LOCAL CURRENCY MATTERS

TCX ANNUAL REPORT 2012

the currency exchange fund

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Photo: Lagos, Nigeria (Frans Lemmens)

SUPERVISORY BOARD LETTER

We are pleased to present you with the annual report of The Currency Exchange Fund N.V. (TCX) for the year 2012.

TCX invests in long-term currency hedges in frontier markets, predominantly with development finance institutions and microfinance lenders who wish to hedge their medium- and long-term local currency loans. In September 2012, TCX celebrated its 5th anniversary, a milestone for the Fund. Since inception, TCX has closed USD 1.77 billion in hedges in 42 currencies (USD 1.44 bln excluding roll-overs), of which 49% with borrowers in least developed and other low income countries, and 44% with borrowers in lower middle income countries. In 2012, the primary portfolio reached USD 926 million in notional outstanding, 90% of which was to financial institutions, including 61% to microfinance lenders. During the year, the Fund closed USD 629 million in hedges, an increase of 35% over 2011.

TCX's business model is based on the absorption of the currency risks associated with its hedging investments, and relies on the diversification of its portfolio of exposures to mitigate individual risks. This model has proven its robustness in recent times of global stress, and resulted in 2012 in a relatively stable progression towards an annual net profit of USD 57 million, notwithstanding substantial volatility in the underlying investments.

We are pleased to report, therefore, that TCX has achieved an internal rate of return of 3.44% for its shareholders since inception, equivalent to LIBOR+2.25% and in line with its strategic objective of investing at a fair price to yield a modest positive return net of operating costs and expenses.

We continue to invest substantial efforts in developing our access to markets, with particular emphasis on Sub-Saharan Africa as well as the microfinance sector. A more standardized approach was developed and implemented to reach local clients in frontier markets more effectively, and strategic alliances are being created to provide better coverage of target markets. We are particularly pleased with the overall positive review published by KfW and the Netherlands Ministry of Foreign Affairs on the effectiveness of our operation. We also welcome the participation of the Inter-American Development Bank as a new investor in TCX.

We refer to the governance section of this report for details of the Fund's structure and the functioning of the Supervisory Board in 2012. We are preparing the Fund for important regulatory changes that will become effective in the coming years, and are confident of our ability to comply with the new regulations, inter alia as a result of the robustness of the Fund's governance model and conservative business ratios. In 2012, the Fund completed its first ISAE 3402 Type II audit with an unqualified audit opinion for operational control effectiveness, illustrating the progress to date.

The Supervisory Board wishes to thank all those involved in TCX for their solid contributions in 2012, especially the Fund's investment manager TCX Investment Management Company B.V. and its risk manager Cardano Risk Management B.V. A special word of thanks also goes to Cees Maas, who retired as Chairman in May 2012 after leading the Supervisory Board diligently for 5 years, from the start of the Fund to what it has now become. Cees was replaced in May 2012 by Arthur Arnold, who was appointed to the Supervisory Board by the Annual Meeting of Shareholders, and immediately thereafter elected by the other members of the Supervisory Board as its Chairman. ■

Amsterdam, 10 April 2013

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

Arthur Arnold, Chairman

Frank Czichowski

Tor Johansen

Jabu Moleketi

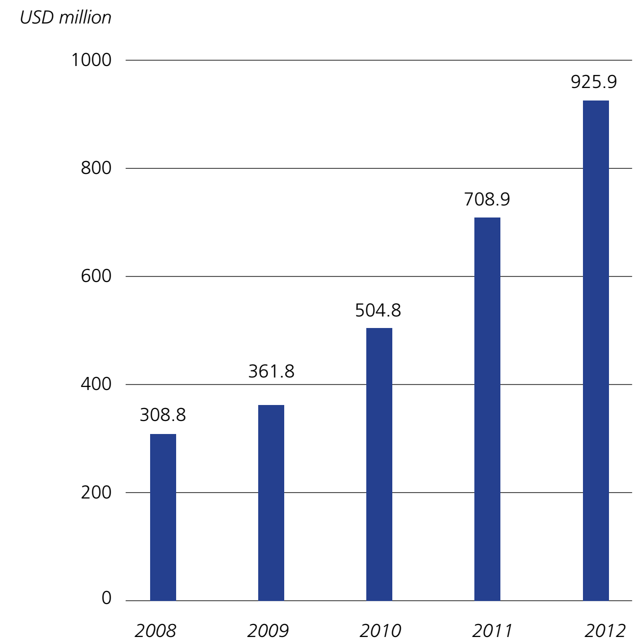
Axel van Nederveen

MANAGING BOARD LETTER

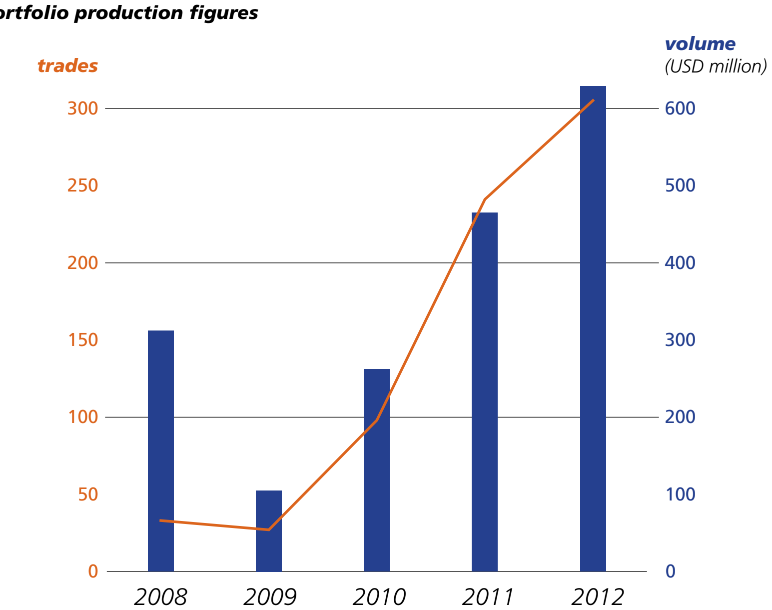
RESULTS 2012

■ TCX's primary portfolio[1] grew by 31% in 2012 to USD 926 million in notional exposure, an increase of USD 217 million relative to 2011. This growth was achieved on the back of a 35% increase in production volumes to USD 629 million, a figure that offset USD 178 million in scheduled and early redemptions, and includes USD 231 million in roll-overs of existing transactions. In total, 305 hedging transactions were closed, a 27% increase over 2011:

Primary portfolio notional exposure



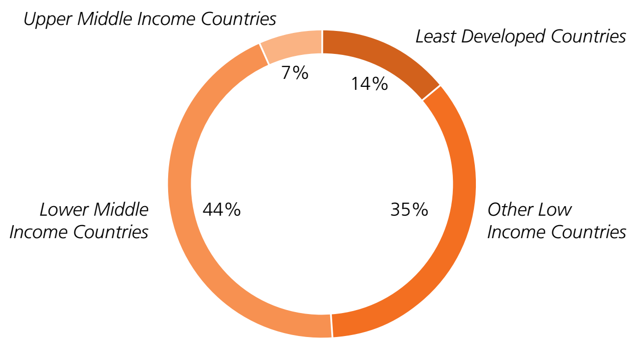
Primary portfolio production figures



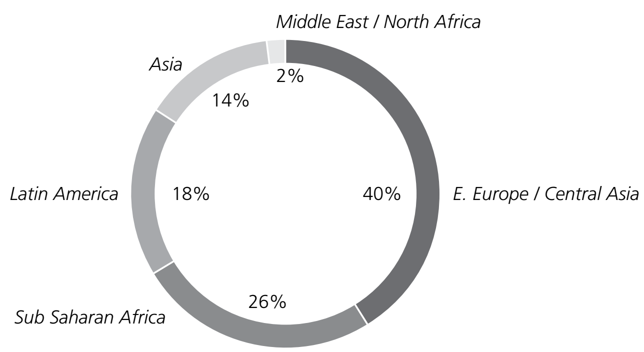
1) Primary Investments are medium- to long-term hedges with TCX's investors and their clients. These constitute the bulk of TCX's portfolio. For liquidity and risk management purposes, TCX also invests in short-term hedges with professional counterparties. These Trading Investments, which totaled USD 89 million at year-end 2012, are not included or discussed here.

■ The composition of TCX's primary portfolio reflects its focus on long-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 has resulted in the relatively faster growth of this region compared to others:

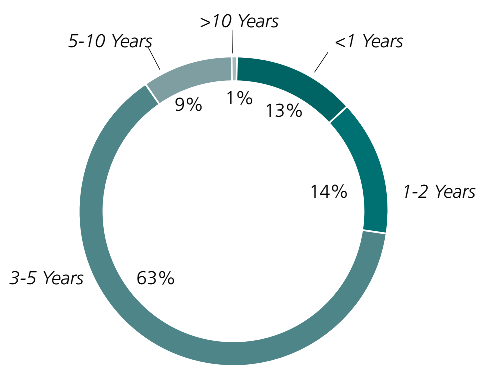
Primary Portfolio DAC Country Classification



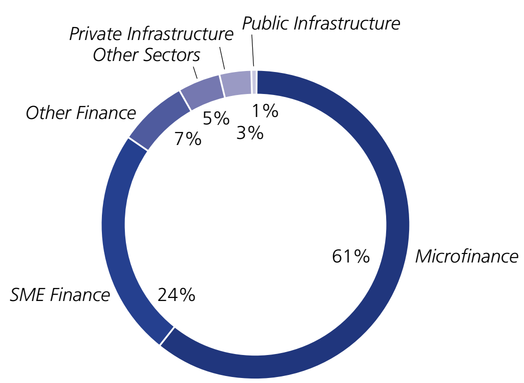
Primary Portfolio Regional Diversification



Primary Portfolio Maturity Profile

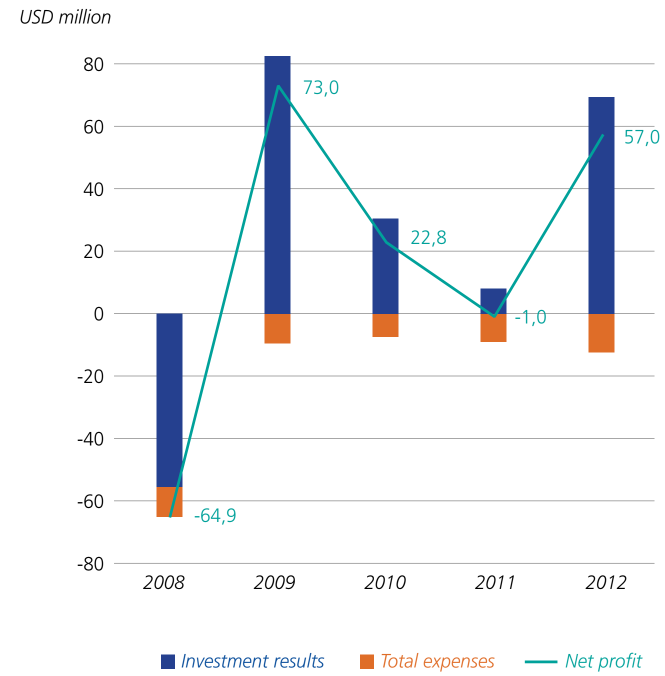


Primary Portfolio Sector Diversification



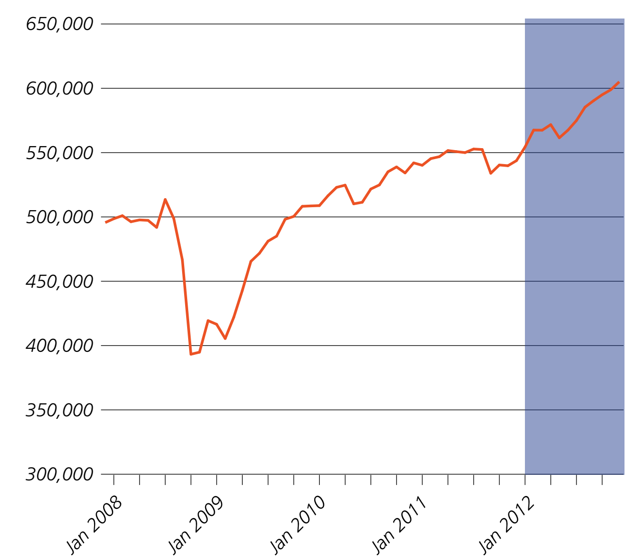
■ The net result for 2012 was a profit USD 57.3 million, reflecting positive investment results totaling USD 69.6 million and USD 12.3 million (2011: USD 9.0 million; 2010: USD 7.7 million) in operational and financial expenses and performance fees. The increase in expenses since 2010 partly reflects the increased volumes and operational complexity of the Fund, which among other effects required increasing the investment manager's headcount from an average of 10 employees in 2010, to 12 in 2011, and 17 in 2012 (the year-end figures were 10, 16, and 17 employees, respectively). On a cumulative basis since 2008, the net result has averaged 64% of the investment result (the expense ratio was 36%):

TCX annual results



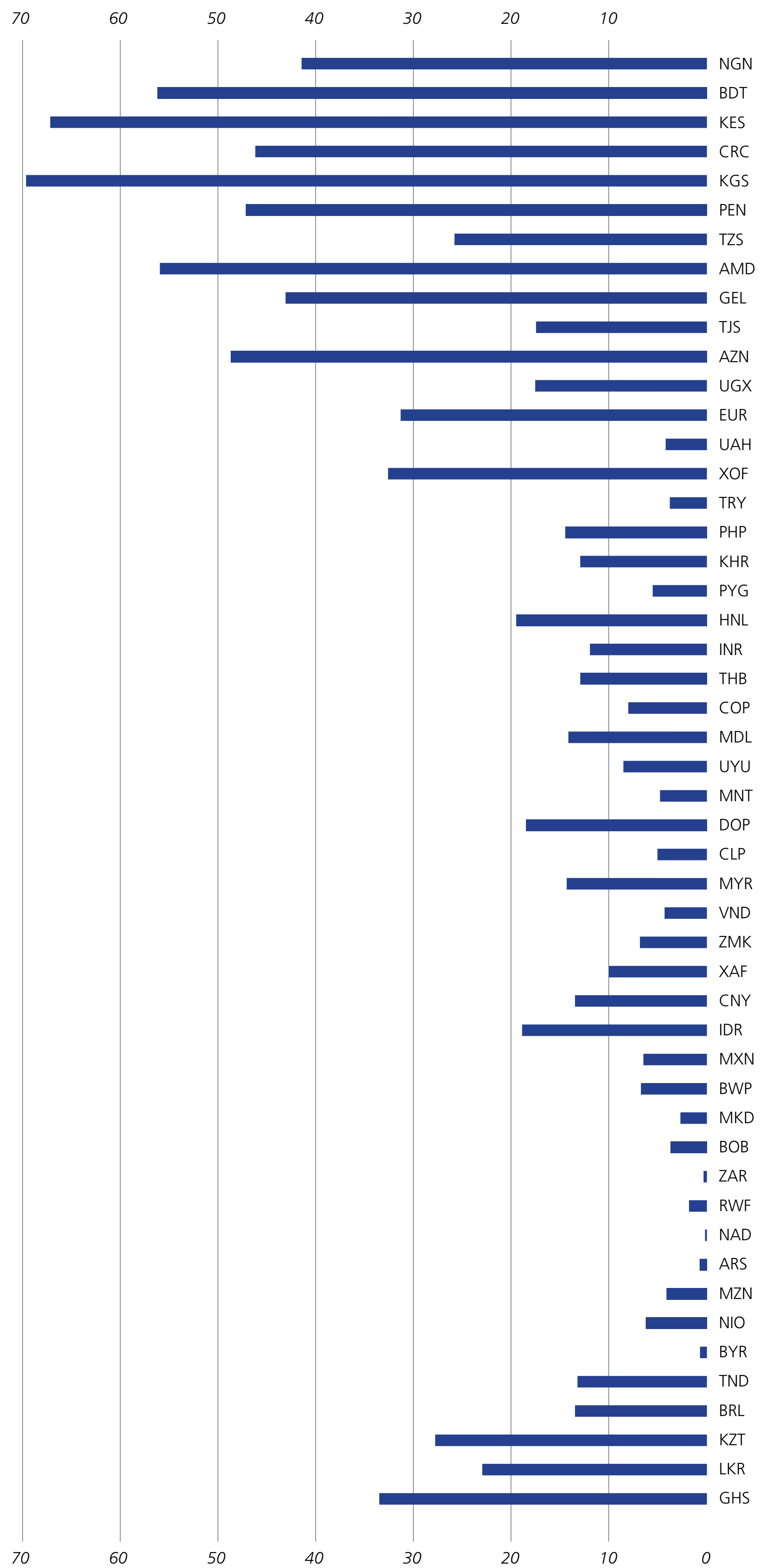
■ Reflecting the year's positive developments, TCX's net asset value per share improved relatively steadily through 2012, to USD 605,046 per share (+11.3% relative to year-end 2011):

TCX net asset value per share

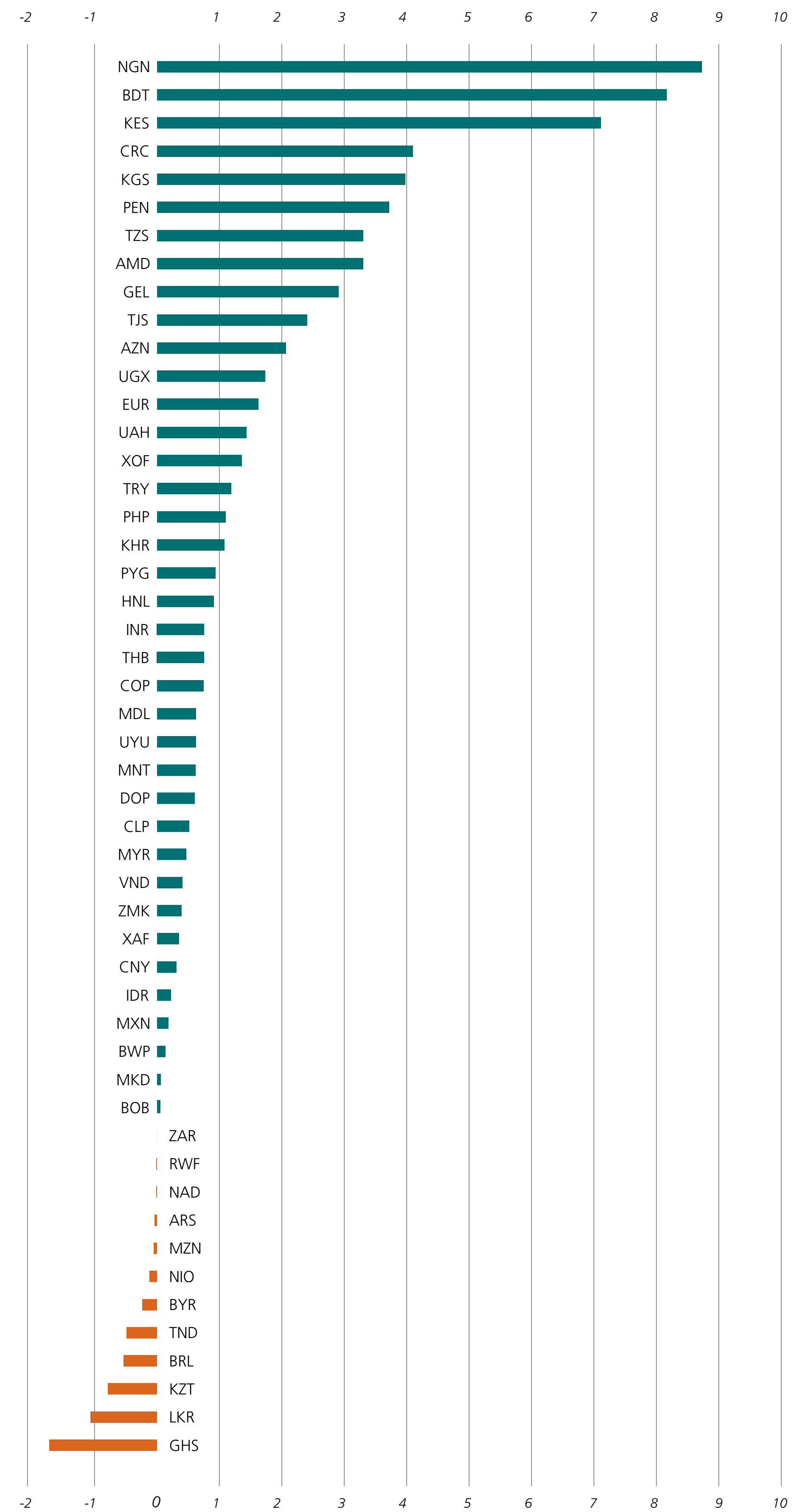


■ The investment results reflect the performance of the underlying currency exposures. In 2012, positive local to hard currency interest differentials more than offset the risks of currency devaluations, leading to positive investment returns in line with the Fund's business model:

TCX 2012 Average Notional Exposure per currency *(USD millions)*



TCX 2012 Investment Result per currency *(USD millions)*



TCX IN 2012

■ At year-end 2012, the capital ratio (available capital to risk weighted assets) stood at 39.9%, well above the 14% liquidation trigger. The available capital was USD 702 million, entirely invested in highly liquid paper.

■ During 2012 TCX's research partner OGResearch developed a state-of-the-art web delivery channel for its macro-economic forecasting models and valuation services in highly illiquid markets, in anticipation of creating a new business platform to provide these risk management tools to third parties (for additional information please visit www.Mantis.org, the word 'mantis' signifying a prophet or seer in Greek). The Forecasting & Policy Analysis Systems (FPAS) models were complemented with an early warning tool (the Macro Misalignment Monitor) and other spin-off risk management tools.

DEVELOPMENT IMPACT REVIEWS

■ At the request of the donors supporting TCX (the Netherlands and German governments), Prof. Dr. Martin Brown of the Swiss Institute of Banking and Finance of the University of St Gallen performed an evaluation of TCX's development impact. He concluded that "[TCX] has fulfilled its project goals in an effective and efficient manner. TCX has also contributed strongly to financial sector development. TCX has enhanced the availability of hedging instruments for illiquid developing country currencies, fostering cross-border funding to developing countries in local currency. By doing so, TCX has contributed to reducing the systemic currency risk of the financial sector in many developing countries."

■ Also at the initiative of the donors, Aidenvironment (www.aidenvironment.org) conducted a review of the technical assistance grant program administered within TCX (the "JoDEA fund") which has supported 9 projects with grants totaling USD 3.5 million over the past 5 years. Most of the funds were used to support TCX's forecasting models (FPAS). Aidenvironment concluded that "the JoDEA fund projects address problems and themes with respect to financial markets in emerging and developing countries (EMDCs) that are generally considered very relevant and fundamental for sustainable economic development of these countries. While key stakeholders involved are generally aware of these problems, no other institutions take the initiative of solving these problems. TCX is much to be commended for taking the initiative, and is generally considered to be uniquely placed and to have an added value in catalyzing change. Its core values to do so are its knowledge base, expertise, and its network, as well as its capacity to build trust."

■ TCX itself has produced an overview of achievements realized in the past 5 years[2]. Among others, it finds that its participation in the microfinance sector has made a direct and sizeable impact on mitigating currency risks for micro-borrowers, and that its positive impact on systemic risks in frontier markets is material in a number of smaller economies such as the Dominican Republic, Kyrghyzstan, Tanzania and others.

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.

2) Entitled "TCX At Work, 2007-2012", this document may be found on www.tcxfund.com

■ The Fund needs to gradually reduce its concentration on the micro-finance sector, which is a maturing industry where the average deal size is relatively small, which also tends to stretch the Fund's operational capabilities. While the transaction sizes are larger in the infrastructure and other sectors that need emphasizing, the lead times are much longer, which tends to stretch the commercial teams.

■ The recent growth of TCX's primary portfolio has been relatively imbalanced regionally. In a context of limited hedging possibilities, this is leading to tighter individual and regional currency limits, which may ultimately require (selectively) curbing the (primary) portfolio's growth.

■ In 2013/2014 the Fund and its investment manager will need to achieve compliance with the Alternative Investment Fund Managers Directive (AIFMD), the European Markets Infrastructure Regulation (EMIR) and the US Foreign Accounts Tax Compliance Act (FATCA).

FINANCIAL STATEMENTS

This annual report and the 2012 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 53.

The Supervisory Board recommends that the general meeting of shareholders adopt the 2012 financial statements of TCX. The annual general meeting of shareholders will be asked to release the members of the Managing Board from liability for the exercise of the management of the company's affairs and management.

The appropriation of profit proposed by the Managing Board and approved by the Supervisory Board can be found on page 52 of the annual report.

Amsterdam, 10 April 2013

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

"TCX has contributed to reducing the systemic currency risk of the financial sector in many developing countries."

Prof. Dr. Martin Brown, Swiss Institute of Banking and Finance

Photo: Cuzco Province, Peru (Herve Hughes/Hemis/HH)

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. ■

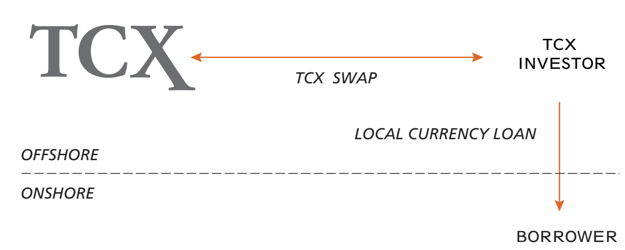
PRODUCTS

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.

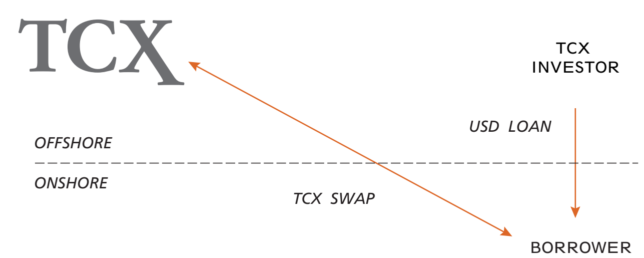
Hedging the Lender



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.

Hedging the Borrower



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. ■

RESEARCH ACTIVITIES

TCX's research activities center round the understanding and forecasting of emerging and frontier market fundamentals, and the creation of risk management and valuation tools to assist price discovery in illiquid markets.

Where markets do not have functioning benchmarks, or where such benchmarks require adjustments that need an in-depth understanding of the market fundamentals, TCX and its research partner OGResearch in the Czech Republic build Forecasting and Policy Analysis Systems (FPAS) to forecast the necessary rates. The FPAS models are quantitative, expert-assisted models similar to those used by central banks for inflation targeting. We have successfully adapted these models to allow us to implement internal model-based pricing and valuation methodologies. We are currently operating these FPAS's in 17 frontier currencies, with satisfactory results both in terms of forecasting power and commercial application.

The FPAS tools were complemented in 2012 with the Macro Misalignment Monitor (MMM), which provides early warning signals regarding instabilities existing or building up in economies. The MMM system currently covers 30 currencies and will be further expanded in 2013 to provide comprehensive frontier market coverage. In addition, we developed a web-based delivery platform for the FPAS and MMM, and are in process of restructuring the organizational set-up of our research activities with the aim of expanding our reach to a broader audience. For additional details we invite you to visit www.Mantis.org. ■

MANTIΣ
mantis.org

> "Thanks to TCX, long-term investments in local currency are now being made that otherwise would not have happened."
>
> *Mrs. Liliane Ploumen, Dutch Minister of Foreign Trade and Development Cooperation*

CAPABILITIES IN 100+ CURRENCIES
EXPOSURE IN 42 CURRENCIES

North Africa & Middle East

Algeria (DZD)
Egypt (EGP)
Jordan (JOD)
Lebanon (LBP)
Morocco (MAD)
Oman (OMR)
Tunisia (TND)
Yemen (YER)

Latin America

Argentina (ARS)
Barbados (BBD)
Bolivia (BOB)
Brazil (BRL)
Chile (CLP)
Colombia (COP)
Costa Rica (CRC)
Dominican Rep. (DOP)
Guatemala (GTQ)
Haiti (HTG)
Honduras (HNL)
Jamaica (JMD)
Mexico (MXN)
Nicaragua (NIO)
Paraguay (PYG)
Peru (PEN)
Suriname (SRD)
Uruguay (UYU)

Eastern Europe & Central Asia

Albania (ALL)
Armenia (AMD)
Azerbaijan (AZN)
Belarus (BYR)
Bosnia-Herzegovina (BAM)
Croatia (HRK)
Georgia (GEL)
Kazakhstan (KZT)
Kyrgyzstan (KGS)
Macedonia (MKD)
Moldova (MDL)
Serbia (RSD)
Tajikistan (TJS)
Turkey (TRY)
Ukraine (UAH)
Uzbekistan (UZS)

Asia-Pacific

Bangladesh (BOT)
Cambodia (KHR)
China (CNY)
Fiji (FJD)
India (INR)
Indonesia (IDR)
Malaysia (MYR)
Maldives (MVR)
Mauritius (MUR)
Mongolia (MNT)
Myanmar (MMK)
Nepal (NPR)
Pakistan (PKR)
Papua New Guinea (PGK)
Philippines (PHP)
Solomon Islands (SBD)
Sri Lanka (LKR)
Thailand (THB)
Vietnam (VND)

Sub-Saharan Africa

Angola (AOA)
Benin (XOF)
Botswana (BWP)
Burkina Faso (XOF)
Burundi (BIF)
Cameroon (XAF)
Cape Verde (CVE)
Central African Rep. (XAF)
Chad (XAF)
Comoros (KMF)
Dem. Rep. of Congo (CDF)
Equatorial Guinea (XAF)
Ethiopia (ETB)
Gabon (XAF)
Gambia (GMD)
Ghana (GHS)
Guinea (GNF)
Guinea-Bissau (XOF)
Ivory Coast (XOF)
Kenya (KES)
Lesotho (LSL)
Madagascar (MGA)
Malawi (MWK)
Mali (XOF)
Mauritania MUR)
Mozambique (MZN)
Namibia (NAD)
Niger (XOF)
Nigeria (NGN)
Republic of Congo (XAF)
Rwanda (RWF)
Senegal (XOF)
Seychelles (SCR)
Sierra Leone (SLL)
South Africa (ZAR)
Swaziland (SZL)
Tanzania (TZS)
Togo (XOF)
Uganda (UGX)
Zambia (ZMW)

Photo: Lagos, Nigeria (Kunle Ajayil, Africa Media Online/HH)

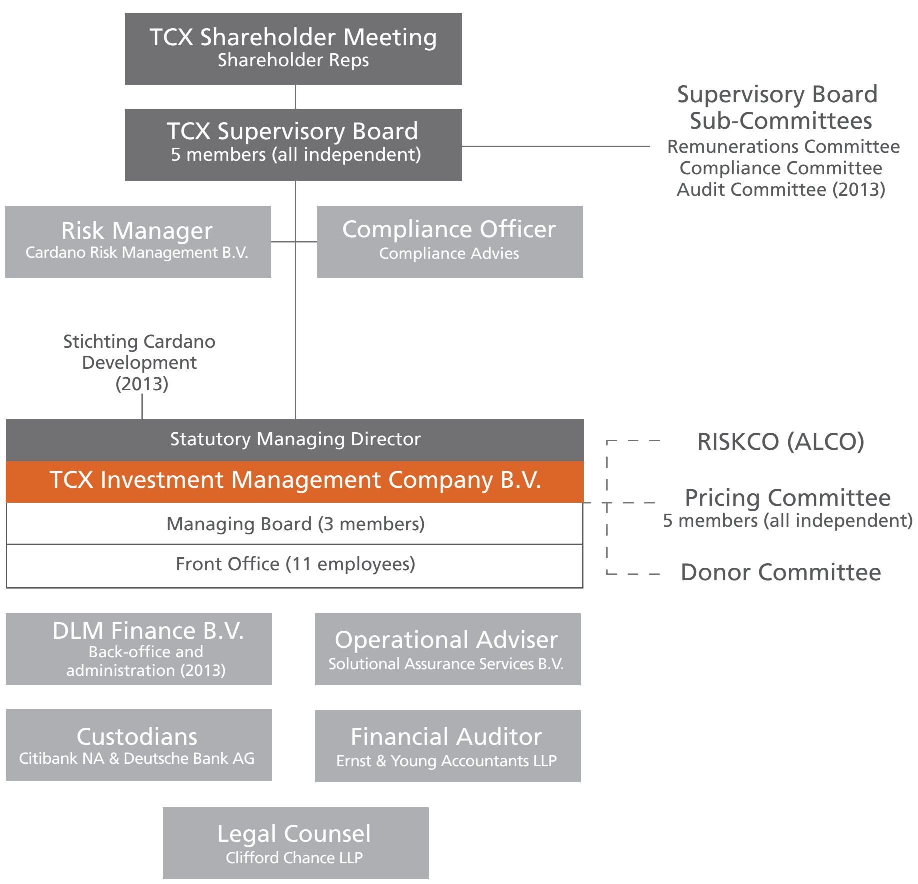
MANAGEMENT

TCX Investment Management Company B.V. (TIM) is TCX's exclusive investment manager and 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 (appointed as Director in January 2013).

TIM is 100% owned by Cardano Development B.V., which until 20 March 2013 was a wholly-owned subsidiary of Cardano Holding B.V. Effective 20 March 2013, all shares in Cardano Development B.V. were transferred to Stichting Cardano Development, a not-for-profit institution with charitable status newly created by the Cardano group to separate its development activities from the remainder of the group. This change improves TCX's governance by legally separating TIM's ultimate ownership and oversight from that of TCX's risk manager, Cardano Risk Management B.V.

As mentioned, risk management is outsourced to Cardano Risk Management B.V., a 100% subsidiary of Cardano Holding B.V. In addition, the Fund has outsourced the compliance function to Compliance Advies, an independent service provider. Both Cardano Risk Management B.V. and Compliance Advies report directly to the Supervisory Board.[3]

Management is, inter-alia, formalized in the Fund's Risk Management Committee (RISKCO), which convenes monthly to decide on operational, asset-liability, and counterparty risk management issues. ■



3) On 1 February 2013, TIM outsourced the Fund's back-office and administration function to DLM Finance B.V., an independent company formed and staffed by ex-employees of TIM who voluntarily resigned from TIM on 31 January 2013. TIM's relationship with DLM Finance is regulated by an indefinite Service Level Agreement that among other aspects obliges DLM Finance to adhere strictly to the Fund's Operational Guidelines, maintain and upgrade its IT infrastructure, and achieve pre-agreed performance targets. As the outsourcing to DLM Finance involves no changes in the Fund's day-to-day operations, and should result in cost efficiencies and other gains for TCX as the business case behind the creation of DLM Finance is realized, the impact on TCX is expected to be beneficial over time.

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 provision III.2.2 of the Dutch Corporate Governance Code. This means that none of the members of the Supervisory Board (or any partner or close relative):

- has been an employee or member of the Managing Board of TCX in the five years prior to appointment;
- receives personal financial compensation from TCX or an associated company other than the compensation received as member of the Supervisory Board;
- has had an important business relationship with TCX or a company associated with it, in the year prior to the appointment;
- is a member of the managing board of a company in which a member of the Managing Board is a member of the supervisory board;
- holds at least 10% of the shares in TCX;
- is a member of the managing board or supervisory board of a legal entity that holds at least 10% of the shares in TCX[4]; or
- has temporarily managed TCX during the period since inception.

In May 2012, Mr. Arthur Arnold replaced Mr. Cees Maas as Chairman.

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

The Supervisory Board met 6 times during 2012. Supervisory Board meetings are attended by the members in person[5], 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:

GOVERNANCE AND OWNERSHIP

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 2012, the Compliance Committee held 4 meetings.[6]

- ***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 time[7]. Members of the Remuneration Committee are not separately remunerated. During 2012, the Remuneration Committee held 3 meetings.

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

5) In 2012 the attendance rate was 93%.

6) Effective 1 January 2012, the Compliance Committee no longer meets separately. Its agenda is incorporated in the Supervisory Board's agenda.

7) 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 2012, the resulting Performance Factor was 1.45 on a scale of 0 to 1.6 (2011: 1.45; 2010: 1.30). 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).

■ In February 2013 the Supervisory Board decided to appoint an Audit Committee from amongst its members to assist the full board on matters that are typically within the remit of such committees. The membership and precise mandate and functioning of this committee will be reported during the course of 2013.

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 2012, the Pricing Committee met 12 times. All members are remunerated by way of an annual lump sum of EUR 20,000 (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 matters. During 2012, the RISKCO held 13 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 2012, all matters having been decided on in writing. Members of the Donor Committee are not separately remunerated.

GOVERNANCE PRINCIPLES

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

Photo: Arkanghai province, Mongolia (Bruno Morandi/Hemis/HH)

TCX INVESTORS

During 2012, the Fund welcomed the Inter-American Development Bank as a new investor. Royal bank of Scotland N.V., who owned 50 shares in TCX, redeemed its investment in July 2012.

SUBORDINATED DEBT

	USD VALUE (in millions)
IADB	20.0

SUBORDINATED CONVERTIBLE DEBT

	USD VALUE (in millions)
Dutch Government	70.0
German Government	58.8

SHAREHOLDERS

	SHARES	USD VALUE (in millions)
EBRD	140	84.71
FMO	140	84.71
JBIC	84	50.82
AFD	80	48.40
DBSA	80	48.40
KfW	80	48.40
DEG	60	36.30
IFC	50	30.25
AFDB	49	29.65
OFID	40	24.20
BIO	20	12.10
NORFUND	20	12.10
MFX	14	8.47
COFIDES	10	6.05
EFSE	10	6.05
PROPARCO	10	6.05
OIKO	10	6.05
BOMF	9	5.45
ASN / Oxfam Novib	5	3.03
GCAMF	4	2.42

Photo: Ninh Binh province, Vietnam (Bruno Morandi/Hemis/HH)

Statement of financial position

(for the year ended 31 December)

(all amounts in USD)	Notes	2012	2011
ASSETS			
Cash and cash equivalents	3	40,909,420	29,591,073
Financial assets at fair value through profit or loss	4	694,693,578	657,269,232
Cash collateral given	5	20,697,678	25,709,939
Other receivables	6	92,253	82,743
Total assets		**756,392,929**	**712,652,987**
LIABILITIES			
Cash collateral received	5	6,472,412	1,510,065
Financial liabilities at fair value through profit or loss	9	37,670,342	48,698,891
Accrued expenses and other payables	10	9,856,794	8,949,332
Subordinated convertible debt	11	97,368,583	90,661,549
Grants linked to the subordinated convertible debt	11	31,404,870	38,111,904
Subordinated loan	12	20,002,385	-
Total liabilities (excluding class A shares)		**202,775,386**	**187,931,741**
Net assets attributable to holders of redeemable shares Class A	13	**553,617,543**	**524,721,246**
Total liabilities		**756,392,929**	**712,652,987**

Statement of comprehensive income

(for the year ended 31 December)

(all amounts in USD)	Notes	2012	2011
INVESTMENT RESULT			
Net result on financial instruments at fair value through profit or loss	14	63,373,058	8,568,773
Interest income	16	4,023,622	2,608,374
Interest subordinated loan	12	(2,385)	-
		67,394,295	11,177,147
OTHER RESULTS			
Contributions to Donors Commitments	10	(1,598,680)	-
Foreign currency translation	15	2,182,015	(3,320,756)
		583,335	(3,320,756)
OPERATIONAL EXPENSES			
Management fee	7	(5,318,249)	(4,507,232)
Performance fee	7	(2,466,428)	(1,623,473)
Risk management fee	8	(1,623,843)	(1,573,115)
Audit fees	8	(323,402)	(320,063)
Governance expenses	7	(349,040)	(323,964)
Other general expenses	17	(627,490)	(614,373)
		(10,708,452)	(8,962,220)
Change in net assets resulting from operations attributable to holders of redeemable shares Class A		**57,269,178**	**(1,105,829)**

Statement of cash flows

(for the year ended 31 December)

(all amounts in USD)	Notes	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES			
Net receipts from Primary, Trading and Hedging financial instruments at FVtPL		44,175,019	30,665,709
Net payments for Debt instruments		(29,724,844)	(25,055,195)
Reclaimable withholding tax received		-	67,318
Interest received		4,019,683	3,364,264
Risk management fee paid		(1,623,843)	(1,573,115)
Management fee paid		(5,318,249)	(4,578,647)
Performance fee paid		(1,829,953)	(1,310,219)
Audit fees paid		(321,634)	(266,969)
Governance expenses paid		(349,040)	(323,964)
Cash collateral received (paid)		9,974,608	(14,995,225)
Transfers from Donor Assets account		271,417	4,245,910
Other general expenses paid		(706,674)	(642,433)
Net cash flow generated from (used in) operating activities		**18,566,490**	**(10,402,566)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from subscriptions of shares Class A		-	29,712,969
Payment for redemption of shares Class A		(28,372,881)	(10,680,686)
Proceeds from Subordinated loan		20,000,000	-
Net cash flow generated from (used in) financing activities		**(8,372,881)**	**19,032,283**
Net cash flow generated during the year		**10,193,609**	**8,629,717**
Cash and cash equivalents at the beginning of the year		29,591,073	24,282,112
Foreign currency translation of cash positions		1,124,738	(3,320,756)
Cash and cash equivalents at end of period	3	**40,909,420**	**29,591,073**
Analysis of cash and cash equivalents			
Cash at Citibank		39,863,576	29,581,783
Cash at Deutsche Bank		1,045,844	9,290
Cash and cash equivalents at end of period	3	**40,909,420**	**29,591,073**

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	
	2012	2011	2012	2011
Net assets at beginning of year	524,721,246	506,794,792	965	935
Shares issued	-	29,712,969	-	50
Redemption of shares	(28,372,881)	(10,680,686)	(50)	(20)
Net change from transactions with shareholders	(28,372,881)	19,032,283	(50)	30
Change in net assets from operations	57,269,178	(1,105,829)		
Net assets at end of the year Class A	**553,617,543**	**524,721,246**	**915**	**965**

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 was created with the objective 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 for its investors and their clients. These parties utilize TCX in the mitigation of the 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. For the Fund, the adopted IFRSs by the EU are equal to IFRSs as published by the International Accounting Standards Board (IASB). The Fund therefore also complies with IFRSs as published by the IASB. Refer to note 19 and 20 for a further explanation of significant accounting policies, estimates and judgments.

The financial statements were authorized for issue by the Managing board on 10 April 2013.

2. 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 creation of a local currency business line for its providers of Share Capital and Subordinated Debt (the Investors).

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

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

Investment policy

TCX does not displace existing appetite for investment in emerging markets but exclusively focuses on risk mitigation through internal portfolio diversification. The Fund mostly invests through its Investors, which have established local networks in emerging markets. The Fund deals however directly with local capital markets to find risk mitigating instruments such as hedging.

TCX's 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 most direct development impact is to strengthen the financial basis of emerging markets entities by removing the currency/maturity mismatch they face today. TCX's stated focus on Sub-Sahara Africa ensures that 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.

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 unallocated funds in cash deposits, commercial paper, bank deposits, t-bills 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. government, government backed and banking institutions.

Risk management process

Sound risk management is essential to TCX for it is the rationale behind its setup. Main indicators are the stringent limits on the total risk of TCX. TCX has a credit rating of A- with stable outlook (2011: A-) as determined by Standard and Poor's. 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 II[1]. The calculation methods follow the Basel II internal model approach unless the lack of market data prevents this. Where market data is not available, a capital charge is calculated as a fixed add-on using a stress scenario. This method is an accepted way to deal with statistical uncertainties.

1) TCX is in the process of establishing an Internal Capital Adequacy Assessment Process, predominantly in accordance with the Basel III guidelines.

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 active investment in liquid local currency debt instruments to balance the primary exposures, hedging through derivative markets, and local funding tools. TCX's hedging activities form an integral part of its development impact strategy.

TCX has two stop-loss risk triggers: one requiring the Investment Manager to operate more prudently in its assumption of risk and to redress ratios in a going-concern manner, the other triggering cessation of activities and (ultimately) a managed liquidation of the portfolio (the Liquidation Trigger Event). TCX's risk management is based on the Risk Charter. The Risk Charter contains, amongst others:

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

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

Market risk

The most important risk 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 usage of segregated risk management techniques according to the depth and quality of available market data to warrant the usage of such techniques. The more extensive the available data, the more sophisticated the management technique available. TCX's market risks are managed in 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 NDF (Non-Deliverable Forward) rates.

The book structure is built using well-established funds transfer pricing techniques. Any TCX transaction can give rise to different entries in each of the 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 the period of one month. In OECD markets this period is often much shorter (between 1 day and 1 week) but given the illiquid markets that TCX operates in, a more prudent approach is required. The book structure consists of a currency and an interest rate book per currency. Since the market risk is also managed on a regional level, each currency book is part of a regional currency book. This set up enables limit setting on both levels.

A total net amount of USD 657,023,236 (2011: USD 608,570,341) is invested in financial instruments at fair value through profit or loss, representing 118.7% (2011: 116.0%) of the NAV as per 31 December 2012. The financial instruments consist of the following groups of financial instruments at year end:

(all amounts in USD)	Carrying amount	% of NAV	Carrying amount	% of NAV
		2012		***2011***
Cross currency swaps	(17,625,721)	(3.2)	(27,799,654)	(5.3)
Forwards	5,176,833	1.0	(3,377,285)	(0.7)
Commercial papers	328,242,617	59.3	395,980,765	75.5
US Treasury bills	49,985,164	9.0	-	-
Floating rate notes	291,244,343	52.6	243,766,515	46.5
Financial instruments at fair value through profit or loss	657,023,236	118.7	608,570,341	116.0
Cash collateral given	20,697,678	3.7	24,199,874	4.6
Cash collateral received	(6,472,412)	(1.2)	-	-
Cash and cash equivalents	40,909,420	7.4	29,591,073	5.6
Other	(9,764,541)	(1.8)	(8,866,589)	(1.7)
Subordinated convertible debt	(97,368,583)	(17.5)	(90,661,549)	(17.3)
Grants linked to the subordinated convertible debt	(31,404,870)	(5.7)	(38,111,904)	(7.2)
Subordinated loan	(20,002,385)	(3.6)	-	-
Total	**553,617,543**	**100.0**	**524,721,246**	**100.0**

Monitoring of market risk

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

- Value at Risk (VaR);
- Stress testing;
- Maintenance of strict concentration limits.

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

- Confidence level α;
- Holding or unwinding period;
- Information period.

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

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

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

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

Concentration limits: the fundamental premise of TCX is that extensive diversification reduces currency and interest rate risks 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 defined (subject to periodic review) on the notional of the contracts for each currency, set relative to (a) TCX's Tier 1 + Tier 2 capital levels (b) its total portfolio size and (c) an absolute number as defined by the size and liquidity of the currency market. The maximum gross amount invested in a country or currency is the lesser of:

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

Deductions from the gross amount (netting) because of hedging is only allowed if the following conditions are met[2]:

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

If these conditions are met, an additional limit increase of the gross exposure to 40% of total capital is allowed.

The Fund uses Value at Risk (VaR) to measure risk exposure with a horizon of 1 month and a confidence level of 99%. The VaR calculation method used in the normal course of the business is called historical simulation[3]. For the purpose of the financial statement disclosures, the historical VaR is used with the main assumption that historical market data is the best estimator for future changes. The historical method does not assume a normal distribution of assets. The historical VaR calculation is based on 120 months of historical price changes to yield a distribution of changes in value.

At 31 December 2012, the Fund has a market VaR of USD 37.3 million (2011: USD 34.1million). The market VaR consists of foreign currency exchange risk VaR (book 1) amounting to USD 28.7 million (2011: USD 28.0 million), interest rate risk VaR mature market (book 3) amounting to USD 2.1 million (2011: USD 1.2 million), interest rate risk VaR emerging markets (book 2) amounting to USD 5.2 million (2011: USD 3.8 million) and a NDF (Non-Deliverable Forward)[4] spread VaR (book 4) of USD 1.3 million (2011: USD 1.1 million).

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.

2) The treatment of portfolio hedges in illiquid markets is currently in process of being re-assessed.

3) 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.

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

The Fund had the following hedging transactions as at 31 December:

(all amounts in USD)	Fair value	Notional value	Fair value	Notional value
	2012	***2012***	***2011***	***2011***
Kenyan Shilling	(9,508)	4,616,216	1,296,874	7,768,327
Armenian Dram	(72,291)	8,000,000	-	-
Kyrgyzstani Som	(31,795)	10,000,000	-	-
Total hedging transactions	**(113,594)**	**22,616,216**	**1,296,874**	**7,768,327**

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:

	Maximum regional concentrations	**Actual concentrations 31 December 2012**	**Actual concentrations 31 December 2011**
Emerging Europe / Central Asia	40%	38%	27%
Middle East / North Africa	30%	2%	2%
Asia	40%	17%	24%
Sub Sahara Africa	50%	25%	26%
Latin America	40%	18%	21%

Individual currencies have a limit of USD 101,817,366 (2011: USD 89,201,580). The Fund's largest exposures per currency compared to their limit is as follows:

	% of limit 31 December 2012	**% of limit 31 December 2011**
Kyrgyzstani Som	89.3	47.0
Armenian Dram	82.3	42.1
Kenyan Shilling	64.5	76.1
Azerbaijani Manat	61.1	49.0
Georgian Lari	50.6	41.8

All limits are subject to periodic review.

Yield curve extension: 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 based on advice of the Risk Manager.

Credit risk

Whenever a new counterparty is introduced to TCX, the Investment Manager will propose to the RISKCO for approval. TCX assumes limited credit risk through the use of collateral.

The credit risk measures are based on the Basel II framework using internal credit ratings with associated Probability of Default (PD). For 'Loss Given Default' and 'Exposure At Default' the prescribed levels are applied, where Maturity will be set at effective maturity.

The Fund is exposed to credit risk in the swap contracts it concludes with its counterparties. The credit risk is largely mitigated by having an ISDA CSA (International Swap Dealer Association Collateral Support Agreement) in place with periodic collateral movements.

An internal rating and associated PD is assigned to each counterparty prior to execution of a transaction. 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 year. Collateral management ensures that the exposure at default remains limited. The exposure at default is based on the potential future exposure calculated as the VaR for the applicable period.

In the risk framework of the Fund, capital is retained to cover this credit risk. The capital retention is calculated using Potential Future Exposure measures based on the 99% Value-at-Risk for the period until the next collateral call as agreed in the individual ISDAs and CSAs. The notional amounts of derivatives credit risk exposure are included in the following table.

(all amounts in USD)	Credit rating	2012	2011
	AAA	470,245,036	498,920,365
	AA	156,047,701	120,840,960
	A	86,368,111	56,750,526
	BBB	44,182,980	31,736,396
	BB	9,123,425	7,910,405
	B	315,109	-
	Total	**766,282,362**	**716,158,652**

The Risk Weighted Assets for the credit risk exposure shown above totals to USD 100.9 million (2011: USD 63.3 million). The increase in Risk Weighted Assets can to a large extent be explained by lowering of internal credit ratings and the portfolio growth.

Liquidity risk

Investments

To maximize TCX's ability to assume liquidity risk, minimum liquidity limits are applied on each currency. The limits are determined depending on the currency's convertibility into USD, which is determined by the RISKCO on the basis of advice provided by the Risk Manager. As per 31 December 2012 no currencies other than the Euro is approved as convertible.

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

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

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

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

Daily trading limits per approved currencies are guidelines not limits. To prevent unnecessary risk taking in the liquidity portfolio, a rise in interest rates of 1% may not cause a loss higher than 1% of the liquidity portfolio. In order to monitor the liquidity risk, a gap analysis is performed on a monthly basis. A gap analysis provides an overview of all expected cash flows of all transactions. This includes coupon receipts on bonds, periodic interest exchange on swaps, principal (re)payments on cross-currency swaps and settlements on currency swaps. The gap analysis for the year ended 31 December 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)**	
	One week	**One month**	**Over one month**
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 81 % (2011: 70%) of these assets have a remaining term shorter than 1 year. In addition, the other 19 % (2011: 30%) are considered highly liquid investments i.e. government, government backed bonds and banking institutions.

TCX provides clients with conditional deliverable products. In normal circumstances this product is deliverable, but in case of inconvertibility or intransferability, the product automatically becomes non-deliverable. Furthermore, TCX has no future obligation to deliver local currency; only to receive. The currencies in which TCX has conditional deliverables outstanding are in Kenyan Shilling, Uganda Shilling, Indonesian Rupiah, Zambian Kwacha, Ghanaian Cedi, Tanzanian Shilling and the West African Franc for a total notional of USD 30 million (2011: USD 51 million also including Philippine Peso and Costa Rica Colon).

The gap analysis for the year ended 31 December 2011 is as follows:

(all amounts in USD)	One week	One month	Over one month
Currency EUR			
Cash In	17,791,030	27,126	105,149,673
Cash Out	11,528	-	20,392,110
Net Position	17,779,502	27,126	84,757,562
Cum Net Position	17,779,502	17,806,628	102,564,190
Limit	**(326,747,130)**	**(326,747,130)**	
	One week	**One month**	**Over one month**
Currency USD			
Cash In	37,953,066	16,882,025	555,236,605
Cash Out	1,013,585	710,694	154,121,499
Net Position	36,939,481	16,171,331	401,115,107
Cum Net Position	36,939,481	53,110,812	454,225,918
Limit	**(326,747,130)**	**(326,747,130)**	

Subordinated convertible debt

The Fund's financial liabilities consist of a Subordinated convertible debt for an undiscounted cash flow amount of USD 97,368,583 (2011: USD 90,661,549), representing 12.9% (2011: 12.7%) of the total financial liabilities, and Grants linked to the subordinated convertible debt for an amount of USD 31,404,870 representing 4.2% of the total financial liabilities (2011: USD 38,111,904 and 5.4% respectively) (see note 11 for further details). The Subordinated Convertible Debt and the grants linked thereto have a final maturity date of 5 September 2017 (subject to certain provisions). Since 5 September 2012 each participating lender of the Subordinated Convertible Debt 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 consist of a subordinated loan for an undiscounted cash flow amount of USD 20,002,385, representing 2.6% of the total financial liabilities (see note 12 for further details). The subordinated loan has a final maturity date of 15 February 2021. As per 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 puttable instruments. Redemption is at each investor's option up to an annual maximum of 20% of the Fund's issued Shares A at the start of the year. Taking into account the maximum use of this put option, the undiscounted redemption profile of the Fund's Shares A is as follows (see note 13 for further details regarding redemption rights).

(all amounts in USD)	2012	2011
Year of maturity		
2012	-	104,944,249
2013	110,723,509	83,955,399
2014	88,578,807	67,164,319
2015	70,863,046	53,731,456
2016	56,690,436	42,985,164
2017	45,352,349	34,388,132
2018	181,409,396	137,552,527
Total	**553,617,543**	**524,721,246**

Other liabilities

The Fund holds other liabilities for an undiscounted cash flow amount of USD 9,856,794 (2011: USD 8,949,332) with a maturity date of less than 3 months, representing 1.3% of the total financial liabilities (2011: 1.3%). The Fund invests in commercial papers for an amount of USD 328,242,617 representing 59.3% of the NAV (2011: USD 395,980,765 representing 75.5% of the NAV) which are readily convertible into cash.

Fair value of other financial assets and financial liabilities

There is no material difference between the value of the other financial assets and liabilities, as shown in the balance sheet, and their fair value due to the short term except for the subordinated convertible debt. See note 11 for further details.

3. CASH AND CASH EQUIVALENTS

At 31 December 2012 and 2011, no restrictions on the use of cash and cash equivalents exist.

4. 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)	2012		2011	
	Fair value	% of NAV	Fair value	% of NAV
Level 1 financial instrument				
Commercial papers	328,242,617	59.3	395,980,765	75.5
Debt instruments	341,229,507	61.6	243,766,515	46.5
Level 2 financial instruments				
Cross currency interest rate swaps – Primary	2,530,531	0.4	5,510,121	1.1
FX Forward contracts – Primary	19,707	0.0	137,487	0.0
FX Forward contracts – Trading	2,159,779	0.4	153,090	0.0
FX Forward contracts – Hedging	-	-	1,296,874	0.2
Level 3 financial instruments				
Cross currency interest rate swaps – Primary	17,032,884	3.1	9,288,814	1.8
FX Forward contracts – Primary	3,478,553	0.7	1,135,566	0.2
Total	**694,693,578**	**125.5**	**657,269,232**	**125.3**

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 Level 3 investments are detailed as follows (for liabilities see note 9):

(all amounts in USD)	2012	2011
Assets	20,511,437	10,424,380
Liabilities	(33,374,114)	(40,119,148)
Total	**(12,862,677)**	**(29,694,768)**

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

For the year 2012	Assets	Liabilities
Balance at 1 January 2011	10,424,380	(40,119,148)
Early termination swap contract	(380,686)	30,161
Valuation of new forward transactions	2,730,222	(184,327)
Valuation of new swap transactions	5,128,297	(2,398,340)
Matured deals	(2,271,772)	3,400,951
Unrealized gains and losses	4,880,996	5,896,589
Balance at 31 December 2012	**20,511,437**	**(33,374,114)**

For the year 2011	Assets	Liabilities
Balance at 1 January 2011	7,464,696	(22,752,630)
Early termination swap contract	(401,392)	3,393,376
Valuation of new forward transactions	1,135,566	(912,804)
Valuation of new swap transactions	7,660,978	(20,068,240)
Matured deals	8,773,978	(5,609,056)
Unrealized gains and losses	(14,209,446)	5,830,206
Balance at 31 December 2011	**10,424,380**	**(40,119,148)**

There are no results on financial instruments at fair value through profit or loss as a result of change in calculation assumptions (2011: no results). The results include an amount of USD 233,698 (2011: USD 629,554) resulting from early termination of swap contracts. A change in the interest rate of 1 basis point results in a change in fair value of USD 117.803 (2011: USD 81,094). All results of financial instruments classified as Level 3 are presented in the statement of comprehensive income under results on financial instruments at fair value through profit or loss. The effect of the change is the difference between the fair value of the financial instruments based on the new calculation and the fair value according the initial calculation assumptions. For the year ended 31 December 2012 and 2011 no transfers between the level classification of financial instruments occurred.

5. CASH COLLATERAL

As at 31 December 2012 the Fund transferred cash to margin accounts as collateral against open forward contracts for a total net amount of USD 14,225,266 (2011: USD 24,199,874). The margin accounts were created based on the Credit Support Annex to the schedule to the 2002 ISDA Master Agreements as agreed with various counterparties. The cash collaterals are interest bearing (refer to the credit risk disclosure in note 2).

6. OTHER RECEIVABLES

At 31 December the other receivables consist of the following:

(all amounts in USD)	2012	2011
Interest receivable	15,267	11,328
Prepaid expenses	76,986	71,415
Total other receivables	**92,253**	**82,743**

7. 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 the services provided which is included in the total fee agreements 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 (2011: EUR 105,000), including EUR 50,000 for the Chairman (2011: EUR 25,000) and EUR 22,000 for each other member (2011: EUR 20,000). These fees are presented as part of the governance expenses. In relation to 2012 a total of USD 167,660 (2011: USD 154,370) has been expensed as Supervisory Board fees. The amount expensed each year depends on the VAT treatment of the fees, and 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 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.

Remuneration

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 agreed to an annual budget payable monthly in advance. For the current period, the Investment Manager invoiced EUR 4,125,000 equaling USD 5,318,249 (2011: EUR 3,198,020[5] equaling USD 4,507,232);
- 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 for the year 2012 amounts to USD 1,882,788[6]. Together with a surplus related to the performance fee for the year 2011 of USD 583,639 the total performance fee recognized in statement of comprehensive income amounts to USD 2,466,428. In 2011 the total performance fee taken into account amounted to USD 1,623,473 representing an amount of USD 291,245 for performance for the year 2010 and the performance fee for the performance over the year 2011 of USD 1,332,228.
- Carried interest: the Investment Manager will receive a carried interest on the realized business value, representing the difference between realized exit and issuance value of the transfer shares as defined by the Investment Management Agreement and payable prior of a transfer of shares Class A or Class B. For the current period no transfer of shares Class A or Class B occurred.

5) This amount includes an excess amount that was charged by mistake by the Investment Manager in 2009 to the Fund which has been refunded in March 2011 with interest for an amount of EUR 244,431 (USD 324,262).

6) In February 2013 the Supervisory Board approved the total 2012 performance fee for an amount of USD 2,202,207. The surplus of USD 291,227 compared to the 2012 performance fee taken into account, will be recognized in 2013.

8. 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 7 for further details of the contractual arrangements.

Risk Manager

The Fund's risk management is provided by Cardano Risk Management B.V. under the terms of the Risk Management Agreement, dated 5 September 2007. The Risk Manager is, amongst others, responsible for maintenance of the risk control framework, executing the daily risk control function, the provision of an independent opinion on pricing and valuation and provide expert input on pricing, modeling and execution of derivatives transactions and supporting the Investment Manager in research and risk management. The Risk Manager is remunerated on a fixed fee basis which amounted to EUR 1,130,500 equaling USD 1,623,843 (2011: EUR 1,130,500 equaling USD 1,573,115).

Assurance providers

The Fund has appointed Ernst & Young Accountants LLP as the Independent Auditor. The Independent Auditor's remuneration consists of EUR 165,820 equaling USD 218,760 (2011: EUR 154,470 equaling USD 214,214) audit fee. The Independent Auditor is engaged to perform the audit of the financial statements and annual compliance audits on the Funds activities. Except for a tax advice concerning governance expenses, the Independent Auditor did not provide any non-audit services to the Fund. The remaining part (USD 104,642; 2011: USD 105,849) of the total audit fees of USD 323,402 (2011: USD 320,063) is related to the audit of the Fund's ISAE 3402 Type II report performed by Solutional Assurance Services B.V.

9. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial liabilities at fair value through profit or loss consist of the following instruments at 31 December of each year (see for further information note 4).

(all amounts in USD)	2012		2011	
	Fair value	% of NAV	Fair value	% of NAV
Level 2 financial instruments				
Cross currency interest rate swaps – Primary	3,999,349	0.8	3,240,248	0.6
FX Forward contracts –Primary	5203,825	0.0	50,870	0.0
FX Forward contracts – Trading	83,546	0.0	5,136,629	1.0
FX Forward contracts – Hedging	9,508	0.0	-	-
Level 3 financial instruments				
Cross currency interest rate swaps - Primary	33,189,787	6.0	39,358,340	7.5
Cross currency interest rate swaps - Hedging	104,086	0.0	-	-
FX Forward contracts – Primary	80,241	0.0	912,804	0.2
Total	**37,670,342**	**6.8**	**48,698,891**	**9.3**

10. ACCRUED EXPENSES AND OTHER PAYABLES

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

(all amounts in USD)	2012	2011
Contribution to Donor Commitments	7,814,779	7,543,362
Audit fee payable	98,975	97,207
Other general fees payable	32,060	34,258
Management fee and performance fee payable	1,910,980	1,274,505
Total accrued expenses and other payables	**9,856,794**	**8,949,332**

Contribution to Donor Commitments

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

The Fund contributes to the Donor Commitments:

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

b) On or before July 15 of any year, an amount equal to the lesser of (i) the previous year's audited net profit of the Fund; (ii) the previous year's audited net positive cash flow of the Fund; (iii) an amount equal to an interest over the Subordinated Convertible Loan's amounts outstanding during the previous year, at a rate of the USD 6-month libor rate on the 15th date of each calendar quarter, plus any amounts due but unpaid in previous years

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

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

(all amounts in USD)	Note	2012	2011
Interest calculated based on market interest rates		(8,305,714)	(6,707,034)
Amortization of government grants	11	6,707,034	6,707,034
Contributions to Donor Commitments		**(1,598,680)**	-

The 2012 contributions to Donor Commitments were based on the interest over the Subordinated Convertible Loan's amount outstanding for the periods 2011 and 2012. In 2011 no contributions were taken into account due to the negative result in 2011.

On 30 December 2011, an additional contribution of EUR 4,500,000 (converted into USD on the day of receipt) was provided by The Netherlands Ministry of Foreign Affairs.

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

Objective

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

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

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

The Donors wish the Fund to engage in projects with high additionality and development impact. To this end, they have required the Facility to be interest-free, with the Fund earmarking funds (Contributions to donors) that would otherwise constitute interest payments under the Facility for projects to be approved by a donor committee, pursuant to the Joint Donor Agreement (see note 10).

Status

The Donors are represented by The Netherlands Ministry of Foreign Affairs (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

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

Conversion

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

The conversion price payable by a converting lender on the conversion date shall be the equal to the per-share net asset value of the Fund's Shares A applicable immediately after conversion (including the first loss effect of the Subordinated Convertible Loan and/or Shares B outstanding). The lenders' conversion rights are not transferable. 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 2017). For Facility commitments in currencies other than the USD, the repayment obligation is the USD equivalent thereof using the exchange rate applicable at disbursement.

Fair value information

The estimation of the fair value of the Subordinated Convertible Debt at 31 December 2012 was calculated based on an internally developed valuation model and amounted to USD 73.8 million (2011: USD 63.5 million). The following major assumptions were used in the internally developed valuation model:

- No dividend is paid on TCX shares (see note 13 for information about the dividend policy);
- 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 option valuation can be based on the results of a financial model as built and maintained by TCX.

Movement of subordinated convertible debt during the reporting period

all amounts in USD)	2012	2011
Opening balance	90,661,549	83,954,515
Amortization of grants during the reporting period	6,707,034	6,707,034
Total end of year	**97,368,583**	**90,661,549**

Movement of government grants during the reporting period

(all amounts in USD)	2012	2011
Opening balance	38,111,904	44,818,938
Amortization of grants during the reporting period	(6,707,034)	(6,707,034)
Total end of year	**31,404,870**	**38,111,904**

Cumulative positions at the end of reporting period

(all amounts in USD)	Subordinated loans at market interest	Government grants	Total
Total position at December 31, 2010	**83,954,515**	**44,818,938**	**128,773,453**
Amortization during the year	6,707,034	(6,707,034)	-
Total position at December 31, 2011	**90,661,549**	**38,111,904**	**128,773,453**
Amortization during the year	6,707,034	(6,707,034)	-
Total position at December 31, 2012	**97,368,583**	**31,404,870**	**128,773,453**

12. 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 debt excluding the subordinated convertible debt (see note 11).

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 starts to amortize. 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 facilitates 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 2012 was calculated based on an internally developed valuation model and amounted to 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 (see note 13 for information about the dividend policy):

- No dividend is paid on TCX shares;
- The facility is senior to equity and the subordinated convertible debt but junior to other senior debt.;
- 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 is assumed 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)	2012
Opening balance	-
Drawdown (fair value at initial recognition) on 18 December 2012	20,000,000
Accrued interest during the reporting period	2,385
Total end of year	**20,002,385**

13. 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 2012 915 Shares Class A are in issue (31 December 2011: 965 shares). No Shares Class B are in issue.

Subscriptions

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

Redemptions

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

Redemptions are subject to the full discretion of acceptance by the Investment Manager for any shares offered for redemption in excess of 20% of shares Class A and shares Class B outstanding in any one year. Immediately before 5 September 2017, there will be no limitations on the ability of any shareholder to redeem its shares. Thereafter, the Investment Manager is again entitled to limit the acceptance of redemptions above 20%.

According to the investors agreement dated 29 October 2010 (“the Agreement”), redemption or repurchase of shares will only be allowed if the shareholder concerned repurchased at arm´s length terms a sufficient volume of commercial transactions in which it acts as counterparty of the Fund. In July 2012, RBS redeemed its 50 shares (On 26 October 2011, IFU redeemed its 20 shares).

Rights and obligations

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

Feeder vehicle

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

Capital management

The Fund´s capital management objectives are included in note 2. 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)	2012	2011
Net assets attributable to holders of Shares Class A	553,617,543	524,721,246
Subordinated Convertible Debt	97,368,583	90,661,549
Grants linked to the Subordinated Convertible Debt	31,404,870	38,111,904
Total Tier 1 capital	**682,390,996**	**653,494,699**

Since December 2012 the Fund has one Subordinated loan classified as Tier 2 capital (see note 12 for further details).

(all amounts in USD)	2012	2011
Subordinated Loan	20,002,385	-
Total Tier 2 capital	**20,002,385**	-

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

- Minimum Total Capital-ratio[7] of 14%. If the Capital-ratio falls below the threshold of 14% (at 31 December 2012: 40%, 2011: 41%), 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 2012: 39%, 2011: 41%);

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 profits that, in the opinion of the Supervisory Board, clearly outpace the Fund's growth potential, leading to inefficient capitalization for the foreseeable future. No dividends have been paid since incorporation of the Fund.

The statutory managing board proposes to the general meeting to distribute a dividend of USD 13,725,000 , equal to a USD 15,000 dividend per share.

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

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

(all amounts in USD)	2012	2011
Cross Currency Swaps - Primary	51,309,884	10,092,980
FX forwards - Primary	6,983,002	3,092,489
FX forwards - Trading	6,099,128	(2,261,393
FX forwards - Hedging	(1,488,944)	1,295,644
FX spot transactions	(92,766)	-
Debt instruments[8]	562,754	(3,650,947)
Total net result on financial instruments at fair value through profit or loss	**63,373,058**	**8,568,773**

7) 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.

8) The interest income on debt instruments are presented as interest income (see note 16).

The interest component included in the Cross Currency Swaps amounts to USD 50,369,389 (2011: USD 26,916,634).

15. FOREIGN CURRENCY TRANSLATION

Realized and unrealized exchange differences consist of realized and unrealized translation gains (losses) on assets and liabilities denominated in currencies other than US Dollar. The total foreign currency translation amounts to a profit of USD 2,182,015 (2011: loss of USD 3,320,756). For the translation of the non-USD positions at balance sheet date, a closing rate of EUR 0.758 (2011: EUR 0.772) per USD has been applied in preparation of these financial statements.

16. INTEREST INCOME

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

(all amounts in USD)	2012	2011
Financial instruments at fair value through profit or loss		
Commercial paper	1,282,060	1,187,572
US Treasury bills	35,292	113,333
Floated rate notes	2,647,136	1,140,732
Subtotal debt instruments	**3,964,488**	**2,441,637**
Cash and cash equivalents		
Cash at banks	166	43,831
Cash collaterals	58,968	122,906
Subtotal cash and cash equivalents	59,134	166,737
Total interest income	**4,023,622**	**2,608,374**

17. OTHER GENERAL EXPENSES

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

(all amounts in USD)	2012	2011
Legal fees	139,361	109,605
Rating agency fees	90,366	78,169
Guarantee fee	116,250	175,919
VAT	63,095	113,613
Compliance fees	37,273	52,245
Tax advisory fees	73,144	7,684
Other expenses	108,001	77,138
Total other general expenses	**627,490**	**614,373**

18. PERSONNEL

The Fund did not employ any personnel during the reporting periods ended 31 December 2012 and 31 December 2011.

Significant accounting policies, estimates and judgments

19. 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 realized 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 11).

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

In October 2010 the IASB issued the Amendments to IFRS 7: Disclosures—Transfers of Financial Assets. The EU endorsed the Amendments on 23 November 2011. The Amendments require disclosures to help users of financial statements to evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and promote transparency in the reporting of transfer transactions, particularly those that involve securitization of financial assets. The Fund applied the Amendments as per 1 January 2012 and this had 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

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 new requirements are effective for annual periods beginning on or after 1 July 2012. No significant impact is expected for the Fund.

Fair value measurement - On May 12 2011 the IASB issued IFRS 13 Fair Value Measurement. The EU endorsed IFRS 13 on 11 December 2012. IFRS 13 will improve consistency and reduce 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 Fund has not early adopted this standard for the current reporting period. The impact for the Fund´s financial statements is not significant.

Offsetting financial instruments- On 16 December 2011 the IASB issued amendments to IAS 32 Financial Instruments: Presentation and amendments to IFRS 7 Financial Instruments: Disclosures. 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 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 Fund is currently assessing the impact of the amendments but foresee no significant impact. The EU endorsed the amendments to IAS 32 and IFRS 7 on 13 December 2012. The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014 and require retrospective application for comparative periods.

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. Realized and unrealized exchange differences on other assets and liabilities are also recorded in the income statement and disclosed as foreign currency translation.

Financial instruments

Classification

The Fund classifies its investments in debt securities and all derivative financial instruments (which may include foreign exchange contracts, 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.

Draw downs under the subordinated convertible debt loan facility from current and new investors (which are defined as government, government agencies and similar bodies) are treated as loans including grant elements (further referred to as Grants linked to the Subordinated Convertible Debt). A further description is disclosed in note 11. 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.

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 investments.

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" (Level 3 investments) or Level 2 investments. The classification primarily depends on the available market data.

When the financial instruments are valued based on Level 3, 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.

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, 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 distribution to holders of these shares is recognized in the income statement as finance costs.

Income and expense recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. For debt instruments, commercial papers, cash collateral and interest received from Donor Assets, the change in fair value will be classified as 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 loan facility and are deducted from the line item Contributions to Donor Commitments.

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

Taxation

The Fund has received a ruling from the Dutch tax authorities that it is eligible for an exemption from corporate tax (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.

20. 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 on the next page.

Valuation of financial instruments

As disclosed in note 19, 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 regular basis.

Photo: Muscat, Oman (Pascal Deloche/Godong/Corbis/HH)

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 and Compliance Advies Financiële Ondernemingen regarding compliance services, with Solutional Advisory Services B.V. providing operational and IFRS accounting advice. Together with TIM they form the TCX Operational Group[9].

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.[10] 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 2012 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 31 January 2013 by Solutional 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. In 2012 the Fund for the first time applied the ISAE 3402 standard to report on its operational control effectiveness. 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 front 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.

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.

9) As at 1 February 2013, the TCX Operational Group also includes DLM Finance B.V., to whom TIM has outsourced the back office and administration services it provides to the Fund. See footnote 3.

10) It is expected that TIM will be regulated as an Alternative Investment Fund Manager from 2013 onwards, and thus become subject to the Law for Financial Supervision of the Netherlands ("Wet op het Financieel Toezicht", or WfT).

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 2012 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 2012;
c) that no material issues or incidents have occurred in the financial year ending 31 December 2012;
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 2013

Amsterdam, 10 April 2013
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

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 super vision 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 2012 of USD 57,269,178 for an amount of USD 43,544,178 to the other reserves corresponding with each relevant class of shares and to distribute a dividend of a total amount of USD 13,725,000 equal to a USD 15,000 dividend per share.

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 2012 of The Currency Exchange Fund N.V., Amsterdam, which comprise the statement of financial position as at 31 December 2012, 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, compromising a summary of the significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the 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 2012, 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, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the sections Letter from the Supervisory Board, Letter from the Managing Board and Governance and Ownership, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

The Hague, 10 April 2013
Ernst & Young Accountants LLP
signed by R.J. Bleijs

MEMBERS OF THE SUPERVISORY BOARD

Mr. Arthur Arnold, Chairman (appointed 21 May 2012)

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 Brait. 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.

Mr. Cees Maas

Cees Maas resigned as a member and chairman of the Supervisory Board on 21 May 2012.

COMMITTEE MEMBERS

Remuneration Committee of the Supervisory Board
Mr. Arthur Arnold
Mr. Frank Czichowski (Chairman)

Compliance Committee of the Supervisory Board
Supervisory Board
Mr. Arjan van der Heiden, Compliance Advies
Mr. Brice Ropion, COO, TCX Investment Management Company B.V.
Mr. Joost Zuidberg, CEO, TCX Investment Management Company B.V.

Pricing Committee
Mr. Robert Daniels, Cardano Risk Management B.V. (non-voting)
Mr. Per-Fredrik Emanuelsson
Mr. Amaury Fonseca jr.
Mr. Bert van Lier, Head of Trading, TCX Investment Management Company B.V. (non-voting)
Mr. Philip Stedman
Mr. Nikolaus Siegfried
Mr. Matthew Vogel (Chairman)

Risk and Asset and Liability Management Committee (RISKCO)
Mr. Robert Daniels, Cardano Risk Management B.V.
Mr. Frank Gosselink
Mr. Arjan van der Heiden, Compliance Advies (non-voting)
Mr. Diederik de Leur, DLM Finance B.V.
Mr. Bert van Lier, Head of Trading, TCX Investment Management Company
Mr. Brice Ropion, COO, TCX Investment Management Company (Chairman)
Mr. Martin Stravers, Solutional Advisory Services B.V. (non-voting)
Mr. Joost Zuidberg, CEO, TCX Investment Management Company

Donors' Committee
Mr. Wim Bekker, Netherlands Ministry of Foreign Affairs

General information

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

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