cash flows are known (in the case of fixed-rate products) these future cash flows are discounted using the discount factors to arrive at the net present value of the leg.
- For each leg, if the future cash flows are unknown (in the case of floating-rate products) the back office calculates forward rates from the discount factors; then, using the forward rates, the back office calculates the expected cash flows. Expected cash flows are discounted using the discount factors to arrive at the net present value of the leg.
- The net present value of the non-USD leg (sometimes, non-EUR leg) is converted to USD (EUR, respectively) at the market observable spot rate.
- The fair value of the CCIRS and foreign currency forward contracts to the Fund is obtained by subtracting the net present value of the paying leg from the receivable leg.
  The resulting valuation is compared with the independently derived valuation of the Risk Manager.
  The Risk Manager circulates a plausibility report to the Investment Manager on a regular basis.

4. FINANCIAL RISK MANAGEMENT

Investment objective
The Fund is an innovative and unique local capital markets financial initiative, focusing entirely on investing in long-term local currency and interest rate derivatives in emerging market currencies. It presents a compelling investment opportunity for parties with a keen interest in the sustainable development of the capital markets in emerging country currencies. By investing in local currency and interest derivatives, the Fund facilitates the creation of a local currency business line for its providers of Share Capital and Subordinated Debt providers.

Classical sources of currency and interest rate hedging (notably the large international banks) operate on a matched book principle, whereby they are constrained to offer products for which there is matched demand and supply. This model breaks down in most developing countries, where demand for long-term local currency exposure is inexistent. As a result these products are not offered or are offered at pre-emptively high rates.

TCX is based on a fundamentally different concept, seeking internal risk mitigation through portfolio diversification rather than by matching supply and demand. This allows TCX to seek out currency and interest rate risks regardless of external demand. Given that the key to this strategy is a wide diversification of risks, there are compelling mutual benefits of investors to pool their local currency activities and exposures, thereby achieving a more complete risk spreading and efficiencies of scale and scope.

Investment policy
TCX does not displace existing appetite for investment in emerging markets but exclusively focuses on the mitigation of currency and local interest rate risks. The Fund mostly invests through its share capital participants, which have established local networks in emerging markets. The Fund deals however directly with local capital markets to find risk mitigating instruments such as hedging.

TCX's shareholders have a guaranteed weighted annual nominal transaction capacity allocation of 100% of their share capital contribution. Since September 2010 the Fund may also trade with non-investor counterparties in accordance with a new strategy agreed in May 2010.

One of the key investor considerations of the Fund is the development impact of its activities. TCX most direct development impact is to strengthen the financial basis of emerging markets entities by removing the currency/maturity mismatch they face today. TCX's stated focus on Sub-Sahara Africa ensures that negative effects of the relative lack of financial infrastructure in this subcontinent, the world's least developed area, are minimized and that volumes in this region are at least equal to that done in other regions.

Investment process
TCX requires its counterparties to warrant that its investments support activities that comply with established norms on environmental, social, and anti-money laundering issues, and are not speculative in nature.. The terms offered are additional to established markets, in general avoiding competition with commercial market players.

TCX distinguishes between two types of instruments: deliverable or non-deliverable. Whereas the first includes settlement in local currency and therefore requires TCX to put in place a local financial infrastructure and comply with local regulatory requirements, the other is settled exclusively in USD off-shore and can be provided without any local presence.

TCX invests its liquid assets in cash deposits, commercial paper, bank deposits, t-bills and floating rate notes. Generally at least 90% of these assets have a term shorter than 1 year.

Risk management process
Sound risk management is essential to TCX for it is the rationale behind it´s set up. Main indicators are the stringent limits on the total risk of TCX. TCX has a credit rating of A- (2009: A-) as determined by Standard and Poor's. The Risk Manager monitors the portfolio on a daily basis and produces regular reports to confirm the Fund's compliance with agreed limits and ratios.

To calculate the capital requirements, TCX uses various models. Considering the activities and business of TCX, it is appropriate to use the regulatory banking capital adequacy guidelines of Basel II. The calculation methods follow the Basel II internal model approach unless the lack of market data prohibits this. Where market data is not available, a capital charge is calculated as a fixed add-on using a stress scenario. This method is an accepted way to deal with statistical uncertainty.

TCX's primary risk mitigating instrument is its exposure diversification with a portfolio spread over a large number of currencies and interest rates. Its limit system puts stringent diversification requirements to the portfolio (including a maximum single currency exposure of 10% of the portfolio, and regional limits). Other active risk mitigating measures include active investment in liquid local currency debt instruments to balance the primary exposures, hedging through derivative markets and local funding tools. TCX's hedging activities form an integral part of its development impact strategy.

TCX has two stop-loss risk triggers: one requiring the Investment Manager to operate more prudently in its assumption of risk and to redress ratios in a going-concern manner, the other triggering cessation of activities and a managed liquidation of the portfolio (the Liquidation Trigger Event).

TCX's risk management is based on the Risk Charter. The Risk Charter contains, amongst others:

- a description of the risks TCX assumes in its business;
- the policies and procedures concerning risk management;
- the applicable limit structure and investment restrictions;

The Fund's activities expose it to a variety of financial risks: market risk,, credit risk and liquidity risk.

Market risk

The most important risk TCX is exposed to is market risk. TCX defines market risk as the risk caused by adverse market movements and market illiquidity. TCX is subject to market risk by taking on local interest rate and currency risks in its transactions. The market risk is managed in separate risk books. This methodology allows the usage of segregated risk management techniques according to the depth and quality of available market data to warrant the usage of such techniques. The more extensive the available data, the more sophisticated the management technique available. TCX's market risks are managed in three books:

1. currency risks;
2. Interest rate risks in emerging markets;
3. interest rate risk in mature markets.

The book structure is built using well-established funds transfer pricing techniques. Any TCX transaction can give rise to different entries in each of the three risk books. The different risk books are aggregated into a combined risk model. Whereas sufficient market data is available for currency risks (book 1) and interest rate risk in mature markets (book 3), historical data for local emerging market interest rates (book 2) are insufficiently available.

The risk horizon for all books is one month. This means that TCX's risk model assumes that under normal market circumstances any exposure can be hedged or wound down within the period of one month. In OECD markets this period is often much shorter (between 1 day and 1 week) but given the illiquid markets that TCX operates in, a more prudent approach is required.

The book structure consists of a currency and an Interest rate book per currency. Since the market risk is also managed on a regional level, each currency book is part of a regional currency book. This set up enables limit setting on both levels.

A total net amount of USD 605,605,415 (2009: USD 496,541,931) is invested in financial instruments at fair value through profit or loss, representing 119.5% (2009: 116.5%) of the NAV as per 31 December 2010. The financial instruments consist of the following groups of financial instruments at year end:

(all amounts in USD)	Carrying amount	% of NAV	Carrying amount	% of NAV
		2010		**2009**
Cross currency swaps	(15,862,078)	(3.1)	(11,348,386)	(2.7)
Forwards	6,782,075	1.3	4,461,838	1.0
Commercial papers	483,066,436	95.3	469,852,227	110.2
Debt instruments	131,618,982	26.0	31,047,328	7.3
Financial instruments at fair value through profit or loss	605,605,415	119.5	496,541,931	116.5
Cash collateral given (received)	9,204,649	1.8	(7,464,067)	(1.8)
Cash and cash equivalents	24,282,112	4.8	51,518,008	12.2
Other	(3,523,931)	(0.7)	(3,307,895)	(0.8)
Subordinated convertible debt	(83,111,476)	(16.4)	(69,382,810)	(16.3)
Grants linked to the subordinated convertible debt	(45,661,977)	(9.0)	(41,725,643)	(9.8)
Total	**506,794,792**	**100.0**	**426,179,524**	**100.0**

Monitoring of market risk

The market risk of TCX is monitored by three major methods:

- Value at Risk (VaR);
- stress testing;
- maintenance of strict concentration limits.

Value at Risk

The Value at Risk (VaR) of a portfolio is the maximum expected loss, given a certain selected confidence level and over a specific period, caused by changes in market factors, under normal circumstances. The VaR is characterized by three parameters:

- confidence level
- holding or unwinding period
- information period

The VaR is an internationally accepted measurement of risk, recognized by the Bank of International Settlements (BIS). The use of an internal VaR model is accepted for reporting market risk to the national supervisory authorities. VaR is also used for other purposes, for instance in performance measurement or asset liability management.

Stress test

There is no objective justification to assume that historic returns are exemplary for worst case scenarios in the future, especially in the case of emerging markets where unprecedented events are even more likely. Therefore, stress tests are performed on most relevant variables for the entire TCX portfolio. Stress testing involves the modeling of unprecedented events and therefore market movements beyond historically observed shocks. The purpose of stress testing is to create awareness of the consolidated event sensitivity of TCX's position and to bring about discussions. Stress testing is not meant for limit setting purposes on a book-by-book basis, but on a portfolio level. Three types of stress tests are distinguished:

- combination of historical events
- macroeconomic scenarios (commodity prices, global melt down)
- sensitivity analyses

In the risk management of TCX all three types are used. Stress test is performed for both currency risk and interest rate risk.

Concentration limits

The fundamental premise of TCX is that extensive diversification reduces currency and interest rate risks on a portfolio level. This diversification effect can only be achieved when TCX avoids overexposure in any one currency or region. In order to prevent this, concentration limits are defined on the notional of the contracts for each currency, set relative to (a) TCX's Tier 1 + Tier 2 capital levels (b) its total portfolio size, and (c) an absolute number as defined by the size and liquidity of the currency market. The maximum gross amount invested in a country or currency is the lesser of:

- 25% of total capital (including share capital, retained earnings and Tier 2 capital);
- 10% of the total portfolio size;
- The average monthly traded volume (applies to deliverable contracts only).

Deductions to the gross amount (netting) because of hedging is only allowed if the following conditions are met:

- The hedge is matched with the investment in maturity and reference interest rate;
- There are no cross border risks between the hedged exposure and the hedge;
- The counterparty of the hedge has a minimum rating of AA and/or the transaction is collateralized.

If these conditions are met an additional limit increase of the gross exposure to 40% of total capital and/or 16% of the total portfolio size is allowed. The limit regarding to market volumes are not be affected by hedging. Currently no such hedges are applied.

The Fund uses Value at Risk (VaR) to measure risk exposure with a horizon of 1 month and a confidence level of 99%. The VaR calculation method used in the normal course of the business is called historical simulation[2]. For the purpose of the financial statement disclosures, the historical VaR is used with the main assumption that historical market data is the best estimator for future changes. The historical method does not assume a normal distribution of assets. The historical VaR calculation is based on 120 months of historical price changes to yield a distribution of changes in value.

At 31 December 2010, the Fund has market VaR of USD 20.3 million (2009: USD 15.4 million). The market VaR consists of foreign currency exchange risk VaR (USD 15.2 million, 2009: USD 13.8 million), interest rate risk VaR mature market (USD 0.9 million; 2009: USD 0.8 million) and interest rate risk VaR emerging markets (USD 2.8 million; 2009: USD 0.8 million) and a NDF[3] spread VaR of USD 1.4 million (2009. no NDF spread VaR). The increase in market VaR can be explained by an increase in portfolio size and relative concentrations in certain emerging markets . There are certain limitations using VaR:

- The data provided reflects positions as at year-end which do not necessarily reflect the risk positions held at any other time. As disclosed in the chapter "Investment objectives, policies and processes", the risk management system is monitoring the exposure of the Fund on a daily basis;
- The VaR is a statistical method and therefore it is possible that there could be, in any period, a higher loss;

The CCS and FXF positions per currency (non-USD) are as follows per 31 December 2010 (the presented currency exposure represents short positions in USD and long positions in foreign currencies. The notional amounts represents the USD value at the reporting date using the exchange rate at the start of the transaction).

2) The 99%, 1-month VaR for the floating-rate currency portfolio is equal to the second-worst monthly performance of that portfolio over the past 10 years. The fixed-rate VaR is calculated using stress tests for each currency of exposure.

3) The NDF spread VaR that TCX applies refers to the difference in rates between the onshore benchmark and the NDF benchmark over the life of the swap. The spread applies because TCX prices its non-deliverable swaps off a local onshore benchmark (e.g. a Treasury bill rate) even though it is providing a non-deliverable product.

(all amounts in USD)	Fair value	Notional value	Fair value	Notional value
		2010		**2009**
Albanian Lek	(1,321,355)	8,027,273	(911,149)	9,486,777
Argentine Peso	138,555	15,000,000	753,173	20,000,000
Armenian Dram	700,809	13,473,713	(1,940)	587,252
Azerbaijani Manat	943,115	31,863,062	234,394	18,845,744
Bangladeshi Taka	(246,979)	66,250,410	(92,859)	41,487,817
Boliviano	(14,271)	1,621,467	24,644	591,909
Brazilian Real	953,456	15,000,000	1,327,646	20,000,000
Cambodian Riel	46,445	1,224,481	-	-
CFA Franc BCEAO	56,334	9,938,364	9,289	1,584,457
Chilean Peso	3,156,318	20,000,000	-	-
Colombian Peso	52,933	5,830,830	(328,470)	4,046,209
Costa Rican Colon	1,862,953	26,796,152	130,459	19,556,662
Dominican Peso	(108,622)	1,353,556	(190,214)	1,967,842
Egyptian Pound	(18,261)	15,000,000	507,609	20,000,000
Euro	(1,907,577)	-	617,213	-
Georgian Lari	5,430	1,450,996	-	-
Honduras Lempira	84,575	18,258,933	(904,547)	22,260,726
Croatian Kuna	(94,031)	13,368,090	-	-
Indian Rupee	1,510,563	19,947,592	103,198	22,693,534
Indonesian Rupiah	421,396	17,752,219	1,831,023	21,790,325
Kazakstani Tenge	144,156	20,758,263	(3,138)	20,000,000
Kenyan Shilling	(12,239,129)	67,825,152	(7,421,048)	53,814,378
Kyrgyz Som	207,220	8,068,715	70,042	2,466,508
Malaysian Ringgit	538,501	20,000,000	528,122	20,000,000
Mexican New Peso	169,370	15,000,000	216,913	20,000,000
Moldovan Leu	290,548	7,369,536	-	-
Mongolian Tugrik	520,458	4,397,141	-	-
Moroccan Dirham	-	-	156,272	20,000,000
New Turkish Lira	(502,505)	10,000,000	719,891	20,000,000
Nicaraguan Cordoba Oro	(578,897)	5,998,465	670,805	9,020,712
Nigerian Naira	225,662	33,601,100	-	-
Paraguay Guarani	94,795	1,000,000	-	-
Peruvian New Sol	1,579,591	36,132,014	785,832	22,161,235
Philippine Peso	1,527,047	23,654,938	458,861	24,225,710
Rwandan Franc	(8,121)	291,600	4,360	291,600
Sri Lankan Rupee	350,725	36,971,017	(1,188,314)	44,614,149
Tanzanian Shilling	(3,523,364)	29,263,527	(364,094)	25,145,651
Thai Baht	13,667	990,473	399,600	20,000,000
Third Ghanaian Cedi	(1,501,574)	25,681,342	(734,938)	6,715,998
Tunisian Dinar	(210,504)	34,204,131	2,006,157	41,720,563
Ukrainian Hryvnia	386,649	10,000,000	-	-
Ugandan Shilling	(273,358)	3,967,419	30,282	3,775,393
Uruguayan Peso	298,279	3,000,000	-	-
Vietnamese Dong	(1,047,830)	20,890,967	(568,741)	6,962,052
Yuan Renminbi	-	-	(27,632)	20,000,000
Zambian Kwacha	(1,764,401)	7,000,920	(3,206,326)	11,024,762
Total	**(9,081,229)**	**728,223,858**	**(4,357,622)**	**616,837,966**

The Fund has the following hedging transactions as at 31 December 2010:

(all amounts in USD)	Fair value	Notional value
		2010
Kenyan Shilling	1,230	8,667,906
Total hedging transactions	**1,230**	**8,667,906**

Regional concentration limits

The diversification over the regions is enforced with guidelines. Regional guidelines are set depending on the possibilities to diversify within the region. In the table below the concentration limits per region, are stated as follows:

	Maximum regional concentrations	Actual concentrations 31 December 2010	Actual concentrations 31 December 2009
Emerging Europe / Central Asia	30%	17%	11%
Middle East / North Africa	40%	8%	13%
Asia	40%	29%	36%
Sub Sahara Africa	50%	23%	17%
Latin America	40%	23%	23%

Yield curve extension

TCX is limited to offering interest rate terms 150% the length of the longest term available in the market. The maximum term is set by the Pricing Committee on advice of the Risk Manager. This guideline is subject of further refinement, to be approved by the Board, once a more detailed model is developed for these products.

Credit risk

Whenever a new counterparty is introduced to TCX, the Investment Manager will propose to the ALCO for approval a counterparty limit in terms of a maximum notional size of transactions to be concluded with this counterparty. TCX assumes limited credit risk through the use of collateral.

The credit risk measures are based on the Basel II framework using Standard & Poor's country ratings with associated PD. For Loss Given Default and Exposure At Default the prescribed levels are applied, where Maturity will be set at effective maturity.

The Fund is exposed to credit risk in the swap contracts it concludes with its counterparties. The credit risk is largely mitigated by having ISDA CSA in place with periodic collateral movements.

An internal rating and associated Probability of Default (PD) is assigned to each counterparty prior to execution of an investment. If and when an external rating of one of the three large global rating agencies is available, this rating is the basis for the rating assessment. The PD attached to each rating class is based on the empirical default rate of this rating class over the last five year. Collateral management ensures that the exposure at default remains limited. The exposure at default will be based on the potential future exposure calculated as the VaR for the applicable period. In the table below the ratings and associated PD are depicted. Note that although the counterparties are highly rated, the PD is floored at 0.03% by definition.

Rating class	Probability of Default
AAA	0.03%
AA	0.03%
A	0.50%
BBB	1.00%

In the risk framework of the Fund, capital is held to cover this credit risk. The capital is calculated using Potential Future Exposure measures based on the 99% Value-at-Risk for the period until the next collateral call. The notional amounts of derivatives credit risk exposures are included in the amounts in the next table.

(all amounts in USD)	Credit rating	2010	2009
	AAA	570,063,907	364,577,046
	AA	60,918,006	150,759,612
	A	41,492,247	63,121,934
	BBB	1,587,105	299,551
	Total	**674,061,265**	**578,758,143**

The Risk Weighted Assets for the above credit risk exposures total USD 67.8 million (2009: USD 74.8 million), the decrease explained by the on average better rating of the exposures.

Liquidity risk

Investments

To maximize TCX's ability to assume liquidity risk, minimum liquidity limits are applied on each currency. The limits are determined depending on the currency's convertibility into USD, which is determined by the ALCO on the basis of advice provided by the Risk Manager. As per 31 December 2010 no currencies other than the Euro is approved as convertible.

To protect TCX from lack of market liquidity, the gap on a single day may not be larger than half the average daily trading volume. The average daily trading volume is determined by the Risk Manager on official public figures on a one-year history. If a larger amount is to be traded, a trading strategy has to be approved by the Risk Manager.

Liquidity limits for non-convertible currencies are set for a business as usual scenario and for a stress scenario. In the business as usual scenario, no negative gap is allowed for the first week and the first month (i.e. TCX must have full local currency liquidity to cover foreseeable cash outflows for the next week and the next month). In a stress scenario, where market events are less manageable, the following maximum negative gaps are allowed:

- For the first week: equal to 100% the average turnover of one trading day;
- For the first month: equal to 300% the average turnover of one trading day.

For convertible currencies, negative liquidity gaps are allowed up to 10% of the liquidity investment portfolio for the first month. The total gap of all convertible currencies should be lower than 50% of the liquidity investment portfolio.

Daily trading limits per approved currencies are guidelines not limits. To prevent unnecessary risk taking in the liquidity portfolio, a rise in interest rates of 1% may not cause a loss higher than 1% of the liquidity portfolio. In order to monitor the liquidity risk, a gap analysis is performed on a monthly basis. A gap analysis provides an overview of all expected cash flows of all transactions. This includes coupon receipts on bonds, periodic interest exchange on swaps, principal (re)payments on cross-currency swaps and settlements on currency swaps. The gap analysis for the year ended 31 December 2010 is as follows:

(all amounts in USD)	One week	One month	Over one month
Currency EUR			
Cash In	18,799,242	12,050	36,658,170
Cash Out	13,658	-	6,513,934
Net Position	18,785,584	12,050	30,144,236
Cum Net Position	18,785,584	18,797,634	48,941,870
Limit	**(317,784,122)**	**(317,784,122)**	

(all amounts in USD)	One week	One month	Over one month
Currency USD			
Cash In	32,748,247	48,053,504	576,349,178
Cash Out	1,704,975	17,787	120,155,770
Net Position	31,043,272	48,035,717	456,193,408
Cum Net Position	31,043,272	79,078,989	535,272,397
Limit	**(317,784,122)**	**(317,784,122)**	

TCX invests its liquid assets in cash deposits, commercial paper, bank deposits, t-bills and FRN. At least 90% of these assets have an initial term shorter than 1 year. TCX provides clients with conditional deliverable products. In case of inconvertibility or intransferability, the product becomes non-deliverable. Furthermore, TCX has no obligation to deliver local currency, only to receive. The currencies in which TCX has conditional deliverables outstanding are in Philippine Peso, Kenyan Shilling, Uganda Shilling, Costa Rica Colon, Dominican Peso, Tanzanian Shilling and the West African Franc for a total notional of USD 32 million (2009: USD 0.5 million). The gap analysis for the year ended 31 December, 2009 is as follows:

(all amounts in USD)	One week	One month	Over one month
Currency EUR			
Cash In	17,415,936	-	36,259,558
Cash Out	-	-	1,641,116
Net Position	17,415,936	-	34,618,442
Cum Net Position	17,415,936	17,415,936	52,034,379
Limit	**(268,643,989)**	**(268,643,989)**	

(all amounts in USD)	One week	One month	Over one month
Currency USD			
Cash In	58,967,772	66,889,521	448,729,266
Cash Out	44,447	5,039	99,961,705
Net Position	58,923,325	66,884,482	348,767,561
Cum Net Position	58,923,325	125,807,807	474,575,368
Limit	**(268,643,989)**	**(268,643,989)**	

Subordinated convertible debt

The Fund's financial liabilities consist of a Subordinated convertible debt for an undiscounted cash flow amount of USD 83,111,476 (2009: USD 69,382,810), representing 10.3% (2009: 12.8%) of the total financial liabilities and Grants linked to the subordinated convertible debt for an amount of USD 45,661,977 representing 6.8% of the total financial liabilities (2009: USD 41,725,643 and 7.4% respectively) (see note 13 for further details). The Subordinated Convertible Debt and the grants linked thereto have a final maturity date of 5 September, 2017. As of 5 September, 2012 each participating lender of the Subordinated Convertible Debt shall have the option to convert, in whole or in part, its outstanding commitment into Class B shares of the Fund, The product of the conversion price and number of shares shall equal the outstanding commitment of the Fund at the time of conversion.

Redeemable shares Class A

TCX's Shares Class A are puttable instruments. Redemption is at each investor's option up to an annual maximum of 20% of the Fund's issued Shares A at the start of the year. Taking into account the maximum use of this put option, the undiscounted redemption profile of the Fund's Shares A is as follows.

(all amounts in USD)	***2010***	***2009***
Year of maturity		
2011	101,358,958	85,235,905
2012	81,087,167	68,188,724
2013	64,869,733	54,550,979
2014	51,895,787	43,640,783
2015	41,516,629	34,912,627
2016	33,213,303	27,930,101
2017	26,570,643	22,344,081
2018	106,282,572	89,376,324
Total	**506,794,792**	**426,179,524**

Other liabilities

The Fund holds other liabilities for an undiscounted cash flow amount of USD 4,365,134 (2009: USD 3,540,667), representing 0.9% of the total financial liabilities with a maturity date of less than 3 months (2009: 0.6%). The Fund invests in Commercial papers for an amount of USD 483,066,436 (95.3% of the NAV) (2009: USD 469,852,227, 110.2%) which are readily convertible into cash.

Fair value of other financial assets and financial liabilities

There is no material difference between the value of the other financial assets and liabilities, as shown in the balance sheet, and their fair value due to the short term except for the subordinated convertible debt. See note 13 for further details.

5. CASH AND CASH EQUIVALENTS

At 31 December 2010 and 2009, no restrictions on the use of cash and cash equivalents exist.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets at fair value through profit or loss consist of the following instruments at 31 December of each year.

(all amounts in USD)	***2010***		***2009***	
	Fair value	**% of NAV**	**Fair value**	**% of NAV**
Level 1 financial instrument				
Commercial papers	483,066,436	95.3	469,852,227	110.2
Debt instruments	131,618,982	26.0	31,047,328	7.3
Level 2 financial instruments				
Cross currency interest rate swaps – Primary	3,687,025	0.7	1,753,459	0.4
Cross currency interest rate swaps – Trading			2,556,556	0.6
FX Forward contracts – Trading	7,328,091	1.4	4,160,541	1.0
FX Forward contracts – Hedging	-	-	-	-
Level 3 financial instruments				
Cross currency interest rate swaps – Primary	6,003,263	1.2	3,662,770	0.9
FX Forward contracts – Primary	1,461,433	0.3	304,435	0.1
Total	**633,165,230**	**124.9**	**513,337,316**	**120.5**

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgement by the Fund. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Level 3 investments are detailed as follows (for liabilities see note 11):

(all amounts in USD)	***2010***	***2009***
Assets	7,464,696	3,967,205
Liabilities	(22,752,630)	(15,815,903)
Total	**(15,287,934)**	**(11,848,698)**

The following table shows the movements in Level 3 derivative financial instruments (both assets and liabilities) during the reporting period (all amounts in USD):

(all amounts in USD)	**Assets**	**Liabilities**
Balance at January 1,	3,967,205	(15,815,902)
Transfers into or out of the Level investment category	-	-
Early termination swap contract	(181,525)	139,182
Valuation of new forward transactions	1,461,434	(2,461)
Valuation of new swap transactions	3,289,704	(1,398,162)
Matured deals	(304,436)	-
Unrealized gains and losses	(767,686)	(5,675,287)
Balance at December 31	**7,464,696**	**(22,752,630)**

For the year 2009

(all amounts in USD)	**Assets**	**Liabilities**
Balance at January 1,	-	-
Transfers into or out of the Level investment category	939,584	(16,241,419)
Early termination swap contract	(232,186)	-
Change in unrealized results transferred instruments	(655,815)	722,608
Valuation of new forward transactions	304,436	-
Valuation of new swap transactions	3,611,186	(297,092)
Balance at December 31	**3,967,205**	**(15,815,903)**

The results on financial instruments at fair value through profit or loss amounts to USD 2,058,897 as a result of change of calculation assumptions (2009: USD 66,763) and an amount of USD 42,343, (2009: USD 232,186) as a result of early termination of swap contracts. A change in the interest rate of 1 basis point results in a change in fair value of USD 87,294 (2009: USD 63,423). All results of financial instruments classified as Level 3 are presented in the statement of comprehensive income under "results on financial instruments at fair value through profit or loss. The effect of the change is the difference between the fair value of the financial instruments based on the new calculation and the fair value according the initial calculation assumptions. For the year ended December 31, 2010 no transfers occurred. The following table presents the transfers between levels for the year ended December 31, 2009 (all amounts in USD).

	Level 1	**Level 2**	**Level 3**
Total transfers between levels 2 and 3	-	15,301,835	(15,301,835)

The transfer of financial instruments in 2009 is a result of the development of the NDF spreads during the reporting period.

7. CASH COLLATERAL

As at 31 December 2010 the Fund transferred cash to margin accounts as collateral against open forward contracts for a total net amount of USD 9,204,649 (2009: net received amount of USD 7,464,967). The margin accounts were created based on the Credit Support Annex to the schedule to the 2002 ISDA Master Agreements as agreed with various counterparties. The cash collaterals were interest bearing (see also note 4 related to credit risk).

8. OTHER RECEIVABLES

At 31 December the other receivables consist of the following:

(all amounts in USD)	***2010***	***2009***
Interest receivable	767,218	3,446
Reclaimable withholding tax	67,318	59,758
Prepaid expenses	6,546	169,440
Other	121	128
Total other receivables	**841,203**	**232,772**

9. RELATED PARTY TRANSACTIONS

Related party transactions are transfers of resources, services or obligations between related parties and the Fund, regardless of whether a price has been charged. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or is part of key management of the Fund. The following parties are considered related parties.

Management Board
TCX Investment Management Company B.V received remuneration for the services provided which is included in the total fee agreements with both parties. See below for further details.

Supervisory Board
The Supervisory Board received a total remuneration of USD 153,884 (2009: USD 156,560) during the reporting period and is presented as part of the governance fees. The Supervisory Board´s remuneration is based on a total annual fixed fee of EUR 109,750 (2009: EUR 109,750).

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)
FMO was the sole shareholder of the Investment Manager until March 2, 2010. FMO is one of the shareholders of the Fund with a capital contribution of USD 70 million (which has not changed during the year). The following transactions occurred during the reporting period.

((all amounts in USD)	***2010***	***2009***
Guarantee standby fee (see below for further details)	(185,445)	(306,001)
Cross currency swap transactions (fair value)	(13,164,082)	(13,971,262)

Guarantee Framework Agreement
The Fund entered into a USD 150 million Guarantee Framework Agreement with FMO, to be used for credit support for specific transactions if required. The facility was not used in 2010. It has a maximum available amount of USD 150 million. The agreement on the guarantee is as follows:

The guarantee fee (the "Guarantee Fee") is the sum of:
- the Active Guarantee Fee if any; and
- the Standby Fee

The Active Guarantee Fee is 0.30% per annum, calculated daily over the aggregate USD amount of Guarantees outstanding at any time.

The Standby Fee is:
a. up to and including 5 September 2009, 0.10% per annum;
b. from 5 September 2009 up to and including 5 September 2011, 0.125% per annum;
c. from 5 September 2011 up to and including 5 September 2012, 0.15% per annum;
d. from 5 September 2012 onward, 0.30% per annum.

The Standby Fee is calculated daily over the difference between the Guarantee Facility Amount and the aggregate USD amount of Guarantees outstanding at any time. The Guarantee Fee is payable by the Fund semi-annually in arrears on each June 15 and December 15 until the agreement is terminated.

Investment Manager
The shares of the Investment Management Company were transferred from FMO to Cardano Development B.V. on March 2, 2010.

The main responsibilities of the Investment Manager are to manage the Fund's investments according to the Fund's strategy, to represent the Fund in communication with its stakeholders and services providers, and to ensure the Fund's optimal access to international and local markets to promote the Fund's investment products. The back office function and the finance and control function have been outsourced to the Back Office Provider and Administrator respectively.

Function outsourced by the Investment Manager

For reasons of transparent separation of functions and professional deal management, the Investment Manager has outsourced the back office function to a third party provider, Zanders & Partners B.V. ("the Administrator"). The main responsibilities of the administrator are settling and administering the Fund's investments, performance of the collateral management and maintain and prepare portfolio reports.

Additionally, Zanders & Partners B.V. keeps the books of the Fund and prepare periodic financial reports for the benefit of the Pricing committee, the Supervisory Board and the Investors Meeting. The expenses for these services are included in the Management Fee for 2010 and further.

Remuneration

The Investment Manager is, according to the investment management agreement (dated 5 September, 2007) remunerated for its activities as follows.

- Cost recovery component: the Supervisory Board agreed to an annual budget payable quarterly in advance, starting from 2008. For the current period, the Investment Manager invoiced (based on average rates) EUR 2,691,332 equals USD 3,570,321 (2009: EUR 3,353,062[4] equals USD 4,679,420);
- Performance fee: the Investment Manager receives an annual Performance fee driven by agreed parameters, agreed to between the Investment Manager and the Fund as approved by shareholders. For the current period, the Investment Manager invoiced an amount of USD 833,113 for performance for the year 2009. Also, the performance fee for the performance over the year 2010 is also taken into account and represents the Investment Managers' best estimate of USD 951,938. Therefore, in 2010 the total performance fee taken into account amounts to USD 1,785,051. In the financial statements of 2009 a performance fee has been taken into account of USD 651,096 in relation to the performance in 2008.
- Carried interest: the Investment Manager will receive a carried interest on the realized business value, representing the difference between realized exit and issuance value of the transfer shares as defined by the Investment Management Agreement and payable prior of a transfer of shares Class A or Class B. For the current period no transfer of shares Class A or Class B occurred.

10. RELEVANT CONTRACTS

Investment Manager

The Fund has entered into an investment management agreement with the Investment Manager, whereby it will provide investment management and advisory services to the Fund. See note 9 for further details of the contractual arrangements.

Risk Manager

The Fund's risk management is provided by Cardano Risk Management B.V. under the terms of the Risk Management Agreement, dated 5 September 2007. The Risk Manager is amongst others responsible for maintenance of the risk control framework, executing the daily risk control function, provide expert judgment on pricing, modeling and execution of derivatives transactions and supporting the Investment Manager in research and risk management. The Risk Manager is remunerated on a fixed fee basis, this amounted to EUR 952,000 (USD 1,257,000), 2009: EUR 922,250 (USD 1,283,789).

Independent Auditor

The Fund has appointed Ernst & Young Accountants LLP as the Independent Auditor. The Independent Auditor's remuneration consists of EUR 186,421 equals USD 247,306 (2009: EUR 242,897 equals USD 338,695) audit fee. The Independent Auditor is engaged to perform the audit of the financial statements and yearly compliance audits on the Funds activities. The Independent Auditor does not provide any non-audit services to the Fund.

11. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial liabilities at fair value through profit or loss consist of the following instruments at 31 December of each year (see for further information note 6).

(all amounts in USD)	**2010**		**2009**	
	Fair value	**% of NAV**	**Fair value**	**% of NAV**
Level 2 financial instruments				
Cross currency interest rate swaps – Primary	2,802,195	0.6	948,712	0.2
Cross currency interest rate swaps – Trading	-	-	27,632	0.0
FX Forward contracts – Trading	2,004,990	0.4	3,138	0.0
Level 3 financial instruments				
Cross currency interest rate swaps - Primary	22,750,169	4.4	15,815,903	3.7
FX Forward contracts – Primary	2,461	0.0	-	0.0
Total	**27,559,815**	**5.4**	**16,795,385**	**3.9**

4) For the cost recovery fee for 2009 an excess amount was charged by mistake by the Investment Manager to the Fund that is recognized and has been refunded in March 2011 with interest for an amount of EUR 244,431 (USD 324,262).

12. ACCRUED EXPENSES AND OTHER PAYABLES

As at 31 December the accrued expenses and other payables consist of the following:

(all amounts in USD)	**2010**	**2009**
Contribution to Donor Commitments	3,297,452	2,950,547
Administration fee payable	-	9,816
Audit fee payable	44,113	139,920
Supervisory board fees payable	-	57,356
Pricing Committee fees payable	-	14,339
Other general fees payable	62,318	101,103
Management fee payable and performance fee	961,251	267,586
Total accrued expenses and other payables	**4,365,134**	**3,540,667**

Contribution to Donor Commitments

The Fund has agreed with the providers of the Subordinated Convertible Loan (the Netherlands Minister for Development Cooperation and TCX Mauritius, re-investing funds received from KfW that is acting on behalf of the Federal Government of Germany – the Donors) that it will segregate a portion of its assets ("Donor Commitments") for use in special project grants and investments, to be approved by the Donor Committee along terms agreed in the Joint Donor Agreement.

The Fund contributes to the Donor Commitments;

a) 3% of any disbursement of the Netherlands portion of the Subordinated Convertible Loan

b) On or before July 15 of any year, an amount equal to the lesser of (i) the previous year's audited net profit of the Fund; (ii) the previous year's audited net positive cash flow of the Fund; (iii) an amount equal to an interest over the Subordinated Convertible Loan's amounts outstanding during the previous year, at a rate of the USD 3-month libor rate on the 15th date of each calendar quarter, plus any amounts due but unpaid in previous years.

When using the Donor Commitments for making an investment that may be redeemed at a later date, any redemption proceeds received by the Fund will be transferred to the Donor Assets. The Fund is entitled to any interest, dividend or other income received for these investments and replenish the segregated assets.

The obligation of the Fund to pay the Donors ranks junior to the Fund's senior unsecured obligations and pari passu with any other subordinated obligations of the Fund.

The contributions to Donors Commitments are presented on a net basis in the statement of comprehensive income and are detailed as follows:

(all amounts in USD)	Note	**2010**	**2009**
Interest calculated based on market interest rates		(7,838,755)	(4,826,256)
Amortization of government grants	13	6,601,654	2,594,885
Contributions to Donor Commitments		**(1,237,101)**	**(2,231,371)**

13. SUBORDINATED CONVERTIBLE DEBT AND GRANTS LINKED TO THE SUBORDINATED CONVERTIBLE DEBT

Objective

The Subordinated Convertible Debt ("the Facility") has been provided by lending institutions (the Donors) with the objective to:

a) provide to the Fund a financing that provides a first loss protection to its Shareholders, in order to enhance the risk-return profile of their investment. This has a material catalytic effect on the acceptance of the proposed terms and the investment in general; and

b) to enhance the Fund's capability and incentive to transact in the lowest two categories of countries (Least Developed Countries and Other Low Income Countries) as defined on the OECD Development Assistance Committee list of Official Development Assistance recipients. They specifically wish to target such countries situated in Sub Sahara Africa with their investment.

The Donors wish the Fund to engage in projects with high additionality and development impact. To this end, they have required the Facility to be interest-free, with the Fund earmarking funds (Contributions to donors) that would otherwise constitute interest payments under the Facility for projects to be approved by a donor committee, pursuant to the Joint Donor Agreement (see note 12).

Status

The Donors are represented by the Netherlands Minister for Development Cooperation (with a EUR 50 million commitment (of which 100% was disbursed on 31 December 2010) (2009: EUR 50 million, 75% disbursed) and TCX Mauritius, on-lending a EUR 40 million commitment of KfW (acting on behalf of the Federal Government of Germany). The TCX Mauritius tranche was committed on August 26, 2009 and 100% disbursed on 31 December 2010 (2009: EUR 40 million, 100% disbursed).

Subordination

Repayment obligations of the Facility have been subordinated to any senior and/or junior debt obligations and have been made subject to the Fund´s shareholders of shares A having achieved the Threshold Shareholder IRR (the Threshold) at any time after 5 September 2014. The Threshold is achieved on the date that the holders of Shares A have achieved a composite return at least equal to a compounded USD 3-month LIBOR rate. From 5 September 2020 onwards, the calculation of the Threshold includes the net asset value of the shares as well as any dividend or redemption cash flows.

Conversion

As of 5 September 2012, lenders have the option to convert the outstanding commitments in the Facility in whole or in part into shares Class B. The number of shares Class B shall be calculated in respect to the portion of the outstanding commitment and the number of shares Class B to be issued to a lender.

The conversion price payable by a converting lender on the conversion date shall be the equal to the per-share net asset value of the Fund's Shares A applicable immediately after conversion (including the first loss effect of the Subordinated Convertible Loan and/or Shares B outstanding). The lenders' conversion rights are not transferable.

Restriction to redeem Shares B

The Shares B shall have the same rights as any other class of Shares in the Fund, except that the shares Class B will not participate in any dividend and will not be redeemable until the Fund's shareholders have achieved the Threshold.

Repayment and interest

Unless previously converted to Shares B, the USD amount outstanding under the Facility becomes redeemable in full 12 months after achievement of the Threshold (or, if later, 5 September 2017). For Facility commitments in currencies other than the USD, the repayment obligation is the USD equivalent thereof using the exchange rate applicable at disbursement.

Fair value information

The estimation of the fair value of the Subordinated Convertible Debt at 31 December, 2010 was calculated based on an internally developed valuation model and amounted to at USD 62.2 million (2009: USD 49.8 million). The following major assumptions were used in the internally developed valuation model:

- No dividend is paid on TCX shares;
- The facility is junior to equity;
- No early exercise of the facility is taken into account;
- The conditional annual payment of the interest on the facility has comparable value with an end of period payment of compounded LIBOR;
- The volatility of the TCX NAV used in the option valuation can be based on the results of a financial model as built and maintained by TCX.

Movement of subordinated convertible debt during the reporting period

(all amounts in USD)	**2010**	**2009**
Opening balance	69,382,810	36,163,873
DGIS drawdowns (fair value at initial recognition)	7,970,051	5,300,913
KfW drawdown (fair value at initial recognition)	-	25,323,139
Amortization of grants during the reporting period	6,601,654	2,594,885
Total end of year	**83,954,515**	**69,382,810**

Movement of government grants during the reporting period

(all amounts in USD)	**2010**	**2009**
Opening balance	41,725,643	-
DGIS drawdowns (grant at initial recognition)	9,694,949	11,487,837
KfW drawdown (grant at initial recognition)	-	32,832,691
Amortization of grants during the reporting period	(6,601,654)	(2,594,885)
Total end of year	**44,818,938**	**41,725,643**

Cumulative positions at the end of reporting period

(all amounts in USD)	**Subordinated loans at market interest**	**Government grants**	**Total**
DGIS first and second draw down	36,163,873	-	36,163,873
DGIS third draw down	5,300,913	11,487,837	16,788,750
KfW draw down	25,323,139	32,832,691	58,155,830
Amortization during the year	2,594,885	(2,594,885)	-
Total position at December 31, 2009	**69,382,810**	**41,725,643**	**111,108,453**
DGIS fourth draw down	7,970,051	9,694,949	17,665,000
Amortization during the year	6,601,654	(6,601,654)	-
Total position at December 31, 2010	**83,954,515**	**44,818,938**	**128,773,453**

The 2010 draw down was paid in 2010 for an amount of EUR 12.5 million (USD 17.7 million). Due to the fact that the Fund has repayment obligations that are denominated in USD as agreed in the loan agreement, no subsequent foreign currency translations were taken into account. First part of the draw down was a EUR 40 million tranche of KfW through TCX Mauritius as disclosed above. The 2009 draw downs were paid for an amount of EUR 12.5 million (USD 16.8 million) and EUR 40 million (USD 58.1 million), representing USD 74.9 million in total.

14. SHARE CAPITAL

Structure of the Fund's capital

The authorised share capital amounts to sixty thousand euro (EUR 60,000) and is divided into:

- 1,000 classes of Class A shares, numbered from A1 to and including A1,000, each class containing ten (10) shares with a par value of one euro (EUR 1) each; and
- five hundred (500) classes of Class B shares, numbered from B1 up to and including B500, each class containing ten (10) shares with a par value of one euro (EUR 1) each; and
- One (1) C Ordinary Share, numbered C1, with a par value of forty-five thousand euro (EUR 45,000), which share shall be regarded as one (1) class of shares).

At 31 December 2010 935 Shares Class A are in issue (31 December 2009: 838 shares). No Shares Class B are in issue. One Share Class C was issued to FMO in 2007 and subsequently repurchased by the Fund (but not cancelled).

Subscriptions

The Fund accepts from time to time offers to subscribe to newly issued Shares Class A from qualified investors (within the meaning of Article 1:1 of the Netherlands Financial Supervision Act – WfT) upon approval by the Fund's General Meeting of the terms of the issuance and the identity of the new investor.

Redemptions

Each investor will have the option to exit the Fund by offering its shares for repurchase on a quarterly basis at Net Asset Value. The Net Asset Value means the share capital value of the Fund, being the balance of the Fund's assets and liabilities determined on a mark-to-market basis as presented in the Fund's quarterly un-audited management accounts or its annual audited accounts, divided by the total number of shares Class A and shares Class B then in issue (net asset value); and, the accrued interest over the net asset value compounded daily at an interest equal to 1-week LIBOR (USD) plus 4% per annum, calculated from the latest valuation (reporting) date until the relevant valuation date.

Redemptions are subject to the full discretion of acceptance by the Investment Manager for any shares offered for redemption in excess of 20% of shares Class A and shares Class B outstanding in any one year. In the year 2017, there will be no limitations on the ability of any shareholder to redeem its shares. In the years thereafter, the Investment Manager is again entitled to limit the acceptance of redemptions above 20%.

According to the investors agreement dated 29 October 2010 ("the Agreement"), redemption or repurchase of shares will only be allowed if the shareholder concerned repurchased at arm´s length terms as sufficient volume of commercial transactions in which it acts as counterparty of the Fund as detailed in the Agreement.

Rights and obligations

Each shareholder has the number of votes equal to the number of shares held by it for matter where they are entitled to vote. Each Subordinated Convertible Loan investor has the number of votes in any year equal to the number of shares Class B that the Convertible Loan Investor would have held if the Convertible Subordinated Loans would have been converted into shares Class B on the last business day of the previous financial year at a conversion price calculated in accordance with Convertible Subordinated Term Loans Facility. The shareholders and Subordinated Convertible Debt investors shall exercise their voting rights in accordance with and pursuant to the terms, conditions and spirit of the Investors Agreement.

Feeder vehicle

The Fund's General Meeting has approved TCX Investment Company Mauritius Limited as a Feeder Vehicle (as defined in the Fund's Investors Agreement), allowing certain investors to participate in TCX's capital without breaching charter or other formal investment restrictions.

Capital management

The Funds capital management objectives are included in note 4. The Fund's internal capital requirements to meet its objective are managed through a diversified financial structure. Currently, the Fund has common share capital, Subordinated Convertible Debt and the grants linked thereto as levels of capital. Both levels (also identified as Tier 1 capital) are as follows at 31 December:

(all amounts in USD)	**2010**	**2009**
Net assets attributable to holders of Shares Class A	506,794,792	426,179,524
Subordinated Convertible Debt	83,111,476	69,382,810
Grants linked to the Subordinated Convertible Debt	45,661,977	41,725,643
Total Tier 1 capital	**635,568,245**	**537,287,977**

The Fund's capital requirements are based on two ratios:

- Minimum Capital-ratio[5] of 14%. If the Capital-ratio falls below the threshold of 14% (at 31 December, 2010: 65%, 2009: 69%), a Liquidation Trigger Event has occurred whereby the Investment Manager will be required to liquidate the Fund within a period of one year. The Capital-ratio is tested at the end of each business day;
- Minimum Tier 1 ratio of 10% (Tier 1 capital over Risk Weighted Assets). If the Tier 1 ratio falls below 10% a Liquidation Trigger Event has occurred (at 31 December, 2010: 65%, 2009: 69%);

During the period, the Fund complied with the minimum internal capital requirements. Currently, the Fund has no Tier 2 capital (Subordinated Debt). The Fund will require substantial retained earnings to fund its growth. It is expected that dividends will be paid out to shareholders, if the Fund, in the opinion of the Supervisory Board, generated profits clearly outpace the Fund's growth potential, leading to inefficient capitalization for the foreseeable future.

5) Capital-ratio: The Capital-ratio (in the Risk Charter referred to as a BIS ratio) is a solvency indicator, explaining the relationship between risk capital and risk weighted assets. The Fund's (minimum) capital ratio implicitly acts as the Fund's (maximum) leverage ratio.

15. NET RESULT ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The net results on financial instruments at fair value through profit or loss are detailed follows.

(all amounts in USD)	2010	2009
Cross Currency Swaps - Primary	11,948,222	27,763,603
Cross Currency Swaps - Trading	1,051,135	43,954,374
FX forwards - Primary	1,938,227	304,436
FX forwards - Trading	16,060,811	8,561,213
FX forwards – Hedging	1,230	-
Zero coupon bonds	-	(451,248)
Total net result on financial instruments at fair value through profit or loss	**30,999,625**	**80,132,378**

The interest component included in the Cross Currency Swaps is as follows

Cross Currency Swaps – Primary	19,308,676	23,515,932
Cross Currency Swaps – Trading	1,671,812	30,890,547
	20,980,488	**54,406,479**

16. FOREIGN CURRENCY TRANSLATION

Realized and unrealized exchange differences consist of realized and unrealized translation gains (loss) on assets and liabilities denominated other than US Dollar. The total foreign currency translation amounts to loss of USD 1,339,199 (2009: a gain of USD 1,105,380). For the translation of the non-USD positions at balance sheet date, a closing rate of EUR 0.7316 (2009: EUR 0.6974) per USD has been applied in preparation of these financial statements.

17. INTEREST INCOME

The following table details the interest income during the reporting period.

(all amounts in USD)	2010	2009
Financial instruments at fair value through profit or loss		
Commercial papers	978,489	1,676,697
Debt instruments	1,090,610	746,865
	2,069,099	**2,423,562**
Cash and cash equivalents		
Cash at banks	690	35,092
Cash collaterals	21,922	15,906
Total interest income	**2,091,711**	**2,474,560**

18. OTHER GENERAL EXPENSES

The following table details the other general expenses during the period.

(all amounts in USD)	2010	2009
Legal fees	155,902	646,640
Rating agency fees	114,038	13,447
Guarantee fee (see note 9)	185,445	306,001
Fundraising expenses	8,184	-
Compliance fees	59,399	80,715
Other expenses	78,166	26,578
Total other general expenses	**601,134**	**1,073,381**

19. PERSONNEL

The Fund did not employ any personnel during the reporting periods ended 31 December, 2010 and 2009.

Other Information

PROPOSAL FOR PROFIT APPROPRIATION

Appropriation of profit will be determined in accordance with articles 29 and 31 of the Articles of Association of the Fund. The relevant provisions read as follows:

Article 29

1. The Fund shall ensure that the annual accounts, the annual report, the report of the supervisory board, insofar instituted pursuant to article 20, and the information to be added by virtue of the law are held at its office as from the day on which the annual meeting is convened, Shareholders, and beneficiaries of a life interest in shares to whom the right to vote the shares accrue, may inspect the documents at that place and shall obtain a copy thereof, free of charge.
2. The general meeting shall adopt the annual accounts. The annual accounts may not be adopted in the event that the general meeting has been unable to inspect the auditor´s statement referred to in article 27, paragraph 4, unless a legal ground is given in the information required to be added by law for the lack of the auditor´s statement referred to in article 27, paragraph 4.
3. Unconditional adoption of the annual accounts shall not automatically serve to constitute a discharge of the members of the statutory management board for the management, and of the members of the supervisory board, insofar instituted pursuant to article 20, for their supervision, insofar as such management of supervision is apparent form the annual accounts. The general meeting shall resolve such a discharge separately.
4. The provisions of these articles of association regarding the annual report and the information to be added by virtue of the law need not be applied if the Fund is a member of a group and all other relevant requirements of the law have been met.

Article 31

1. The statutory management board shall determine which part of the profits shall be reserved by allocating that part to each relevant dividend reserve that corresponded with the relevant class of shares.
2. The profits that are not reserved in accordance with paragraph 1 shall be at the disposal of the general meeting.
3. Dividends may be paid only up to an amount, which does not exceed the amount of the distributable part of the net assets.
4. Dividends shall be paid after adoption of the annual accounts from which it appears that payment of dividends is permissible.
5. The general meeting may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law.
6. The general meeting may be subject to due observance of the provision of paragraph 2 resolve to make distributions to the charge of any reserve which need not be maintained by virtue of the law.
7. For the computation of the profit distribution, the shares held by the Fund in its own capital shall not be included.

The statutory management board proposes to allocate the gain for the period ended 31 December 2010 of USD 22,771,927 to each relevant other reserve corresponded with each relevant class of shares.

To: The Supervisory Board and the Board of Directors of The Currency Exchange Fund N.V.

INDEPENDENT AUDITOR'S REPORT

Report on the financial statements
We have audited the financial statements 2010 of The Currency Exchange Fund N.V., Amsterdam, which comprise the statement of financial position as at December 31, 2010, the statement of comprehensive income, statement of cash flows and the statement of changes in net assets attributable to holders of redeemable shares Class A for the year then ended and the notes, compromising a summary of the significant accounting policies and other explanatory information.

Management's responsibility
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Letter from the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the financial statements
In our opinion, the financial statements give a true and fair view of the financial position of The Currency Exchange Fund N.V. as at December 31, 2010, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Letter from the Managing Board , to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Letter from the Managing Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

The Hague, April 12, 2011

Ernst & Young Accountants LLP

signed by R.J. Bleijs

Notes

GENERAL INFORMATION

Supervisory Board
Mr. Paul Baloyi
Mr. Frank Czichowski
Mr. Tor Johansen
Mr. Cees Maas (chairman)
Mr. Axel van Nederveen

Management Board
TCX Investment Management Company B.V.
Sarphatikade 13
1017 WV Amsterdam
The Netherlands

Risk Manager
Cardano Risk Management B.V.
Beursplein 37
3011 AA Rotterdam
The Netherlands

Accounts Bank
Citigroup NA
Schiphol Boulevard 257
WTC Building, Tower D, Floor 8
1118 BH Airport Schiphol
The Netherlands

Deutsche Bank AG
Herengracht 450-454
1017 CA Amsterdam
Postbus 268
1000 AG Amsterdam
The Netherlands

Registered Office
Sarphatikade 13
1017 WV Amsterdam
The Netherlands

Administrator
Zanders & Partners B.V.
Brinklaan 134
1404 GV Bussum
The Netherlands

Compliance Officer
Compliance Advies
Mr. Arjan van der Heiden RA
Rotondeweg 22
1261 BG Blaricum
The Netherlands

Legal and Netherlands Tax Advisor
Clifford Chance LLP
Droogbak 1a
1013 GZ Amsterdam
The Netherlands

Independent Auditor
Ernst & Young Accountants LLP
Wassenaarseweg 80
2596 CZ Den Haag
The Netherlands

Bill Piccolo, Project Manager TCX

Colophon

Correspondence address:
TCX Investment Management Company
Sarphatikade 13
1017 WV Amsterdam
The Netherlands
www.tcxfund.com
Email ⟼ info@tcxfund.com
Phone ⟼ +31 (0)20 531 4851

Design ⟼ K Birnholz Creative, Amsterdam
Photography (people) ⟼ Bert Teunissen
Photography (still) ⟼ Rob Marinissen
Graphs ⟼ Ruud Vogelesang
Print ⟼ Response Network BV, Amsterdam

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LOCAL CURRENCY MATTERS