





Harbor lighthouse in Ghazaouet ('The Two Brothers'), a port city in the province of Tlemcen in Algeria, near the border with Morocco. (Samere Fahim Photography / Getty Images)



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1. TCX in 2016

SUPERVISORY BOARD LETTER

We are pleased to present you with the annual report of The Currency Exchange Fund N.V. (TCX) for the year 2016. This was a year during which the emerging markets enjoyed relative stability, allowing the Fund to recover a significant part of the losses it experienced in 2014/2015, whilst expanding its business further beyond the financial sector.

TCX provides medium- to long-term currency swaps and forwards in frontier markets, predominantly as hedges for development finance institutions and microfinance lenders that wish to extend local currency loans to borrowers in developing countries. The goal is to reduce the currency risk of entrepreneurs in developing markets, and thereby contribute to more stable and financially sustainable development. Almost ten years since the launch of TCX, we see other institutions increasingly taking comfort from the time- and crisis-tested model of TCX, and developing complementary initiatives. We embrace initiatives that follow market-based principles in trying to deepen local currency markets through offshore hedging or local capital market solutions. TCX actively shares its lessons learned with interested parties, or tries to combine strengths through cooperation, ultimately increasing the availability of local currency solutions to emerging and frontier markets.

A number of lessons learned were made explicit early-on in 2016 when the Fund performed an evaluation of its underlying business and risk models. The financial results of the preceding two years warranted an in-depth analysis. The evaluation itself, as well as the comparison with the ELMI+ Index that showed results comparable to TCX, gave comfort that the basic assumptions of the business and risk models are still as valid today as they were when the Fund was initiated in 2007. The losses experienced in 2014/2015 were within the expected range of outcomes for exposing an emerging market currency portfolio to extreme market circumstances. The analysis also demonstrated that under more stable market circumstances, the positive carry on TCX's portfolio would again shine through.

2016 was especially important to TCX as, on the back of relatively stable markets during the year, the Fund was indeed able to harvest the positive interest carry embedded in its derivatives portfolio. In the absence of significant crises such as the Ruble crisis of 2014 and the general commodity crises of 2015, the Fund realized a positive result of USD 65.7 million after costs and expenses. This brought the cumulative profits of the Fund to USD 23.5 million since inception, sufficient to realize a small but positive IRR of 0.8% per annum for the Fund's founding investors. Although the financial results of TCX have never been and should never be a reason to invest in the Fund, it is crucial that TCX produces a positive result over the longer-term, to safeguard its own financial sustainability.

The production of Primary Investments during the year was clearly a story of two halves. During the first six months, production was quite low at USD 152 million. This was the weakest half-year period since 2010, reflecting the preceding crises. The production rebounded to USD 410 million during the second half, which was a record for TCX. Although the total production of USD 562 million was 15% less than the total for 2015, we look forward to the momentum of the second-half boosting the results for 2017.

The diversification of the Primary Investments portfolio improved during 2016. It contained 46 DAC currencies at year-end, spread across four continents. Around 56% of the portfolio originates from low and lower-middle income countries. The micro- and SME-finance sectors continue to be important for TCX, at 80% of the portfolio. The non-financial sector portfolio accounts for 11% of the portfolio and is growing at a modest yet steady pace. This trend reflects TCX's focus on the 'SE4ALL' sectors (including renewable energy and energy efficiency), in alignment with the shareholders and the German Federal Ministry for the Environment, Nature Conservation, and Buildings & Nuclear Safety (that through KfW invested in 2015 in the TCX Subordinated Convertible Debt). To date, TCX has closed 7 transactions in the 'SE4ALL' sectors, with a total volume of USD 90 million.

During the year, TCX welcomed the EIB as a new investor in TCX shares, following their EUR 40 million commitment in 2015. Towards the end of the year, the Dutch Minister for Foreign Trade & Development Cooperation reconfirmed their support to TCX's mission by investing USD 11 million in the First Loss Loan, a new instrument comparable with the Subordinated Convertible Debt. We are pleased to see continued interest in TCX from existing and new investors.

Another important development in 2016 was the more efficient deployment of TCX's capital. Whilst TCX on the one hand is increasingly building a brand as a provider of frontier market currency hedges, it is simultaneously building a market for parties that are willing and able to invest in these illiquid currencies. In doing so, the fund manager not only opens-up local currency markets for foreign investors, but by offsetting the risks in TCX's portfolio, it is also freeing room for new transactions. This allows for more local currency transactions per US dollar invested, whilst significantly increasing the development impact of the fund. By the end of 2016, TCX had offset USD 210 million (15%) of its gross local currency portfolio (twice more than in 2015), and we strongly support the fund manager in growing this inspiring business.

The combination of new investors, the solid financial performance, and the more efficient use of capital, led to a marked increase in the Fund's ratio of available capital to risk weighted assets, which jumped from 26% in 2015 to 32% in 2016. Although this is solid for the short term, TCX will continue to engage with potential investors to secure capital for its medium- to long-term growth.

Finally, we compliment the Fund Manager, TCX Investment Management Company B.V., on receiving from the Financial Markets Authority of The Netherlands the license required under the Alternative Investment Fund Managers Directive.

Looking forward, the Fund will continue to focus on realizing its mission of becoming the global solution for local currency, and to be managed with its investors' interests as the primary consideration. The Fund will continue to work with other parties to ensure a currency portfolio that is well balanced in terms of risk, that is actively managed, and that maximizes the development impact. The Fund will build on the foundations laid in 2016 in terms of market development in the infrastructure and SE4ALL sectors.

The Supervisory Board extends its thanks to all parties that supported the Fund during 2016. Amsterdam. ■

Amsterdam, 7 April 2017

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

Mr. Arthur Arnold, Chairman

Mr. Aigboje Aig-Imoukhuede

Mr. Marcus Fedder

Mr. Bernd Loewen

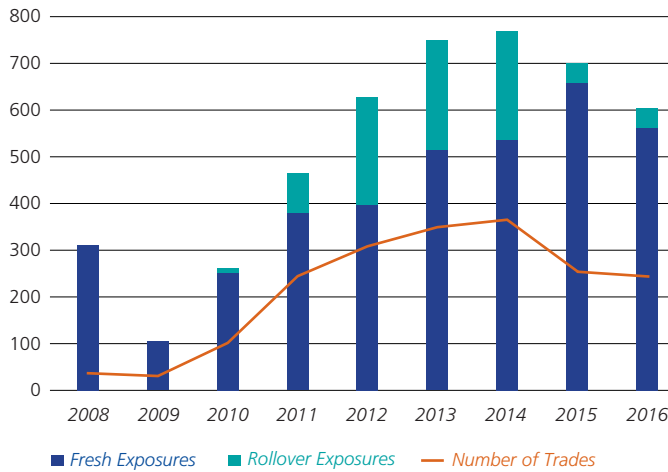
Mrs. Lakshmi Shyam-Sunder

MANAGING BOARD LETTER

RESULTS 2016

■ The volume of new Primary Investments realized in 2016 totaled USD 562 million (excluding rolled-over trades), a decrease of 15% compared to 2015. In all, 242 Primary Investment transactions were closed, a decrease of 4% over 2015. These reductions mask a strong rebound in production volumes during the second half of the year, which accounted for USD 410 million (73%) of the fresh production. This was a record second-half for TCX, that was underpinned by resurgent flows into the emerging markets following a global slow-down in 2015:

Primary portfolio: production volumes (USD million)



■ Including the new production, scheduled maturities, and trade unwinds, the gross notional size of TCX's local currency Primary Investments portfolio grew by 2.6% in 2016, to USD 1,392 million. Besides the Primary book, TCX held USD 18 million in Trading Investments (-77% relative to 2015), and USD 290 million in Hedging Investments (+80%). The aggregate size of the derivatives portfolio thus reached USD 1.7 billion in 2016, an increase of 6.5% over 2015:¹

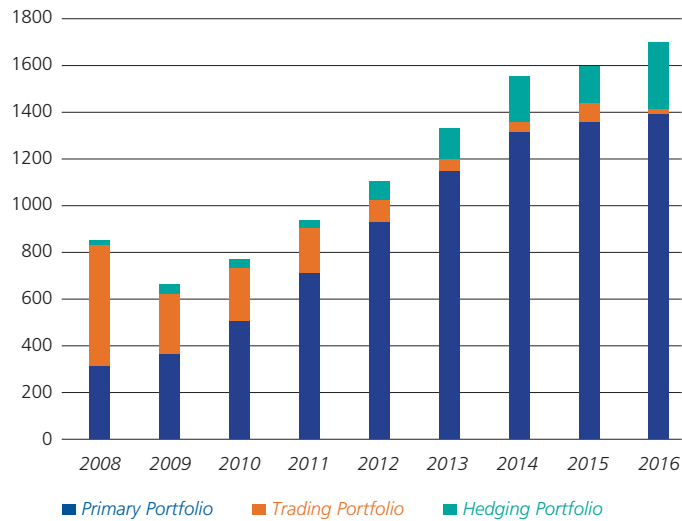
Derivatives portfolio

Investment Type (USD millions)	Long Local Currency		Short Local Currency		Gross Outstandings (long+short)		Net Exposure (long-short)	
	2016	2015	2016	2015	2016	2015	2016	2015
Primary	1,298	11,234	93	123	1,392	1,357	1,205	1,111
Trading	18	78	-	-	18	78	18	78
Hedging (LCY:USD)	-	9	210	94	210	103	(210)	(85)
Total LCY portfolio	1,316	1,321	303	217	1,619	1,538	1,012	1,104
Hedging (EUR:USD)	80	42	-	16	80	58	80	26
Total TCX portfolio	1,396	1,363	303	233	1,700	1596	1,093	1,130

1) Primary Investments are medium- to long-term local currency swaps and forwards transacted with TCX investors and select third-parties. These investments constitute the bulk of TCX's portfolio of local currency exposures, and may be short or long positions, depending on the counterparties' requirements. For diversification and concentration/risk management purposes, TCX also invests in derivatives with investment banks and professional counterparties. Where the purpose is portfolio diversification, the trades are classified as Trading Investments. Where the purpose is managing concentrations and mismatches in the Primary portfolio, the trades are classified as Hedging Investments.

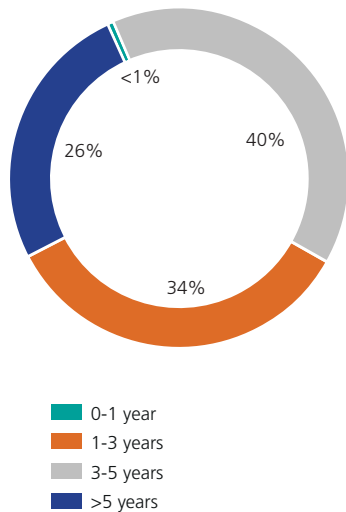
■ The historical trend is shown below:

Derivatives portfolio: gross outstandings (USD million)

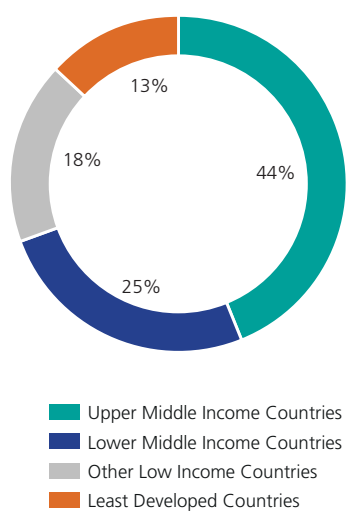


■ The composition of TCX’s Primary Investments portfolio reflects the Fund’s focus on longer-term currency swaps and forwards, and its mandate to concentrate on countries with low capital market development:

Primary portfolio: original maturity profile
(% gross outstandings)

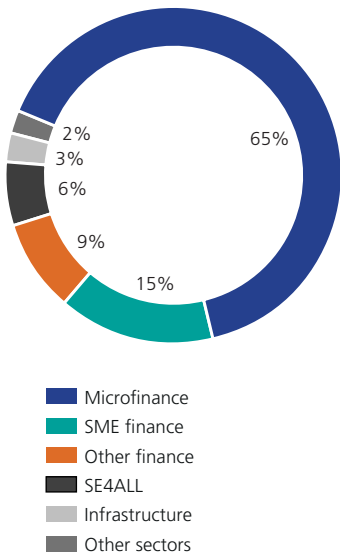


Primary portfolio: country classification
(% gross outstandings)

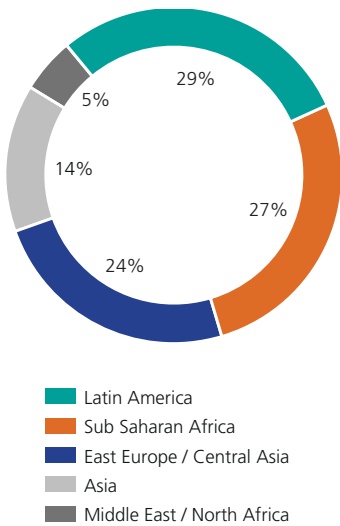


■ In 2016, the portfolio remained focused on the financial sectors, but this decreased overall in favor of the non-financial sectors, which grew to 11% of the portfolio (2015: 8%), in response to the team’s push into the infrastructure and energy segments. Overall, the portfolio’s regional diversification improved, with Latin America increasing to 29% of the net exposure (2015: 24%), Sub-Saharan Africa increasing to 27% (2015: 23%), East Europe & Central Asia falling to 24% (2015: 35%), and the other regions increasing to 20% (2015: 18%):

Primary portfolio: sector diversification
(% gross outstandings)

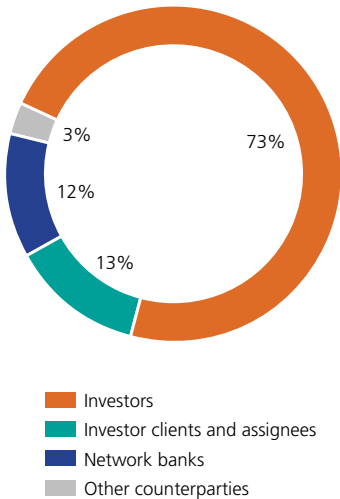


Derivatives portfolio: regional diversification
(% net LCY exposure)



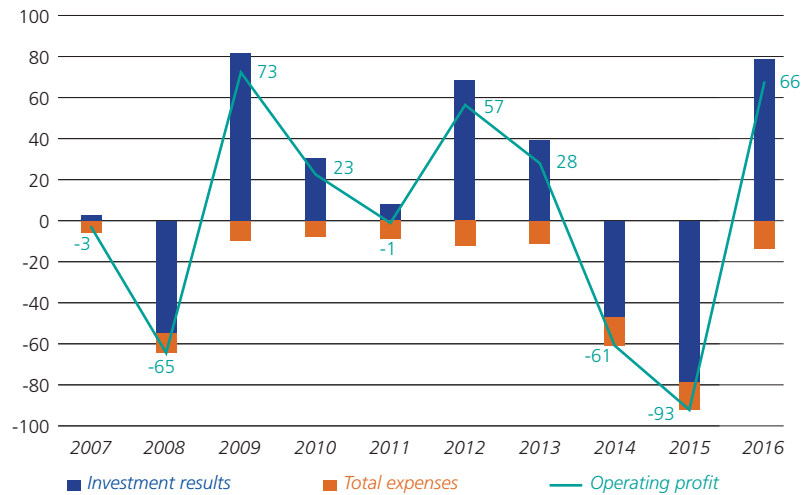
■ Meeting the needs of TCX’s investors is a core objective that is reflected in the counterparty composition of the Primary portfolio, 86% of which consists of investor-related business (2015: 88%). Network Banks and other third-parties are growing sources of deal-flow for the Fund. This deal-flow diversifies the currency mix of the portfolio and enhances TCX’s development impact, notably by contributing to achieving specific development objectives targeted by the Dutch and German governments as Subordinated Convertible Debt investors in the Fund (e.g., sub-Saharan Africa, sustainable energy):

Primary portfolio: counterparty type
(% gross outstandings)



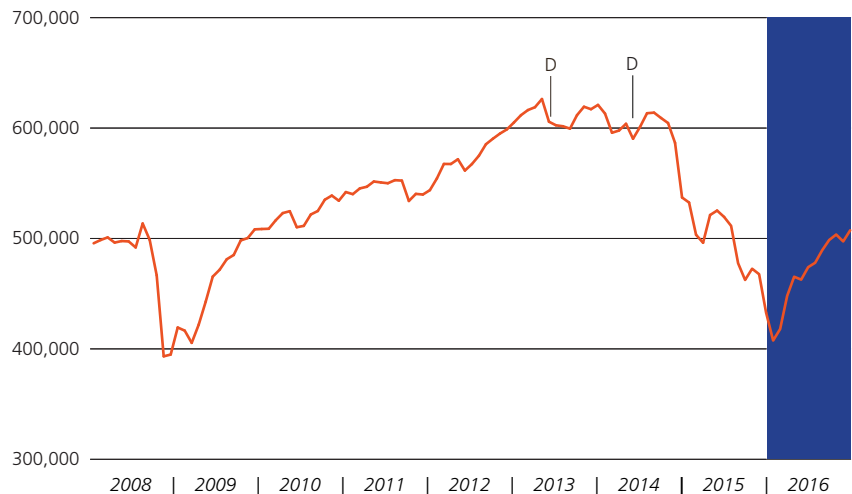
■ The net result for 2016 was a profit of USD 65.7 million, including investment gains of USD 79.3 million (after FX translation effects), and USD 13.6 million in operational expenses and financial charges:

Annual results (USD million)



- The operational expenses increased from USD 8.8 million in 2015 (excluding a one-off grant of USD 1.3 million)², to USD 9.2 million in 2016 (+4.5%), largely due to the first-time costs of Bank of New York Mellon as the Fund’s Depositary.
- The financial charges include USD 4.3 million in 2.5% interest payable on the Subordinated Convertible Debt.
- The investment gains of USD 79.3 million (after FX translation results) mark a strong recovery from the 2014/2015 crisis that demonstrates simultaneously the expected volatility and sustainability of TCX’s business model. The gains reflect the sizable interest carry in TCX’s books, pro-active efforts to book offsetting hedges, and generally lower FX volatility and local currency interest rates in response to improving fundamentals world-wide.
- Reflecting the year’s developments, the Fund’s Net Asset Value grew 17% year-on-year, from USD 432,690 per share at year-end 2015, to USD 507,455 per share at year-end 2016:

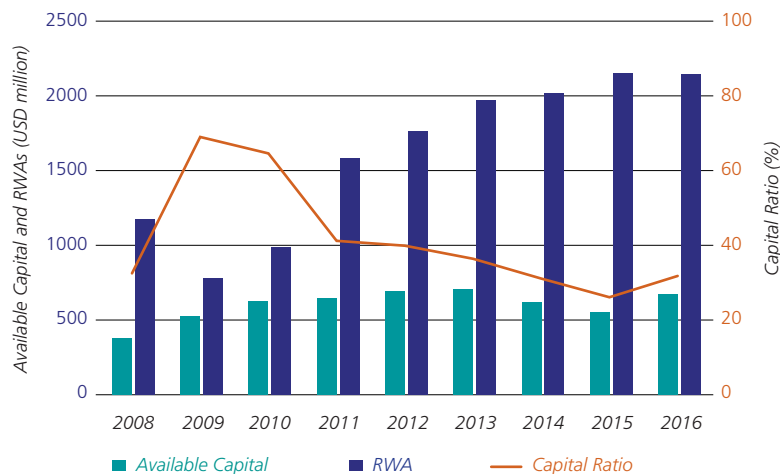
Net asset value per share (USD)



2) The beneficiary of this grant was Stichting Cardano Development, the Fund Manager’s ultimate owner. The ultimate purpose was to recapitalize the Fund Manager to meet the minimum capital requirements of the Alternative Investment Fund Managers Directive. The General Meeting approved the grant at the General Meeting of 11 February 2015.

■ The available capital rose 22% from USD 560 million at year-end 2015 to USD 682 million at year-end 2016. The increase of USD 122 million consists of the year’s profits (USD 65.7 million), a share issuance to the European Investment Bank (USD 45.5 million), and the issuance of a First Loss Loan to the government of The Netherlands (USD 10.9 million). The resulting capital ratio (available capital to risk weighted assets) stood at 32% at year-end (2015: 26%), well above the 14% liquidation trigger and sufficient in our view to support next year’s anticipated growth:

Capital and risk weighted assets



■ Market risks (FX and interest rate risks) accounted for 92.4% of risk weighted assets at year-end 2016 (2015: 91.1%), operational risks 4.0% (2015: 4.7%), and credit risks 3.6% (2015: 4.2%)

OTHER DEVELOPMENTS

- On 1 January 2016, Bank of New York Mellon N.V. formally assumed its regulated function as the Fund’s Depositary.
- On 10 March 2016, the Fund Manager, TCX Investment Management Company B.V., secured its AIFMD license from the Financial Markets Authority of The Netherlands. The license is restricted to managing TCX only, for the benefit of “professional investors” only. It is unlimited in time, but is subject to ongoing compliance with prevailing laws and regulations.
- In June 2016, the European Investment Bank completed its purchase of 88 TCX shares for USD 45.5 million. The transaction had been conditional on obtaining the AIFMD license.
- In October 2016, the European supervisory authorities finalized the margin rules for OTC derivatives as part of the phased implementation of the European Market Infrastructure Regulation (EMIR). The new rules are effective 1 March 2017 and are not expected to have a material impact on TCX’s liquidity and operations. Through 2016, the Fund Manager took active steps to comply with the rules, including reviewing and amending most of the ISDA/CSA documents under which TCX books its derivatives.
- In November 2016, TCX in cooperation with the Livelihoods and Food Security Trust Fund (LIFT) – a UN-administered fund – launched a highly successful program to subsidize the lending rates on Kyat-denominated loans extended by offshore development financiers to microfinance institutions in Myanmar. The challenge these institutions faced were the rate caps imposed on such loans by the Central Bank of Myanmar. To date, the allocations under this program have totaled more than USD 70 million in incremental investments into Myanmar. The Fund may in the future make similar arrangements with other donors to subsidize the rates it quotes in currencies or sectors where there are structural impediments to local currency financings.

■ In December 2016, TCX booked a USD 1.1 million provision in relation to a payment default by one of its counterparties. In response to this first credit loss for TCX, the Fund's appetite for credit risk has been thoroughly reviewed by the Supervisory Board, and the Fund Manager is adopting stricter criteria, policies and procedures for onboarding and managing credit risks.

■ At year-end, TCX closed a series of transactions that effectively ended the Joint Donor Agreement ("JODEA") between the Dutch and German governments. The JODEA assets at closing totaled USD 13.7 million, including USD 13.3 million in cash and USD 0.4 million in Frontier Clearing Subordinated Units. The latter were sold for cash, and the total available was disposed as follows:

- issuance of a First Loss Loan in the amount of USD 10.9 million to the Minister for Foreign Trade and Development Cooperation of The Netherlands;
- payment of USD 2.6 million to the Minister of Economic Development and Cooperation of the Republic of Germany; and
- reservation of USD 0.2 million for TCX, to cover past JODEA commitments.

These transactions increased the Fund's capital base by the amount of the First Loss Loan, for which we thank the government of The Netherlands.

ONGOING CHALLENGES

■ In many economic sectors, TCX faces long-standing structural impediments to growing its portfolio, such as the energy sector where many of the underlying commercial contracts are denominated in US dollars. Penetrating these sectors requires patient work to convince the lenders, borrowers, regulators, and governments involved that local currency arrangements may be better suited.

■ As a market risk vehicle, TCX is not in position to absorb a significant amount of the credit and country risks that inevitably arise when investing in emerging and frontier markets. The Fund is dependent, therefore, on the willingness of strong parties to face these risks, either as counterparties to TCX or as guarantors of its exposures.

■ The choice for local currency funding to match assets earning local currency is often based on short-term financial considerations by local managers ("how much will it cost me now?") rather than forward-looking risk management ("how much could I lose later?"). As a result, many clients continue to perceive as attractive the low interest rates prevailing in US dollars and other hard currencies.

■ The growth of TCX's portfolio and the Fund's financial returns remain dependent on local currency exchange and interest rate trends and global FX shocks. Recovering fully from the losses of 2014/2015 requires maintaining the size of the portfolio at current levels at least, to generate the offsetting interest carry on which TCX partly depends for its long-term sustainability. However, the demand for local currency loans could stagnate or fall, if macro-economic fundamentals do not continue to improve from their recent lows, and local interest rates do not come down further from their recent highs.

■ TCX's Primary Investments portfolio occasionally achieves peaks in individual and regional currency concentrations. Notwithstanding the Fund Manager's efforts to place some exposures with market participants, the opportunities to make use of market hedging remain limited, not least due to the fact that TCX's mandate is to be "additional" to the market. Under these circumstances, rationing the available capacity could be required.

We believe that TCX has in place the strategies and capabilities necessary to overcome these challenges in sustainable fashion, and look forward to accelerating the Fund's growth in support of the development objectives of its investors. ■

Amsterdam, 7 April 2017

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

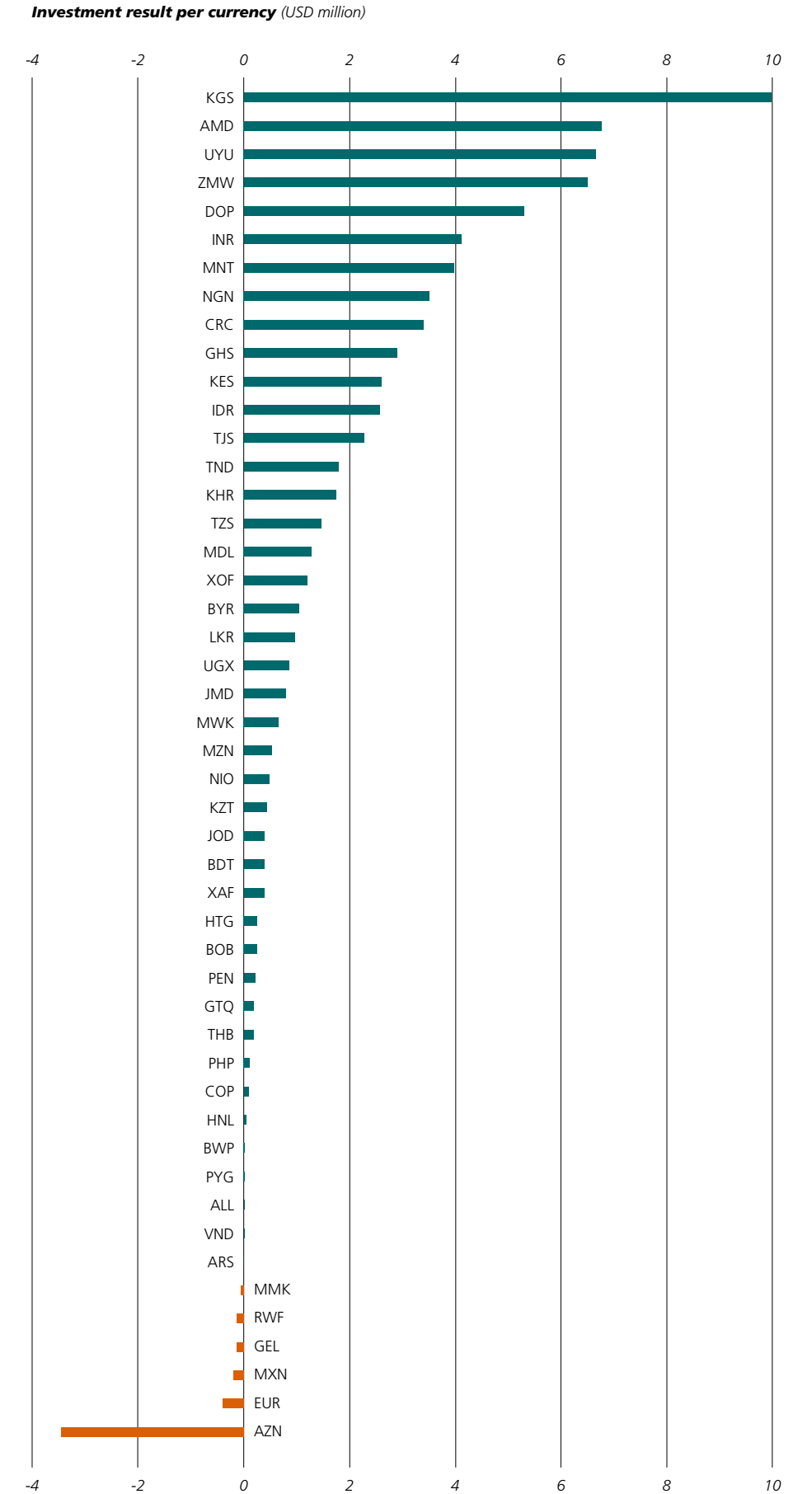
Ruurd Brouwer, Chief Executive Officer

Bert van Lier, Chief Investment Officer

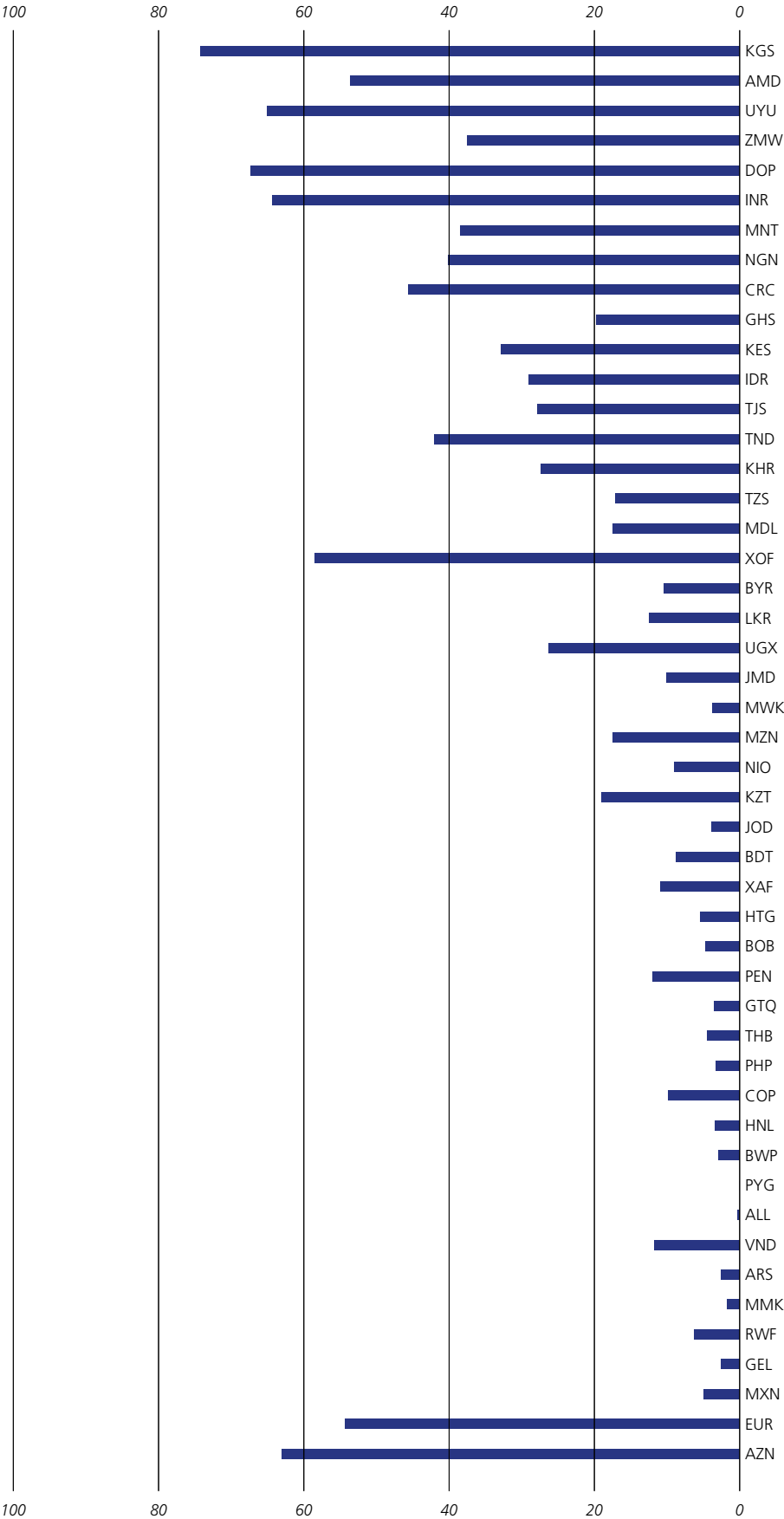
Brice Ropion, Chief Operating Officer

INVESTMENT RESULTS

The investment result reflects the performance of the underlying currency exposures. In 2016, the contribution per currency was as follows:



Average gross outstandings per currency (USD million)





2. BUSINESS OVERVIEW

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 if it can itself be hedged.

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 be modestly profitable over the longer-term. ■

BUSINESS PRINCIPLES

■ **Focused products:** TCX only invests in market risk management products such as currency swaps and forwards. 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 DAC 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.

■ **Risk-reflective pricing:** TCX invests in products that are priced in accordance with prevailing market rates and established 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 obligations. ■

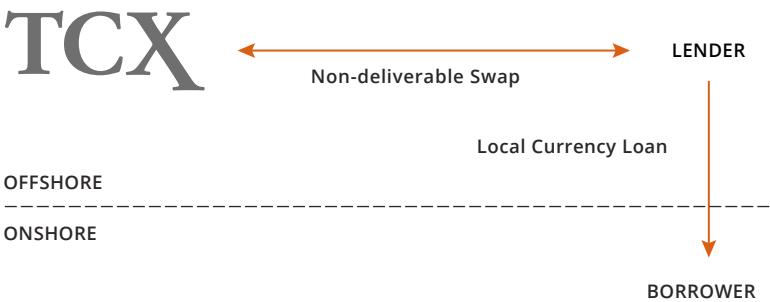
PRODUCTS

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 non-deliverable 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 lender'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 lender 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 lender's functional currency e.g. the USD.

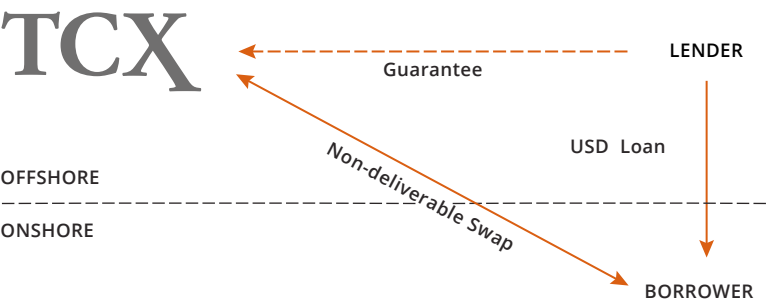
Hedging the Lender



This structure is relatively straightforward from several perspectives. The client interface (and counterparty credit risk management) remains concentrated with the lender 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 lender 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 risks (via guarantees or other means), and satisfy itself that the local legal, regulatory and tax environment support the required transaction terms. For these reasons, TCX generally prefers dealing directly with lenders.

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

ASIA-PACIFIC

-  Bangladesh Taka **BDT**
-  Cambodia New Riel **KHR**
-  China Renmibi **CNY**
-  Fiji Dollar **FJD**
-  India Rupee **INR**
-  Indonesia Rupiah **IDR**
-  Laos Kip **LAK**
-  Malaysia Ringgit **MYR**
-  Maldives Rufiyaa **MVR**
-  Mauritius Rupee **MUR**
-  Mongolia Tugrik **MNT**
-  Myanmar Kyat **MMR**
-  Nepal Rupee **NPR**
-  Pakistan Rupee **PKR**
-  Papua New Guinea Kina **PGK**
-  Philippines Peso **PHP**
-  Seychelles Rupee **SCR**
-  Solomon Islands Dollar **SBD**
-  Sri Lanka Rupee **LKR**
-  Thailand Baht **THB**
-  Vietnam Dong **VND**










EAST EUROPE & CENTRAL ASIA

-  Albania Lek **ALL**
-  Armenia Dram **AMD**
-  Azerbaijan Manat **AZN**
-  Belarus Ruble **BYR**
-  Bosnia Herzegovina Mark **BAM**
-  Croatia Kuna **HRK**
-  Georgia Lari **GEL**
-  Kazakhstan Tenge **KZT**
-  Kyrgyzstan Som **KGS**
-  Macedonia Denar **MKD**
-  Moldova Leu **MDL**
-  Romania New Leu **RON**
-  Russia Ruble **RUB**
-  Serbia Dinar **RSD**
-  Tajikistan Somoni **TJS**
-  Turkish Lira **TRY**
-  Ukraine Hryvnia **UAH**
-  Uzbekistan Som **UZS**










SUB-SAHARAN AFRICA

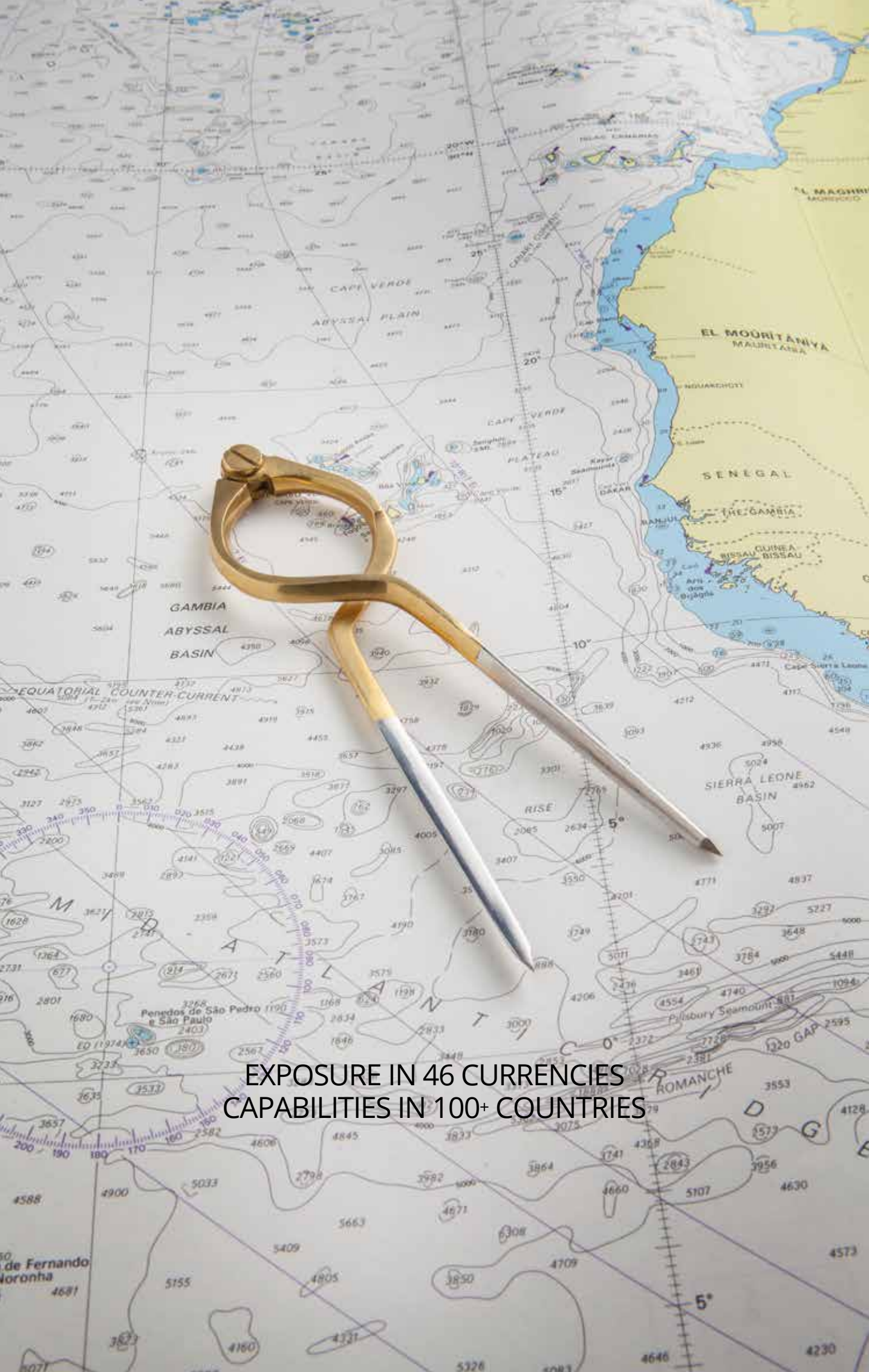
-  Angola Kwanza **AOA**
-  Benin Franc CFA **XOF**
-  Botswana Pula **BOP**
-  Burkina Faso Franc CFA **XOF**
-  Burundi Franc **BIF**
-  Cameroon Franc CFA **XAF**
-  Central African Rep. Franc CFA **XAF**
-  Chad Franc CFA **XAF**
-  Dem. Rep. of the Congo Franc **CDF**
-  Ethiopia Birr **ETB**
-  Equatorial Guinea Franc CFA **XAF**
-  Gabon Franc CFA **XAF**
-  Gambia Dalasi **GMD**
-  Ghana New Cedi **GHC**
-  Guinea-Bissau Franc CFA **XOF**
-  Ivory Coast Franc CFA **XOF**
-  Kenya Shilling **KES**
-  Liberia Dollar **LRD**
-  Madagascar Ariyayry **MGA**
-  Malawi Kwacha **MWK**
-  Mali Franc CFA **XOF**
-  Mauritania Ouguiya **MRO**
-  Mozambique Metical **MZN**
-  Namibia Dollar **NAD**
-  Niger Franc CFA **XOF**
-  Nigeria Naira **NGN**
-  Rep. of Congo Franc CFA **XAF**
-  Rwanda Franc **RWF**
-  Senegal Franc CFA **XOF**
-  Sierra Leone Leone **SLL**
-  South Africa Rand **ZAR**
-  Tanzania Shilling **TZS**
-  Togo Franc CFA **XOF**
-  Uganda Shilling **UGX**
-  Zambia Kwacha **ZMW**

NORTH AFRICA & MIDDLE EAST

-  Algeria Dinar **DZD**
-  Egypt Pound **EGP**
-  Jordan Dinar **JOD**
-  Lebanon Pound **LBP**
-  Lybia Dinar **LYB**
-  Morocco Dirham **MAD**
-  Oman Rial **OMR**
-  Tunisia Dinar **TND**
-  Yemen Rial **YER**

LATIN AMERICA

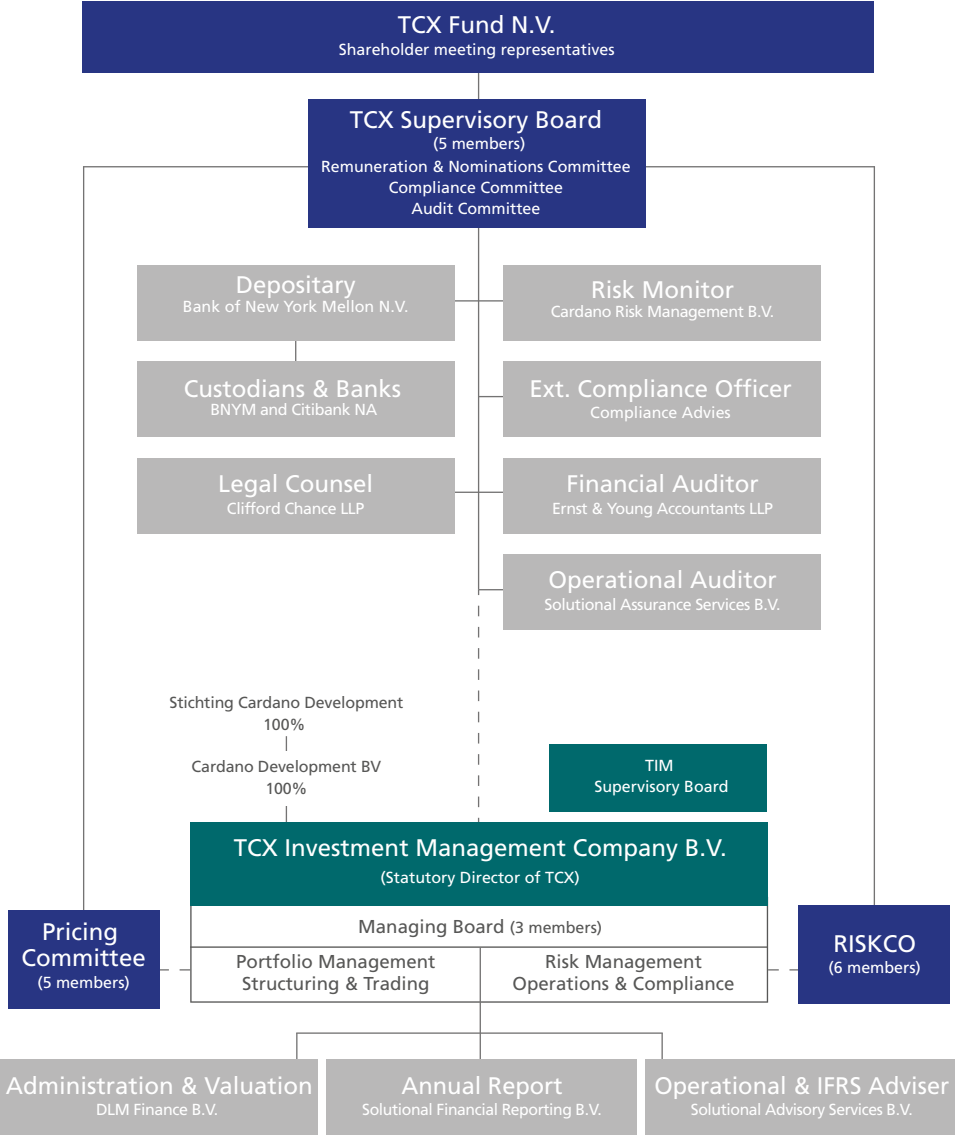
-  Argentina Peso **ARS**
-  Barbados Dollar **BBD**
-  Bolivia Boliviano **BOB**
-  Brazil Real **BRL**
-  Chile Peso **CLP**
-  Colombia Peso **COP**
-  Costa Rica Colon **CRC**
-  Dominican Republic Peso **DOP**
-  Guatemala Quetzal **GTQ**
-  Haiti Gourde **HTG**
-  Honduras Lempira **HNL**
-  Jamaica Dollar **JMD**
-  Mexico New Peso **MXN**
-  Nicaragua Cordoba **NIO**
-  Paraguay Guarani **PYG**
-  Peru New Sol **PEN**
-  Suriname Dollar **SRD**
-  Uruguay Peso **UYU**
-  Venezuela Bolivar Fuerte **VEF**



EXPOSURE IN 46 CURRENCIES
CAPABILITIES IN 100+ COUNTRIES



3. GOVERNANCE AND OWNERSHIP



FUND MANAGEMENT

TCX Investment Management Company B.V. (TIM) is TCX's exclusive Fund Manager and the sole member of the Fund's statutory Managing Board. As such, it is responsible for the commercial, operational, compliance and risk management of the Fund, with Mr. Ruurd Brouwer as its Chief Executive Officer, Mr. Bert van Lier as its Chief Investment Officer and Mr. Brice Ropion as its Chief Operating Officer (a function that includes responsibility for risk management, finance, and compliance).

TIM is 100% owned by Cardano Development B.V., which itself is 100% owned by Stichting Cardano Development, a stand-alone tax-exempt not-for-profit foundation that has no ultimate beneficial owner under the relevant laws of The Netherlands.

TIM employed 15 staff members at year-end 2016. Details on the team's remuneration may be found in Note 9 of the Financial Statements.

TIM is supported by several parties in the management of the Fund. These parties include:

■ **The Fund's Risk Monitor, Cardano Risk Management B.V.**, a 100% subsidiary of Cardano Holding B.V.,³ responsible for quantifying, monitoring, and reporting the Fund's risk exposures and capital ratios, and providing pricing, valuation and risk advisory and operational control services to the Fund;

■ **The Fund's Administrator and Valuer, DLM Finance B.V.**, a company established and owned by former TIM employees, responsible for booking, settling, valuing, and reporting the Fund's positions, and preparing the Fund's accounts and NAV statements;

■ **Bank of New York Mellon N.V., the Fund's Global Custodian and Depositary.** As Depositary, BNYM is responsible for monitoring the Fund's share transactions, safekeeping its assets, reconciling its cash flows, and confirming that its valuation policies and processes are being properly adhered to; and

■ **Compliance Advies, the Fund's External Compliance Officer**, responsible for supporting TIM's Internal Compliance Officer on regulatory matters, and for performing an independent whistle-blowing role on code of conduct and conflict of interest incidents.

TIM is a licensed Alternative Investment Fund Manager ("AIFM") that is subject to Directive 2011/61/EU (the Alternative Investment Fund Managers Directive or "AIFMD") as implemented in the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht or "Wft"). The license is restricted to managing TCX only, for the benefit of professional investors only. It has no time limits. The supervisory authorities are the Financial Markets Authority of The Netherlands with respect to conduct of business, and the Central Bank of The Netherlands with respect to the prudential rules that apply to AIFMs. ■

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.⁴

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

Of the five current members, two are related to substantial investors in the Fund: one as a board member and one as a senior executive. Three members are independent, including the Chairman.⁵

³) Cardano Holding B.V. and Cardano Risk Management B.V. are unrelated to Stichting Cardano Development and Cardano Development B.V., except that (i) the chairman of the Board of Stichting Cardano Development is also the co-CEO and a minority owner of Cardano Holding B.V., and (ii) there is a financial relationship between Cardano Holding B.V. (as lender) and Stichting Cardano Development (as borrower).

⁴) Given the powers of the TCX Supervisory Board as desired by TCX's investors, the Financial Markets Authority of The Netherlands is holding the TCX Supervisory Board jointly and severally responsible with the TIM supervisory board for regulatory compliance by the Fund Manager.

⁵) Mr. Marcus Fedder replaced Mr. Axel van Nederveen effective 10 January 2017. This paragraph describes the situation after this change.

The Supervisory Board met 6 times during 2016. Supervisory Board meetings are attended by the members in person⁶, and by representatives of the Managing Board and the Risk Monitor. 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 the Fund's business strategy, policies, product and market development, compliance, and governance. All matters presented to the Fund's investors are pre-discussed and approved by the Supervisory Board.

The Supervisory Board has appointed three sub-committees to help it discharge its oversight functions: a Remunerations & Appointments Committee, a Compliance Committee, and an Audit Committee. 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. The Supervisory Board meets regularly with these committees, and uses a standardized agenda that allows the committee members to bring matters within their remit to the immediate attention of the Supervisory Board, without holding separate meetings. The Supervisory Board also appoints and oversees the work of two committees that are charged with day-to-day business matters: the Risk Management Committee (RISCKO), and the Pricing Committee. Membership of the various committees is provided at the end of this Annual Report. The following provides additional details:

■ **The Compliance Committee** discusses and approves the regular reports of TCX's External 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 2016, the Compliance Committee held 5 meetings.⁷

■ **The Remuneration and Nominations Committee** provides the Supervisory Board with non-binding advice regarding the variable Performance Fee payable to the Fund Manager⁸, as well as other specific advice requested by the Supervisory Board from time to time. Members of the Remuneration Committee are not separately remunerated. During 2016, the Remuneration Committee held 1 meeting.

■ **The Audit Committee** assists the Supervisory Board on the Fund's financial planning and reporting. Members of the Audit Committee are not separately remunerated. During 2016, the Audit Committee held 2 meetings.

■ **The Pricing Committee** is a unique feature of the TCX governance model, 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 risk-reflective pricing methods to all primary transactions. During 2016, the Pricing Committee met 12 times. All members are remunerated by way of an annual lump sum of EUR 30,000 (excluding VAT), except for the Chairman who receives EUR 45,000 (excluding VAT).

■ **The Risk Management Committee** manages, monitors and reports on overall risk 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 decides on all counterparty KYC and credit risk matters. During 2016, the RISCKO held 15 meetings.

During 2016, RISCKO's six voting members consisted of TIM's Managing Board, the Risk Monitor, the Administrator, and a director of Cardano Development B.V., TIM's parent. The latter was remunerated by way of an annual lump sum of EUR 20,000 (excluding VAT); all other members were not separately remunerated.

Each member of RISCKO has a right of appeal to the Fund's Supervisory Board in case of disagreement with the Committee's majority decisions. This important aspect of the Fund's governance structure is designed to uphold the parties' statutory and/or contractual obligations to protect at all times the interest of the investors in the Fund. ■

6) In 2016 the attendance rate was 87%.

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

8) The variable Performance Fee payable to the Fund Manager depends on scores given by the Supervisory Board for Management Quality (25%), Developmental Impact (25%), Capital Management (25%), and NAV Progression (25%), with the Supervisory Board reserving the right to disregard any pre-agreed criteria when deciding the final score. For 2016, the resulting Performance Factor was 1.00 on a scale of 0 to 1.60 (2015: 1.10). This variable Performance Factor affects both the bonus pool payable to TIM's employees (which is 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).



Istanbul viewed from Üsküdar across The Golden Horn, with Sultan Ahmed Mosque (the Blue Mosque) and Hagia Sophia in the background. (Daniel Candal / Getty Images)

TCX INVESTORS

IMPORTANT NOTICE UNDER THE LAWS OF THE EU

Interests in TCX can only be acquired by entities who qualify as Professional Investors within the meaning of article 4:1 of Directive 2011/61/EU (the Alternative Investment Fund Managers Directive), as implemented in the Financial Markets Supervision Act (Wet of het financieel toezicht) of The Netherlands.

IMPORTANT NOTICE UNDER THE LAWS OF THE USA

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





SUBORDINATED DEBT

IDB USD 20.0 million

SUBORDINATED CONVERTIBLE DEBT

GERMAN GOVERNMENT (BMU) USD 32.7 million

GERMAN GOVERNMENT (BMZ) USD 58.1 million

DUTCH GOVERNMENT USD 70.2 million

FIRST LOSS LOAN

DUTCH GOVERNMENT USD 10.9 million



4. FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(for the year ended 31 December)

(all amounts in thousand USD)

	Notes	2016	2015
Assets			
Cash and cash equivalents	5	36,202	57,701
Financial assets at fair value through profit or loss	6	757,882	658,073
Cash collateral given	7	67,223	86,676
Other receivables	8	587	701
Total assets		861,894	803,151
Liabilities			
Cash collateral received	7	20,046	21,467
Financial liabilities at fair value through profit or loss	11	145,807	202,745
Accrued expenses and other payables	12	2,220	12,300
Subsidies granted by third-parties	13	3,815	-
Deferred subsidy income	14	1,185	-
Subordinated convertible debt	15	121,622	119,564
Grants linked to the subordinated convertible debt	15	39,917	41,975
Subordinated loan	16	20,090	20,006
First loss loan	17	5,603	-
Grants linked to the First loss loan	17	5,298	-
Total liabilities (excluding Class A shares)		365,603	418,057
Net assets attributable to holders of redeemable shares Class A	18	496,291	385,094
Total liabilities		861,894	803,151

STATEMENT OF COMPREHENSIVE INCOME

(for the year ended 31 December)

(all amounts in thousand USD)

	Notes	2016	2015
Investment result			
Net result on financial instruments at fair value through profit or loss	19	77,814	(77,897)
Provision for credit losses on Primary book	8	(1,128)	-
Interest income	21	3,232	1,997
		<u>79,918</u>	<u>(75,900)</u>
Other results			
Contributions to Donors Assets	12	(4,263)	(3,412)
Foreign currency translation	20	(645)	(3,457)
Interest expense		<u>(84)</u>	<u>-</u>
		<u>(4,992)</u>	<u>(6,869)</u>
Operational expenses			
Management fee	9	(5,297)	(5,243)
Performance fee	9	(978)	(1,311)
Governance expenses	9	(332)	(294)
Risk monitoring fee	10	(1,158)	(1,185)
Audit fees	10	(350)	(307)
Depositary fees	10	(209)	(2)
Other general expenses	22	(902)	(1,817)
		<u>(9,226)</u>	<u>(10,159)</u>
Operating income		65,700	(92,928)
Distribution to holders of redeemable shares Class A	18	-	-
Change in net assets resulting from operations attributable to holders of redeemable shares Class A		65,700	(92,928)

STATEMENT OF CASH FLOWS

(for the year ended 31 December)

(all amounts in thousand USD)

	Notes	2016	2015
Cash flow from operating activities			
Net (payments for)/ receipts from Primary, Trading and Hedging financial instruments at FVtPL		8,309	(7,283)
Net receipts from Debt instruments		(87,242)	43,108
Distribution of repayable grants		-	(440)
Interest received		2,012	1,623
Risk monitoring fee paid		(1,158)	(1,185)
Management fee paid		(5,371)	(5,243)
Performance fee paid		(1,130)	(1,866)
Audit fees paid		(331)	(347)
Governance expenses paid		(332)	(294)
Depositary fees paid		(209)	(2)
Cash collateral paid		18,032	(31,293)
Transfers of Donor Assets		(3,640)	(762)
Other general expenses paid		(291)	(1,697)
Net cash flow generated from (used in) operating activities		(71,351)	(5,681)
Cash flow from financing activities			
Proceeds from issued redeemable shares Class A		45,497	-
Proceeds from Subordinated Convertible Debt		-	32,765
Proceeds from subsidies granted		5,000	-
Net cash flow generated from (used in) financing activities		50,497	32,765
Net cash flow generated during the year		(20,854)	27,084
Cash and cash equivalents at the beginning of the year		57,701	33,914
Foreign currency translation of cash positions		(645)	(3,297)
Cash and cash equivalents at end of period	5	36,202	57,701
Analysis of cash and cash equivalents			
Cash at Citibank		30,139	32,596
Cash at BNY Mellon		6,063	25,105
Cash and cash equivalents at end of period	5	36,202	57,701

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)

	Amounts		Number of shares	
(all amounts in thousand USD)	2016	2015	2016	2015
Net assets at beginning of year	385,094	478,022	890	890
Shares issued	45,497	-	88	-
Redemption of shares	-	-	-	-
Net change from transactions with shareholders	45,497	-	88	-
Change in net assets from operations	65,700	(92,928)		
Net assets at end of the year Class A	496,291	385,094	978	890



Sunrise at Cape Recife lighthouse, Port Elizabeth, South Africa. (Africa Media Online / Hollandse Hoogte)

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, Chamber of Commerce number 34277912. The Fund was established in September 2007 and started commercial operations in January 2008.

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

2. EVENTS AFTER THE REPORTING PERIOD

In January 2017, the rating agency Standard & Poors’ upgraded the Fund to an A- rating with a stable outlook (2015: A- with a negative outlook).

3. 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), Part 9 of Book 2 of The Netherlands Civil Code and the Dutch Act on Financial Supervision. Please refer to Note 27 and 28 for a further explanation of significant accounting policies, estimates and judgments.

The financial statements were authorized for issue by the Managing Board on 7 April 2017.

4. FINANCIAL RISK MANAGEMENT

Investment objective

The Fund is an innovative and unique capital markets development initiative, focusing entirely on long-term local currency and interest rate derivatives in frontier and emerging market currencies. It presents a compelling investment opportunity for parties with a keen interest in the sustainable development of capital markets in developing countries. By investing in currency and interest rate derivatives, the Fund facilitates the provision of local currency funding to borrowers in developing countries.

Classical providers of currency and interest rate hedging in international financial markets typically operate on a matched book principle, which generally limits them to offering products for which there is a matched and liquid demand and supply. This model breaks down in most developing countries, where demand for long-term local currency exposure is illiquid or even inexistent. As a result, these products are not offered or are offered at pre-emptively high rates.

TCX is based on a fundamentally different concept, which is to assume unmatched exposures mitigated through portfolio diversification on a global scale, rather than by matching supply and demand on a currency by currency basis. This allows TCX to absorb currency and interest rate risks in highly illiquid currencies and maturities 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 exclusively focuses on currency and interest rate derivatives, risk-managed through internal portfolio diversification.

The Fund’s transactions are mostly invested through or with its investors, which have established local networks in emerging markets. TCX has agreed a preferential access to its transaction capacity with its investors, but it may also trade with non-investor counterparties, notably the clients and assignees of the investors.

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

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

Investment process

Sound capital and risk management is essential to TCX, for it is the rationale behind its business model and critical to maintaining its credit rating. TCX has a credit rating of A- that is underpinned by a sizeable capital pool and strict limits on the type and amount of risks that the Fund is allowed to take on.

Together with the Fund’s Risk Monitor, TCX Investment Management Company B.V. (“TIM”) monitors the portfolio on a daily basis, and produces weekly reports to confirm the Fund’s compliance with agreed risk limits and capital ratios.

To calculate the capital requirements, TCX uses models similar to the Basel III regulatory capital framework for banks, adjusted for the activities and business of TCX (no specific regulatory capital regime applies to TCX). This customized framework is detailed in the Fund’s Risk Charter. The calculation methods generally follow the Basel III internal model approach, unless lack of market data prevents this or unless specific reasons exist to depart from this model due to the nature of TCX’s business. Where market data is not available, required capital is calculated based on stress scenarios, in conformity with market practice when dealing with statistical uncertainties.

TCX’s primary risk mitigating instrument is exposure diversification, whereby the portfolio is spread over a large number of currencies and interest rates, and strict limits are in place to ensure that the portfolio does not become overly concentrated per counterparty, currency, and region. Other active risk mitigating measures include the (partial) hedging of exposures through the derivative markets.

TCX has two stop-loss triggers: one requiring the Fund Manager to operate more prudently in its assumption of risk and to redress its capital ratios in a going-concern manner, the other triggering cessation of investment activities and ultimately, if desired by the investors, a managed liquidation of the portfolio (the “Liquidation Trigger Event”, as specified in the Investors Agreement).

TCX’s risk management is based on the Risk Charter approved by the Investors. The Risk Charter contains, amongst others:

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

Risk analysis

The Fund’s activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. These are discussed below.

Market risk

The most important risk that TCX is exposed to is market risk, constituting 93% (2015: 91%) of the Fund’s Risk Weighted Assets. TCX defines market risk as the risk of fluctuation in the valuation of its financial instruments caused by adverse market movements and market illiquidity.

The Fund’s financial instruments consisted of the following groups at year end:

(all amounts in thousand USD)

	2016		2015	
	Fair Value in USD	% of NAV	Fair Value in USD	% of NAV
Cross currency swaps	(75,083)	(15.1)	(154,605)	(40.1)
Forwards	(10,449)	(2.1)	264	0.1
Commercial papers	417,137	84.1	226,842	58.9
Floating rate notes	218,595	44.0	257,294	66.8
Fixed rate bonds	51,893	10.5	114,866	29.8
Frontier Clearing Fund Junior	9,983	2.0	9,997	2.6
Frontier Clearing Fund Subordinated	-	-	671	0.2
Financial instruments at fair value through profit or loss	612,075	123.3	455,328	118.2
Cash collateral given	67,223	13.5	86,676	22.5
Cash collateral received	(20,046)	(4.0)	(21,467)	(5.6)
Cash and cash equivalents	36,202	7.3	57,701	15.0
Other	(1,633)	(0.3)	(11,599)	(3.0)
Subordinated convertible debt	(121,622)	(24.6)	(119,564)	(31.0)
Grants linked to the subordinated convertible debt	(39,917)	(8.0)	(41,975)	(10.9)
Subordinated loan	(20,090)	(4.0)	(20,006)	(5.2)
First loss loan	(10,901)	(2.2)	-	-
Subsidies granted by third-parties	(3,815)	(0.8)	-	-
Deferred subsidy income	(1,185)	(0.2)	-	-
Net assets attributable to holders of redeemable shares Class A	496,291	100.0	385,094	100.0

TCX is subject to market risk on these financial instruments by taking on interest rate and currency risks in its transactions. This market risk is managed in separated risk books. This methodology allows segregating risk measurement techniques depending on the depth and quality of available market data. The more extensive the available data, the more sophisticated the measurement technique available.

TCX's market risks are managed in four books:

1. currency exchange rate risks;
2. interest rate risk in mature markets;
3. interest rate risks in frontier and emerging markets;
4. spread risk between local benchmark and non-deliverable forward ("NDF") rates.⁹

The book structure is built using well-established transfer pricing techniques. Any TCX transaction can give rise to different entries in each of the four risk books. The different risk books are aggregated into a combined risk model. Whereas sufficient market data is available for currency risks (Book 1) and interest rate risk in mature markets (Book 2) to support statistical methods, historical data for local emerging market interest rates (Book 3) and spread risk between local benchmark and NDF rates (Book 4) are insufficiently available for these methods and therefore these risks are assessed using stress testing.

The risk measurement horizon for all books is one month, and results are annualized using the usual calibration multiples in accordance with the Basel III guidelines.

The market risk of TCX is measured and monitored using four major methods:

- Expected Tail Loss ("ETL");
- Value at Risk ("VaR");
- Stress testing;
- Monitoring of exposures against strict concentration limits.

Expected Tail Loss and Value at Risk: The ETL and VaR methods are useful when sufficient observable data is available to estimate extreme events. Both are internationally accepted risk measures that are recognized for reporting market risk to national supervisory authorities and are used for performance measurement and asset-liability management, among other purposes.

ETL and VaR measures incorporate three parameters:

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

The ETL method is applied to TCX's FX risk book (Book 1). For this book, the ETL is based on the average of the 5 worst (tail) events actually observed over all one month periods since January 1996. This approach is used because the 99% confidence level lies somewhere between the second and third worst months, and the intervals between the points in the tail are large enough that intervening points could lead to substantial jumps in the measure. Thus, the averaging method is recommended to stabilize the risk measure while doing justice to the full size of the tail.

The VaR method is applied to TCX's established market interest rate book (Book 2) where historical data is abundant enough to estimate the impact of extreme events through historical simulation using monthly historical price changes since January 1996. This approach yields a distribution of changes in values, with the VaR determined at the 99% confidence level.

For the purpose of these financial statement disclosures, it is important to note that there are well known limitations to using history based VaR or ETL:

- The data provided reflects positions as at year-end that do not necessarily reflect the risk positions held at other moments in time. As disclosed in the chapter "Investment Processes", the Risk Monitor quantifies and monitors the exposures of the Fund on a daily basis;
- The VaR and ETL are statistical methods based on a distribution from historical observations. Therefore it is possible that there could be, in any future period, an observation of a higher loss.

Stress testing: There is no objective justification to assume that historic returns are exemplary for worst case scenarios in the future, especially in the case of emerging markets where unprecedented events are even more likely. Therefore, stress tests are performed on most relevant variables for the TCX portfolio, notably currency and interest rates. Stress testing involves the modeling of unprecedented events and therefore market movements beyond historically observed shocks. The purpose of stress testing is to create awareness of the consolidated event sensitivity of TCX's position, and to set limits at portfolio level (stress testing is not meant for limit setting purposes on a book-by-book basis). In the risk management of TCX, three types of stress tests are used:

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

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

Stress testing is in particular applied to calculating the value at risk in TCX’s local currency interest rate book (Book 3) and TCX’s use of NDF spreads (Book 4), since historical data is insufficiently available to estimate the value at risk in these books.

At 31 December 2016, taking the foregoing methodologies into account, the Fund had an aggregate value at risk for market related factors (by convention, its market VaR) of USD 45.5 million (2015: USD 44.7 million), consisting of the following:

(all amounts in USD millions)	2016	2015
Foreign currency exchange risk (Book 1)	27.2	29.2
Interest rate risk mature market (Book 2)	3.5	2.8
Interest rate risk emerging markets (Book 3)	15.4	13.5
NDF (Non-Deliverable Forward) spread (Book 4)	0.7	0.7
Adjustment for cross-effects	(1.3)	(1.5)
Total	45.5	44.7

The slight increase in market VaR can be explained by the growth of the portfolio and changes in relative concentrations in the portfolio.

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

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

All limits are subject to periodic review.

Deductions from the gross exposure amount (netting)¹⁰ is equal to 100% of the nominal amount of a related hedge¹¹ if the following conditions are met:

- the portion of the exposure maturing prior to the hedge is at least equal to 80% of the maturing principal of the hedge¹²;
- there are no cross-border risks between the hedged exposure and the hedge;
- the counterparty of the hedge has a minimum rating of BBB and the transaction is appropriately collateralized, taking into account wrong-way risks if any in the determination of key counterparty credit terms such as frequency of valuation, independent amount and minimum transfer amount.
- TCX’s gross currency exposure (before netting deductions) may not exceed 40% of total capital.

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

The application of the currency concentration limit as provided above means that on 31 December 2016 each individual currency has a notional limit of USD 101,446 (2015: USD 111,714). The Fund’s largest exposures per currency compared to this limit (net of offsetting hedging transactions) are as follows:

	% of limit 2016 31 December	% of limit 2015 31 December
West African CFA Franc	71.9	38.8
Dominican Republic Peso	67.4	63.0
Uruguayan Peso	66.4	51.3
Armenian dram	57.1	50.0
Indian Rupee	53.9	53.7

10) The nominal exposure relief of a hedge is applied for the term of the hedged exposure only.

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

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

Regional concentration limits: the diversification over the regions is enforced through limits for maximum regional exposures. Regional limits are determined depending on the possibilities to diversify within the region. The table below shows the concentration limits per region calculated based on notional amounts per region divided by the total portfolio notional amount (net of hedging transactions):

	Maximum regional concentrations	Actual concentrations 31 December 2016	Actual concentrations 31 December 2015
Latin America	40%	29%	21%
Sub-Sahara Africa	50%	27%	27%
Emerging Europe / Central Asia	40%	24%	33%
Asia	40%	14%	15%
Middle East / North Africa	30%	5%	5%

Hedging: Hedging is defined as short or long cross-currency derivatives entered into for concentration and balance sheet management purposes. The Fund has the following hedging transactions as at 31 December:

(all amounts in thousand USD)	Fair value 2016	Notional value 2016	Fair value 2015	Notional value 2015
Short USD				
Armenian Dram	67	5,000	928	5,000
Azerbaijani Manat	17,824	108,235	14,829	48,000
Central African CFA franc	2	494	-	-
Indian Rupee	(32)	9,844	-	-
Jordanian Dinar	(146)	4,500	(90)	7,500
Kazakhstani Tenge	(504)	8,148	-	-
Kyrgyzstani Som	(205)	9,488	1,110	5,000
Nigerian Naira	148	1,500	-	-
Tunisian Dinar	(38)	5,000	-	-
Uruguayan Peso	(1,654)	12,656	148	12,656
Zambian Kwacha (rebased)	(9,267)	14,700	289	2,200
Short EUR				
Ghanaian Cedi	24	2,669	-	-
Indian Rupee	(1,401)	16,805	(1,324)	13,385
Mexican Peso	8	843	-	-
Long USD				
Costa Rican Colon	107	10,000	1,045	9,556
Euro	1,096	28,911	628	42,149
Long EUR				
Euro	(1,306)	51,584	(2,363)	15,132
Total hedging transactions	4,723	290,377	15,200	160,578

The Euro hedge book above has the specific purpose of offsetting one part of the short Euro positions that TCX builds on a portion of its Primary Investments portfolio. Typically, the other part of these short Euro positions is covered through the purchase of Euro-denominated Liquidity Investments, which the Fund must report separately. Depending on the movements in the EUR:USD exchange rate, this can lead to recording translation gains or losses on the liquidity portfolio (see Note 20), whereas, economically, TCX's net overall Euro position is deliberately neutral.

Credit risk

TCX’s credit risk exposure originates from its liquidity and derivatives investments. TCX limits the credit risks it incurs by concentrating liquidity investments with the best-rated counterparties, and by using either guarantees from highly-rated institutions or Credit Support Annexes to ISDA Master Agreements (i.e., ISDA CSA agreements). The purpose of ISDA CSA agreements is to trigger periodic collateral transfers based on the fluctuating fair market value of TCX’s portfolio with each counterparty.

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

TCX’s credit risk measures make use of internal credit ratings with associated Probabilities of Default (PD). For Loss Given Default (LGD), the decision is based on the country of incorporation of the counterparty and the type of counterparty. The Exposure at Default (EAD) is equal to the current mark-to-market of the trades with the counterparty (net of any collateral held), plus the potential future exposure on the trades, calculated as the 99% VaR for the applicable period of exposure (i.e., the period between collateral calls in the case of collateralized exposures).

An internal rating and associated PD is assigned by RISKCO to each counterparty prior to execution the first 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 years, as published by Standard & Poor’s. The ratings-based EAD of the portfolio is shown in the following table:

(all amounts in thousand USD)	Credit rating	EAD 2016	EAD 2015
	AAA	469,401	336,611
	AA	239,223	271,487
	A	62,371	92,043
	BBB	17,931	7,498
	BB	9,827	1,916
	B	-	85
	D	1,365	-
Total		800,118	709,640

The Risk Weighted Assets for the credit risk exposures shown above totals USD 74.4 million (2015: USD 89.7 million), after taking into account the applicable PDs and LGDs.

The position rated “D” above concerns a single counterparty in southern Africa. This position was fully impaired as per 31 December 2016 via a CVA adjustment of USD 1,365 (see Note 6) and a provision of USD 1,128 related to unpaid settlements (see Note 8).

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

2016 (all amounts in thousand USD)	Gross Amount	Amounts offset included in fair value	Fair value included in statement of financial position	Related financial instruments not offset ⁵	Net Amount
Financial assets					
Cross currency swaps	36,123	-	36,123	-	-
Forwards	24,152	-	24,152	-	-
Total financial assets	60,275	-	60,275	(20,046)	40,229
Financial liabilities					
Cross currency swaps	(111,206)	-	(111,206)	-	-
Forwards	(34,601)	-	(34,601)	-	-
Total financial liabilities	(145,807)	-	(145,807)	67,223	(78,584)
Total	(85,532)	-	(85,532)	47,177	(38,355)

2015 (all amounts in thousand USD)	Gross Amount	Amounts offset included in fair value	Fair value included in statement of financial position	Related financial instruments not offset ¹³	Net Amount
Financial assets					
Cross currency swaps	20,966	-	20,966	-	-
Forwards	27,438	-	27,438	-	-
Total financial assets	48,404	-	48,404	(21,467)	26,937
Financial liabilities					
Cross currency swaps	(175,571)	-	(175,571)	-	-
Forwards	(27,174)	-	(27,174)	-	-
Total financial liabilities	(202,745)	-	(202,745)	86,676	(116,069)
Total	(154,341)	-	(154,341)	65,209	(89,132)

Liquidity risk

Investments

Liquidity risks include the risk that TCX cannot fulfil its obligations in a timely fashion due to cross-border transfer timing constraints. To minimize the risk of underfunding in any single currency, TCX maintains minimum liquidity levels to cover future payment obligations in any currency that is not classified as freely convertible. These limits are determined by RISKCO, depending on the currency's convertibility risks. As per 31 December 2016, no traded currency other than the Euro is approved as freely convertible.

To protect TCX from liquidity risk, the single day liquidity gap for each currency may not be larger than half the average spot FX daily trading volume (determined by the Risk Monitor using the average over the past year). To monitor the liquidity risk, a gap analysis is performed monthly that provides an overview of all expected cash flows of all transactions. This includes coupon receipts on bonds, periodic interest exchange on swaps, principal (re)payments on cross-currency swaps and settlements on currency swaps.

Liquidity limits for non-freely convertible currencies are set for a business-as-usual scenario and for a stress scenario. In the business-as-usual scenario, no negative gap is allowed for the first week and the first month (i.e. TCX must have full local currency liquidity to cover foreseeable cash outflows for the next week and the next month). Under a stress scenario, TCX may need more local funds. In this respect the following maximum negative gaps are allowed:

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

For freely convertible currencies, negative liquidity gaps are allowed up to 10% of the liquidity investment portfolio for the first month. The total gap of all convertible currencies should be lower than 50% of the liquidity investments portfolio. To prevent unnecessary risk taking in the liquidity portfolio, a rise in interest rates of 1% may not cause a loss higher than 1% of the liquidity portfolio.

The gap analysis for the year ended 31 December 2016 is as follows:

(all amounts in thousand USD)	One week	One month	Over one month
Currency EUR			
Cash In	24,791	12,821	78,483
Cash Out	-	83	42,771
Net Position	24,791	12,739	35,712
Cum Net Position	24,791	37,529	73,241
Limit	(340,916)	(340,916)	-
	One week	One month	Over one month
Currency USD			
Cash In	27,783	57,499	733,648
Cash Out	(5,393)	(2,379)	(267,686)
Net Position	22,391	55,120	465,962
Cum Net Position	22,391	77,511	543,473
Limit	(340,916)	(340,916)	-

13) Consists of collateral received or paid

The gap analysis for the year ended 31 December 2015 is as follows:

(all amounts in thousand USD)			
	One week	One month	Over one month
Currency EUR			
Cash In	4,648	10,679	119,533
Cash Out	-	(265)	(41,214)
Net Position	4,648	10,414	78,319
Cum Net Position	4,648	15,062	93,382
Limit	(279,821)	(279,821)	
	One week	One month	Over one month
Currency USD			
Cash In	55,087	69,054	569,574
Cash Out	(10)	(3,577)	(311,213)
Net Position	55,077	65,477	258,361
Cum Net Position	55,077	120,554	378,915
Limit	(279,821)	(279,821)	

TCX invests its liquid assets in cash deposits, commercial papers, bank deposits, fixed rate bonds and floating rate notes. About 85% (2015: 81%) of these assets have a remaining term shorter than 1 year. Though longer-dated, the other 15% (2015: 19%) are considered highly liquid investments as well (i.e., top-rated paper issued by government, government-backed, and banking institutions). The Fund invests in commercial paper for an amount of USD 417,137 representing 84.1% of the NAV (2015: USD 226,842 representing 58.9% of the NAV) which are readily convertible into cash.

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

The currencies in which TCX had conditional deliverable products outstanding at 31 December 2016 were the Kenyan Shilling, Indonesian Rupiah and Dominican Republic Peso, for a total notional of USD 18 million (2015: USD 22 million notional, in Kenyan Shilling, New Ghanaian Cedi, Indonesian Rupiah and Dominican Republic Peso).

Subordinated Convertible Debt

The Fund’s financial liabilities include Subordinated Convertible Debt for a nominal amount of USD 161,539 (2015: USD 161,539), consisting of an undiscounted cash flow amount of USD 121,622 (2015: USD 119,564), representing 14.1% (2015: 14.9%) of the total financial liabilities, and “Grants linked to the Subordinated Convertible Debt”, for an amount of USD 39,917 representing 4.6% of the total financial liabilities (2015: USD 41,975 and 5.2% respectively) (see Note 15 for further details). The maturity date of the Subordinated Convertible Debt and the Grants linked thereto is 31 December 2025 (subject to certain provisions). Each Subordinated Convertible Lender has the option to convert, in whole or in part, its outstanding commitment into Class B Shares of the Fund.

Subordinated Loan

The Fund’s financial liabilities include a Subordinated Loan for an undiscounted cash flow amount of USD 20,090 (2015: USD 20,006), representing 2.3% (2015: 2.5%) of the total financial liabilities (see Note 16 for further details). The Subordinated Loan has a final maturity date of 15 February 2021. Until 15 August 2018 the lender has a conditional right to demand a prepayment of 20% of the Subordinated Loan on a yearly basis. See Note 14 for additional details.

First Loss Loan

The Fund’s financial liabilities include a First loss loan for an undiscounted cash flow amount of USD 10,901 (2015: nil), representing 1.3% (2015: nil) of the total financial liabilities (see Note 16 for further details). The First loss loan has a final maturity date and repayment date of 31 December 2025.



Farol da Barra, São Salvador da Bahia dos Todos os Santos, Brazil. (SIME / Hollandse Hoogte)

Subsidies granted and deferred subsidy

The Fund’s financial liabilities include subsidies granted and deferred subsidy for an undiscounted cash flow amount of USD 5,000 (2015: USD -), representing 0.6% (2015: nil) of the total financial liabilities (see Note 13 and 14 for further details). The subsidy has no fixed maturity date and depends on the development of the subsidized project.

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 outstanding at the start of each calendar year. Assuming that investors make maximum use of this put option, the undiscounted redemption profile of the Fund’s Shares A would be as provided in the table below (see Note 18 for further details regarding redemption rights):

(all amounts in thousand USD)		2016	2015
Year of maturity	2016	-	77,019
	2017	99,258	61,615
	2018	79,407	49,292
	2019	63,525	39,434
	2020	50,820	31,547
	2021	40,656	25,237
	2022	32,525	20,190
	2023	26,020	16,152
	2024	20,816	12,922
	2025	83,264	51,686
Total		496,291	385,094

Other liabilities

The Fund holds other liabilities for an undiscounted cash flow amount of USD 2,220 (2015: USD 12,300) with a maturity date of less than 3 months, representing 0.3% of the total financial liabilities (2015: 1.5%).

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 15 for further details), Subordinated Loan (Note 16) and First loss loan (Note 17).

5. CASH AND CASH EQUIVALENTS

At 31 December 2016 and 2015, no restrictions on the use of cash and cash equivalents exist.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

(all amounts in thousand USD)		2016		2015	
		Fair value in USD	% of NAV	Fair value in USD	% of NAV
Level 2 financial instruments					
Commercial paper		417,137	84.1	226,842	58.9
Debt instruments		270,488	54.5	372,160	96.6
Cross currency interest rate swaps – Hedging		4,685	0.9	2,606	0.7
FX Forward contracts – Trading		1,064	0.2	3,028	0.8
FX Forward contracts – Hedging		15,156	3.1	15,508	4.0
Level 3 financial instruments					
Cross currency interest rate swaps – Primary		31,438	6.3	18,361	4.8
FX Forward contracts – Primary		7,932	1.6	8,902	2.3
Frontier Clearing Fund Junior (TCX)		9,983	2.0	9,996	2.6
Frontier Clearing Fund Subordinated (JODEA)		-	-	670	0.2
Total		757,882	152.7	658,073	170.9

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 policy of classification and the process of fair value measurement of level 3 investments is explained in Note 29. The Level 3 investments are detailed as follows (for liabilities see Note 11):

(all amounts in thousand USD)	2016	2015
Assets	49,353	37,929
Liabilities	(130,429)	(198,138)
Total	(81,076)	(160,209)

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

For the year 2016	Assets	Liabilities
Balance at 1 January 2016	37,929	(198,138)
Transfers into or out of the Level investment category	-	(9)
Adjusted Opening balance	37,929	(198,147)
Early termination swap contract	(124)	14,130
Matured deals	(17,822)	55,016
Unrealized gains and (losses)	30,040	(1,428)
Revaluation Frontier Clearing Fund Subordinated	(261)	-
Sale of Frontier Clearing Fund Subordinated	(410)	-
Balance at 31 December 2016	49,353	130,429
For the year 2015	Assets	Liabilities
Balance at 1 January 2015	21,225	(117,613)
Early termination swap contracts	(221)	2,721
Matured deals	7,952	44,231
Unrealized gains and losses	(1,693)	(127,477)
Paid Frontier Clearing Funds	11,200	-
Unrealized gains and losses	(534)	-
Paid distributed grants	438	-
Impairment distributed grants	(438)	-
Balance at 31 December 2015	37,929	(198,138)

All results on financial instruments classified as Level 3 are presented in the statement of comprehensive income under results on financial instruments at fair value through profit or loss.

There are no results on financial instruments at fair value through profit or loss as a result of changes in calculation assumptions (2015: no results).

The results on financial instruments at fair value through profit or loss include an amount of USD 14,006 (2015: USD 2,501) resulting from early termination of swap contracts.

A parallel shift in interest rates of 1 basis point results in a change in fair value through profit or loss of USD 205 (2015: USD 171).

The Fund periodically estimates the non-performance risk on its derivative liabilities (DVA, or own credit risk) and the counterparty risk on its derivative assets (CVA). These CVA/DVA estimates take into account the Fund's collateral positions and are made in a manner consistent the Fund's risk management policies and market practice, in order to maximize the use of observable market parameters when deemed relevant. In 2016, a CVA adjustment (deduction from fair market value) for an amount of USD 1,365 was made on Cross Currency Swaps (2015: none).

7. CASH COLLATERAL

As at 31 December 2016, the Fund transferred cash to margin accounts as collateral against open forward contracts for a total net amount of USD 47,177 (2015: USD 65,209). The margin accounts were created based on the Credit Support Annex to the ISDA Master Agreements as agreed with various counterparties. The margin accounts are interest bearing (refer to the credit risk disclosure in Note 4).

8. OTHER RECEIVABLES

At 31 December the other receivables consist of the following:

(all amounts in thousand USD)	2016	2015
Interest receivable	513	421
Prepaid management fee	74	-
Other	-	280
Total other receivables	587	701

The interest receivables contains a gross amount of USD 1,641 adjusted for an impairment for credit losses for an amount of USD 1,128, in total USD 513 as per year end (2015: no provision, total amount USD 421)

9. RELATED PARTY TRANSACTIONS

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

Managing Board

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

Supervisory Board

The Supervisory Board members are entitled to receive fixed annual fees of EUR 50 for the Chairman (2015: EUR 50) and EUR 22 for each other member (2015: EUR 22). These fees are presented as part of the governance expenses. In relation to 2016, a total of USD 117 (2015: USD 138) has been expensed as Supervisory Board fees. The amount expensed each year depends on the EUR:USD exchange rate, the VAT treatment of the fees, the timing of actual payments, Supervisory Board appointments, and AGM decisions on fee levels. In addition, each member has the option to decline receiving their fees. In 2016, one regular member did so (2015: one).

Fund Manager

The main responsibilities of the Fund Manager are to manage the Fund’s investments according to the Fund’s strategy and risk management and investment and operational 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.

Management and performance fee

According to the Fund Management Agreement, the Fund Manager is remunerated for its activities as follows:

- Cost recovery component: the Supervisory Board agrees to an annual budget payable monthly in advance, with reconciliation to actual costs at year end. For the current period, the Fund Manager received EUR 4,783 equal to USD 5,297 (2015: EUR 4,693 equaling USD 5,243);
- Performance fee: the Fund Manager receives an annual Performance fee driven by parameters agreed with the Supervisory Board of the Fund and approved by shareholders. The total performance fee taken into account (accrued) for the year 2016 amounts to USD 876.¹⁴ Together with the approved surplus over the performance fee estimate accrued for the year 2015 of USD 102, the total performance fee recognized in the 2016 statement of comprehensive income amounts to USD 978. In 2015 the total recognized performance fee amounted to USD 1,311, representing the accrued performance fee for the performance over the year 2015 of USD 1,013, plus the approved surplus over the performance fee estimate accrued for the year 2014 of USD 298.

14) In February 2017, the Supervisory Board approved a performance fee of USD 1,011 for 2016. The excess of USD 135 compared to the amount accrued in 2016 will be recognized in 2017

- Carried interest: the Fund 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 Fund Management Agreement and payable prior of a transfer of shares Class A or Class B. For the current period, no qualifying transfer of shares Class A or Class B occurred, and no carried interest was paid.

Remuneration of directors and staff of the Fund Manager

At the end of 2016, the Fund Manager had 15 employees (2015: 15). The entire team is classified as “identified staff” for regulatory purposes. In conformity with the AIFMD, this means that all staff are subject to malus and claw-back arrangements with respect to their variable compensation, and the variable compensation of senior management, “risk-takers”, and control staff is subject to pre-defined deferral arrangements.

Historically, the team’s fixed and variable remuneration awards have been as follows:

2016 (all amounts in thousands)	Fixed EUR	Variable EUR	Total EUR	Total USD ¹⁵
Senior Management	857	306	1,163	1,224
Other personnel	1,222	193	1,415	1,489
Total remuneration in 2016	2,080	499	2,579	2,714
2015 (all amounts in thousands)	Fixed EUR	Variable EUR	Total EUR	Total USD ¹⁶
Senior Management	873	494	1,367	1,488
Other personnel	1,079	630	1,709	1,857
Total remuneration in 2015	1,952	1,124	3,076	3,345

The variable remuneration awarded in any given year relates to individual performance over the previous year. For the staff subject to deferral, 60% is payable in cash in the year of award; the remainder (40%) is payable in equal cash installments over the following 3 years (subject to malus and claw-back).

The decrease in variable compensation in 2016 relates to a reduction in the size of the base of the bonus pool from 50% of the eligible salary mass to 25%, effective 1 January 2015 (i.e., starting with the bonus awards of 2016). This decision was partially offset by an increase in salary levels. These changes reflect an ongoing commitment to align the remuneration structure and levels of the Fund Manager’s staff with prevailing laws and regulations and market practices and conditions.

Frank Gosselink

During 2016, Mr. Gosselink, a managing board member of Cardano Development B.V., the parent company of the Fund Manager, was a voting member of TCX’s RISKCO. In relation to this appointment, Cardano Development B.V. received a flat annual fee of EUR 20, excluding VAT (2015: EUR 20). Effective 10 January 2017, Mr. Gosselink became chairman of the Fund Manager’s supervisory board. In view of this appointment, he switched to being a non-voting member of RISKCO, in respect of which no fee will be paid in 2017.

10. RELEVANT CONTRACTS FOR THE FUND’S OPERATIONS

Fund Manager

The Fund has entered into a Fund Management Agreement with the Fund Manager to provide portfolio management, risk management, and fund administration and valuation services to the Fund. See Note 9 for details of the contractual arrangements.

Fund Administrator and Valuer

The Fund Manager has delegated the Fund’s administration and valuation functions to a third-party service provider, DLM Finance B.V. (“the Administrator”), under a bilateral agreement with the Fund Manager. The main responsibilities of the Administrator are administering, settling and valuing the Fund’s investments, collateral management, and maintaining and preparing portfolio reports.

Additionally, the Administrator keeps the books of the Fund and prepares periodic financial reports for the benefit of the Pricing Committee, the Supervisory Board, its (sub-)committees, the investors, and regulators. The expenses for these services are included in the Management Fee discussed in Note 9 above.

15) Translated at the year-end USD/EUR exchange rate of EUR 0.950

16) Translated at the year-end USD/EUR exchange rate of EUR 0.920

Risk Monitor

Historically, the Fund’s risk monitoring has been provided by Cardano Risk Management B.V. (“CRM”) under the terms of a trilateral agreement with the Fund Manager and the Fund. Amongst other functions, CRM is responsible for executing the daily risk, asset, and cash flow monitoring functions, the provision of an independent opinion on pricing and valuation, providing expert input on the modeling and execution of derivatives transactions, and supporting the Fund Manager in research and risk management.

For 2016, Cardano Risk Management B.V. received a fixed fee equal to EUR 1,050 or USD 1,158 (2015: EUR 1,075 equaling USD 1,185).

Depository and Custodian

The Fund has appointed Bank of New York Mellon N.V. (“BNYM”) to act as its independent Depository. In this capacity, BNYM is responsible for general oversight of the Fund Manager, monitoring transactions in TCX shares, safe-keeping the Fund’s assets, reconciling its cash flows, and ensuring that its valuation policies and procedures are implemented properly and consistently. BNYM also acts as the Fund’s custodian.

For 2016, BNYM received fees of USD 209 (2015: 2). These fees fluctuate monthly as a function of the value of TCX’s investments.

Assurance providers

The Fund has appointed Ernst & Young Accountants LLP as its Independent Auditor. The Independent Auditor’s remuneration in 2016 consisted EUR 217 in audit fees, equal to USD 228 (2015: EUR 151 equaling USD 165). The Independent Auditor is engaged to perform the audit of the financial statements and annual compliance audits on the Funds activities. The Independent Auditor did not provide any non-audit services to the Fund except for agreed upon procedures related to credit risk procedures for an amount of EUR 36 (USD 37).

The remaining part USD 122 (2015: USD 142) of the total audit fees of USD 350 (2015: USD 307) is related to the operational audit of the Fund by Solutional Assurance Services B.V., which resulted in the issuance of an unqualified ISAE 3402 Type II report.

11. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

(all amounts in thousand USD)	2016		2015	
	Fair value in USD	% of NAV	Fair value in USD	% of NAV
Level 2 financial instruments				
Cross currency interest rate swaps – Hedging	890	0.2	138	0.0
FX Forward contracts – Trading	457	0.1	3,011	0.8
FX Forward contracts – Hedging	14,031	2.8	1,458	0.4
Level 3 financial instruments				
Cross currency interest rate swaps - Primary	110,316	22.2	175,433	45.5
FX Forward contracts – Primary	20,113	4.1	22,705	5.9
Total	145,807	29.4	202,745	52.6

12. ACCRUED EXPENSES AND OTHER PAYABLES

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

(all amounts in thousand USD)	2016	2015
Donor Commitments	780	11,058
Audit fee payable	100	81
Other general fees payable	487	156
Management fee and performance fee payable	853	1,005
Total accrued expenses and other payables	2,220	12,300

Donor Commitments

In December 2016, the German Federal Minister for Economic Development & Cooperation (BMZ) and the Dutch Minister for International Trade & Development Cooperation (DGIS) agreed to terminate the Joint Donor Agreement (JODEA) in relation to which the Fund had agreed to segregate a portion of the Fund's assets (the "Donor Assets") for use in special projects, grants and investments (the "Donor Commitments").

On termination of the JODEA, the Dutch government converted its share of the Donor Assets into a First Loss Loan facility in an amount of USD 10,901 (see Note 17), while the German government received a cash payment of USD 2,639 which is used for a new program at Cardano Development Services B.V. for the account of the German government. As per 31 December 2016, the only remaining Donor Commitments (and matching Donor Assets) concern a similar but separate arrangement with the German Federal Minister for the Environment, Nature Conservation, and Building & Nuclear Safety (BMUB).

The Fund has agreed with the providers of the Subordinated Convertible Debt (the Donors listed above, see Note 13) that it will distribute to them, on January 1 of each year, an amount equal to 2.5% per annum flat on their share of the Subordinated Convertible Debt outstanding on December 31 of the previous year. Effective 1 January 2017, these distributions will be made as follows:

- In the case of DGIS, in cash or additions to the First Loss Loan, at the discretion of DGIS;
- In the case of BMZ, in cash;
- In the case of BMUB, in cash or additional Donor Commitments (supported by cash Donor Assets), at the discretion of BMUB.

In 2016 and previous years, the distributions were entirely in the form of additional Donor Commitments.

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

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

(all amounts in thousand USD)	Note	2016	2015
Interest calculated based on market interest rates		(6,321)	(5,470)
Amortization of government grants	15	2,058	2,058
Contributions to Donor Assets		(4,263)	(3,412)

13. SUBSIDIES GRANTED BY THIRD-PARTIES

Objective

The Fund may make arrangements with government donors, multi-lateral organizations, and other parties to subsidize the rates it quotes in certain currencies or sectors in case of structural impediments to local currency financings. On 17 November 2016, the first such facility was launched by the Fund in cooperation with the Livelihoods and Food Securities Trust Fund (LIFT) – a UN-administered fund operating in Myanmar. The purpose of the facility is to enable foreign development financiers to offer Kyat denominated loans to micro-finance institutions in compliance with the maximum interest rate set by the Central Bank of Myanmar on foreign lending.

Status

As per 31 December 2016 the Fund had received a first tranche of the LIFT facility for a total amount of USD 5,000, against which several transactions had already been executed. The remaining balance per the end of the year consists of subsidies available to support future transactions. In case no future transactions materialize, the Fund is under obligation to return the funds to LIFT by no later than [XX].

Movement during the period

(all amounts in thousand USD)	2016
Opening balance	-
Received subsidies from LIFT	5,000
Subsidies on transactions executed during the year	(1,185)
Total end of year	3,815

14. DEFERRED SUBSIDY INCOME

The subsidies on transactions executed during each year are deferred over the lifetime of the executed transactions and recognized on each interest settlement date in the Statement of Comprehensive Income.

(all amounts in thousand USD)	2016
Opening balance	-
Deferred subsidy assigned to executed transactions during the year	1,185
Subsidy of executed transactions recognized in the Statement of Comprehensive Income during the year	-
Total end of year	1,185

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

Objective

The Subordinated Convertible Debt has been provided by Donors with the objective to:

- 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;
- enhance the Fund’s capability and incentive to transact in Least Developed Countries and Other Low Income Countries, which are the two lowest categories of countries in the OECD Development Assistance Committee’s list of Official Development Assistance recipients. The Donors specifically wish to target such countries situated in Sub Sahara Africa with their investment; and
- enhance the Fund’s capability and incentive to transact in SE4ALL (Universal Energy Access, Renewable Energy and Energy Efficiency) projects carried out in countries mentioned in the OECD Development Assistance Committee list.

Status

The Donors are (i) The Netherlands Minister for International Trade and Development Cooperation (with a EUR 50 million commitment), (ii) TCX Mauritius, on-lending a EUR 40 million commitment of KfW acting on behalf of the German Federal Ministry for Economic Cooperation & Development (BMZ), and (iii) KfW acting in its own name but for the account of the German Federal Ministry for the Environment, Nature Conservation, and Building & Nuclear Safety (BMUB, with a EUR 30 million commitment). All commitments are 100% disbursed. Obligations were converted into USD on disbursement at the then applicable exchange rate.

Subordination

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

Conversion

The Donors have the option at all times to convert the outstanding commitments in the Subordinated Convertible Debt 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 Debt 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 Subordinated Convertible Debt becomes redeemable in full on 31 December 2025. As outlined in Note 12, the Fund has agreed to make certain distributions to the Donors in lieu of the usual interest payments.



The oldest lighthouse in South-East Asia: Ke Ga lighthouse, near Ho Chi Minh city, Vietnam (Sankai / Getty Images)

Fair value information

The estimation of the fair value of the Subordinated Convertible Debt at 31 December 2016 was calculated based on an internally developed valuation model and amounted to USD 71 million (2015: USD 56.1 million). The following material assumptions were used in the internally developed valuation model:

- The facility is junior to the net assets attributable to holders of redeemable shares Class A;
- No early exercise of the conversion is taken into account;
- The conditional annual payment of the interest on the facility has comparable value with an end of period payment of compounded LIBOR;
- The volatility of the TCX NAV used in the Black & Scholes option valuation is based on the results of a TCX financial business model with an implied volatility of 20%.

Movements during the period and cumulative positions at the end of reporting period

(all amounts in thousand USD)	Subordinated Convertible Debt at market interest	Government grants	Total
Total position at 31 December 2014	106,134	22,640	128,774
Amortization during the year	2,058	(2,058)	-
Drawdown on 29 December 2015	11,372	21,393	32,765
Total position at 31 December 2015	119,564	41,975	161,539
Amortization during the year	2,058	(2,058)	-
Total position at 31 December 2016	121,622	39,917	161,539

16. SUBORDINATED LOAN

Objective

The Subordinated 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 Subordinated Loan are subordinated and rank junior to all the other liabilities of the Fund excluding the Subordinated Convertible Debt and the First Loss Loan (see Notes 15 and 17).

Repayment and interest

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

- 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);
- the final installment shall be due on 15 February 2021.

The Subordinated Loan does not pay any regular interest but includes a compounded return which is paid out with the final installment. 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 excess (if any) of the internal return on TCX's equity over the compounded 3-month LIBOR rate.

Put option

The Subordinated Loan incorporates a 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 Subordinated Loan at 31 December 2016 was calculated based on an internally developed valuation model (Level 3) and amounted to USD 20.7 million (2015: USD 20.6 million). The following major assumptions were used in the internally developed valuation model:

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

Movement of the Subordinated Loan during the reporting period

(all amounts in thousand USD)	2016	2015
Opening balance	20,090	20,006
Total end of year	20,090	20,006

17. FIRST LOSS LOAN

Objective

The First loss loan has been provided by the Netherlands Minister for International Trade & Development Cooperation ("DGIS") with the objective to enhance TCX's capability and incentive to transact in the lowest two categories of countries as defined by the OECD Development Assistance Committee List of Official Development Assistance Recipients. DGIS specifically wishes to target women and countries situated in Sub Sahara Africa.

Status

The First loss loan agreement was executed on 21 December 2016 for a total amount of USD 10,901. The execution of the agreement was based on a transfer of Donor Commitments as disclosed in Note 12.

Subordination

Repayment obligations of the First loss loan ranks pari passu with the obligations of the Fund under Subordinated Convertible Debt (see Note 15) in a going-concern scenario. In case the Fund decides to liquidate pursuant to a Liquidation Trigger Event (see Note 18), there is no repayment obligation (the principal resets to zero).

Repayment and interest

The Fund shall repay the full amount outstanding of the First loan loss including outstanding interest on 31 December 2025. The First loss loan is subject to an annual interest of 2.5% flat on the amount outstanding at December 31 each year.

Fair value information

The estimation of the fair value of the First loss loan at 31 December 2016 was calculated based on an internally developed valuation model and amounted to USD 5.6 million. The following material assumptions were used in the internally developed valuation model:

- The facility is junior to the net assets attributable to holders of redeemable shares Class A and ranks pari passu with the Subordinated Convertible Debt;
- No early exercise of the conversion is taken into account;
- Inclusion of a 2.5% fixed versus floating USD interest rate swap with a maturity date of 31 December 2025;
- The volatility of the TCX NAV used in the Black & Scholes option valuation is based on the results of a TCX financial business model with an implied volatility of 20%.

Movements during period and cumulative positions at the end of reporting period

(all amounts in thousand USD)	First loss loan at market interest	Government grants	Total
Total position at 31 December 2015	-	-	-
Drawdown at 21 December 2016	5,603	5,298	10,901
Amortization during the year	-	-	-
Total position at 31 December 2016	5,603	5,298	10,901

18. 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 2016, 978 Shares Class A are in issue (31 December 2015: 890 shares). No Shares Class B are in issue. The single C Ordinary Share is held in treasury by TCX itself.

Subscriptions

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

Redemptions

Each investor has the option to exit the Fund by offering its shares for repurchase on a quarterly basis, at Net Asset Value.

Redemptions are subject to an annual cap of 20% of Shares Class A and Shares Class B outstanding at the start of each calendar year. Separately, the shareholders have the ability to request on 31 December 2020 for full redemption of their shares in 2025 without the cap applying.

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

Rights and obligations

Each shareholder has the number of votes at a General Meeting equal to the number of Shares it holds. Each Subordinated Convertible Lender may vote on certain matters defined in the Investors Agreement, and in these cases has the number of votes equal to the number of shares Class B that it would have held if the Convertible Subordinated Debt would have been converted into shares Class B on the last business day of the previous financial year. The shareholders and Subordinated Convertible Debt investors shall exercise their voting rights in accordance with and pursuant to the terms, conditions and spirit of the Investors Agreement.

TCX Investment Company Mauritius Limited

The Fund’s General Meeting has approved TCX Investment Company Mauritius Limited (”TCXM”) as a vehicle for facilitating the investment of four investors in the Fund, three of which are TCXM’s owners

Capital management

The Fund’s capital management objectives are included in Note 4. The Fund’s internal capital requirements to meet its objective are satisfied through a diversified financial structure. The breakdown is as follows at 31 December:

(all amounts in thousand USD)	2016	2015
Net assets attributable to holders of Shares Class A	496,291	385,094
Subordinated Convertible Debt	121,622	119,564
Grants linked to the Subordinated Convertible Debt	39,917	41,975
First loss loan	10,901	-
Frontier Clearing investment capital usage	(6,998)	(6,998)
Total Tier 1 capital	661,733	539,635

The Fund has one Subordinated Loan classified as Tier 2 capital (see Note 16 for further details).

(all amounts in thousand USD)	2016	2015
Subordinated Loan	20,090	20,006
Total Tier 2 capital	20,090	20,006

The definitions of Tier 1 and Tier 2 capital are internal to TCX, and are presently driven chiefly by the relative ranking of the instruments in case of a forced or voluntary liquidation of the Fund. Both tiers are junior to the senior creditors of the Funds (TCX’s counterparties), and qualify in this sense as ‘capital’ available to support the obligations towards them. Next comes the non-convertible subordinated debt (Tier 2), and the Shares Class A, which top Tier 1. These are held by development finance institutions and funds, whereas the Convertible Subordinated Debt and the First-Loss Loan are held by government Donors.

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

- Minimum Total Capital ratio¹⁷ of 14% (Tier 1 plus Tier 2 capital over Risk Weighted Assets); (at 31 December 2016: 32%; 2015: 26%)
- Minimum Tier 1 ratio of 10% (Tier 1 capital over Risk Weighted Assets); (at 31 December 2016: 31%; 2015: 25%);

If either ratio falls below the agreed threshold, a Liquidation Trigger Event will have occurred, requiring the Fund Manager to liquidate the Fund within a period of one year following an unremediated stand-still period, subject to investor approval. The capital ratios are tested at the end of each business day.

The Fund maintains an internal capital adequacy assessment process (“ICAAP”) to periodically review and assess the Fund’s capital position, notably the amounts available to support the portfolio’s growth while reserving sufficient amounts to cover stress scenarios.

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

Dividend and dividend policy

In accordance with the Investors’ Agreement, dividends may be paid out to shareholders if the Fund generates a profit that outpaces the Fund’s growth potential, leading to inefficient capitalization for the foreseeable future.

19. 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:

2016 (all amounts in thousand USD)	Profits		Losses		Net result
	unrealised	realised	unrealised	realised	
Cross Currency Swaps- Primary	2,123,435	486,754	(2,043,874)	(485,326)	80,989
Cross Currency Swaps- Hedging	35,804	99,635	(34,476)	(95,989)	4,973
FX forward- Primary	348,451	168,532	(346,829)	(171,030)	(876)
FX forward- Trading	64,546	68,691	(63,956)	(63,114)	6,167
FX forward- Hedging	240,339	9,007	(253,265)	(8,550)	(12,468)
FX Options	45	456	(45)	(758)	(302)
Debt instruments	12,549	-	-	(11,853)	696
Credit Value Adjustment	-	-	(1,365)	-	(1,365)
Total	2,825,169	833,075	(2,743,810)	(836,620)	77,814

17) Capital ratio: The Capital ratio is a solvency indicator, explaining the relationship between risk capital and risk weighted assets. The Fund’s (minimum) capital ratio implicitly acts as the Fund’s (maximum) leverage ratio within the meaning of the AIFMD.

2015 (all amounts in thousand USD)	Profits		Losses		Net result
	unrealised	realised	unrealised	realised	
Cross Currency Swaps- Primary	49,116	111,045	(119,978)	(97,616)	(57,433)
Cross Currency Swaps- Hedging	3,643	1,756	(1,115)	(5,884)	(1,601)
FX forward- Primary	21,520	7,372	(24,909)	(20,653)	(16,670)
FX forward- Trading	4,798	10,222	(3,044)	(16,959)	(4,983)
FX forward- Hedging	17,726	7,019	(8,050)	(3,660)	13,035
FX Spot	-	143	-	(67)	76
Debt instruments	2,628	-	(6,792)	(6,157)	(10,321)
Total	99,431	137,557	(163,889)	(150,996)	(77,897)

The interest component included in the Cross Currency Swaps amounts to USD 73,042 (2015: USD 69,134).

20. FOREIGN CURRENCY TRANSLATION

Realized and unrealized exchange rate differences consist of realized and unrealized translation gains and losses on assets and liabilities denominated in currencies other than the US Dollar. The total foreign currency translation result amounts to a loss of USD 645 (2015: loss of USD 3,457). For the translation of the non-USD positions at balance sheet date, a closing rate of EUR 0.950 (2015: EUR 0.920) per USD has been applied in preparation of these financial statements.

21. INTEREST INCOME

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

(all amounts in thousand USD)	2016	2015
Financial instruments at fair value through profit or loss		
Commercial paper	1,251	471
US Treasury Bills	-	10
Floated rate notes	1,396	1,218
Fixed rate bonds	435	240
Subtotal debt instruments	3,082	1,939
Cash and cash equivalents		
Cash at banks	-	-
Cash collateral	150	58
Subtotal cash and cash equivalents	150	58
Total interest income	3,232	1,997

22. OTHER GENERAL EXPENSES

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

(all amounts in thousand USD)	2016	2015
Legal fees	200	230
Rating agency fees	74	74
Guarantee fee	99	39
VAT	6	(41)
Compliance fees	35	25
Tax advisory fees	9	10
OGR fees	193	-
Other expenses	286	137
Finance costs grant Stichting Cardano Development	-	1,343
Total other general expenses	902	1,817

Finance costs grant Stichting Cardano Development

On 11 February 2015, TCX's shareholders authorized the disbursement of an outright grant of EUR 1.2 million to Stichting Cardano Development, the ultimate owner of the Fund Manager, for the purposes of recapitalizing the Fund Manager and help it meet the minimum capital requirements of the AIFMD.

23. PERSONNEL

The Fund did not employ any personnel during the reporting period ending 31 December 2016 (2015: none)

24. ASSETS UNDER MANAGEMENT

As defined under the AIFMD, the Assets Under Management ('AUM') of the Fund at 31 December 2016 totaled USD 2,123 million (2015: USD 2,109 million), including the derivatives portfolio at notional value.

25. LEVERAGE

As defined under the AIFMD, the Leverage of the Fund at 31 December 2016 was 4.2 times its NAV using the Gross Method, and 3.2 times its NAV using the Commitment Method (2015: 5.4 times and 4.5 times, respectively). The Fund calculates these leverage measures solely for reporting purposes to the Dutch Central Bank. For risk and capital management purposes, the Fund relies instead on monitoring its available capital to risk weighted assets ratio, as detailed in Note 15.

26. FUND DOCUMENTATION

The totality of the documents concerning TCX's corporate status and its objectives, funding arrangements, policies, management, operations, and financial results are available to existing investors in the secure area of the Fund's website (www.tcxfund.com). For permission to access to this secure area of the website, prospective investors are invited to contact the Fund Manager at info@tcxfund.com. For non-investors, the website only provides publicly released information.



"Les Eclaireurs" lighthouse, Beagle Channel off Ushuaia, Tierra del Fuego, Argentina. (Miguel Vasquez / Getty Images)

SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

27. 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. Certain financial assets and financial liabilities are stated at amortized cost.

The Statement of financial position presents the assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items. The Fund's assets and liabilities are generally held for the purpose of being traded or are generally expected to be realised within one year with the exception of the Primary Investments, the long-term Subordinated Loan, the Subordinate Convertible Debt, Subsidies and the associated Grant and subsidy elements linked thereto.

The accounting policies have been consistently applied by the Fund and are consistent with those used in the previous year. All amounts have been rounded to the nearest thousand unless otherwise indicated.

Adoption of new standards and amendments to existing standards

In December 2014, the IASB issued amendments to IAS 1 which are effective as per 1 January 2016 as part of the IASB's Disclosure Initiative and has been endorsed by the EU in December 2015. The amendments clarify the materiality guidance in IAS 1. The Fund has adopted this standard for the current reporting period with no significant impact as it only impacted line items and non-significant notes.

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

IFRS 9 Financial Instruments – IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB has finalized its project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010) and (2009) are effective for annual periods beginning on or after 1 January 2018. The EU has endorsed IFRS 9 on 22 November 2016. The Fund is currently assessing the impact on the Funds financial statements based on the adjustments and new requirements.

IFRS 15 Revenue from Contracts with Customers - The IASB has issued a new standard for the recognition of revenue and has been endorsed by the EU on 22 September 2016. This replaces IAS 18 which covers, amongst others, contracts for goods and services. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The Fund is currently assessing the impact on the Funds financial statements based on the adjustments and new requirements but expects that the impact on the financial statements is insignificant.

Functional 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, subsidies granted and the donor related first loss loan as financial liabilities in accordance with the substance of the contractual arrangements, given that the total expected cash flows attributable to the instrument over its life are 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 Fund during 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 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 on.

Drawdowns under the Subordinated Convertible Debt and First Loss Loan facility are treated as loans that include a grant element (further referred to as Grants linked to the Subordinated Convertible Debt and Grants linked to the First Loss Loan, together “the Grants”). The Grants are calculated as the difference between the initial carrying value of the loans (its fair value) and the proceeds received (its book value).

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 Debt, First Loss Loan and the Subordinated Loan are recorded as liabilities on an amortized cost basis until extinguished upon conversion or at the instrument’s maturity date. The Grants are amortized over the lifetime of the Subordinated Convertible Debt and First Loan Loss respectively.

The Fund has invested in Frontier Clearing Fund Junior Units which are measured at fair value.

Fair value measurement principles

For all financial instruments which are highly rated and liquid such as commercial paper, floating rate notes, certificates of deposit, T-bills, T-bonds for which quoted prices in an active market are available as reference, the fair value is determined based on market standard cash flow methodologies and are further referred to as Level 2 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 concentration and balance sheet management.

Primary Investment are transacted to realize TCX’s mission to provide hedges that are additional to markets, i.e. not transacted by market parties. This typically arises when the investment has a maturity longer than the market offers or TCX offers a product for which there is no market at all. To manage price discovery in such an environment, TCX has instituted a Pricing Committee, which approves the pricing methodology of the Fund based on a proposal of the Fund Manager. The Risk Monitor is responsible for monitoring that the various pricing methodologies approved by the Pricing Committee, are implemented correctly. By definition, the additionality principle means that there is little, if any, directly observable and/ or comparable market data. Therefore, the techniques used to value TCX’s Primary Investments qualify as Level 3 valuation techniques (valuation technique using inputs that are not market observable).

TCX’s Trading and Hedging Investments are typically closed within the available market offering for the currencies in which they occur. TCX should be able to move into and out of the positions relatively quickly to enhance the diversification benefits, manage portfolio concentrations, or protect its capital. They 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. Therefore, the techniques used to value TCX’s Trading and Hedging Investments qualify in principle as Level 2 valuation techniques “valuation techniques using inputs based on observable market data”.

The fair value of the Frontier Clearing Fund Junior Units are determined using valuation models for which not all inputs are market observable prices or rates. The fair valuation of these units is based on discounted future cash flows and is published monthly by the custodian of the Frontier Clearing Funds.

Impairment of financial instruments at amortized cost

The Fund assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognizes a provision for impairment when such evidence exists. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired. The carrying amount of these assets is reduced through the use of an impairment account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, net of any collateral held.

Derecognition

The Fund de-recognizes 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 de-recognition. A transfer will qualify for de-recognition 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.

Subsidies granted and deferred subsidy income

The Fund recognizes subsidies granted on the Statement of financial position once the Fund complies to all conditions and the Fund has received the cash, all in accordance with the subsidy agreement. The subsidies granted are reclassified as deferred subsidies income when transactions are executed. Deferred subsidy income is recognized in Statement of Comprehensive Income on a systematic basis over the period of the allocated financial instruments and presented as an adjustment to the (change in) fair value of the transaction.

Statement of cash flows

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

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

Shares Class A

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

Income and expense recognition

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

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

Taxation

The Fund has received a ruling from the Dutch tax authorities that it is eligible for an exemption from corporate income tax (The Fund is a “vrijgestelde beleggingsinstelling” or “VBI”), under the terms of legislation passed through The Netherlands’ Parliament on 1 August 2007. Related to this the Fund is also exempt from withholding any taxes due on any dividends paid to its shareholders.

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.

28. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENT IN APPLYING ACCOUNTING POLICIES

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

Valuation of financial instruments

As disclosed in Note 29, 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 Fund 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 Monitor using a similar approach. The Risk Monitor circulates a plausibility report to the Fund Manager on a monthly basis. All differences greater than 1% at individual transaction level are cross-checked and ironed-out where justified.

PROPOSAL FOR PROFIT APPROPRIATION

Appropriation of profit is determined in accordance with articles 29 and 31 of the Articles of Association of the Fund:

Article 29

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

Article 31

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

The statutory Managing Board proposes to the general meeting to allocate the operating income of USD 65,700 for the period ended 31 December 2016 as follows: for an amount of USD 65,700 to the other reserves corresponding with each relevant class of shares. No dividends shall be distributed to shareholders with respect to the period ended 31 December 2016.



Manaret Al-Garabulli lighthouse, Tripoli, Libya. (Bashar Shglila / Getty Images)

IN CONTROL STATEMENT

The Managing Board of TCX Investment Management Company B.V. (TIM or the Fund Manager) 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 and a number of operational partners to appropriately manage the Fund's systems and risks. These partners notably include Cardano Risk Management B.V. regarding risk monitoring, Compliance Advies Financiële Ondernemingen regarding compliance services, and DLM Finance B.V., regarding back office, valuation and fund administration services. Together with TIM, these unrelated parties form the TCX Operational Group.

All material processes relating to TCX's operational management, including responsibilities assigned within the TCX Operational Group in each step of TCX's management processes as well as a risk assessment thereof, are described in the TCX Operational Guidelines. All of the Fund's operational processes are designed for compliance with the AIFMD. 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 Fund Manager, Risk Monitor and External 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 quarterly reviews of the External Compliance Officer. These were performed in 2016 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 23 March 2017 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 design and effectiveness of all material controls identified in the Operational Guidelines, including those related to the preparation of the financial statements. The result was an unqualified audit opinion on the Fund's ISAE 3402 Type II report, which confirmed that the control framework of the Fund is designed appropriately and is operating effectively in all material aspects.

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

Regulatory risk: TCX operates in an environment that has become increasingly regulated since the 2008 financial crisis, in Europe, the United States, and elsewhere. These regulations have an impact at the market, entity, and product levels, and their breadth, depth, and evolving nature pose an ongoing challenge for TCX. TCX manages these regulatory compliance risks by acquiring the necessary subject-matter expertise from legal, financial, and other advisers in support of its Internal Compliance Officer, who is responsible for the periodic review of all key agreements, policies, and processes to ensure full compliance at all times, with monthly updates to the Risk Management Committee and quarterly updates to the TCX Supervisory Board.

Reputational risk: TCX operates in an environment that has become increasingly regulated since the 2008 financial crisis, in Europe, the United States, and elsewhere. These regulations have an impact at the market, entity, and product levels, and their breadth, depth, and evolving nature pose an ongoing challenge for TCX. TCX manages these regulatory compliance risks by acquiring the necessary subject-matter expertise from legal, financial, and other advisers in support of its Internal Compliance Officer, who is responsible for the periodic review of all key agreements, policies, and processes to ensure full compliance at all times, with monthly updates to the Risk Management Committee and quarterly updates 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 through suitable client selection criteria and 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 by the Risk Monitor is weekly to the CRO and senior management of the Fund Manager, monthly to the Risk Management Committee, and periodically to the TCX Supervisory Board.

Market risk: TCX’s business model, based on continued enforcement of diversification, requires good market information, careful balancing of exposures and excellent administrative systems. Inappropriate market risk management leads, among other things, to mispricing of transactions and misjudgment of the Fund’s NAV. TCX manages these issues through a system of separate evaluation of market data between the back-office and risk management (both pre-trade and post-trade), as well as frequent plausibility checks between the two (at least monthly). Risk management monitors exposures and quotes against agreed limits on a real-time basis, with weekly reporting by the Risk Monitor to the senior management of the Fund 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 internal and external controls.

Business continuity: TCX is reliant on several IT systems run by the TCX Operational Group, notably its back-office management systems, its risk monitoring systems, and its intranet and website. Mismanagement of IT risks would lead to continuity issues, breaches of payment obligations, and to the integrity of data and cash flows. Each member of the TCX Operational Group therefore has in place business continuity and disaster recovery plans that ensure the continuity of business-critical processes. These plans are tested periodically.

During 2016, TCX experienced a single credit loss, no NAV valuation incidents, no compliance incidents, and no material operational incidents.

In conclusion, we therefore confirm:

- that TCX has designed an adequate set of documented management controls that are appropriate to its business;
- 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 2016;
- that no material issues or incidents have occurred in the financial year ending 31 December 2016;
- 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
- that we do not expect to significantly adjust the basis of TCX’s set-up in 2016, except for certain policies, processes, and controls surrounding the management of credit risks. ■

Amsterdam, 7 April 2017

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

Ruurd Brouwer, Chief Executive Officer
 Bert van Lier, Chief Investment Officer
 Brice Ropion, Chief Operating Officer

INDEPENDENT AUDITOR'S REPORT

To: the shareholders, the supervisory board and the managing board of The Currency Exchange Fund N.V.

Report on the audit of the financial statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of The Currency Exchange Fund N.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of The Currency Exchange Fund N.V. as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code and the requirements set with regard to the financial statements by or pursuant to the Dutch Financial Supervision Act.

The financial statements comprise:

- The statement of financial position as at 31 December 2016
- The following statements for 2016: the statements of comprehensive income, changes in net assets attributable to holders of redeemable shares Class A and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of The Currency Exchange Fund N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Managing board's report, consisting of the letter from the managing board, the business review and the in control statement (the 'managing board's report')
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code
- General information, the letter from the supervisory board, information about governance and ownership and members of the supervisory board and committee members

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code and the requirements set by or pursuant to the Dutch Financial Supervision Act.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The managing board is responsible for the preparation of the other information, including the managing board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code and the requirements set by or pursuant to the Dutch Financial Supervision Act.

Description of responsibilities for the financial statements

Responsibilities of the managing board and the supervisory board for the financial statements

The managing board is as manager of the investment entity responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code and the requirements set with regard to the financial statements by or pursuant to the Dutch Financial Supervision Act. Furthermore, the managing board is responsible for such internal control as the managing board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the managing board is responsible for assessing the investment entity's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the managing board should prepare the financial statements using the going concern basis of accounting unless the managing board either intends to liquidate the investment entity or to cease operations, or has no realistic alternative but to do so. The managing board should disclose events and circumstances that may cast significant doubt on the investment entity's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the investment entity's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit 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 investment entity's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managing board
- Concluding on the appropriateness of the managing board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the investment entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an investment entity to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the supervisory board and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. ■

Amsterdam, 7 April 2017
Ernst & Young Accountants LLP
signed by C.G.J. de Lange

MEMBERS OF THE SUPERVISORY BOARD

The appointment of Supervisory Board members is subject to the approval of the General Meeting and of the Financial Markets Authority of the Netherlands.

Mr. Arthur Arnold, Chairman

Since 2009 Arthur Arnold has been an independent non-executive director for, or advisor to, 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. He joined the TCX Supervisory Board in May 2012.

Mr. Aigboje Aig-Imoukhuede

Aigboje Aig-Imoukhuede is Chairman of Coronation Capital Ltd., an Africa-focused equity and proprietary investment firm that he founded in 2014 and operates out of Nigeria and Mauritius. Between 2002 and 2013, he was Group Managing Director and CEO of Access Bank Plc., responsible for transforming the bank into a top-5 leadership position in Nigeria, with assets of USD 12 billion and 350 branches employing 20,000 staff in 9 countries. Prior to this he was an Executive Director at Guaranty Trust Bank Plc. (1991-2002) and an Assistant Manager at Prime Merchant Bank Ltd. (1989-1991). His achievements include chairing presidential and banking industry committees in Nigeria, and founding an OTC exchange that specializes in fixed income securities and derivatives. His awards include Commander of the Order of the Niger, Ernst & Young Entrepreneur of the Year (West Africa), and African Banker Magazine's "African Banker of the Year". He is President of the Nigeria Stock Exchange and a member of the Nigerian Bar. He holds law degrees from the University of Benin and the Nigerian Law School, and is currently a MBA candidate at the London School of Economics. He joined the TCX Supervisory Board in December 2015.

Mr. Marcus Fedder (from 10 January 2017)

Marcus Fedder is a non-executive Director and Chair of the Audit Committee of the International Finance Facility for Immunization. He has been involved with microfinance since 2009, including co-founding a MIV, serving on the investment committee of an impact investor, and serving as a non-executive director for two MFIs. Prior to this, he built a 20-year career in international banking and development finance, including appointments as Vice Chair of Toronto Dominion Securities with responsibility for all businesses in Europe and Asia-Pacific, and Treasurer of the European Bank for Reconstruction and Development (EBRD). He has worked at the World Bank advising governments and central banks on debt and asset and liability management, and at CIBC and Deutsche Bank in interest and currency derivatives. He holds a PhD in politics from the Freie Universitaet Berlin, and post graduate degrees in international relations from Cambridge and the London School of Economics. He joined the TCX Supervisory Board in January 2017, replacing Axel van Nederveen.

Mr. Bernd Loewen

Since 2009, Bernd Loewen has been Member of the Executive Board for Finance, Risk and Loan Administration of KfW Bankengruppe. Responsible for 800 employees, he serves as chairman of the bank's Group Credit Risk and Group Market Risk Committees. Prior to joining KfW, he spent 5 years as Member of the Management Board for Investment Banking and Treasury of mBank SA in Poland, and 10 years in increasingly senior commercial and non-commercial positions at Commerzbank in Germany and the USA. He holds the equivalent of a MBA from Westfälische Wilhelms Universität Münster, and is an Advisory Member of the Steering Committee of the Federal Agency for Financial Market Stabilization in Frankfurt, Germany. He joined the TCX Supervisory Board in May 2014.

Mr. Axel van Nederveen (till 10 January 2017)

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. He holds a Master's degree in Business Administration from the University of Groningen in the Netherlands. He joined the TCX Supervisory Board in September 2007, and was replaced by Mr. Marcus Fedder on 10 January 2017, in line with Board's succession planning.

Mrs. Lakshmi Shyam-Sunder

Lakshmi Shyam Sunder was appointed Vice President and Chief Risk Officer of the World Bank Group in 2014. She was previously Chief Financial Officer and Director, Finance and Risk, at the Multilateral Investment Guarantee Agency (MIGA), the political and credit enhancement arm of the World Bank Group. Prior to joining MIGA in 2011, she held a variety of positions at the International Finance Corporation, including Director for Corporate Risk. Before joining the World Bank Group, she was a faculty member of the MIT Sloan School of Management, where she had previously obtained a Ph.D in Finance. She also served on the faculty of the Tuck School of Business Administration. She has consulted for a wide range of institutions in the USA and in emerging markets, and has been on the board and finance and risk committees of several institutions in these markets. She joined the TCX Supervisory Board in May 2015.

The expiry dates of the mandates of the members of the Supervisory Board are as follows:

- Mr. Loewen – May 2018
- Mrs. Shyam-Sunder – May 2019
- Mr. Aig-Imoukhuede – December 2019
- Mr. Arnold – May 2020
- Mr. Fedder – January 2021

MEMBERS OF THE MANAGING BOARD

The Fund’s sole director and managing board member is its Fund Manager, TCX Investment Management Company B.V. (“TIM”). TIM’s Managing Board consists of the following individuals:

Mr. Ruurd Brouwer, Chief Executive Officer

Ruurd Brouwer joined TIM in 2014 and has overall responsibility for the management of the Fund, including its growth strategy, capital structure, and investor relations. Prior to joining TIM, he worked for 16 years at FMO, the Dutch development bank, in various positions including Director of Investment & Mission Review (and Chair of FMO’s Credit Committee), Director of Financial Institutions, and Director of Africa & Government Funds. Prior to FMO he was a Policy Official at the Dutch Ministry of Foreign Affairs. He has been active as a supervisory board member and investment committee member of financial institutions and investment funds focused on Africa,¹⁸ and as a guest lecturer at the Erasmus School of Economics and The Hague University of Applied Sciences, teaching on financial stability, banking, risk management, and developing economies. He holds a Master in International Finance from the University of Amsterdam.

Mr. Bert van Lier, Chief Investment Officer

Bert van Lier joined TIM in 2008 and is responsible for TCX’s commercial activities, including origination, structuring, pricing, trading and portfolio management and strategy. Prior to joining TIM, he built a varied 18-year career at ING Bank, including 5 years as Managing Director responsible for Structured Product Sales in The Netherlands, and Global Equity Derivative Sales. He holds a MBA from Tilburg University and an Executive Master of Finance and Control from VU University Amsterdam.

Mr. Brice Ropion, Chief Operating Officer

Brice Ropion joined TIM in 2010 and is responsible for TCX’s non-commercial activities, including risk, compliance, fund operations and valuation, financial administration and accounting, and audit and control. Prior to joining TIM, he built a 20-year career at ABN AMRO Bank, including 8 years in portfolio and risk management functions with a focus on financial institutions, and 12 years in commercial functions in the bank’s international division. He holds a Master in International Affairs from George Washington University, and a Bachelor in Economics and Political Science from Cornell University.

The appointment of TIM Managing Board members is subject to the approval of the TCX Supervisory Board and the Financial Markets Authority of the Netherlands.

18) Presently, Ruurd is a Supervisory Board member of a counterparty of the Fund, under a bilateral arrangement that precludes him from discussing joint issues.



Khao Lak lighthouse, Phang Nga, Thailand. (Ketkarn Sakultap / Getty Images)

MEMBERS OF THE PRICING COMMITTEE

The members of the Pricing Committee are appointed by the TCX Supervisory Board.

Mr. Matthew Vogel, Chairman

Matthew Vogel is an emerging market specialist with over 26 years of professional experience in a range of institutions. Presently, he is a developer of renewable energy projects in emerging market countries, and is also involved in the financial markets as a senior research advisor to the asset manager Duet Group. Prior to this, he was Managing Director and Head of the top-ranked Emerging Europe, Middle East, and Africa Research Team at Barclays Capital. This followed a similar position at Merrill Lynch. He also worked for 6 years at the World Bank in Washington. His country knowledge extends from South America to Russia and Central Europe, through the Middle East and Sub-Saharan and South Africa. He holds a BA in Latin American Studies and Economics from the University of Texas, and an MA in Economics from the Instituto Torcuato diTella in Argentina. He joined the Pricing Committee in December 2008, and has been its chairman since 2013.

Mr Peter Redward

Peter Redward started Redward Associates Ltd. in September 2011. Redward Associates provides independent research on economic and financial market developments in the Asia-Pacific region. Their clients include a range of investment managers – both leveraged and unleveraged – sovereign wealth funds and bank, located in major global financial centers. Prior to this, he was managing director, head of EM Asia Research at Barclays Capital (2006-2011), portfolio manager at Citadel Investment Group (2005-2006), director, head of EM Currency Research at Deutsche Bank AG (1998-2005), and senior research officer at the Reserve Bank of New Zealand (1995-1998). He holds a Masters in Economics from the University of Auckland, and joined the Pricing Committee in September 2016

Mr. Louis Sabatino

Louis Sabatino is a former Director and Head of Africa Debt Capital Markets for WestLB. Operating out of Johannesburg, he spent 14 years at WestLB, tasked with developing a non-South African trading and capital markets presence in Africa, including creating and managing active trading books in bonds, money market and derivatives in 12 currencies, and trading local treasury debt and hard currency trade debt, Eurobonds and distressed debt in 20 other African countries. Prior to this, he had been head the Africa desk and head of FX Treasury at Standard Merchant Bank. On leaving WestLB, he became a consultant to Exotix Partners LLP in Johannesburg, to help them implement a local currency fixed income trading capability across the Sub Saharan African domestic capital markets. Currently self-employed, he serves as a non-executive director and investment committee member of Africa GFI Fund Advisors in Mauritius, a fund focused on the African local markets, and on the investment committee of Frontier Clearing Management B.V., a fund that issues credit support guarantees in support of inter-bank trading activities in the emerging markets. He joined the Pricing Committee in October 2013.

Mr. Nikolaus Siegfried

Nikolaus Siegfried has been a partner at SlowerCapital in Berlin, Germany, since 2013. SlowerCapital is responsible for analyzing banking sectors and SME lending in emerging economies, developing technical assistance projects for financial market development, and advising on foreign exchange forwards and local interest rate markets. Since 2010, Nikolaus also works as a Strategist/Associate Director at LandesBank Berlin/DekaBank Frankfurt. Before that, Nikolaus was consultant at Artemis Investment Management (2009-2010), Assistant Portfolio Manager/Economist at Thames River Capital LLP (2005-2009), Middle East Expert/Economist at the European Central Bank (2002-2005), and Research Associate at Merrill Lynch (2001). Nikolaus holds a PhD in Economics from the University of Hamburg and a Masters in Middle-East Studies from the Free University, Berlin. He joined the TCX Pricing Committee in September 2010.

Mr. Vincenzo Zinni

Vincenzo Zinni started his banking career in 1997 when he joined the Emerging Markets research team at Credit Suisse First Boston (CSFB) and helped build an econometric model able to predict emerging markets currency crises. He then moved into the Global Strategy team where he worked with Jonathan Wilmot and contributed to the development of the Risk Appetite Index and the World Wealth Index. Both indexes were widely used in CSFB and the industry for positioning and investment purposes. In 2000, he moved to CSFB's Emerging Markets Sales and Distribution team where he held various positions. In 2006, he was promoted to Head of EMEA Emerging Markets Sales, a position he held until 2009 when he was promoted to run the CEEMEA Sales and Coverage team, a position he held until 2014 when he left Credit Suisse. In March 2015, he joined the Noble Group, where he is the Head of Asia Treasury and Trade Finance. Vincenzo is actively involved in Empower, an emerging markets charity. He holds a Master in Economics from CORIPE in Turin, and a Degree in Economics and Banking from the University of Sienna. He joined the Pricing Committee in June 2014.

COMMITTEE MEMBERS

Compliance Committee of the Supervisory Board

All Supervisory Board members

Mr. Brice Ropion, Internal Compliance Officer, TCX Investment Management Company B.V.

Mr. Arjan van der Heiden, External Compliance Officer, Compliance Advies.

Remuneration Committee of the Supervisory Board

Mrs. Lakshmi Shyam-Sunder (Chair)

Mr. Arthur Arnold

Audit Committee of the Supervisory Board

Mr. Bernd Loewen (Chair)

Mr. Axel van Nederveen (till 10 January 2017)

Mr. Marcus Fedder (from 10 January 2017)

Risk and Asset and Liability Management Committee (RISKO)

Mr. Brice Ropion, Chief Risk Officer, TCX Investment Management Company B.V. (Chair)

Mr. Ruurd Brouwer, Chief Executive Officer, TCX Investment Management Company B.V.

Mr. Frank Gosselink, Cardano Development B.V. (non-voting effective 10 January 2017)

Mr. Rob Janssen, Cardano Risk Management B.V. (till 31 August 2016)

Mr. Jeroen van der Hoek, Cardano Risk Management B.V. (since 1 September 2016)

Mr. Diederik de Leur, DLM Finance B.V.

Mr. Bert van Lier, Chief Investment Officer, TCX Investment Management Company B.V.

Mr. Arjan van der Heiden, External Compliance Officer, Compliance Advies (non-voting)

Mr. Martin Stravers, Solutional Advisory Services B.V. (non-voting)

Pricing Committee

Mr. Matthew-Vogel, independent

Mr Peter Redward, independent

Mr. Louis Sabatino, independent

Mr. Nikolaus Siegfried, independent

Mr. Vincenzo Zinni, independent

Mr. Rob Jansen, Cardano Risk Management B.V. (non-voting, till 31 August 2016)

Mr. Jeroen van der Hoek, Cardano Risk Management B.V. (non-voting, since 1 September 2016)

Mr. Bert van Lier, Chief Investment Officer, TCX Investment Management Company B.V. (non-voting)

General information

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Mr. Arthur Arnold (chairman)
Mr. Aigboje Aig-Imoukhuede
Mr. Marcus Fedder (from 10 January 2017)
Mr. Bernd Loewen
Mr. Axel van Nederveen (till 10 January 2017)
Mrs. Lakshmi Shyam-Sunder

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