



TCX ANNUAL REPORT 2013





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1. TCX in 2013



West Africa 500 CFA franc coin

SUPERVISORY BOARD LETTER

We are pleased to present you with the annual report of The Currency Exchange Fund N.V. (TCX) for the year 2013.

TCX invests in long-term currency exposures in frontier markets, predominantly as hedges for development finance institutions and microfinance lenders who wish to extend medium- and long-term local currency loans to borrowers in developing countries. It is the only institution in the world that is purely focused on providing this function in frontier countries, where the financial markets are insufficiently developed and TCX is “additional” to existing market participants.

TCX continues to experience solid and sustained growth. Over the past three years the local currency Primary Investments portfolio has grown by over USD 200 million annually (net of scheduled maturities and early redemptions) to reach USD 1,144 million at year-end 2013 (excluding offsetting exposures). New Primary Investments in 2013 totaled USD 750 million in 346 separate transactions, including USD 235 million in rolled-over exposures and USD 516 million in fresh exposures (an increase of 29% over 2012). This lifted the nominal amount of new loans hedged by TCX since inception to just under USD 2.0 billion.

At year-end 2013, the outstanding local currency Primary Investments portfolio was spread across 543 transactions in 47 currencies, of which 35% from least developed and other low income countries, and 32% from lower middle income countries. By sector, 63% of the outstanding Primary Investments hedged loans to the micro-finance sector, and 23% to the SME sector. By tenor, 38% of the portfolio had maturities greater than 3 years.

TCX’s business model is to absorb the currency risks associated with its hedging investments, and rely amongst other techniques on global portfolio diversification to mitigate these risks. This model once again proved its robustness over the summer of 2013, by generating relatively stable financial results in the midst of significant emerging market volatility. As a result, we closed the year with a net profit of USD 28.3 million. This is equivalent to a return of 5.1% over the Fund’s net assets at the start of the year, in line with TCX’s objective of investing at a fair price to yield a modest positive return over operating costs and expenses.

The year’s result helped lift the available capital to USD 717 million, after a dividend of USD 15,000 per share distributed in June 2013 in relation to the 2012 results (equivalent to a 24% payout ratio). The resulting capital ratio at the end of 2013 (available capital divided by risk weighted assets) was 36%, well above the 14% liquidation trigger and sufficient in our view to support next year’s anticipated growth.

Looking ahead, we note that the start of 2014 once again illustrated the volatility of emerging markets, and that the outlook for the frontier markets which TCX targets is uncertain. The uncertainties include the global consequences of the end of quantitative easing policies in the US, the pace of recovery of the developed economies (US, Europe and Japan), the degree of the slow-down in the BRIC economies, the global demand for commodities, and the higher volatility in foreign exchange rates in general. For TCX, the impact of these factors on the frontier economies (and their exchange rates) will be an important driver of financial risks and results.

We continue meanwhile to push the boundaries of our commercial strategy and sharpen the focus of our efforts. A good example of this was the placement of some of our exposure into the international markets, thereby freeing capacity to continue investing without breaching concentration limits. We have also realised the first results of diversifying our investment flow to selected non-investors. Moreover, in line with our



Nicaragua 5 córdoba coin

ambition to impact the development of the markets that we are active in, we spun-off parts of our research activities into a separate company called Mantis, thereby creating a commercial platform to market the macro-economic research function initiated a few years back by TCX. In similar vein we are sponsoring the creation of Frontier Clearing Corporation, that is targeting the use of guarantees to credit-enhance interbank trading in frontier markets. We are grateful for the vocal support of our investors for this development strategy, as was especially illustrated during the Fund's successful and well-attended 5-year anniversary event held in Amsterdam in April 2013.

We are also pleased to report that at the Extraordinary General Meeting of 13 February 2014, the Shareholders approved a deferral of their special exit option from 2017 to 2025, and the Donors agreed to extend the final maturity of the Subordinated Convertible Debt from 2020 to 2025, amongst other adjusted terms.

We refer to the governance section of this report for details of the Fund's structure and the functioning of the Supervisory Board in 2013. We note in particular that we are preparing the Fund to become regulated as an Alternative Investment Fund starting in July 2014, which will require some adjustments to its governance structure. These upcoming changes are summarized on page 30. Meanwhile, we note that the Fund continues to be operated with the highest levels of operational control effectiveness.

The Supervisory Board wishes to thank all those involved in TCX for their solid contributions in 2013. ■

Amsterdam, 8 April 2014

The Supervisory Board of The Currency Exchange Fund N.V.

Arthur Arnold, Chairman

Frank Czichowski

Tor Johansen

Jabu Molekeri

Axel van Nederveen

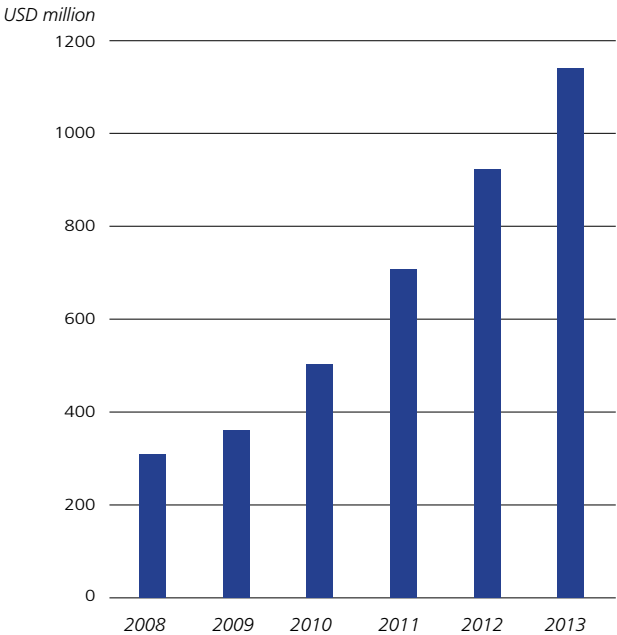


MANAGING BOARD LETTER

RESULTS 2013

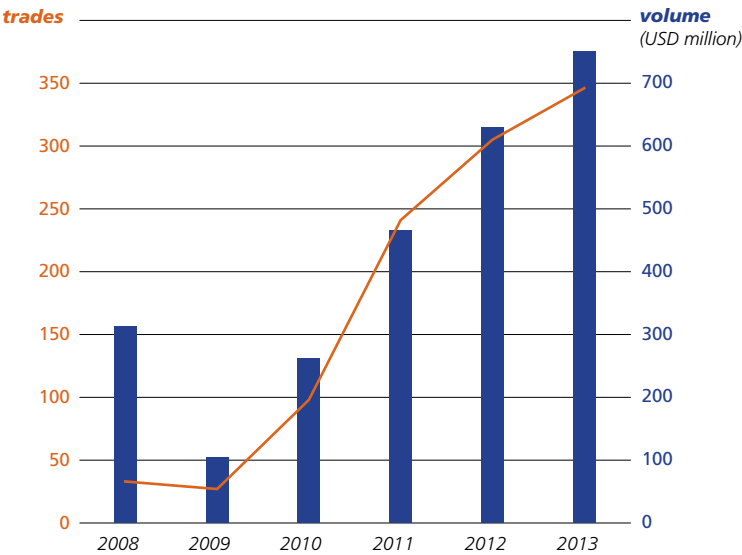
■ The notional exposure of TCX’s local currency primary portfolio¹ grew by 19% in 2013 to USD 1,144 million in gross notional exposure, an increase of USD 218 million relative to 2012. After subtracting offsetting exposures of USD 74 million and adding USD 55 million in short-term investments traded to increase diversification, TCX’s net local currency primary portfolio notional exposure at the end of 2013 equaled USD 1,125 million.

Primary Portfolio Notional Exposure



■ The volume of new primary investments realised in 2013 grew 29% to USD 516 million. This amount excludes USD 235 million in renewals of short-term hedges for existing long-term DFI loans. In total, 346 primary investment transactions were closed, a 13% increase over 2012.

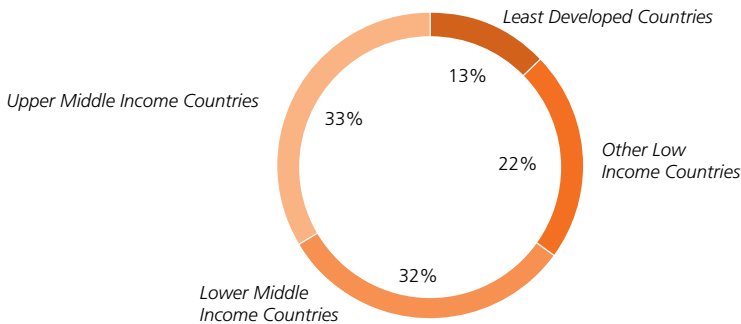
Primary Portfolio Production Figures



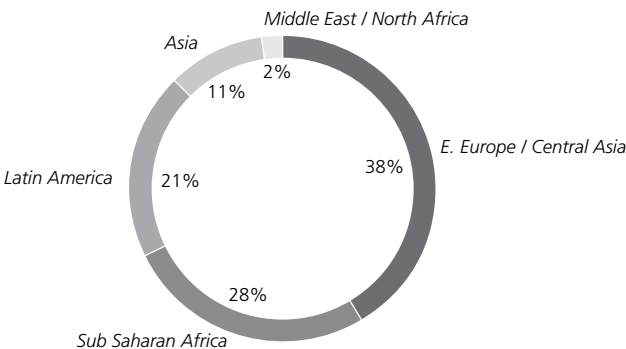
1) Primary Investments are medium- to long-term hedges transacted with TCX’s investors and select third-parties. These investments constitute the bulk of TCX’s portfolio of currency exposures. For liquidity and risk management purposes, TCX also invests in short-term trades with professional counterparties. These totaled USD 110 million in notional amounts at year-end 2013, including USD 55 million in USD/EUR hedges.

■ The composition of TCX’s primary portfolio reflects its focus on longer-term currency swaps and forwards, and the Fund’s mandate to concentrate on countries with low capital market development. The investors’ focus on hedging microfinance transactions has resulted in a predominance of usage in this segment. In addition, strong demand in Eastern Europe and Central Asia continues to result in a relative overweight of this region compared to others.

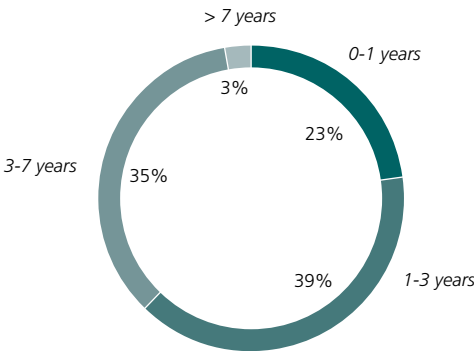
Primary Portfolio DAC Country Classification



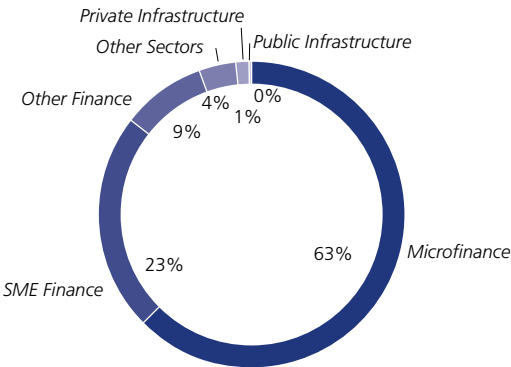
Primary Portfolio Regional Diversification



Primary Portfolio Maturity Profile



Primary Portfolio Sector Diversification



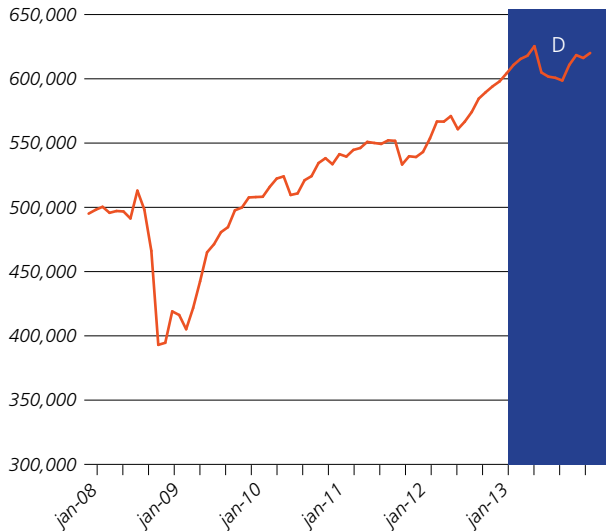
■ The net result for 2013 was an operating profit USD 28.3 million, reflecting positive investment results totaling USD 39.5 million (USD 32.3 million from the derivatives book and USD 7.2 million from the liquidity portfolio), less USD 11.2 million in operational and financial expenses and performance fees. On a cumulative basis, since 2008, the ratio of expenses to investment results has been 34%:

TCX Annual Results



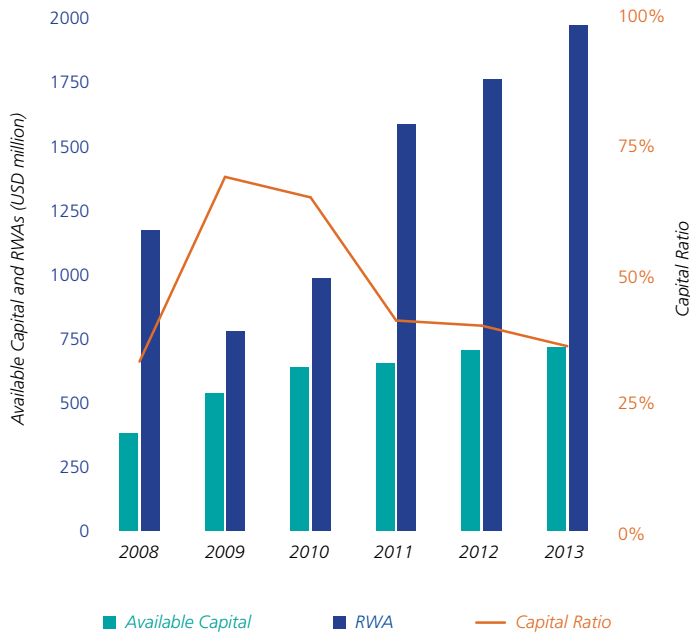
■ Reflecting the year’s positive developments, and notwithstanding substantial emerging market volatility through the summer months, TCX’s net asset value (NAV) per share improved relatively steadily through 2013, to USD 620,971 per share (+5.1% relative to year-end 2012), net of a dividend of USD 15,000 per share distributed in June 2013:

TCX Net Asset Value per Share (USD)



■ As a result of the increase in NAV, the available capital grew to USD 717 million at year-end 2013, including USD 128 million in convertible subordinated loans (part of Tier 1 capital), and USD 20 million in non-convertible subordinated loans (part of Tier 2 capital). The resulting capital ratio (available capital to risk weighted assets) stood at 36%, well above the 14% liquidation trigger and sufficient in our view to support next year’s anticipated growth.

TCX Capital and Risk Weighted Assets



DEVELOPMENTS

- In the course of 2013, Cardano Development B.V. and OG Research created Mantis B.V. to jointly market the frontier markets research and forecasting tools developed by OG Research and used by TCX as an input for pricing and valuation in selected illiquid markets. TCX subsequently novated its supply contract from OG Research to Mantis B.V. A long-term financial support agreement between TCX and Mantis was signed in July 2013, predominantly financed by TCX’s technical assistance funds.
- TCX concluded its first Internal Capital Adequacy Assessment Process (ICAAP) to reinforce its strategic planning. Its findings included an improvement to the measurement of FX risks and the need to reconsider investor exit arrangements, which were subsequently implemented via amendments to the Investors Agreement in the first quarter of 2014.
- TCX and its fund manager are actively sponsoring the creation of a new initiative, the Frontier Clearing Corporation (FrontClear), which intends to participate in the development of interbank markets in frontier economies, by offering counterparty guarantees backed by local currency collateral to promote higher trading volumes and lower transaction costs for local banks. TCX intends to participate in FrontClear’s first close, expected to occur in 2014.
- Through 2013 the investment manager took timely action to ensure compliance with the phased implementation of the European Market Infrastructure Regulation (EMIR), including its requirements on trade confirmations (March 2013), reconciliation and dispute resolution (September 2013), and reporting to trade depositories (February 2014). The final requirements to be introduced in 2015 and beyond (clearing and margining) are not presently expected to have a material impact on TCX.
- The Fund and its investment manager are actively preparing to become regulated as an Alternative Investment Fund and Fund Manager, respectively. The license application package must be submitted by 22 July 2014 at the latest, to ensure compliance with European and Netherlands laws. By law, the Dutch regulators will have six months from the date of application to consider the matter and issue the license. For additional details, please see page 30.

ONGOING CHALLENGES

- The growth of TCX’s portfolio and the Fund’s financial returns remain dependent on local currency exchange rate trends and global FX shocks. The current market environment shows high volatility in individual currencies and occasional events with global impact.
- The choice for local currency funding to match local currency assets by local entrepreneurs is often based on binary financial considerations (“how much will it cost me now?”) rather than appropriate risk management (“how much could I lose later?”). As a result, the low interest rates prevailing in US dollars and the Euro continue to be perceived as attractive alternatives for many clients.
- Due to the limited liquidity and transparency in TCX’s target markets, substantial effort and expert judgment are required in the application of pricing and valuation techniques. Together with the legal and operational aspects of hedging investments, these factors present additional hurdles to overcome when considering the alternatives offered by TCX.
- TCX’s primary portfolio remains relatively imbalanced regionally, with an overconcentration on Eastern Europe and Central Asia. Notwithstanding the fund manager’s successful efforts to place exposures with market participants, the opportunities to make use of market hedging remain limited and incidental.

FINANCIAL STATEMENTS

This annual report and the 2013 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 67.

The Supervisory Board recommends that the annual general meeting of shareholders adopt the 2013 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.

The appropriation of profit proposed by the Managing Board and approved by the Supervisory Board can be found on page 62 of this annual report. ■

Amsterdam, 8 April 2014

The Managing Board of TCX Investment Management Company B.V.

Joost Zuidberg, Chief Executive Officer
 Brice Ropion, Chief Operating Officer
 Bert van Lier, Head of Trading



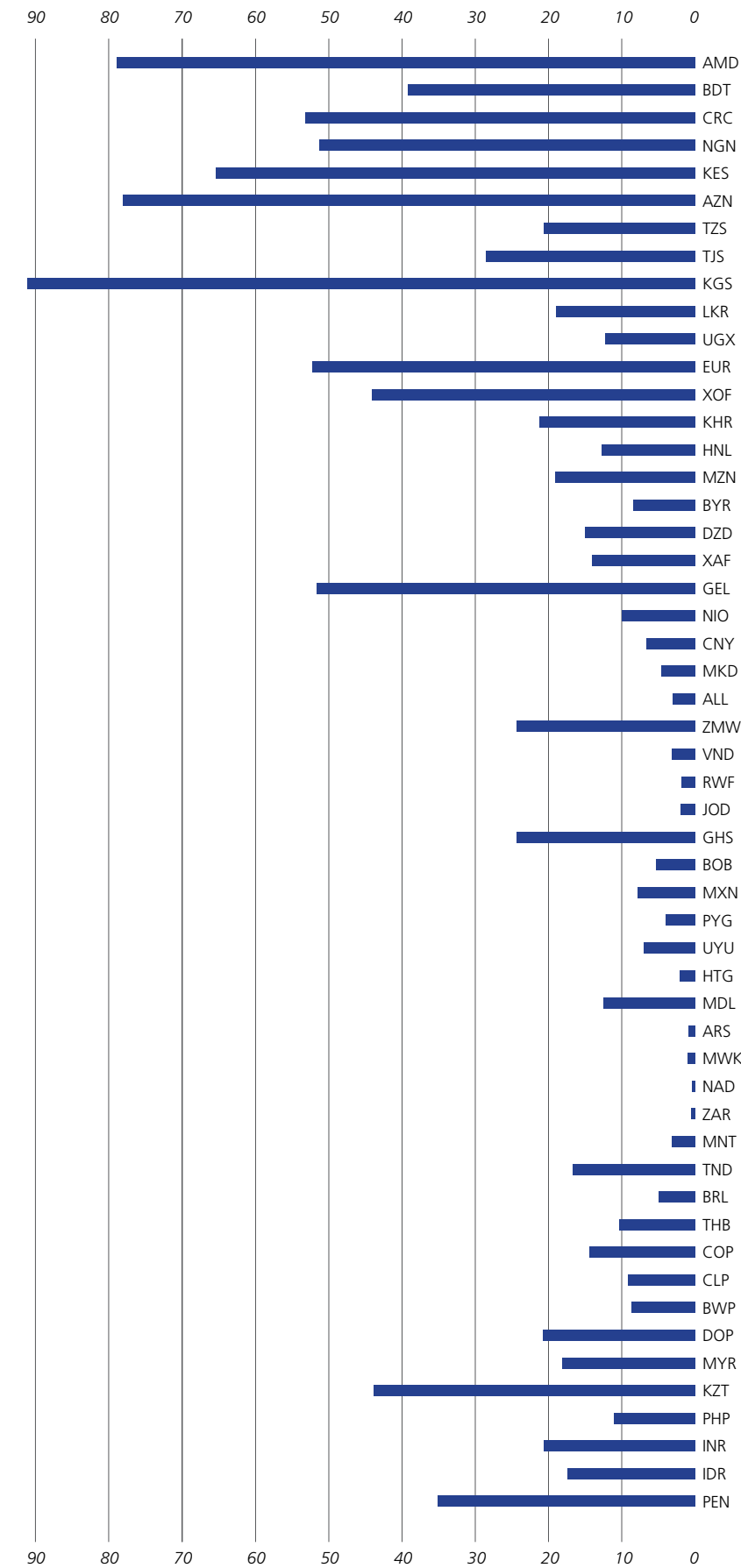
Columbia 1000 peso coin



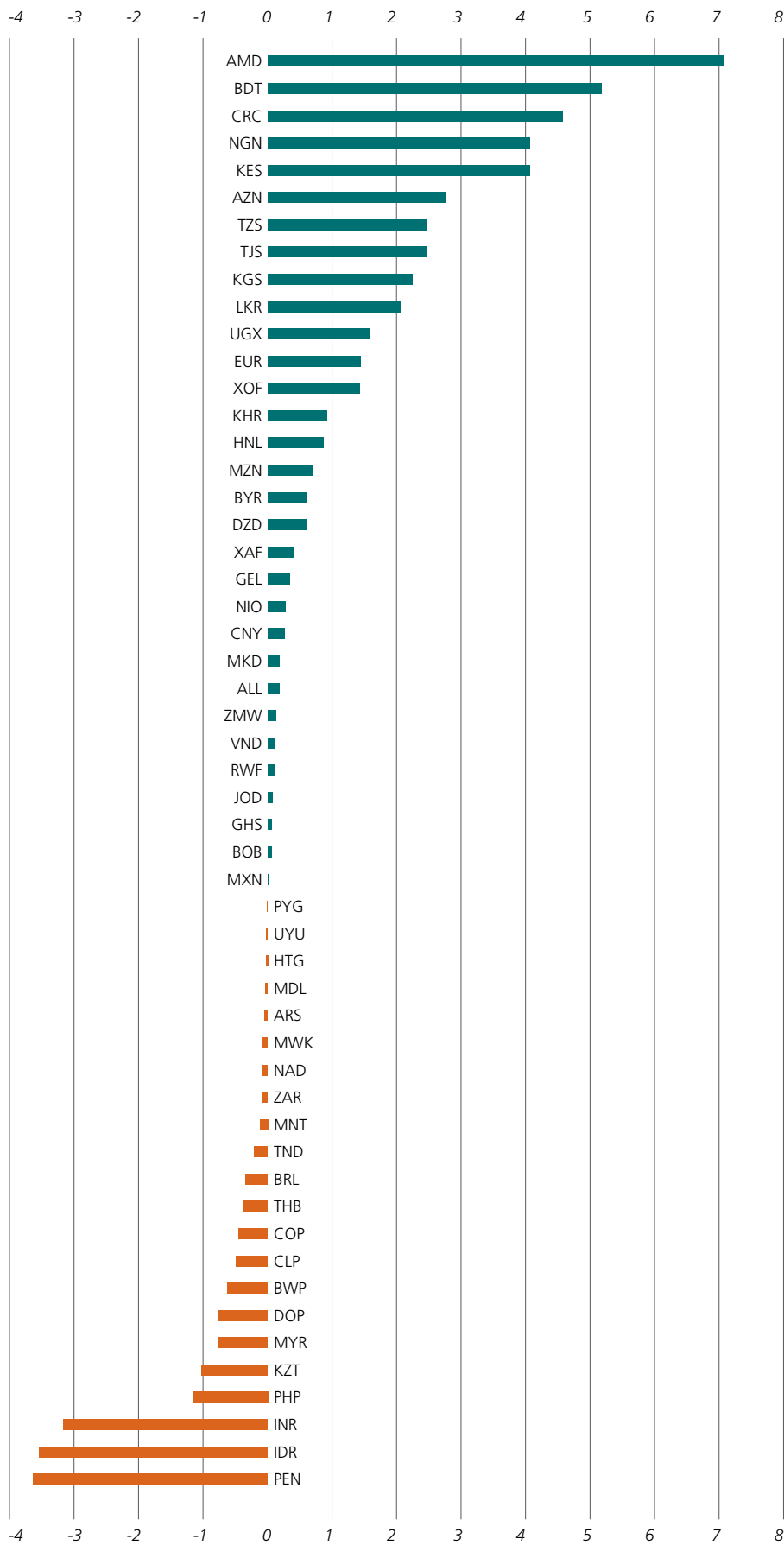
INVESTMENT RESULTS

The investment results reflect the performance of the underlying currency exposures. In 2013, the contribution of each currency to the Fund’s investment results was as follows:

TCX 2013 Average Notional Exposure per Currency (USD millions)



TCX 2013 Investment Result per Currency (USD millions)





2. BUSINESS OVERVIEW



Kazakhstan 50 tenge coin

BUSINESS RATIONALE

Long-term finance in emerging markets is often provided by development banks and other international investors who naturally invest in hard currency. The local borrower, earning local currency, has limited scope to absorb a currency mismatch between income and liabilities, and thus should borrow in local currency. The international investor, however, can usually only provide local currency on a hedged basis.

In established markets hedging solutions are readily available, but this is rarely the case in frontier markets. Hedging products are typically provided by banks acting as intermediaries, ultimately placing the risk back into the local capital markets. In frontier markets, however, the local market cannot absorb these risks. Thus, the intermediary model breaks down.

TCX's unique value proposition is its ability to retain, on its own balance sheet, the currency risks that arise from the hedges it provides to market participants. To operate successfully, TCX does not need a functioning local market. Its risk model is based on the portfolio diversification effect of spreading and absorbing currency risks across all regions. On average, the higher interest rates prevailing in frontier markets more than compensate for the devaluing trend of these currencies, which allows TCX to operate on a modest profit. ■

BUSINESS PRINCIPLES

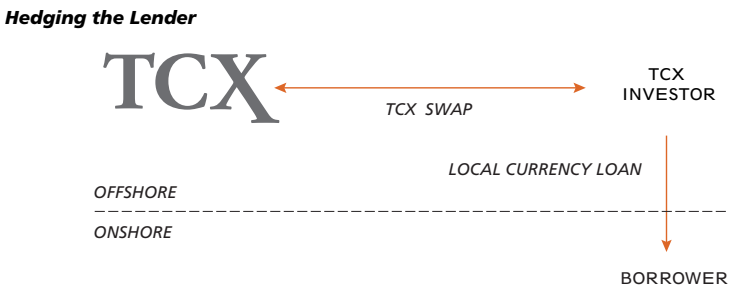
- **Focused products:** TCX only invests in market risk management products such as currency swaps. It does not provide funding.
- **Unique risk management structure:** TCX assumes outright currency risks in highly illiquid markets, managing risk through portfolio diversification across all regions and countries in the emerging and frontier markets
- **Alignment with shareholders:** By working with its shareholders, TCX has origination access to their combined client networks and deal-flow. TCX tailors its investments for these institutions.
- **Market-based pricing:** TCX invests in products that are priced in accordance with prevailing market rates and methodologies.
- **Additionality:** TCX only invests where its counterparties have no adequately priced commercial alternatives.
- **Non-speculation:** TCX only hedges currency exposures that arise from actual underlying debt obligations. ■

PRODUCTS

TCX uses a limited set of derivative products and delivery channels to achieve its mission. This allows it to remain focused on its primary objective, which is the facilitation of long-term local currency finance in frontier markets in close alignment with its shareholders.

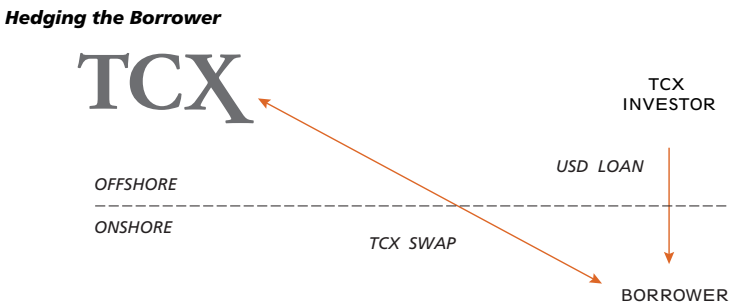
TCX's main investment product is a cross-currency swap, usually matched to the cash-flow of a local currency loan provided by one of its shareholders. The swap ensures that the investor's income is guaranteed in USD or EUR whilst the borrower's obligations are in local currency. A simpler investment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

The cross-currency swap may be provided either to the lender or to the borrower. Hedging the lender results in the investment structure presented in the figure below. The investor provides a local currency loan to the domestic borrower and hedges the associated currency exposure with TCX, so that the combined deal is an asset in the investor’s functional currency e.g. the USD.



This structure is relatively straightforward from a number of perspectives. The client interface (and counterparty credit risk management) remains concentrated with the investor and the hedge is not exposed to domestic legal, regulatory or tax constraints.

The hedge may also be provided to the borrower, resulting in the structure presented below. The investor provides a USD loan to the local borrower, who hedges the resulting obligation with TCX. The hedge transforms its hard currency obligation into a local currency liability.



The direct swap to the local entity allows a greater flexibility in the application of the hedge, since it is decoupled from the loan. The timing, size and tenor of the transaction may be specified to suit the client’s needs, as may the details of the hedge terms (the client could decide, for instance, not to include the loan margin in the hedge). The direct swap structure does however require TCX to onboard the local client, address the resulting counterparty risk, and satisfy itself that the local legal, regulatory and tax environment support the required transaction terms.

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

EXPOSURE IN 47 CURRENCIES...

Argentina Peso ARS	Benin Franc CFA XOF	
Barbados Dollar BBD	Botswana Pula BOP	
Bolivia Boliviano BOB	Burkina Faso Franc CFA XOF	
Brazil Real BRL	Cameroon Franc CFA XAF	
Chili Peso CLP	Central African Rep. Franc CFA XAF	
Colombia Peso COP	Chad Franc CFA XAF	
Costa Rica Colon CRC	Equatorial Guinea Franc CFA XAF	
Dominica Peso DOP	Gabon Franc CFA XAF	
Guatemala Quetzal GTQ	Ghana New Cedi GHC	Niger Franc CFA XOF
Haïti Gourde HTG	Guinea-Bissau Franc CFA XOF	Nigeria Naira NGN
Honduras Lempira HNL	Ivory Coast Franc CFA XOF	Rep. of Congo Franc CFA XAF
Jamaica Dollar JMD	Kenyan Shilling KES	Rwanda Franc RWF
Mexico New Peso MXN	Madagascar Ariary MGA	Senegal Franc CFA XOF
Nicaragua Cordoba NIO	Malawi Kwacha MWK	South Africa Rand ZAR
Paraguay Guarani PYG	Mali Franc CFA XOF	Tanzania Shilling TZS
Peru New Sol PEN	Mauritania Ouguiya MRO	Togo Franc CFA XOF
Surinam Dollar SRD	Mozambique Metical MZN	Uganda Shilling UGX
Uruguay Peso UYU	Namibia Dollar NAD	Zambian Kwacha ZMW
Venezuelan Bolivar Fuerte VEF		

LATIN AMERICA

SUB-SAHARAN AFRICA



...CAPABILITIES IN 100+ COUNTRIES.

Algeria Dinar DZD	Albania Lek ALL	Bangladesh Taka BDT
Egypt Pound EGP	Armenia Dram AMD	Cambodia New Riel KHR
Jordan Dinar JOD	Azerbaijan Manat AZN	China Renmibi CNY
Lybia Dinar LYB	Belarus Ruble BYR	Fiji Dollar FJD
Morocco Dirham MAD	Bosnia Herzegovina Mark BAM	India Rupee INR
Oman Rial OMR	Croatia Kuna HRK	Indonesia Rupiah IDR
Tunisia Dinar TND	Georgia Lari GEL	Japan Yen JPY
Yemen Rial YER	Kazakhstan Tenge KZT	Malaysia Ringgit MYR
	Kyrgyzstan Som KGS	Maldives Rufiyaa MVR
	Macedonia Denar MKD	Mauritius Rupee MUR
	Moldova Leu MDL	Mongolian Tugrik MNT
	Romania New Leu RON	Myanmar Kyat MMR
	Russia Ruble RUB	Nepal Rupee NPR
	Serbia Dinar RSD	Pakistan Rupee PKR
	Tajikistan Somoni TJS	Papua New Guinea Kina PGK
	Turkish Lira TRY	Philippine Peso PHP
	Ukraine Hryvnia UAH	Solomon Islands Dollar SBD
	Uzbekistan Som UZS	Sri Lanka Rupee LKR
		Thailand Baht THB
		Vietnam Dong VND

NORTH AFRICA & MIDDLE EAST

EAST EUROPE & CENTRAL ASIA

ASIA-PACIFIC



CASE STUDY

THE AFRICA LOCAL CURRENCY BOND FUND (ALCB), MAURITIUS

TCX INVESTOR – KfW

TRANSACTION – BWP 30 million (USD 3.5 million) 3-year local currency bond issued in Botswana, with ALCB as investee and TCX as hedge provider (and other similar transactions in Ghana, Kenya, and Togo).

The ALCB Fund was created by KfW following the G20 Action Plan on the Development of Local Currency Bond Markets (LCBMs). The plan recognizes the importance of well-developed LCBMs to creating financial stability and economic growth. The ALCB Fund contributes to the plan’s objectives by supporting small cap banks and corporates to issue bonds locally in their local currency.

Since its establishment in 2013, the ALCB Fund has developed a strong pipeline and participated in LCB issues by a Ghanaian SME/mortgage bank, a Togolese mortgage refinancing company, a Kenyan housing development institution, and a consumer lending institution in Botswana.

TCX provides the ALCB Fund with a hedge for each investment, eliminating the Fund’s local currency risks and allowing it to earn USD-based returns. To minimize the operational complexity surrounding collateral management, the Fund transacts under TCX’s Standardized Trading Platform, which offers users automated and favorable collateral terms.

Karl von-Klitzing, Senior Investment Manager at KfW and Director of the ALCB Fund comments: *“To enable the ALCB Fund to fulfil its developmental mandate on a sustainable basis, access to hedging mechanisms in exotic currencies is essential. The Fund’s balance sheet is denominated in USD, while the Fund’s mission is to act as an anchor investor into various local currency bond issues.”*

Bayport Botswana, a consumer lending institution active in Botswana, is one of the issuers supported by ALCB Fund in connection with their maiden bond issue in November 2013. David Rajak, Capital Markets Executive at Bayport International Group Support, comments on the case:

“Due to the nature of our business we always try to maximize local currency funding. However, due to the limited depth of capital markets and the fact that the company in Botswana was relatively young and the structure we designed exceptionally innovative, we knew that the first issue would need to be to a reputable anchor investor. We therefore limited the issue of our first tranche to the ALCB Fund and to the arranging bank. However, with the broader issuance of subsequent tranches, ALCB Fund will hold less than 30% compared to the original 75%. I have no doubt in saying that without the ALCB Fund, we would be some time away from achieving our local currency ambition and we would not have been able to structure such an innovative program, that is a first for this market”.



Botswana 2 pula coin

CASE STUDY

COOPERATIVA NACIONAL DE EDUCADORES R.L. ("COOPENAE"), COSTA RICA

TCX INVESTOR – DEG

TRANSACTION – USD 20 million 6-year loan provided by DEG and hedged by TCX under a DEG credit guarantee.

Micro, small, and medium-sized enterprises (MSMEs), are a significant driver of the Costa Rican economy, representing over 90% of formal companies and over 30% of private sector jobs. They are, however, underserved by financial institutions. Coopenae, the largest regulated financial cooperative in Costa Rica (with over 80,000 registered members served by 19 offices) is increasingly focusing on the MSME segment.

Adrian Alvarez, Coopenae’s General Manager comments: *"The mission of Coopenae is to improve the quality of life of our partners by directing our efforts to the productive sector of the country and ensuring a greater competitiveness through financing for micro and small enterprises"*

In 2013, Coopenae obtained a USD 20 million 6-year loan from DEG. Simultaneously, it sought a hedge to eliminate the currency mismatch between the USD loan and its loan portfolio, which is predominantly denominated in local currency. However, in Costa Rica, hedge products offered by the market do not exceed two years, falling short of the company’s needs. The solution combined a long-term term hedge provided by TCX provided under a credit guarantee from DEG.

The hedge provided directly by TCX to Coopenae precisely matches the schedule of the USD loan from DEG. It insulates Coopenae from fluctuations of the Colon against the USD dollar. Since it fixes the interest rate in Colon, it also eliminates the transaction’s interest rate risk.

The guarantee is offered under DEG’s guarantee program, designed to support access to TCX hedging for DEG clients. Without the guarantee, Coopenae would be required to post collateral with TCX, in respect of the potential positive future value of the swap to TCX. Apart from the operational complexities, posting collateral typically gives rise to liquidity issues and transactional and opportunity costs. The credit guarantee provided by DEG to TCX in respect of its potential exposure on Coopenae avoids those issues by substantially replacing the need for collateral during the life of the trade. A further benefit is that the legal risk surrounding the enforceability of exposure and collateral netting under local laws is minimized.

Adrian Alvarez, Coppenae’s General Manager continues: *"The hedge solution that TCX could provide, in close collaboration with our lender DEG, exceeds the current possibilities of the market in Colon. It allowed us to take long-term funding without having to bear currency and interest rate risk. The way the guarantee is structured, ensures that the hedge with TCX has minimal operational complexity for our Treasury"*.



Costa Rica 500 colones coin

CASE STUDY

SOFTLOGIC FINANCE PLC, SRI LANKA

TCX INVESTOR – FMO

TRANSACTION – USD 5 million 4-year loan provided by FMO and hedged by TCX under a FMO credit guarantee.

Since the end of its civil war, Sri Lanka has experienced a period of sustained economic growth. This has resulted in substantial demand for credit, driven largely by high-growth SMEs. This growth capital is partly supplied by international development banks that provide long-term USD refinancing lines to the banks and numerous NBFIs in Sri Lanka, most of which on-lend these funds in Sri Lankan Rupee (LKR). Without an adequate ability to hedge long-term against foreign exchange rate risk in the local market, the mismatch exposes the financial institutions to substantial FX risks (as demonstrated by the sudden depreciation of the LKR in 2013).

Softlogic Finance, a deposit-taking finance and leasing company licensed by the Central Bank of Sri Lanka, provides leasing facilities and retail loans to high-growth SMEs. Early in 2013 it received a 5-year, USD 5 million loan from FMO, and sought to hedge the resulting exposure.

In this context, and supported by various institutions like Softlogic and FMO, TCX was seeking to obtain the approvals from the Central Bank of Sri Lanka (CBSL) to conclude hedge contracts with domestic financial institutions. Following a specific request by Softlogic to support a hedge for the USD loan from FMO, TCX was happy to receive the first CBSL approval for this transaction.

FMO has supported the transaction as guarantor for TCX’s credit risk, which allows TCX to offer the hedge to Softlogic at substantially reduced collateral requirements.

Mr Ashok Pathirage, Chairman of Softlogic comments: *“The role of FMO as the guarantor was instrumental and recognised as a critical transaction feature by the CBSL, as it relieves us from remitting upfront USD cash funds offshore to TCX. The guarantee results in a high collateral threshold which minimizes the need for us to mobilize USD to meet (potential) collateral calls later in the deal. This feature was key to the Central Bank’s approval.”*

Matthijs Egelie, Investment Officer at FMO remarks: *“As a founding shareholder of TCX, FMO strives to engineer solutions to support the local currency business of its clients. An example is the guarantee program that we developed with TCX, which enables TCX to trade directly with our clients and those of other investors of TCX, at significantly simplified collateral terms.”*



Sri Lanka 2 rupees coin

CASE STUDY

INTER-AMERICAN DEVELOPMENT BANK

TCX INVESTOR – Inter-American Development Bank

TRANSACTION – UYU 51 million (USD 2.5m) 1-year loan, renewable up to 5 years, provided by IDB to Microfinanzas del Uruguay S.A. (“Microfin”), and hedged by TCX via a USD/UYU floating rate swap with IDB.

Micro, small and medium-sized enterprises (MSMEs) represented 95% of the formal enterprises just before the financial crisis in Uruguay in 2002, employing over 60% of the active population. The high dollarization of Uruguayan financial institutions’ liabilities was among the many factors that triggered the crisis, precipitating their collapse following the 95% depreciation of the Uruguayan Peso.

The crisis impacted MSMEs most severely. While a devastated economy recovered from 2005 onwards with growth rates between 5% and 12%, the MSMEs remained credit deprived. Lack of credit history and information on MSMEs constitute a major barrier for increased financing of these businesses.

In response to the above, Microfin, a leading microfinance institution founded in 2008, introduced its Wholesaler Product, under which wholesale suppliers of goods and services share information with Microfin on the repayment history of MSMEs. This information helps determine the credit risk profile of MSMEs, which is a vital input for providing them with working capital funding while rewarding suppliers with additional sales without incurring risk.

Since long-term funding for this product could not be found locally, Microfin turned to offshore funding. The IDB group, already involved in the early financing of Microfin through the Multilateral Investment Fund (MIF/Fomin), found an immediate fit between its strategy to service the Base of the Pyramid segment in Uruguay and Microfin’s Wholesaler Product. However, in order to approve the loan, the IDB required that the loan be provided in local currency. All trade flows between wholesalers and MSMEs are in Uruguayan Peso, and as such, the financing had to be denominated in UYU to avoid currency risks for MSMEs.

The IDB loan to Microfin was structured as a UYU 51mm one-year loan renewable up to five years, where the swap that the IDB closed with TCX mirrors the interest and principal repayments of the underlying loan to Microfin.

Mr. Jozef Henriquez, Head of the Syndications Unit at IDB comments: *“TCX is a strategic partner for IDB. TCX offered the possibility to do floating rate Uruguayan Pesos for a tenor longer than one year, an option not currently available in the market. TCX’s addi-tionality principle matches IDB’s development mandate. The combination of both makes impactful deals such as Microfin possible.”*

Microfin’s Wholesaler Product portfolio is now growing and Uruguayan MSMEs are receiving UYU loans, creating jobs and contributing to Uruguay’s impressive growth rates.



Uruguay 10 pesos coin



3. GOVERNANCE AND OWNERSHIP



Cambodia 500 riel coin

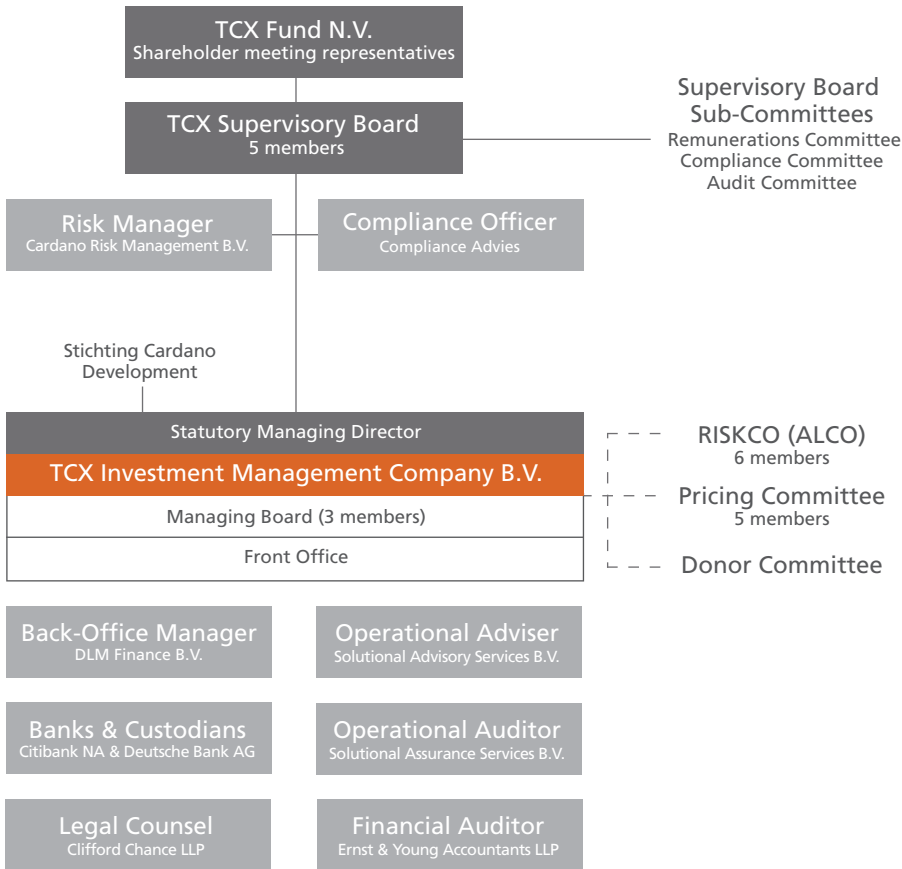
MANAGEMENT

TCX Investment Management Company B.V. (TIM) is TCX’s exclusive fund manager and the sole member of its statutory Managing Board. It is responsible for the commercial and operational management of the Fund, with Mr. Joost Zuidberg as its Managing Director and Chief Executive Officer, Mr. Brice Ropion as its Deputy Managing Director and Chief Operating Officer, and Mr Bert van Lier as its Deputy Managing Director and Head of Trading.

TIM is 100% owned by Cardano Development B.V., which is a wholly-owned subsidiary of Stichting Cardano Development, a not-for-profit foundation with charitable status.

TCX has appointed a number of parties to support TIM in the management of the Fund. Cardano Risk Management B.V., a 100% subsidiary of Cardano Holding B.V., is the Fund’s Risk Manager². Compliance Advies, an independent service provider, is appointed to perform certain compliance oversight functions including incidents and complaints management. Both Cardano Risk Management B.V. and Compliance Advies report directly to the Supervisory Board.

Effective 1 February 2013, TIM sub-contracted the back office management, portfolio valuation and fund administration functions to DLM Finance B.V., a company formed and owned by previous TIM employees. ■



2) Cardano Risk Management B.V. and Cardano Holding B.V., are unrelated to Cardano Development B.V. and Stichting Cardano Development, except that the CFO of Cardano Holding B.V. is also part time director of Cardano Development B.V. and chair of the supervisory board of TIM, and the CEO of Cardano Holding B.V. is also the chair of the trustees of Stichting Cardano Development and chair of the supervisory board of Cardano Development B.V.

SUPERVISORY BOARD

The Fund's management is supervised by the TCX Supervisory Board, which is responsible for oversight and governance of the Fund's policies and strategy.

Supervisory Board members are appointed by the Annual General Meeting by simple majority vote and are all independent non-executives in accordance with the best practice provisions of the Dutch Corporate Governance Code.

The members of the Supervisory Board are appointed for a period of 4 years and receive an annual remuneration of EUR 22,000 (excluding VAT), except for the Chairman who receives EUR 50,000 (excluding VAT).

The Supervisory Board met 5 times during 2013. Supervisory Board meetings are attended by the members in person³, and 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 and market development, compliance, and governance. Regular meetings with management committees are held, and all matters presented to shareholders are pre-discussed and approved.

The Supervisory Board has created a number of sub-committees and has appointed several management committees. These committees operate pursuant to terms of reference determined by the Supervisory Board and the Fund's code of conduct, in line with the rules and regulations of the Dutch corporate governance code. Membership of the various committees is provided at the end of this Annual Report. The committees are as follows:

Supervisory Board Sub-Committees

■ **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. Members of the Compliance Committee are not separately remunerated. During 2013, the Compliance Committee held 5 meetings.⁴

■ **The Remuneration (and Nomination) Committee** provides the Supervisory Board with non-binding advice regarding the variable Performance Fee payable to the Investment Manager, as well as other specific advice requested by the Supervisory Board from time to time⁵. Members of the Remuneration Committee are not separately remunerated. During 2013, the Remuneration Committee held 1 meeting.

■ **The Audit Committee** was appointed in July 2013 and assists the Supervisory Board on the Fund's financial planning and reporting. Members of the Audit Committee are not separately remunerated. During 2013, the Audit Committee held 1 meeting.

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 best-practice application of market-based pricing methods to all primary transactions. During 2013, the Pricing Committee met 12 times. All members are remunerated by way of an annual lump sum of EUR 20,000 (excluding VAT), except for the Chairman who receives EUR 40,000 (excluding VAT).

■ **The Risk Management Committee** 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 also considers all counterparty KYC and credit risk

3) In 2013 the attendance rate was 92%.

4) The Compliance Committee does not meet separately. Its agenda is incorporated in the Supervisory Board's agenda.

5) The variable Performance Fee payable to the Investment Manager depends on scores given by the Supervisory Board for Corporate Management Quality (25%), Developmental Impact (25%), Customer Satisfaction (25%), and NAV Progression (25%), with the Supervisory Board reserving the right to disregard any pre-agreed criteria when deciding the final score. For 2013, the resulting Performance Factor was 1.45 on a scale of 0 to 1.6 (2012: 1.45; 2011: 1.45). This variable Performance Factor affects both the bonuses payable to TIM's employees (which are tied to the salary mass), and the profits accruing to TIM's owner, Cardano Development B.V. (which are tied to a fixed USD amount that is indexed to US inflation).

matters. During 2013, the RISKCO held 12 meetings. One independent member is remunerated by way of an annual lump sum of EUR 20,000 (excluding VAT); all other members are not remunerated.

■ **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. There were no meetings of the Donor Committee during 2013, all matters having been decided on in writing. Members of the Donor Committee are not separately remunerated.

THE ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (AIFMD)

Since 22 July 2013, pursuant to Directive 2011/61/EU (the Alternative Investment Fund Managers Directive or “AIFMD”) as implemented in the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht* or “WFT”), the Fund and its fund manager, TCX Investment Management Company B.V. (“TIM”), have classified for regulatory purposes as an Alternative Investment Fund and an Alternative Investment Fund Manager, respectively. In accordance with the transition provisions of the AIFMD, TIM has until 22 July 2014 to apply for a license from the Dutch supervisors to operate and market the Fund to professional investors within the EU. The work to obtain the license is ongoing with TCX’s operational partners, and the current plan is to submit the application package after the May 2014 AGM, no later than 22 July 2014. By law, the Dutch supervisors will have up to six months after the submission date to reach their decision.

Since its formation in 2007, the Fund has chosen to comply voluntarily with the principles and all material guidelines of the Dutch WFT, and as such the Fund is well prepared for the AIFMD in terms of adhering to best practices for regulated funds. This includes the Fund’s overall governance framework in terms of protecting the interests of the Fund’s investors; its risk management, valuation, code of conduct and whistle-blowing policies; its “know-your-customer” and anti-money-laundering procedures; and its operational control framework whereby all processes are subject to 4-eyes procedures as an immediate control, and to regular audits by independent auditors, including an annual operational audit.

At the same time, the AIFMD will require changes to satisfy the regulatory authorities, primarily to achieve greater clarity in the roles performed by the parties serving the Fund, and in their ultimate liability for performing these roles. The main changes are as follows:

- As TCX’s fund manager, TIM must assume full responsibility for the risk management and (regulatory) compliance functions, in addition to the portfolio management function. This will be achieved by, amongst other means, creating a functional and hierarchical divide within TIM between the investor relations and commercial functions on the one hand (CEO, Head of Trading), and the risk management and compliance functions on the other hand (COO). Related to this:



Morocco 5 dirham coin

□ Cardano Risk Management B.V. will be retained as the Fund's independent Risk Monitor, responsible for quantifying and monitoring its risk exposures, reporting these to the risk manager for subsequent action by the risk manager, performing an independent whistle-blowing role on risk management matters, and providing risk advisory services to the Fund;

□ Compliance Advies will be retained as the Fund's independent External Compliance Officer, responsible for supporting the Internal Compliance Officer on (regulatory) compliance matters, and for performing an independent whistle-blowing role on code of conduct and conflict of interest incidents.

■ A new company named Cardano Depositary B.V. will become the Fund's independent depositary, responsible for monitoring the Fund's cash flows, safekeeping its assets (through Citibank NA and Deutsche Bank AG as sub-custodians), and confirming its asset values.

These changes will be supported by explicitly granting each member of the Risk Management Committee a formal right of appeal to the Fund's Supervisory Board, in case any member disagrees with the Committee's majority decision.

From the day-to-day operational perspective, it is important to note that these organizational changes will entail minimal changes to the existing procedures and control framework. ■





TCX INVESTORS



SUBORDINATED DEBT
IDB **USD 20.0 million**



SUBORDINATED CONVERTIBLE DEBT
DUTCH GOVERNMENT **USD 70.0 million**
GERMAN GOVERNMENT **USD 58.8 million**



IMPORTANT NOTICE: Interests in TCX have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and can only be acquired by persons outside of the United States and may not be offered or sold in the United States or to or for the benefit of U.S. persons.



SHAREHOLDERS **NUMBER OF SHARES**
(TOTAL 915 SHARES)



4. FINANCIAL STATEMENTS



Yemen 20 rial coin

Statement of financial position
(for the year ended 31 December)

(all amounts in USD)		2013	2012
	Notes		
ASSETS			
Cash and cash equivalents	4	31,032,785	40,909,420
Financial assets at fair value through profit or loss	5	735,152,773	694,693,578
Cash collateral given	6	15,625,431	20,697,678
Other receivables	7	56,817	92,253
Total assets		781,867,806	756,392,929
LIABILITIES			
Cash collateral received	6	7,671,817	6,472,412
Financial liabilities at fair value through profit or loss	10	47,825,664	37,670,342
Accrued expenses and other payables	11	9,402,497	9,856,794
Subordinated convertible debt	12	104,075,617	97,368,583
Grants linked to the subordinated convertible debt	12	24,697,836	31,404,870
Subordinated loan	13	20,006,193	20,002,385
Total liabilities (excluding Class A shares)		213,679,624	202,775,386
Net assets attributable to holders of redeemable shares Class A	14	568,188,182	553,617,543
Total liabilities		781,867,806	756,392,929

Statement of comprehensive income
(for the year ended 31 December)

(all amounts in USD)		2013	2012
	Notes		
INVESTMENT RESULT			
Net result on financial instruments at fair value through profit or loss	15	36,100,118	63,373,058
Interest income	17	2,277,292	4,023,622
Interest subordinated loan	13	(3,808)	(2,385)
		38,373,602	67,394,295
OTHER RESULTS			
Contributions to Donors Assets	11	(627,441)	(1,598,680)
Foreign currency translation	16	1,107,313	2,182,015
		479,872	583,335
OPERATIONAL EXPENSES			
Management fee	8	(6,503,520)	(5,318,249)
Performance fee	8	(1,808,610)	(2,466,428)
Risk management fee	9	(1,396,510)	(1,623,843)
Audit fees	9	(297,335)	(323,402)
Governance expenses	8	(357,892)	(349,040)
Other general expenses	18	(193,968)	(627,490)
		(10,557,835)	(10,708,452)
Operating income		28,295,639	57,269,178
Distribution to holders of redeemable shares Class A	14	(13,725,000)	-
Change in net assets resulting from operations attributable to holders of redeemable shares Class A		14,570,639	57,269,178

Statement of cash flows

(for the year ended 31 December)

(all amounts in USD)

		2013	2012
	Notes		
CASH FLOW FROM OPERATING ACTIVITIES			
Net receipts from Primary, Trading and Hedging financial instruments at FVtPL		46,518,417	44,175,019
Net payments for Debt instruments		(40,308,618)	(29,724,844)
Distribution of repayable grants		(406,602)	-
Interest received		2,235,742	4,019,683
Interest paid		(3,808)	-
Risk management fee paid		(1,396,510)	(1,623,843)
Management fee paid		(6,503,520)	(5,318,249)
Performance fee paid		(2,148,622)	(1,829,953)
Audit fees paid		(244,674)	(321,634)
Governance expenses paid		(357,892)	(349,040)
Cash collateral received (paid)		6,271,652	9,974,608
Transfers from Donor Assets		(341,663)	271,417
Other general expenses paid		(19,251)	(706,674)
Net cash flow generated from (used in) operating activities		3,294,651	18,566,490
CASH FLOW FROM FINANCING ACTIVITIES			
Payment for redemption of redeemable shares Class A		-	(28,372,881)
Proceeds received from Subordinated loan		-	20,000,000
Distributions paid to holders of redeemable shares Class A		(13,725,000)	-
Net cash flow generated from (used in) financing activities		(13,725,000)	(8,372,881)
Net cash flow generated during the year		(10,430,349)	10,193,609
Cash and cash equivalents at the beginning of the year		40,909,420	29,591,073
Foreign currency translation of cash positions		553,714	1,124,738
Cash and cash equivalents at end of period	4	31,032,785	40,909,420
Analysis of cash and cash equivalents			
Cash at Citibank		28,822,530	39,863,576
Cash at Deutsche Bank		2,210,255	1,045,844
Cash and cash equivalents at end of period	4	31,032,785	40,909,420

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

The movements in shares Class A are as follows:

(for the year ended 31 December)

(all amounts in USD)

	Amounts		Number of shares	
	2013	2012	2013	2012
Net assets at beginning of year	553,617,543	524,721,246	915	965
Shares issued	-	-	-	-
Redemption of shares	-	(28,372,881)	-	(50)
Net change from transactions with shareholders	-	(28,372,881)	-	(50)
Change in net assets from operations	14,570,639	57,269,178		
Net assets at end of the year Class A	568,188,182	553,617,543	915	915



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 was established in September 2007 and started commercial operations in January 2008.

The Fund’s objective is to invest, along commercially sound principles, in long-term emerging-market currency and interest rate derivatives, with the purpose of developing local currency funding options, predominantly for its investors and their clients. TCX’s counterparties utilize the products offered in the mitigation of currency and interest rate mismatches.

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 Part 9 of Book 2 of The Netherlands Civil Code. Refer to note 20 and 21 for a further explanation of significant accounting policies, estimates and judgments.

The financial statements were authorized for issue by the Managing Board on 8 April 2014.

2. EVENTS AFTER THE REPORTING PERIOD

As stated on page 30 of this Annual Report, the Investment Manager is in process of adjusting the Fund’s governance model to comply with the AIFMD and apply in timely fashion for a license to operate the Fund as an Alternative Investment Fund. In line with the reporting requirements of the AIFMD (which has been effective since 22 July 2013), this Annual Report already includes certain additional disclosures and explanatory notes.

On 13 February 2014, the Investors approved several amendments to the Investors Agreement to incorporate a deferral of the Investors’ special exit option from 2017 to 2025, and to fix the interest payable on the Donor Assets to 2.5% per annum. The Donors simultaneously agreed to extend the final maturity of the Subordinated Convertible Debt from 2020 to 2025.

On 13 February 2014, the Investors approved a revised Risk Charter (and associated Risk Guidelines) to incorporate the results of the 2013 Internal Capital Adequacy Assessment Process (ICAAP), including (i) amendments to the Pillar 1 calculation for market risks to mitigate the volatility of the related capital requirements (extension of the data set to 1996 and averaging of tail risk events), and (ii) amendments to the calculation of the Pillar 2 capital buffer to sensitize this measure for e.g., concentration risk and the outcome of risk-based stress scenarios approved by the Pricing Committee. These amendments make possible a more dynamic approach to managing the Fund’s risk and growth buffers in a disciplined fashion.

On 13 February 2014, the Investors approved a potential investment by TCX of up to USD 10 million in Frontier Clearing Corporation, a new entity that will use local currency collateral as the basis for issuing hard currency guarantees covering the credit risks incurred by offshore counterparties when extending derivatives trading or other (banking) facilities to local counterparties.

On 19 February 2014, Norfund redeemed its investment of 20 shares in TCX for a cash consideration of USD 12,423,667, based on the TCX per share value at 31 December 2013 plus 3-month LIBOR from 31 December 2013 to 19 February 2014.

3. 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 capital markets in emerging country currencies. By investing in local currency and interest derivatives, the Fund facilitates the provision of local currency funding to borrowers in developing countries, inter alia as provided by its investors.

Classical providers of currency and interest rate hedging in international financial markets typically operate on a matched book principle, which generally limits them to offering products for which there is a matched demand and supply. This model breaks down in most developing countries, where demand for long-term local currency exposure is illiquid or even 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, which is to mitigate risk through portfolio diversification on a global scale rather than by matching supply and demand on a currency by currency basis. This allows TCX to absorb 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 for investors to pool their local currency activities and exposures, thereby achieving a more complete risk spreading and efficiencies of scale and scope.



Serbia 20 dinar coin

Investment policy

TCX exclusively focuses on currency and interest rate derivatives risk managed through internal portfolio diversification.

The Fund mostly invests through or with its Investors, which have established local networks in emerging markets. TCX's Investors have a guaranteed weighted annual nominal transaction capacity allocation of 100% of their share capital contribution. The Fund may also trade with non-investor counterparties, notably the clients of the Investors.

One of the key investor considerations of the Fund is the development impact of its activities. TCX's most direct development impact is to strengthen the financial basis of emerging markets entities by removing the currency/maturity mismatch they would otherwise face. TCX's stated focus on Sub-Sahara Africa ensures that the negative effects of the relative lack of financial infrastructure in this region are minimized and that volumes transacted there remains in line with production in other regions.

TCX is limited to offering interest rate terms up to 150% of the length of the longest term available in the market. The maximum term is set by the Pricing Committee.

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 available funds in cash deposits, commercial paper, bank deposits, T-bills, fixed and floating rate notes. Generally, about 70%-80% of these assets have a remaining term shorter than 1 year. The other 20%-30% are considered highly liquid investments (i.e., investments in highly-rated government, government-backed, and banking institutions).

Risk management process

Sound risk management is essential to TCX, for it is the rationale behind its business model and critical to maintaining its credit rating. TCX has a credit rating of A- with stable outlook (2012: A-), as determined by Standard and Poor's and underpinned by stringent limits on the total risk of TCX. The Risk Manager monitors the portfolio on a daily basis and produces weekly 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 uses the regulatory banking capital adequacy guidelines of Basel III. The calculation methods follow the Basel III internal model approach unless the lack of market data prevents this or there are specific reasons to depart from this model due to the nature of TCX's business. 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 uncertainties.

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 on the portfolio (including a maximum net single currency exposure of 10% of the portfolio, and regional limits). Other active risk mitigating measures include hedging through the derivative markets, investing in liquid local currency debt instruments to balance the primary exposures, and issuing debt locally. During 2013 TCX made use of the first measure only, as 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 (ultimately) a managed liquidation of the portfolio (the Liquidation Trigger Event specified in the Investors Agreement). TCX's risk management is based on the Risk Charter approved by the Investors. 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. These are discussed below.

Market risk

The most important risk that TCX is exposed to is market risk. TCX defines market risk as the risk of fluctuations in valuations 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 use of segregated risk management techniques according to the depth and quality of available market data. The more extensive the available data, the more sophisticated the management technique available. TCX's market risks are managed in four books:

1. currency risks;
2. interest rate risks in emerging markets;
3. interest rate risk in mature markets;
4. Spread risk between local benchmark and non-deliverable forward ("NDF") rates.¹

1) The NDF spread that TCX applies refers to the spread risk between domestic and international interest rates over the life of the swap. The spread applies because TCX prices its non-deliverable swaps off local onshore benchmarks (e.g. a Treasury bill rate), which do not incorporate the country risk and other premia required by offshore investors.

The book structure is built using well-established transfer pricing techniques. Any TCX transaction can give rise to different entries in each of the four 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) and spread risk between local benchmark and NDF rates (book 4) 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 a 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.

The financial instruments on which the risks arise consist of the following groups of financial instruments at year end:

(all amounts in USD)	Fair Value in USD	% of NAV	Fair Value in USD	% of NAV
	2013		2012	
Cross currency swaps	(29,508,920)	(5.2)	(17,625,721)	(3.2)
Forwards	2,875,343	0.5	5,176,833	1.0
Commercial papers	313,116,036	55.1	328,242,617	59.3
US Treasury bills	121,316,126	21.4	49,985,164	9.0
Floating rate notes	279,528,525	49.2	291,244,343	52.6
Financial instruments at fair value through profit or loss	687,327,110	121.0	657,023,236	118.7
Cash collateral given	15,625,431	2.8	20,697,678	3.7
Cash collateral received	(7,671,817)	(1.4)	(6,472,412)	(1.2)
Cash and cash equivalents	31,032,785	5.5	40,909,420	7.4
Other	(9,345,681)	(1.6)	(9,764,541)	(1.8)
Subordinated convertible debt	(104,075,617)	(18.4)	(97,368,583)	(17.5)
Grants linked to the subordinated convertible debt	(24,697,836)	(4.4)	(31,404,870)	(5.7)
Subordinated loan	(20,006,193)	(3.5)	(20,002,385)	(3.6)
Net assets attributable to holders of redeemable shares Class A	568,188,182	100.0	553,617,543	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 VaR of a portfolio is the maximum expected loss for that portfolio, 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.

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.

The Fund uses 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 simulation². 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 14 years of historical price changes to yield a distribution of changes in value.

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.

At 31 December 2013, the Fund has a market VaR of USD 41.0 million (2012: USD 37.3 million) and consists of the following:

(all amounts in USD millions)	2013	2012
Foreign currency exchange risk VaR (book 1)	29.8	28.7
Interest rate risk VaR mature market (book 3)	2.6	2.1
Interest rate risk VaR emerging markets (book 2)	7.5	5.2
NDF (Non-Deliverable Forward) spread VaR (book 4)	1.1	1.3

The increase in market VaR can be explained by an increase in portfolio size and relative concentrations in certain emerging markets. However, there are well known limitations using VaR:

- The data provided reflects positions as at year-end which do not necessarily reflect the risk positions held at any other moment in 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 based on a distribution from historical observations. Therefore it is possible that there could be, in any future period, an observation of a higher loss.

Stress testing: 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 TCX portfolio, notably currency and interest rates. 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 set limits at portfolio level (stress testing is not meant for limit setting purposes on a book-by-book basis). In the risk management of TCX, three types of stress tests are used:

- Combination of historical events;
- Macroeconomic scenarios (commodity prices, global melt down);
- Sensitivity analyses.

Currency concentration limits: the fundamental premise of TCX is that extensive diversification reduces currency and interest rate risks at 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 set 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 net amount invested in a country or currency is the lesser of:

- 25% of total capital (including share capital, retained earnings and Tier 2 capital); and
- 10% of the total portfolio size;

All limits are subject to periodic review.

Deductions from the gross exposure amount (netting)³ is equal to 100% of the nominal amount of a related hedge⁴ if the following conditions are met:

- the portion of the exposure maturing prior to the hedge is at least equal to 80% of the maturing principal of the hedge⁵;
- there are no cross border risks between the hedged exposure and the hedge;
- the counterparty of the hedge has a minimum rating of BBB and the transaction is appropriately collateralized, taking into account wrong-way risks if any in the determination of key counterparty credit terms such as frequency of valuation, independent amount and minimum transfer amount.
- TCX’s gross currency exposure (before netting deductions) may not exceed 40% of total capital.

In case of a hedging investment that does not meet these criteria, no deductions to the exposure amounts are allowed unless approved by RISKCO on a case by case basis.

Individual currencies have a notional limit of USD 107,075,479 (2012: USD 101,817,366). The Fund’s largest exposures per currency compared to their limit are as follows (net of hedging transactions):

	% of limit 31 December 2013	% of limit 31 December 2012
Kyrgyz Som	84.0	89.3
Azerbaijani Manat	69.5	61.1
Nigerian Naira	66.1	42.4
Armenian Dram	65.7	82.3
Kenyan Shilling	59.6	64.5

3) For clarity, the nominal exposure relief of a hedge is applied for the term of the hedged exposure only

4) For clarity, transactions qualify as a hedge only if they are in the same local currency as the hedged exposure. The use of proxy hedging for concentration or market risk capital relief is explicitly ruled out.

5) In case the hedge does not have a bullet profile, this test will apply to each amortization in the hedge.

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 calculated based on notional amounts per region divided by the total portfolio notional amount are stated as follows (net of hedging transactions):

	Maximum regional concentrations	Actual concentrations 31 December 2013	Actual concentrations 31 December 2012
Emerging Europe / Central Asia	40%	37%	38%
Middle East / North Africa	30%	5%	2%
Asia	40%	12%	17%
Sub-Sahara Africa	50%	29%	25%
Latin America	40%	17%	18%

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

	Fair value	Notional value	Fair value	Notional value
(all amounts in USD)	2013	2013	2012	2012
Armenian Dram	(969,856)	22,988,574	(72,291)	8,000,000
Kyrgyz Som	(108,376)	16,500,000	(31,795)	10,000,000
Kenyan Shilling	-	-	(9,508)	4,616,216
Azerbaijani Manat	(280,661)	20,000,000	-	-
Georgian Lari	25,859	5,000,000	-	-
Tajik Somoni	(428,223)	5,000,000	-	-
Costa Rican Colon	(133,006)	5,000,000	-	-
Total hedging transactions	(1,894,263)	74,488,574	(113,594)	22,616,216

Credit risk

TCX's credit risk exposure originates from its liquidity investments and as a result of its derivatives investments. TCX limits the credit risks by concentrating liquidity investments with the best-rated counterparties, and through the use of ISDA CSA agreements (International Swap Dealer Association Collateral Support Agreements), that trigger periodic collateral movements based on the fluctuating fair market value of TCX's portfolio.

In general under the ISDA CSA master netting agreements, the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances (for instance, when a credit event such as a default occurs), all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is payable in settlement of all transactions.

TCX's credit risk measures are based on the Basel III framework using internal credit ratings with associated Probability of Default (PD). For Loss Given Default (LGD) the decision is based on the country of incorporation of the counterparty and the location of its assets. The Exposure at Default (EAD) is based on its potential future exposure, calculated as the 99% VaR for the applicable period of exposure (i.e., the period between collateral calls in the case of collateralized exposures), with Maturity set at the investment's effective maturity.

An internal rating and associated PD is assigned to each counterparty prior to execution of a transaction by RISKCO. If and when an external rating of one of the three large global rating agencies is available, this rating is the primary basis for the rating assessment. The PD attached to each rating class is generally based on the empirical default rate of this rating class over the last five years, as published by Standard & Poors. The notional amounts of derivatives credit risk exposure are included in the following table:

(all amounts in USD)	Credit rating	EAD 2013	EAD 2012
	AAA	278,869,613	470,245,036
	AA	414,800,690	156,047,701
	A	86,743,069	86,368,111
	BBB	2,074,559	44,182,980
	BB	8,722,171	9,123,425
	B	671,029	315,109
Total		791,881,131	766,282,362

The Risk Weighted Assets for the credit risk exposure shown above totals USD 153.6 million (2012: USD 100.9 million). The increase is attributable to reduced internal credits ratings, notably for the larger banks and sovereigns in the Liquidity Portfolio, and to the growth in the derivatives portfolio.

Under IFRS, TCX’s ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the right to offset is not current but enforceable only on the occurrence of future events such as a default or other credit events. The following table sets out the fair value of recognized financial instruments that are subject to the above agreements:

2013					
(all amounts in USD)	Gross Amount	Amounts offset included in fair value	Fair value included in statement of financial position	Related financial instruments not offset	Net Amount
Financial assets					
Cross currency swaps	14,277,158	-	14,277,158		
Forwards	6,914,929	-	6,914,929		
Total financial assets	21,192,087	-	21,192,087	(7,671,817)	13,520,270
Financial liabilities					
Cross currency swaps	(43,786,078)	-	(43,786,078)		
Forwards	(4,039,586)	-	(4,039,586)		
Total financial liabilities	(47,825,664)	-	(47,825,664)	15,625,431	(32,200,233)
Total	(26,633,577)	-	(26,633,577)	7,953,614	(18,679,963)

2012					
(all amounts in USD)	Gross Amount	Amounts offset included in fair value	Fair value included in statement of financial position	Related financial instruments not offset	Net Amount
Financial assets					
Cross currency swaps	19,563,415	-	19,563,415		
Forwards	5,658,039	-	5,658,039		
Total financial assets	25,221,454	-	25,221,454	(6,472,412)	18,749,042
Financial liabilities					
Cross currency swaps	(37,293,222)	-	(37,293,222)		
Forwards	(377,120)	-	(377,120)		
Total financial liabilities	(37,670,342)	-	(37,670,342)	20,697,678	(16,972,664)
Total	(12,448,888)	-	(12,448,888)	14,225,266	1,776,378

Liquidity risk

Investments

To minimize TCX’s liquidity exposure, limits are applied on each currency. These limits are determined by RISKCO depending on the currency’s convertibility risks. As per 31 December 2013 no currency other than the Euro is approved as freely convertible.

Liquidity risks include the risk that TCX cannot fulfil its obligations in a timely fashion due to cross-border transfer timing constraints. To protect TCX from this risk, the accepted single day liquidity gap for each currency may not be larger than half the average spot FX daily trading volume (determined by the Risk Manager using the average over the past year). In order to monitor the liquidity risk, a gap analysis is performed monthly that 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.

Liquidity limits for non-freely 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). Under a stress scenario, TCX may need more local funds. In this respect 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 freely 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 investments portfolio. 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.

The gap analysis for the year ended 31 December 2013 is as follows:
(all amounts in USD)

	One week	One month	Over one month
Currency EUR			
Cash In	6,274,010	35,519,259	93,639,637
Cash Out	-	-	28,849,099
Net Position	6,274,010	35,519,259	64,790,538
Cum Net Position	6,274,010	41,793,269	106,583,807
Limit	(358,483,914)	(358,483,914)	
Currency USD			
Cash In	45,148,806	43,902,862	603,123,081
Cash Out	-	857,494	134,350,359
Net Position	45,148,806	43,045,368	468,772,723
Cum Net Position	45,148,806	88,194,174	556,966,896
Limit	(358,483,914)	(358,483,914)	

The gap analysis for the year ended 31 December 2012 is as follows:
(all amounts in USD)

	One week	One month	Over one month
Currency EUR			
Cash In	34,562,900	186,992	101,178,800
Cash Out	9,242	3,150	21,161,105
Net Position	34,553,658	183,842	80,017,695
Cum Net Position	34,553,658	34,737,501	114,755,195
Limit	(351,196,691)	(351,196,691)	
Currency USD			
Cash In	27,197,569	57,521,178	592,858,415
Cash Out	549,401	101,907	151,476,940
Net Position	26,648,168	57,419,272	441,381,475
Cum Net Position	26,648,168	84,067,440	525,448,915
Limit	(351,196,691)	(351,196,691)	

TCX invests its liquid assets in cash deposits, commercial paper, bank deposits, t-bills and floated rate notes. About 74% (2012: 81%) of these assets have a remaining term shorter than 1 year. In addition, the other 26% (2012: 19%) are considered highly liquid investments (i.e., highly-rated paper issued by government, government-backed, and banking institutions). The Fund invests in commercial papers for an amount of USD 313,116,036 representing 55.1% of the NAV (2012: USD 328,242,617 representing 59.3% of the NAV) which are readily convertible into cash.

TCX provides clients with conditional deliverable products. Under normal circumstances these product are deliverable (i.e., TCX receives domestic currency locally against payment of USD or EUR obligations offshore), but in case of inconvertibility or non-transferability, the products automatically become non-deliverable (i.e., all cash flows occur in USD or EUR offshore). Thus, TCX has no local currency transfer obligations or risks after the occurrence of such an event.

The currencies in which TCX had conditional deliverables outstanding at 31 December 2013 were in Kenyan Shilling, New Ghanaian Cedi, Indonesian Rupiah and Dominican Republic Peso, for a total notional of USD 17 million (2012: USD 30 million in Kenyan Shilling, Ugandan Shilling, Indonesian Rupiah, Zambian Kwacha, Ghanaian Cedi, Tanzanian Shilling, and West African Franc).

Subordinated convertible debt

The Fund’s financial liabilities include Subordinated Convertible Loans for a nominal amount of USD 128,773,453 (2012: USD 128,773,453), divided between an undiscounted cash flow amount of USD 104,075,617 (2012: USD 97,368,583), representing 13.3% (2012: 12.9%) of the total financial liabilities, and “Grants linked to the Subordinated Convertible Loans”, for an amount of USD 24,697,836 representing 3.2% of the total financial liabilities (2012: USD 31,404,870 and 4.2% respectively) (see note 12 for further details). The Subordinated Convertible Loans and the Grants linked thereto were extended in February 2014 and now have a final maturity date of 31 December 2025 (subject to certain provisions). Each Subordinated Convertible Lender has 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.

Subordinated loan

The Fund’s financial liabilities include a Subordinated Loan for an undiscounted cash flow amount of USD 20,006,193 (2012: 20,002,385), representing 2.6% (2012: 2.6%) of the total financial liabilities (see note 13 for further details). The Subordinated Loan has a final maturity date of 15 February 2021. From 3 August 2015 until 15 August 2018 the lender has the right to demand a prepayment of 20% of the subordinated loan on a yearly basis.

Redeemable shares Class A

TCX’s Shares Class A are “putable instruments”. Redemption is at each investor’s option up to an annual maximum of 20% of the Fund’s issued Shares A outstanding at the start of each calendar year. Taking into account the maximum use of this put option, the undiscounted redemption profile of the Fund’s Shares A is as follows (see note 14 for further details regarding redemption rights). In February 2014 an amendment of the Investors Agreement was approved by the shareholders resulting in, amongst others, an extension of a redemption option not subject to the 20% cap, from 2017 to 2025. As a result, the maximum redemption amounts for the years 2018 and beyond are adjusted compared to last year’s overview.

((all amounts in USD)

	2013	2012
Year of maturity		
2013	-	110,723,509
2014	113,637,636	88,578,807
2015	90,910,109	70,863,046
2016	72,728,087	56,690,436
2017	58,182,470	45,352,349
2018	46,545,976	181,409,396
2019	37,236,781	-
2020	29,789,425	-
2021	23,831,540	-
2022	19,065,232	-
2023	15,252,185	-
2024	12,201,748	-
2025	48,806,933	-
Total	568,188,182	553,617,543

Other liabilities

The Fund holds other liabilities for an undiscounted cash flow amount of USD 9,402,497 (2012: USD 9,856,794) with a maturity date of less than 3 months, representing 1.2% of the total financial liabilities (2012: 1.3%).

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 12 for further details.

4. CASH AND CASH EQUIVALENTS

At 31 December 2013 and 2012, no restrictions on the use of cash and cash equivalents exist.

5. 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)

	2013		2012	
	Fair value in USD	% of NAV	Fair value in USD	% of NAV
Level 1 financial instrument				
Commercial papers	313,116,036	55.1	328,242,617	59.3
Debt instruments	400,844,651	70.6	341,229,507	61.6
Level 2 financial instruments				
Cross currency interest rate swaps – Primary	2,512,957	0.4	2,530,531	0.4
FX Forward contracts – Primary	-		19,707	0.0
FX Forward contracts – Trading	942,218	0.2	2,159,779	0.4
Level 3 financial instruments				
Cross currency interest rate swaps – Primary	11,723,013	2.1	17,032,884	3.1
Cross currency interest rate swaps – Hedging	41,187	0.0	-	-
FX Forward contracts – Primary	5,966,228	1.0	3,478,553	0.7
FX Forward contracts – Hedging	6,483	0.0	-	-
Total	735,152,773	129.4	694,693,578	125.5

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety, is determined based on 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 process of fair value measurement of level 3 investments is explained in Note 21.

The Level 3 investments are detailed as follows (for liabilities see note 10):

(all amounts in USD)	2013	2012
Assets	17,736,911	20,511,437
Liabilities	(37,461,973)	(33,374,114)
Total	(19,725,062)	(12,862,677)

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

<i>For the year 2013</i>	Assets	Liabilities
Balance at 1 January 2013	20,511,437	(33,374,114)
Paid distributed grants	413,554	-
Impairment distributed grants	(413,554)	-
Early termination swap contracts	(55,529)	2,475,586
Matured deals	(5,212,543)	4,470,127
Unrealised gains and losses	2,493,546	(11,033,572)
Balance at 31 December 2013	17,736,911	(37,461,973)

<i>For the year 2012</i>	Assets	Liabilities
Balance at 1 January 2012	10,424,380	(40,119,148)
Early termination swap contracts	(380,686)	30,161
Matured deals	(2,271,772)	3,400,951
Unrealised gains and losses	12,739,515	3,313,922
Balance at 31 December 2012	20,511,437	(33,374,114)

There are no results on financial instruments at fair value through profit or loss as a result of changes in calculation assumptions (2012: no results). The results include an amount of USD 937,922 (2012: USD 233,698) resulting from early termination of swap contracts. A change in interest rate of 1 basis point results in a change in fair value of USD 116,736 (2012: USD 117,803). All results on 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. For the year ended 31 December 2013 and 2012 no transfers between the level classifications of financial instruments occurred.

6. CASH COLLATERAL

As at 31 December 2013 the Fund transferred cash to margin accounts as collateral against open forward contracts for a total net amount of USD 7,953,614 (2012: USD 14,225,266). 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 margin accounts are interest bearing (refer to the credit risk disclosure in note 3).

7. OTHER RECEIVABLES

At 31 December the other receivables consist of the following:

(all amounts in USD)	2013	2012
Interest receivable	56,817	15,267
Prepaid expenses	-	76,986
Total other receivables	56,817	92,253

8. 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.

Managing board

TCX Investment Management Company B.V. received remuneration for services provided as the Fund’s statutory director which is included in the overall agreement with both parties. See below under Investment Manager for further details.

Supervisory Board

The Supervisory Board is entitled to receive a total fixed annual fee of EUR 138,000 before taxes (2012: EUR 138,000), including EUR 50,000 for the Chairman (2012: EUR 50,000) and EUR 22,000 for each other member (2012: EUR 22,000). These fees are presented as part of the governance expenses. In relation to 2013 a total of USD 182,319 (2012: USD 167,660) has been expensed as Supervisory Board fees. The amount expensed each year depends on the VAT treatment of the fees, on the timing of actual payments, Supervisory Board appointments and AGM decisions on fee levels.

Investment Manager

The main responsibilities of the Investment Manager are to manage the Fund’s investments according to the Fund’s strategy and risk management and investment guidelines, to represent the Fund in communication with its stakeholders, counterparties and services providers and to ensure the Fund’s optimal access to international and local markets to promote the Fund’s investment products.

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, DLM Finance B.V. (“the Administrator”). The main responsibilities of the Administrator are administering, settling and valuing the Fund’s investments, collateral management, and maintaining and preparing portfolio reports.

Additionally, the Administrator keeps the books of the Fund and prepares periodic financial reports for the benefit of the Pricing committee, the Supervisory Board and its (sub-) committees, and the Investors Meeting. The expenses for these services are included in the Management Fee.

Management and performance fee

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

- Cost recovery component: the Supervisory Board agrees to an annual budget payable monthly in advance, with reconciliation to actual costs at year end. For the current period, the Investment Manager received EUR 4,900,000, equal to USD 6,503,520 (2012: EUR 4,125,000 equaling USD 5,318,249);
- Performance fee: the Investment Manager receives an annual Performance fee driven by parameters agreed between the Investment Manager and the Supervisory Board of the Fund and approved by shareholders. The total performance fee taken into account (accrued) for the year 2013 amounts to USD 1,533,428⁶. Together with the approved excess over the accrued performance fee for the year 2012 of USD 275,182, the total performance fee recognized in the 2013 statement of comprehensive income amounts to USD 1,808,610. In 2012 the total performance fee taken into account amounted to USD 2,466,428, representing an amount of USD 583,639 for performance for the year 2011, and the accrued performance fee for the performance over the year 2012 of USD 1,882,788.
- Carried interest: the Investment Manager will receive a carried interest on the realised business value, representing the difference between realised 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.

Remuneration of directors and staff of the Investment Manager

At year-end 2013 the investment manager’s headcount totaled 17 employees, unchanged since 2012. The entire team will be classified as “identified staff” for regulatory purposes, including its senior management, “risk takers”, control staff, and other employees. Historically, the team’s fixed and variable remuneration has been as follows:

2013 (all amounts in thousands)	Fixed EUR	Variable EUR	Total EUR	Total USD ⁷
Senior Management (4)	707	558	1,265	1,745
Other personnel (13)	1,013	550	1,563	2,156
Total remuneration in 2013	1,720	1,108	2,828	3,901

6) In February 2014 the Supervisory Board approved a performance fee of USD 2,316,399 for 2013. The excess of USD 745,431 compared to the amount accrued in 2013 will be recognized in 2014.

7) Translated at the year-end USD/EUR exchange rate of EUR 0.725 (2012: EUR 0.758)

2012				
(all amounts in thousands)	Fixed EUR	Variable EUR	Total EUR	Total USD
Senior Management (4)	700	493	1,193	1,574
Other personnel (13)	1,161	373	1,534	2,024
Total remuneration in 2012	1,861	866	2,727	3,598

The investment manager is presently reviewing its remuneration policy for compliance with the Alternative Investment Fund Managers Directive.

Frank Gosselink

Mr. F. Gosselink, a member of TCX’s RISKCO, is also CEO and director of CoinRe B.V., a wholly-owned subsidiary of Cardano Development B.V., the Investment Manager’s parent. As member of RISKCO, Mr. Gosselink is entitled to receive a flat annual fee of EUR 20,000, excluding VAT.

Mantis B.V.

TCX entered into a Grant Program Agreement with Mantis B.V. (“GPA”) as receiver of funds to enable Mantis B.V. to market macro-economic forecasts for emerging and frontier markets, and other risk management tools and services. For the time being the Investment Manager of the Fund is one of the two statutory directors of Mantis. Cardano Development B.V. holds all shares of Mantis. Under the GPA both refundable and non-refundable amounts were distributed during the period as follows:

(all amounts in USD)	Non- Refundable	Refundable	Total
Total position at 31 December 2012	-	-	-
<i>For the account of the Donor Assets (note 11)</i>			
Distributed during the year	401,569	406,602	808,171
Expensed during the year	(401,569)	-	(401,569)
Change in fair value including day one loss	-	(406,602)	(406,602)
Sub-total Donor Assets	-	-	-
<i>For the account of TCX</i>			
Distributed during the year	-	406,602	406,602
Change in fair value including day one loss	-	(406,602)	(406,602)
Total position at 31 December 2013	-	-	-

The write-down of the refundable grants at year-end reflects the fact that it is too early in the satisfactory execution of the Mantis business plan to assign a firm value to these instruments.

9. RELEVANT CONTRACTS FOR THE FUND’S OPERATIONS

Investment Manager

The Fund has entered into an investment management agreement with the Investment Manager dated 5 September 2007, whereby it will provide investment management and advisory services to the Fund. See note 8 for further details of the contractual arrangements.

Risk Manager

The Fund’s risk management was provided by Cardano Risk Management B.V. under the terms of the Risk Management Agreement, dated 5 September 2007. The Risk Manager was, amongst others, responsible for executing the daily risk monitoring function, the provision of an independent opinion on pricing and valuation and providing expert input on pricing, modeling and execution of derivatives transactions and supporting the Investment Manager in research and risk management. The Risk Manager was remunerated on a fixed fee basis that amounted to EUR 1,050,000 equaling USD 1,396,510 (2012: EUR 1,130,500 equaling USD 1,623,843).

Assurance providers

The Fund has appointed Ernst & Young Accountants LLP as the Independent Auditor. The Independent Auditor’s remuneration consists of EUR 124,079 equaling USD 160,066 (2012: EUR 165,820 equaling USD 218,760) audit fee. The Independent Auditor is engaged to perform the audit of the financial statements and annual compliance audits on the Funds activities. The Independent Auditor did not provide any non-audit services to the Fund. The remaining part USD 137,269 (2012: USD 104,642) of the total audit fees of USD 297,335 (2012: USD 323,402) is related to the audit of the Fund’s ISAE 3402 Type II report and a related ISAE 3000 assurance report performed by Solutional Assurance Services B.V.

10. 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 note 5 for further information).

(all amounts in USD)	2013		2012	
	Fair value in USD	% of NAV	Fair value in USD	% of NAV
<i>Level 2 financial instruments</i>				
Cross currency interest rate swaps – Primary	9,110,134	1.6	3,999,349	0.8
FX Forward contracts –Primary	1,087,055	0.2	203,825	0.0
FX Forward contracts – Trading	166,502	0.0	83,546	0.0
FX Forward contracts – Hedging	-	-	9,508	0.0
<i>Level 3 financial instruments</i>				
Cross currency interest rate swaps - Primary	34,599,081	6.1	33,189,787	6.0
Cross currency interest rate swaps – Hedging	76,864	0.0	104,086	0.0
FX Forward contracts – Primary	920,959	0.2	80,241	0.0
FX Forward contracts – Hedging	1,865,069	0.3	-	-
Total	47,825,664	8.4	37,670,342	6.8

11. ACCRUED EXPENSES AND OTHER PAYABLES

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

(all amounts in USD)	2013	2012
Donor Commitments	7,473,116	7,814,779
Audit fee payable	151,636	98,975
Other general fees payable	206,777	32,060
Management fee and performance fee payable	1,570,968	1,910,980
Total accrued expenses and other payables	9,402,497	9,856,794

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 (the “Donor Assets”, which are held in cash) for use in special projects, grants and investments approved by the Donor Committee along terms agreed in the Joint Donor Agreement (the “Donor Commitments”).

The Fund contributes to the Donor Assets as follows;

- a) 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 Debt amounts outstanding during the previous year, at a rate of the USD 6-month LIBOR rate on the 15th date of each calendar quarter, plus any amounts due but not paid in previous years⁸; and
- b) all amounts received from the Donors to replenish or supplement the Donor Assets.

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

The obligation of the Fund to use the Donor Assets to honor the Donor Commitments ranks junior to the Fund’s senior unsecured obligations and pari passu with any other subordinated obligations of the Fund. The contributions to Donors Assets are presented on a net basis in the statement of comprehensive income and are detailed as follows:

(all amounts in USD)	Note	2013	2012
Interest calculated based on market interest rates		(7,334,475)	(8,305,714)
Amortization of government grants	12	6,707,034	6,707,034
Contributions to Donor Assets		(627,441)	(1,598,680)

8) Effective 2014, the interest payable on the Subordinated Convertible Debt will be 2.5% per annum flat – see Note 2 “Events after the reporting period”.

12. 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; and
- b) to enhance the Fund’s capability and incentive to transact in Least Developed Countries and Other Low Income Countries, which are the two lowest categories of countries in the OECD Development Assistance Committee’s list of Official Development Assistance recipients. The Donors 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 Fund to earmark funds (Contributions to Donor Assets) that would otherwise constitute interest payments to them under the Facility, for projects to be approved by a donor committee, pursuant to the Joint Donor Agreement (see note 11).

Status

The Donors are represented by The Netherlands Minister for Development Cooperation (with a EUR 50 million commitment), and TCX Mauritius, on-lending a EUR 40 million commitment of KfW (acting on behalf of the Federal Government of Germany). Both commitments are 100% disbursed. Obligations were converted into USD on disbursement at the then applicable exchange rate.

Subordination

The Facility is subordinated to all senior and subordinated obligations of the Fund, and is furthermore repayable upon liquidation only to the extent that each holder of Class A shares has achieved a compounded 3-month USD Libor flat return on its investment (the Threshold Shareholder IRR). The Facility is not freely transferable.

Conversion

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. During the period, no conversion options were exercised.

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 2025. See also Note 2 for further information on the extension of the Facility). 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 2013 was calculated based on an internally developed valuation model and amounted to USD million 83.9 (2012: USD 73.8 million). The following major assumptions were used in the internally developed valuation model:

- The facility is junior to the net assets attributable to holders of redeemable shares Class A;
- 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 Black & Scholes option valuation is based on the results of a TCX financial business model with an implied volatility of 20%.

Movement of subordinated convertible debt during the reporting period

(all amounts in USD)	2013	2012
Opening balance	97,368,583	90,661,549
Amortization of grants during the reporting period	6,707,034	6,707,034
Total end of year	104,075,617	97,368,583

Movement of government grants during the reporting period

(all amounts in USD)	2013	2012
Opening balance	31,404,870	38,111,904
Amortization of grants during the reporting period	(6,707,034)	(6,707,034)
Total end of year	24,697,836	31,404,870

Cumulative positions at the end of reporting period

(all amounts in USD)	Subordinated loans at market interest	Government grants	Total
Total position at 31 December 2011	90,661,549	38,111,904	128,773,453
Amortization during the year	6,707,034	(6,707,034)	-
Total position at 31 December 2012	97,368,583	31,404,870	128,773,453
Amortization during the year	6,707,034	(6,707,034)	-
Total position at 31 December 2013	104,075,617	24,697,836	128,773,453

13. SUBORDINATED LOAN

Objective

The subordinated loan (“the Loan”) has been provided by the Inter-American Development Bank (“IDB”) with the objective to provide TCX with financing to support its investment activities directed towards the currencies of Latin American and Caribbean countries.

Status

The Fund drew USD 20 million (100% of IDB’s the commitment) on 18 December 2012.

Subordination

Repayment obligations of the Loan are subordinated and shall be ranked junior to all other liabilities excluding the Subordinated Convertible Debt (see note 12).

Repayment and interest

The Fund shall repay the full amount outstanding of the Loan in six equal semi-annual installments of principal as follows:

- (a) the first installment shall be due on 15 August 2018 and each half year period thereafter, subject to the rights attached to the put option (see below);
- (b) the final installment shall be due on 15 February 2021.

The loan does not pay out ordinary coupons but a compounded return which is paid out when the loan is repaid. The return is calculated as i) the minimum of the compounded 3-month LIBOR rate as applicable on the 15th day of each quarter and the internal return on TCX’s equity plus ii) 30% of the maximum of the internal return on TCX’s equity, 3-month LIBOR rate and zero.

Put option

The Loan incorporates a grace period starting 3 August 2015 until 15 August 2018 in which IDB has the right to exercise a put option on the computed return and compounded Libor minus 0.25%. The put option includes the right to demand a prepayment of maximal 20% of the Loan each calendar year. The put option is closely related to the host contract (the debt) because the exercise price reimburses for an amount up to the approximate present value of the lost interest for the remaining term of the Loan. Therefore the put option is not separated and presented at fair value.

Fair value information

The estimation of the fair value of the Loan at 31 December 2013 was calculated based on an internally developed valuation model (Level 3) and amounted to USD 20.1 million (2012: USD 20.4 million). The transaction price at initial recognition best represented the fair value at that moment. The following major assumptions were used in the internally developed valuation model:

- The facility is senior to equity and the subordinated convertible debt but junior to other senior liabilities;
- No own credit risk is taken into account;
- The exercise frequency for the put option is fixed beforehand as well as the intervals between the decision to exercise and prepayment;
- The instantaneous volatility shocks to the TCX equity return are assumed to be 20% on an annual basis. Interest rates are assumed to be uncorrelated with TCX equity and are modeled by using a Hull-White extended Vasicek model.

Movement of the Loan during the reporting period

(all amounts in USD)	2013	2012
Opening balance	20,002,385	-
Drawdown (fair value at initial recognition) on 18 December 2012	-	20,000,000
Accrued interest during the reporting period	3,808	2,385
Total end of year	20,006,193	20,002,385

14. SHARE CAPITAL

Structure of the Fund's capital

The authorized 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 2013, 915 Shares Class A are in issue (31 December 2012: 915 shares). No Shares Class B are in issue. The single C Ordinary Share is held in treasury by TCX itself.

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 3-month LIBOR (USD), calculated from the most recent valuation (reporting) date until the relevant payment date.

Redemptions are subject to an annual cap of 20% of Shares Class A and Shares Class B outstanding at the start of each calendar year, with the acceptance of redemption requests being at the full discretion of the Investment Manager. Separately, the shareholders have the ability to request on a specific date full redemption of their shares without the cap applying, which at the EGM of 13 February 2014 was amended from 2017 to 2025.

Redemption or repurchase of shares can only occur if the Primary Investments volume existing between TCX and the exiting Investor after redemption does not breach the limits defined in the Investors Agreement.

In July 2012, RBS redeemed its 50 shares. In 2013 no shares were redeemed.

Rights and obligations

Each shareholder has the number of votes at a General Meeting equal to the number of Shares it holds. Each Subordinated Convertible Lender may vote on certain matters defined in the Investors Agreement, and in these cases has the number of votes equal to the number of shares Class B that it 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. 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).

Capital management

The Fund’s capital management objectives are included in note 3. 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, and a Subordinated Loan as levels of capital. The breakdown is as follows at 31 December:

(all amounts in USD)	2013	2012
Net assets attributable to holders of Shares Class A	568,188,182	553,617,543
Subordinated Convertible Debt	104,075,617	97,368,583
Grants linked to the Subordinated Convertible Debt	24,697,836	31,404,870
Total Tier 1 capital	696,961,635	682,390,996

Since December 2012 the Fund has one Subordinated loan classified as Tier 2 capital (see note 13 for further details).

(all amounts in USD)	2013	2012
Subordinated Loan	20,006,193	20,002,385
Total Tier 2 capital	20,006,193	20,002,385

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

- Minimum Total Capital-ratio⁹ of 14%. If the Capital-ratio falls below the threshold of 14% (at 31 December 2013: 36%, 2012: 40%), 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 2013: 35%, 2012: 39%);

In 2013 the Fund introduced an internal capital adequacy assessment process (“ICAAP”) to periodically review and assess the Fund’s capital position, notably the amounts available to support the portfolio’s growth while reserving sufficient amounts to cover stress scenarios. The first ICAAP review will be performed in 2014. .

During the reporting period, the Fund complied with these minimum internal capital requirements.

Dividend and dividend policy

In accordance with the Investors’ Agreement, dividends may be paid out to shareholders if the Fund generates a profit that outpaces the Fund’s growth potential, leading to inefficient capitalization for the foreseeable future. On these grounds the Annual General Meeting in May 2013 approved the proposal of the statutory management board to distribute a first dividend of USD 13,725,000, equal to USD 15,000 per share.

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:

2013	Profits		Losses		
(all amounts in EUR)	unrealised	realised	unrealised	realised	Net result
Cross Currency Swaps- Primary	20,330,211	81,837,178	(32,177,734)	(39,214,331)	30,775,324
Cross Currency Swaps- Hedging	41,187	18,151	(76,864)	(237,731)	(255,257)
FX forward- Primary	5,266,024	8,391,429	(4,522,005)	(1,262,581)	7,872,867
FX forward- Trading	1,025,764	3,354,938	(2,326,282)	(5,593,507)	(3,539,087)
FX forward- Hedging	120,077	-	(1,865,069)	(775,129)	(2,520,121)
Debt instruments	5,410,303	-	(1,643,911)	-	3,766,392
Total	32,193,566	93,601,696	(42,611,865)	(47,083,279)	36,100,118

9) Capital-ratio: The Capital-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 within the meaning of the AIFMD.

2012	Profits		Losses		Net result
	unrealised	realised	unrealised	realised	
(all amounts in EUR)					
Cross Currency Swaps- Primary	25,414,730	72,994,308	(15,392,793)	(31,706,361)	51,309,884
FX forward- Primary	4,166,846	5,160,630	(1,262,032)	(1,082,441)	6,983,003
FX forward- Trading	7,296,408	9,654,973	(236,636)	(10,615,617)	6,099,128
FX forward- Hedging	-	-	(1,410,468)	(78,476)	(1,488,944)
FX spot transactions	-	31,424	-	(124,190)	(92,766)
Debt instruments	5,903,905	-	(5,341,152)	-	562,753
Total	42,781,889	87,841,335	(23,643,081)	(43,607,085)	63,373,058

The interest component included in the Cross Currency Swaps amounts to USD 55,360,651 (2012: USD 50,369,389).

16. FOREIGN CURRENCY TRANSLATION

Realised and unrealised exchange differences consist of realised and unrealised translation gains and losses on assets and liabilities denominated in currencies other than the US Dollar. The total foreign currency translation result amounts to a profit of USD 1,107,313 (2012: profit of USD 2,182,015). For the translation of the non-USD positions at balance sheet date, a closing rate of EUR 0.725 (2012: EUR 0.758) 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)	2013	2012
<i>Financial instruments at fair value through profit or loss</i>		
Commercial papers	636,830	1,282,060
US Treasury Bills	60,419	35,292
Floated rate notes	1,567,300	2,647,136
Fixed rate bonds	3,601	-
Subtotal debt instruments	2,268,150	3,964,488
<i>Cash and cash equivalents</i>		
Cash at banks	-	166
Cash collateral	9,142	58,968
Subtotal cash and cash equivalents	9,142	59,134
Total interest income	2,277,292	4,023,622

18. OTHER GENERAL EXPENSES

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

(all amounts in USD)	2013	2012
Legal fees	95,076	139,361
Rating agency fees	172,003	90,366
Guarantee fee	76,042	116,250
VAT	(320,751)	63,095
Compliance fees	38,044	37,273
Tax advisory fees	12,876	73,144
Other expenses	120,678	108,001
Total other general expenses	193,968	627,490

VAT return for the years 2011 and 2012

The negative VAT expense amount in 2013 relates to the reimbursement of VAT paid in 2011 and 2012 on the invoices of the Risk Manager. Following discussion with the tax authorities, approval was granted (with retroactive effect and until further notice) to invoice the Fund without VAT. As from 2013 all invoices from the Risk Manager are invoiced excluding VAT.

19. PERSONNEL

The Fund did not employ any personnel during the reporting periods ended 31 December 2013 and 31 December 2012. ■



SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

20. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 realised within one year with the exception of the long-term Subordinated Loan, the Subordinate Convertible Debt and the associated Grant element linked thereto (see note 12).

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

Presentation Other Comprehensive income - In June 2011 the IASB issued amendments to IAS 1 Financial Statement Presentation. The EU endorsed the Amendments on 5 June 2012. The amendments improve how components of other comprehensive income are presented. The Fund applied the Amendments as per 1 January 2013 and this had no impact on the Fund's financial statements as the Fund has no items that should be presented as other comprehensive income.

Fair value measurement - On 12 May 2011 the IASB issued IFRS 13 Fair Value Measurement. The EU endorsed IFRS 13 on 11 December 2012. IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. IFRS 13 provides guidance on how fair value should be applied. The effective date for mandatory adoption of IFRS 13 is 1 January 2013.

The main scope of IFRS 13 is the method used to reflect the non-performance risk on derivative liabilities (DVA or own credit risk) and, for symmetry, to measure the counterparty risk on derivative assets (CVA). Regarding CVA, the Fund has also re-assessed its estimate of counterparty risk methods, consistent with the principles of IFRS 13, the terms of risk management and market practices, to maximize the use of observable market parameters when deemed relevant and taken into account collateral positions. The implementation of IFRS 13 has not resulted in a material impact on the Fund's financial statements.

Offsetting financial instruments- On 16 December 2011 the IASB issued amendments to IFRS 7 Financial Instruments: Disclosures. The amendments to IFRS 7 require the Fund to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The EU endorsed the amendments to IFRS 7 on 13 December 2012. The Fund applied the amendments as per 1 January 2013 and this had, apart from additional disclosures on rights of offset, no impact on the Fund's financial statements.

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

On 31 October 2012 the IASB issued Investment Entities: Amendments to IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28, effective as per 1 January 2014 (together "the Amendments"). The EU endorsed the Amendments to IAS 32 and IFRS 7 on 20 November 2013. The Amendments defined an investment entity and introduced an exemption to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IAS 39 Financial Instruments: Recognition and Measurement in its financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27. Although the Fund believes that it qualifies as an investment entity as defined by the Amendments, no impact is expected as the Fund has no qualifying investments.

Offsetting financial instruments- On 16 December 2011 the IASB issued amendments to IAS 32 Financial Instruments: Presentation. The amendments to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The EU endorsed the amendments to IAS 32 on 13 December 2012.

IFRS 9 Financial Instruments – IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010)



Vietnam 5,000 dong coin

introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010) and (2009) are effective for annual periods beginning on or after 1 January 2015, with early adoption permitted. In its November 2013 meeting the IASB decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017. The EU has not endorsed IFRS 9 yet. The Fund is monitoring these developments closely and will assess the impact on the Funds financial statements once all adjustments and new requirements are final.

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 year-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. Realised and unrealised 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, repayable distributed grants, and all derivative financial instruments (which may include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate options, both written and purchased as well as other derivative financial instruments) as financial instruments held for trading.

The Fund classifies its subordinated convertible and non-convertible debt 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.

Drawdowns 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 12. 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 initially measured 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 statement of comprehensive income. Accrued expenses are initially recognized at fair value and subsequently stated at amortized cost using the effective interest method.

The Subordinated convertible and non-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 these Subordinated Convertible Debts.

TCX has entered into a Grant Program Agreement with Mantis B.V. The refundable contributions based on this agreement ("the Repayable Distributed Grants") are initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. Significant differences between the transaction price and the model value, commonly referred to as 'day one profit or loss', are not recognised immediately in the income statement. They are amortised to income over the lifetime of the Grant Program Agreement until maturity or settlement. The Repayable Distributed Grants are subsequently measured at fair value, as determined at year-end by the relevant model adjusted for any deferred day one profit or loss.

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, the 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 financial instruments.

Primary Investments are required to be additional, meaning that these are investment products offered by the Fund that are not available on public markets and, as a consequence, these 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" (further referred to as Level 3 financial instruments) or Level 2 financial instruments. The classification primarily depends on the available market data.

When the financial instruments are valued based on Level 3, this is typically the result of maturities longer than those available in the market or when 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.

The fair value of the Repayable Distributed Grants are determined using valuation models for which not all inputs are market observable prices or rates. The fair valuation of this agreement is based on discounted future cash flows and is evaluated by Management on a yearly basis and when new investors subscribe to Mantis B.V.

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 is 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; and short-term highly liquid investments that are readily convertible into known amounts of cash, 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 Fund's 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 distributions to holders of these shares are recognized in the income statement as distribution to holders of redeemable shares Class A.

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 debt instruments, commercial papers, cash collateral and interest received from Donor Assets, the change in fair value will be classified as a result on financial instruments

at fair value through profit or loss. The interest revenue and expense on these instruments 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 Subordinated Convertible Debt and are deducted from the line item Contributions to Donor Assets.

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

Taxation

The Fund has received a ruling from the Dutch tax authorities that it is eligible for an exemption from corporate tax (The Fund is a “*vrijgestelde beleggingsinstelling*” or “VBI”), under the terms of legislation passed through 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.

21. 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 20, 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 when 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 Fund’s back office.
- From the curve-building algorithm, discount factors are derived for each leg of the CCIRS or forward contract.
- 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 referred to above 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 (or non-EUR leg when applicable) 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 using a similar approach. The Risk Manager circulates a plausibility report to the Investment Manager on a monthly basis. All differences greater than 1% at individual transaction level are cross-checked and ironed-out where justified. ■



Armenia 50 dram coin



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 managing 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 from 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 managing 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 managing board proposes to the general meeting to allocate the result for the period ended 31 December 2013 of USD 28,295,639 as follows: for an amount of USD 14,570,639 to the other reserves corresponding with each relevant class of shares; and for an amount of USD 13,725,000 to distribute a dividend equal to USD 15,000 dividend per share, to be accounted for in the 2014 accounts. ■



Jordan 1/2 dinar coin



IN CONTROL STATEMENT

The Managing Board of TCX Investment Management Company B.V. (TIM) confirms that, as sole member of the Statutory Managing Board of The Currency Exchange Fund N.V. (TCX or the Fund), it is responsible for the risk management, internal control, integrity, and compliance systems of the Fund.

The Fund and TIM have entered into a long-term services agreement with each other as well as with a number of operational partners, to appropriately manage the Fund’s systems and the risks related to its operations. These partners notably include Cardano Risk Management B.V. regarding risk management, Compliance Advies Financiële Ondernemingen regarding external compliance services and DLM Finance B.V., the subcontractor for back office, valuation and fund administration services. Together with TIM 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 currently 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.⁶ These guidelines are reviewed annually at least, each review possibly resulting in amendments signed off by all members of the TCX Operational Group. All service agreements with members of the TCX Operational Group 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 4-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 2013 for each calendar quarter. No review identified the occurrence of an incident, control issue or concern of any material nature. Another important reference is the annual operational audit, completed on 24 February 2014 by Solution Assurance Services B.V., the Fund’s operational auditor, in cooperation with the Fund’s financial auditor, Ernst & Young Accountants LLP. 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. The result was an unqualified audit opinion on the Fund’s ISAE 3402 Type II report, which confirmed that the control framework of the Fund is designed appropriately and is operating effectively.

TCX performs regular risk assessments with input from all TCX Operational Group members. The main high-level risk issues affecting TCX are as follows:

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 the Fund’s 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 TCX 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 the Risk Management Committee, 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 the Risk Management Committee, and periodically to the TCX 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, among other things, to mispricing of transactions and misjudgment of the Fund’s NAV. TCX manages these issues through a system of separate evaluation of market data between the back-office and risk management (both pre-trade and post-trade), as well as frequent plausibility checks between the two (at least monthly). 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 the Risk Management Committee, and periodic reporting to the Supervisory Board.

6) It is expected that TIM will be regulated as an Alternative Investment Fund Manager from July 2014 onwards, and thus become subject to the Law for Financial Supervision of the Netherlands (“Wet op het Financieel Toezicht”, or WFT).



Azerbaijan 50 manat coin

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. Material risk is that responsibilities may not be 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 (4-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, its website and intranet managed by TIM, 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. TIM, TCX and Cardano therefore have in place business continuity and disaster recovery plans that ensure continuity of business-critical processes and are tested periodically. In addition, back office systems management produces monthly self-audits reviewed by the Risk Management Committee.

During 2013 TCX experienced no NAV valuation incidents, no compliance incidents, and no material operational incidents.

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 that have been performed and reported on by the TCX Operational Group, 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 2013;
- c) that no material issues or incidents have occurred in the financial year ending 31 December 2013;
- d) that no activities have been reported to us that are in conflict with the TCX Code of Conduct (as adopted in the current Operational guidelines); and
- e) that we do not expect to significantly adjust the basis of TCX's operational set-up in 2014. ■

Amsterdam, 8 April 2014

The Managing Board of TCX Investment Management Company B.V.

Joost Zuidberg, Chief Executive Officer

Brice Ropion, Chief Operating Officer

Bert van Lier, Head of Trading





INDEPENDENT AUDITOR'S REPORT

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

Report on the financial statements

We have audited the financial statements 2013 of The Currency Exchange Fund N.V., Amsterdam, which comprise the statement of financial position as at 31 December 2013, the statement of comprehensive income, the statement of cash flows, the statement of changes in net assets attributable to holders of redeemable shares Class A for the year then ended and the notes, comprising 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 sections Letter from the Supervisory Board, Letter from the Managing Board and Governance and Ownership 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 31 December 2013, 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 sections Letter from the Supervisory Board, Letter from the Managing Board and Governance and Ownership, to the extent we can assess, have been prepared in accordance with Part 9 of Book 2 of this Code, and the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the sections Letter from the Supervisory Board, Letter from the Managing Board and Governance and Ownership, to the extent we can assess, are consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code. ■

Amsterdam, 8 April 2014
Ernst & Young Accountants LLP
signed by C.G.J. de Lange



Ghana 1 cedi coin

MEMBERS OF THE SUPERVISORY BOARD

Mr. Arthur Arnold, Chairman

Since 2009 Arthur Arnold has been a non-executive director for several companies, financial institutions and investment funds in Africa, in different market segments including micro-finance, consumer finance and SME finance. Prior to this he was CEO of FMO (from 2005 to 2008), and President and CEO of WOCCU, The World Council of Credit Unions (from 2000 to 2004). His earlier career was in commercial and investment banking, as Director of Financial Markets and Chairman of the Managing Board of Rabobank International (from 1992 to 1999), and with ABN AMRO Bank (from 1968 to 1992), where he worked in Africa, the Middle East, Europe and the USA, and his last position was EVP Corporate Finance in Amsterdam. He studied Economics at Erasmus University, and has attended senior management and executive training programs at Harvard Business School and INSEAD.

Mr. Frank Czichowski

Frank Czichowski is Treasurer of KfW, responsible for liquidity management, funding, asset liability management and portfolio management. Furthermore, he oversees the privatization activities of equity stakes held by KfW. He joined KfW in 1989 and worked in KfW’s Capital Markets Department and Regional Department Asia before becoming Treasurer in 2004. Prior to joining KfW, Mr. Czichowski conducted research at the Royal Scientific Society in Amman, Jordan, as well as in Pakistan. He graduated in economics from the Free University of Berlin (FUB) in 1986, and received a doctorate degree from the FUB in 1989. He is a Board Member of the International Capital Market Association (ICMA).

Mr. Tor Johansen

Tor Johansen worked for Norway’s Eksportfinans from 1977-2008, the last 17 years as its CEO. Prior to this he worked for Norsk Hydro. He was the Chairman of the Norwegian Securities Depository for 8 years, and also Chairman of the Norwegian Bond Issuers Association. He is a graduate of the Norwegian School of Economics and Business Administration in Bergen, Norway.

Mr. Philip Jabulani Moleketi

Jabu Moleketi is Non-Executive Chairman of the Development Bank of Southern Africa (DBSA), and Non-Executive Chairman of Braith. He was Deputy Minister of Finance of the Republic of South Africa from 2004 to 2008. He was Gauteng Provincial Member of the Executive Council of Finance and Economic Affairs from 1994-2004. He was a member of the National Executive Committee of the African National Congress (ANC) from 1997 to 2007. He is a non-executive director of MMI Holdings and Vodacom, and is the chairperson of Harith Fund Management Company, which invests in infrastructure projects on the African continent. He graduated from University of London with a Master’s degree in Financial Economics and a post-graduate diploma in Economic Principles, and has completed the Advanced Management Program at the Harvard Business School.

Mr. Axel van Nederveen

Axel van Nederveen is Treasurer of the European Bank for Reconstruction and Development (EBRD), with overall responsibility for asset management of the treasury, liquidity management and funding operations of the Bank, as well as the overall market risks associated with the Bank’s lending operations. He joined the EBRD in May 1995 and fulfilled several roles within Treasury before becoming Treasurer in April 2004. Previously, he held positions in government bond sales and trading at ABN AMRO in Amsterdam and Paribas in London. Mr. van Nederveen holds a Master’s degree in Business Administration from the University of Groningen in the Netherlands.

COMMITTEE MEMBERS

Remuneration Committee of the Supervisory Board

Mr. Frank Czichowski (Chairman)
Mr. Arthur Arnold

Compliance Committee of the Supervisory Board

Supervisory Board Members
Mr. Arjan van der Heiden, Compliance Advies
Mr. Bert van Lier, Head of Trading, TCX Investment management Company B.V.
Mr. Brice Ropion, COO, TCX Investment Management Company B.V.
Mr. Joost Zuidberg, CEO, TCX Investment Management Company B.V.

Audit Committee of the Supervisory Board

Mr. Tor Johansen (Chairman)
Mr. Axel van Nederveen

Pricing Committee

Mr. Matthew Vogel (Chairman)
Mr. Luca Barbone (appointed 1 October 2013)
Mr. Robert Daniels, Cardano Risk Management B.V. (non-voting, resigned 30 June 2013)
Mr. Per-Fredrik Emanuelsson (resigned 1 July 2013)
Mr. Amaury Fonseca jr. (resigned 30 September 2013)
Mr. Rob Janssen, Cardano Risk Management B.V. (non-voting, appointed 1 July 2013)
Mr. Bert van Lier, Head of Trading, TCX Investment Management Company B.V. (non-voting)
Mr. Louis Sabatino (appointed 1 October 2013)
Mr. Nikolaus Siegfried
Mr. Philip Stedman

Risk and Asset and Liability Management Committee (RISCKO)

Mr. Brice Ropion, COO, TCX Investment Management Company B.V. (Chairman)
Mr. Robert Daniels, Cardano Risk Management B.V. (resigned 30 June 2013)
Mr. Frank Gosselink
Mr. Arjan van der Heiden, Compliance Advies (non-voting)
Mr. Rob Janssen, Cardano Risk Management B.V. (appointed 1 July 2013)
Mr. Diederik de Leur, DLM Finance B.V.
Mr. Bert van Lier, Head of Trading, TCX Investment Management Company B.V.
Mr. Martin Stravers, Solutional Advisory Services B.V. (non-voting)
Mr. Joost Zuidberg, CEO, TCX Investment Management Company B.V.

Donors' Committee

Mr. Wim Bekker, Netherlands Ministry of Foreign Affairs

General information

SUPERVISORY BOARD

Mr. Arthur Arnold (chairman)
Mr. Frank Czichowski
Mr. Tor Johansen
Mr. Jabu Moleketi
Mr. Axel van Nederveen

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