

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

2017

TCX@10

Annual Report 2017

2007

**TCX is founded on
5 September 2007.**

2008

2009

2010

2011

2012

2013

2014

2015

2016

2017

Table of Contents

TCX in 2017	3
Letter from the Supervisory Board	4
Letter from the Managing Board	6
Business Overview	16
Governance and Ownership	22
Financial Statements	30
Statement of financial position	31
Statement of comprehensive income	31
Statement of cash flows	32
Statement of changes in Net Asset Value	32
Notes to the financial statements	34
Proposal for profit appropriation	64
In Control Statement	66
Independent Auditor's report	68
Members of the Supervisory Board	70
Members of the Managing Board	71
Members of the Pricing Committee	72

TCX



1.

TCX in 2017

Letter from the Supervisory Board

With pleasure and with pride we present you with the annual report of The Currency Exchange Fund N.V. ('TCX') for the year 2017. This was a special year for TCX as it marked the ten-year existence of the Fund and brought many positive developments. 2017 reaffirmed that the venture the Fund and its investors started in 2007 was not only bold and daring, but also a well-calculated risk that needed to be taken to advance the use of local currency finance. In the opinion of the Supervisory Board of TCX, the off-loading of currency risk to local borrowers in emerging markets remains a crucial flaw in the way development finance institutions work with their clients.

An important first positive was that TCX realized for the first time in excess of USD 1 billion in currency hedges for the most challenging countries. We saw growth in local currency financing of the financial sector and increasingly in the infrastructure sector. We added the longest tenor ever to our book with an 18-year swap for a renewable energy project. The Fund also hedged a large 15-year loan to a power and water utility, and supported the local currency financing needs of public transport infrastructure in several countries. Needless to say, we are excited to see that basic infrastructure is increasingly financed in local currency. This means that the price of energy, water, and bus tickets will no longer be a function of currency volatility. This rapid growth needs to be supported by capital as is indicated by the capital ratio that declined from 31.8% at year-end 2016 to 25.6% at year-end 2017 despite the retention of substantial profits. We are happy, therefore, to share that at the end of the year, the German Federal Ministry for Economic Cooperation and Development increased its investment in TCX Subordinated Convertible Debt (part of first loss tranche) by EUR 22.5 million.

In number of Primary transactions, TCX executed most hedges in Africa. As the average deal size was relatively small, Africa was third in terms of transaction volume, after Latin America and Europe/Central Asia. This is a reflection of the sizes of the different economies in the world's most important regions, where smaller economies on average bring smaller transactions. From that perspective we were particularly pleased with the cooperation between TCX and the United Nations' Livelihood and Food Security Trust Fund ('LIFT'). Donor funding was sourced through the LIFT program to bridge the gap between the regulatory maximum lending rate and the rate required by development finance institutions, thus catalyzing in 2017 close to USD 70 million in new investments in microfinance. In percentage terms, the proportion of the Primary portfolio invested in the least developed and lower income countries increased from 56% in 2016 to 63% in 2017.

A second positive development was the addition of five new currencies to the portfolio (the Sierra Leone leone, the Ukrainian hryvnia, the Moroccan dirham, the Pakistani rupee, and the Serbian dinar). These new currencies demonstrate TCX's ability to cover all economies, including not only the poorest economies without a financial infrastructure and post conflict economies with high macro-economic instability, but also the more advanced economies that lack access to long-term local currency. This brought the active hedging provided by TCX to 53 currencies globally.

Third, TCX is increasingly becoming a key player in attracting private investments into frontier currencies. As usual with TCX, this requires creative financial structuring and good cooperation with its shareholders, leading to unique outcomes with high development impact. Concretely, TCX supported the issuance

of 15 local currency linked bonds in 7 currencies with FMO, EBRD and IFC. By investing in these bonds, the private sector combines the credit risk of our AAA-rated shareholders with the currency returns and risk of frontier market currencies. All parties gain: the development banks get access to an alternative funding source; the commercial investors get access to a unique asset; and TCX creates capacity to do more in these currencies, by 'onselling' the currency risks. The combined strengths of the private sector, development banks, and TCX thus generate significant development impact through the deepening of the local currency markets. Truly a unique synergy.

The last positive we would like to highlight is the strong financial result for the year, which lifted the return on TCX's shares to an annualized IRR of 2.25% (1.47% over LIBOR) since inception. It is tempting to see a continuation of profitability as an indication that TCX is more profitable than expected. We know better, as we have learned from the past that profits in our business are merely a way to build reserves to withstand the next crises and ensure continued protection against currency depreciations for our investors' clients. The financial result is important as we believe it is crucial for the sustainability of the Fund and its role in frontier markets, to generate a long term positive return. Over 2017, TCX was able to harvest the positive carry embedded in its derivatives portfolio, and thus generate a total return of USD 83.7 after costs and expenses.

Looking forward, we believe the Fund is nearing a crossroads. It can continue to focus on its core mission, providing currency hedges to its shareholders, but we also see the potential for TCX to redefine the world of frontier currency finance by creating a market where supply and demand for frontier market risk and return meet. As TCX's Supervisory Board,

we engaged again with you as shareholders to get direct input on the way the Fund is managed. Apart from the very positive feedback, we also heard that you expect TCX to continue to innovate and push the boundaries of local currency finance. In 2018, we will revisit the strategy, products, and structure of TCX, with the aim to increase the Funds' development impact further, within the boundaries of a solid risk management framework. One thing is certain: as TCX's market is growing, so is the need for currency risk bearing capacity. We will therefore continue to look for additional investors.

Finally, we wish to compliment the Fund Manager on an excellent year, and extend our thanks to all parties supporting the Fund Manager in the pursuit of the important mission of TCX. ●

Amsterdam, 12 April 2018

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

Mr. Arthur Arnold, Chairman
Mr. Bernd Loewen, Vice-Chairman
Mr. Aigboje Aig-Imoukhuede
Mr. Marcus Fedder
Mrs. Lakshmi Shyam-Sunder

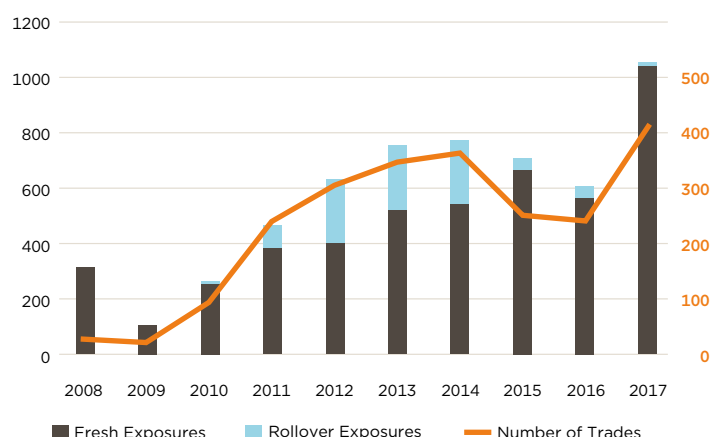
Letter from the Managing Board

Results 2017

○ The volume of new Primary Investments realized in 2017 totaled USD 1.03 billion (excluding rolled-over trades), an 84% increase compared to 2016. In all, 409 Primary Investment transactions were closed, a 69%

increase relative to 2016. This record year for TCX was underpinned by resurgent flows into TCX's target markets following the recent global slow-down:

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 40% in 2017, to USD 1.95 billion. Besides the Primary

Investments portfolio, TCX held USD 287 million in Hedging Investments at year-end 2017. The gross notional size of the Derivatives portfolio thus reached USD 2.24 billion in 2017, an increase of 32% over 2016:¹

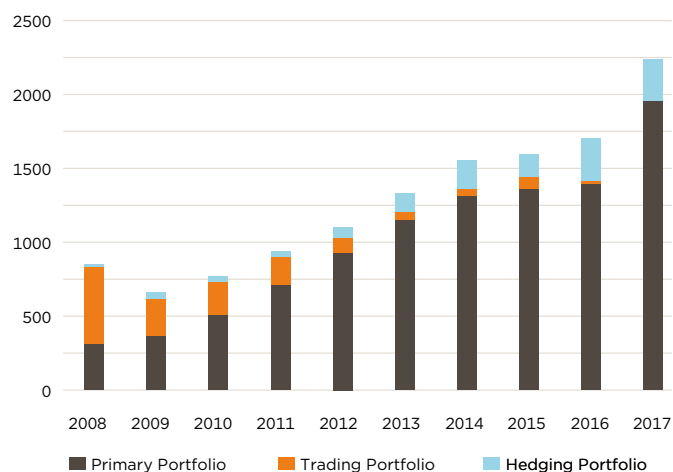
Derivatives portfolio

Investment type (USD millions)	Long local Currency		Short local Currency		Gross outstandings (Long+Short)		Net Exposure (Long-Short)	
	2017	2016	2017	2016	2017	2016	2017	2016
Primary	1.765	1.298	184	93	1.950	1.392	1.581	1.205
Trading	-	18	-	-	-	18	-	18
Hedging (LYC:USD)	-	-	199	210	199	210	(199)	(210)
Total LCY portfolio	1.765	1.316	384	303	2.149	1.620	1.382	1.013
Hedging (EUR:USD)	88	80	-	-	88	80	88	80
Total TCX portfolio	1.853	1.396	384	303	2.237	1.700	1.470	1.093

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 Investments portfolio, the trades are classified as Hedging Investments.

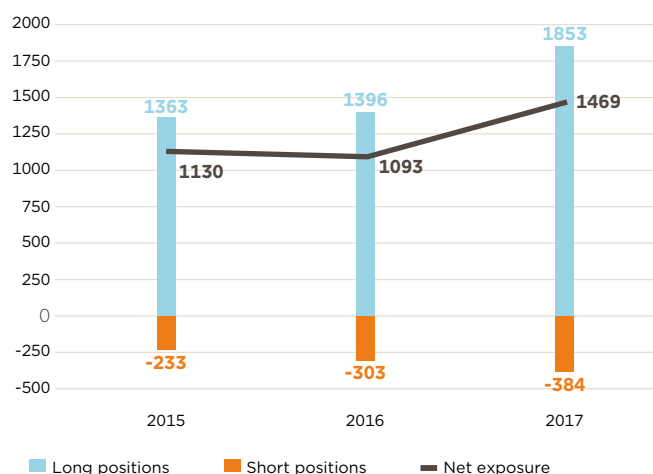
o The historical trend for the gross notional size of the derivatives portfolio (total of the long and short positions) is shown below:

Derivatives portfolio: gross outstandings (USD million)



o The net exposure (long positions minus short positions) grew 34% year-on-year, driven by a 33% increase in the notional size of the long book, and a 27% increase in size of the short book:

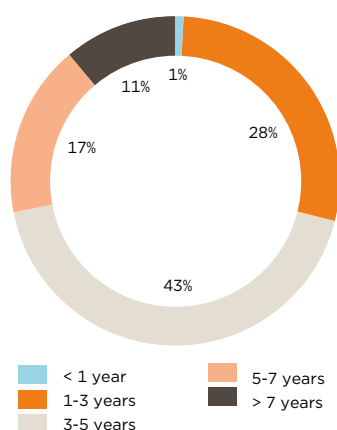
Derivatives portfolio: net exposure (USD million)



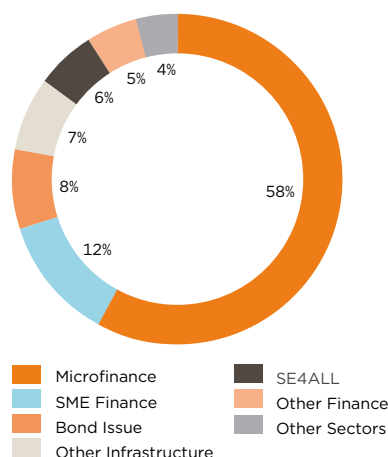
o The maturity profile of the Primary Investments portfolio reflects the Fund's focus on longer-term currency swaps and forwards. In 2017, the maturity profile of the portfolio

lengthened, such that 71% of the gross outstandings had an original maturity of 3 or more years, versus 66% in 2016:

Primary portfolio: original maturity profile
(% gross outstandings)



Primary portfolio: sector diversification
(% gross outstandings)



o The lengthening maturity profile of the Primary Investments portfolio and the decrease in the proportion of the portfolio allocated to the micro- and SME finance sectors (from 80% in 2016, to 70% in 2017), are partly explained

by TCX's growing focus on helping its investors penetrate the SE4ALL² and other infrastructure sectors, and hedge their increasingly frequent issuances of local currency bonds:

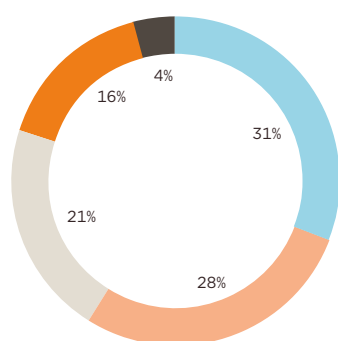
Primary portfolio

	Local bond issues		SE4ALL		Other infrastructure	
	2017	2016	2017	2016	2017	2016
Number of transactions	22	9	19	10	6	5
% of primary portfolio	8%	4%	6%	7%	7%	3%
Gross outstandings (USD mln)	164	61	116	96	140	40

2) SE4ALL = Sustainable Energy For All

○ In 2017, the regional mix of the Derivatives portfolio shifted towards Latin America and Europe/Central Asia, which together accounted for 59% of the portfolio's net local currency exposure (2016: 53%). Although Sub-Saharan Africa's share of the portfolio fell from 27% in 2016 to 21% in 2017, the net exposure in that region grew 7.4% to USD 297 million.

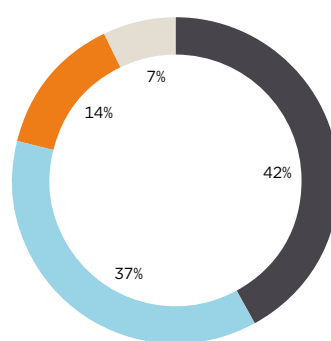
Derivatives portfolio: regional diversification
(% net LCY exposure)



Latin America
Europe/Central Asia
Sub Sahara Africa
Asia
Middle East/North Africa

○ In terms of DAC country classification, the proportion of the Primary Investments portfolio allocated to the least developed and lower income countries grew from 56% of the portfolio in 2016, to 63% in 2017:

Primary portfolio: country diversification
(% gross outstandings)

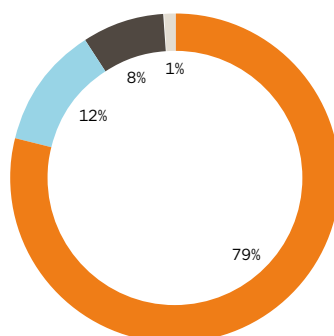


Lower Middle Income Countries
Upper Middle Income Countries
Least Developed Countries
Other Low Income Countries

○ Meeting the needs of TCX's investors is a core objective that is reflected in the counterparty composition of the Primary Investments portfolio, 91% of which consists of investor-related business. The balance is sourced from international banks and other third-parties. 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, SE4ALL, etc.):

Primary portfolio: counterparty types
(% gross outstandings)

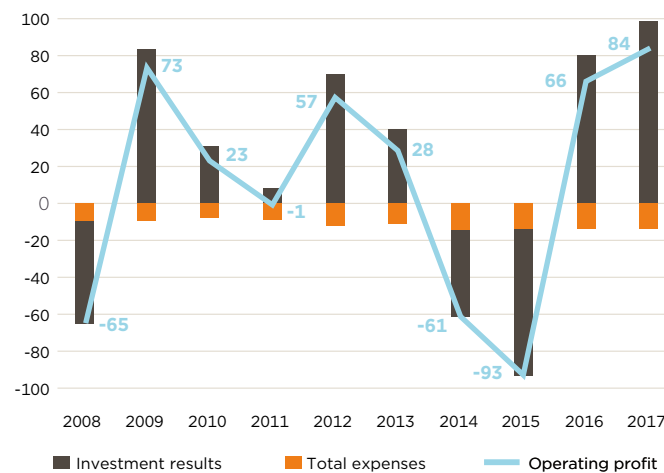


Investors
Investor clients & assignees
Network Banks
Other counterparties

o The net result for 2017 was a record profit of USD 83.7 million, including investment gains of USD 97.6 million (after FX translation effects),

and USD 13.9 million in operational expenses and financial charges:

Annual results (USD million)



o The operational expenses increased from USD 9.2 million in 2016 (0.37% of Assets Under Management³), to USD 9.5 million in 2017 (0.31% of Assets Under Management), primarily due to higher fees payable to the Fund Manager to support the portfolio's growth.

o As in 2016, the bulk of the financial charges consisted of USD 4.3 million in 2.5% interest payable on the Subordinated Convertible Debt.

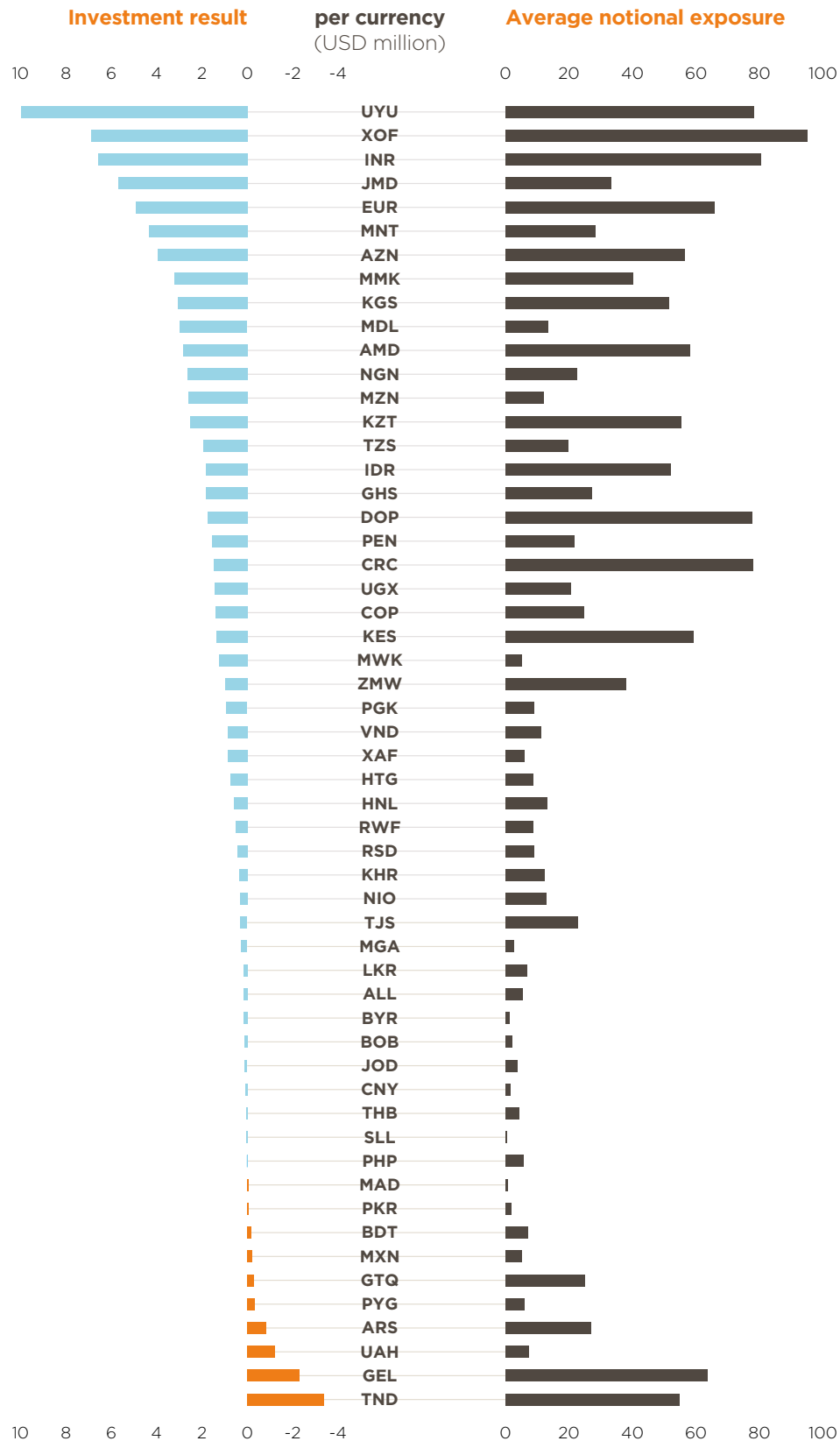
o The investment gains totaled USD 97.6 million (after FX translation results), a record for the Fund that illustrates its continued recovery from the 2014/2015 crisis. The gains generally reflect the sizable interest carry in TCX's books and the strong performance of several frontier market currencies in response to improving fundamentals world-wide.

³) As defined under the Alternative Investment Fund Management Directive, and essentially equal to the fair market value of TCX's non-derivative assets, plus the gross notional size of the derivatives portfolio. The AUMs at 31 December 2017 totaled USD 3.1 billion (2016: USD 2.5 billion).

Investment Results

○ The investment result reflects the performance of the underlying currency exposures relative to

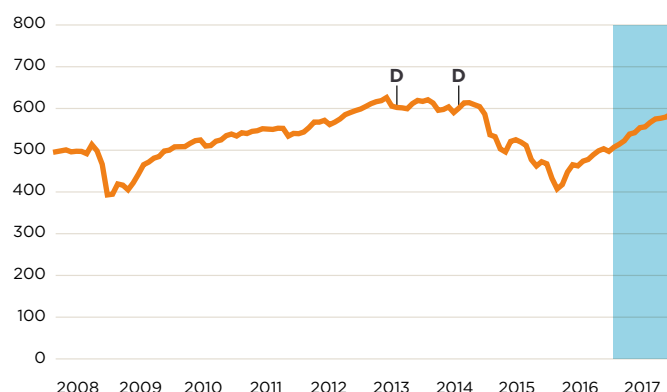
the US dollar. In 2017, the contribution per currency was as follows:



Reflecting the year's positive developments, the Fund's Net Asset Value grew 17% year-on-

year, from USD 507,455 per share at year-end 2016, to USD 595,288 per share at year-end 2017:

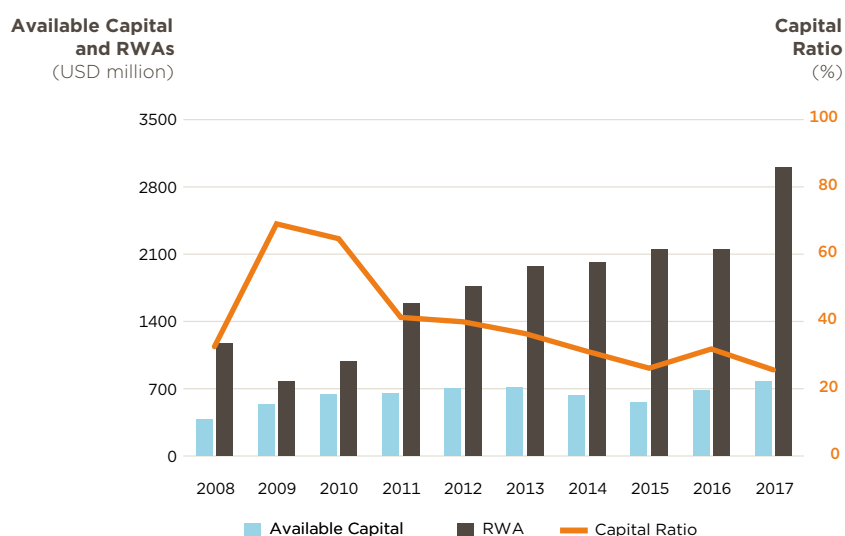
Net asset value per share (USD thousands)



The available capital rose 13%, from USD 682 million at year-end 2016 to USD 771 million at year-end 2017. The increase of USD 89 million consisted of (i) the year's profits (USD 84 million), plus (ii) USD 27 million in additional Subordinated Convertible Debt issued in

December 2017 to the German Federal Ministry for Economic Cooperation & Development, less (iii) USD 22 million in A-shares redeemed by the Development Bank of South Africa in May 2017 (50% of its shareholding).

Capital and risk weighted assets (USD million)



- Notwithstanding the increase in available capital, the capital ratio (available capital to risk weighted assets) fell to 25.6% at year-end 2017, compared to 31.8% in 2016. This decrease was caused by a 40% increase in the Fund's Risk Weighted Assets (to USD 3.0 billion), that itself was largely driven by the substantial growth of the Derivatives portfolio (in excess of 30%, as shown in the table on page 6).
- Market risks (FX and interest rate risks) accounted for 93.6% of risk weighted assets at year-end 2017 (2016: 92.4%), operational risks 3.5% (2016: 4.0%), and credit risks 2.9% (2016: 3.6%)

Other Developments

- In August 2017, LIFT fully funded the program through which TCX facilitated USD 69 million (outstanding amount as of 31 December 2017) in local currency investments into Myanmar. The program was launched in November 2016 in cooperation with the Livelihoods and Food Security Trust Fund (LIFT) – a UN-administered fund – 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. The Fund may in the future structure similar arrangements with other donors to subsidize the rates it quotes in currencies and sectors where there are structural impediments to local currency financings.
- In November 2017, following approval by the Fund's General Meeting, TCX appointed Price Waterhouse Coopers Accounts N.V. (PWC) to be its financial auditor for financial year 2018, replacing Ernst & Young Accountants LLP (EY) for whom 2017 will be the last year on the TCX account. EY has been TCX's financial auditor since 2007, and for reasons of good governance the TCX Supervisory Board decided that the time had come to identify a suitably qualified replacement.
- In December 2017, S&P reconfirmed TCX's issuer rating at A- with a stable outlook.

Ongoing Challenges

- In 2017, the faster growth in the Fund's risk weighted assets compared to the record pace at which it generated profits was reflected in an expected decrease in the capital ratio. This development confirms the need to retain existing capital and attract fresh capital to sustain the Fund's growth, in a context where results can be volatile and capital raising transactions have long lead-times.
- 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.

- 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 ability and willingness of strong parties to face these risks, either as counterparties to TCX or as guarantors of its exposures.

- TCX's Primary Investments portfolio occasionally achieves peaks in individual and regional currency concentrations due to high demand and growing transactions sizes, particularly in the infrastructure sectors.

Notwithstanding the Fund Manager's efforts to place some exposures with market participants, the opportunities to offset these positions remain limited, due to TCX's mandate to be "additional" to the market. Under these circumstances, rationing the available capacity could be required, pending a re-assessment of the Fund's risk appetite.

We believe that TCX has in place the strategies, capabilities and processes necessary to overcome these challenges, and we look forward to sustaining into the next decade the momentum and achievements of the past few years. ●

Amsterdam, 12 April 2018

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

2007

2008

2009

The sharp depreciation of emerging market currencies in response to the financial crisis raises TCX's profile as a provider of hedging instruments that help stabilize and sustain economic growth.

2010

2011

2012

2013

2014

2015

2016

2017



"Throughout developing and emerging economies, TCX's provision of long-term finance in local currencies has deepened national capital markets. In the last ten years, it has significantly reduced foreign exchange risk for institutions focused on MSME lending and micro-loans.

Looking forward, I hope that TCX will continue to provide innovative services that can help reach MSMEs in developing countries, where around half of these businesses do not get the financing they need, as well as the world's 2 billion financially excluded adults".



H.M. Queen Máxima of the Netherlands, United Nations Secretary-General's Special Advocate for Inclusive Finance for Development

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.

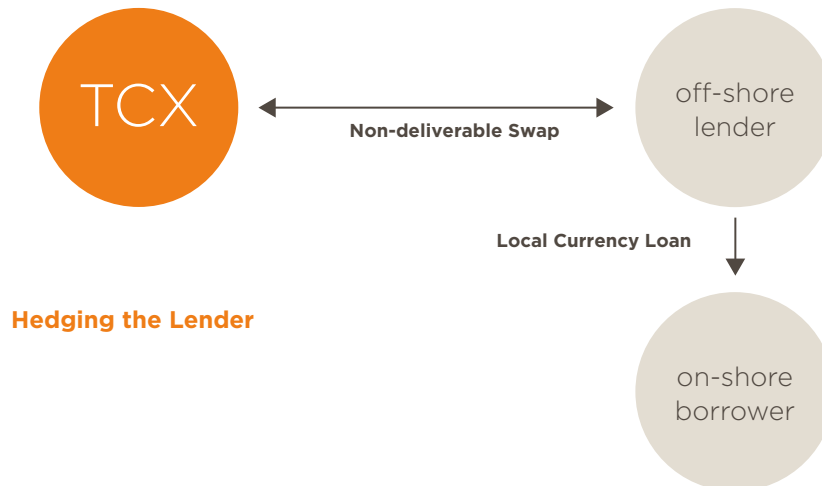
This allows it to remain focused on its primary objective, which is the facilitation of long-term local currency finance in frontier markets in close alignment with its shareholders.

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.

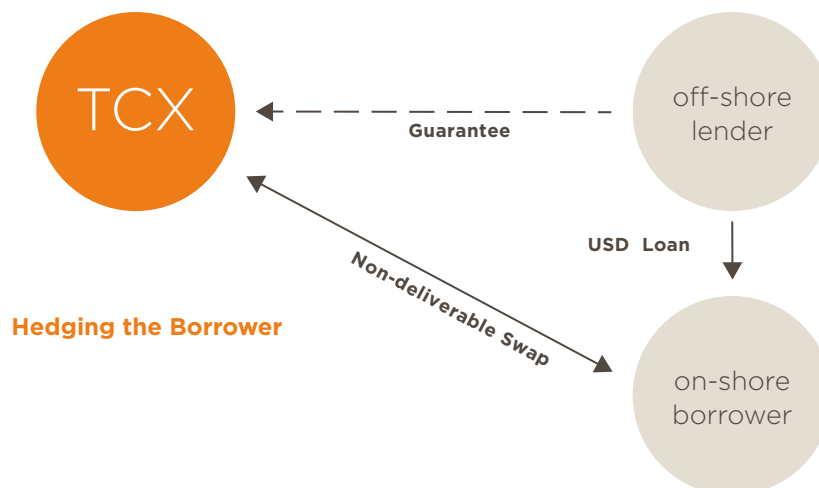
The cross-currency swap may be provided either to the lender or to the borrower. Hedging the lender results in the investment structure presented in the figure below. The lender provides a local currency loan to the domestic

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.



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.



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. ●

2007

2008

2009

TCX benefits from a correction of global market imbalances and relatively stable FX trends.

2010

2011

2012

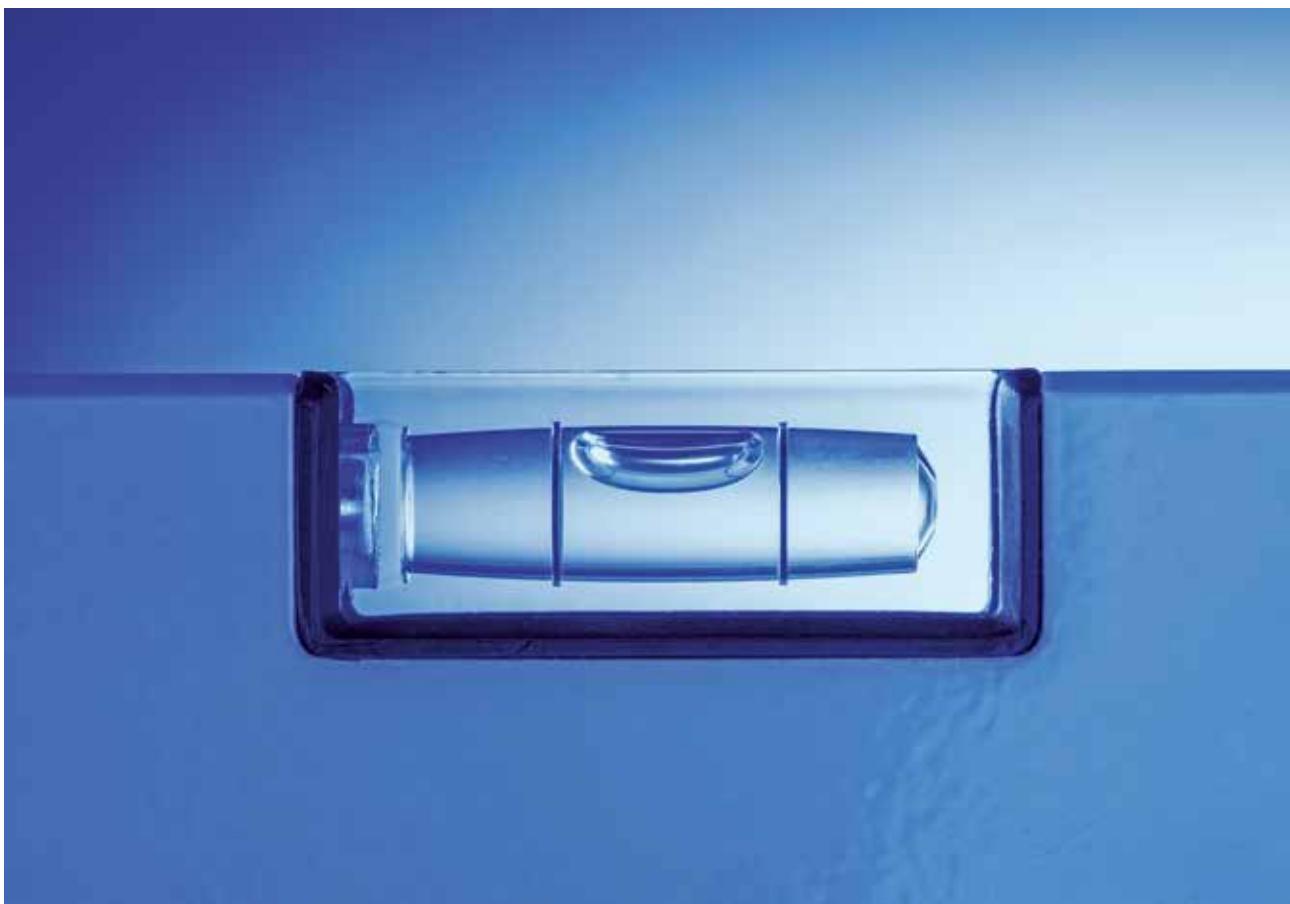
2013

2014

2015

2016

2017



TCX's global reach



• Latin America

Antigua and Barbuda Dollar **XCD**
Argentina Peso **ARS**
Bolivia Boliviano **BOB**
Brazil Real **BRL**
Colombia Peso **COP**
Costa Rica Colon **CRC**
Cuba Peso **CUP**
Dominica Dollar **XCD**
Dominican Republic Peso **DOP**
Grenada Dollar **XCD**
Guatemala Quetzal **GTQ**
Guyana Dollar **GYD**
Haiti Gourde **HTG**
Honduras Lempira **HNL**
Jamaica Dollar **JMD**
Mexico Peso **MXN**
Montserrat Dolla **XCD**
Nicaragua Cordoba **NIO**
Paraguay Guarani **PYG**
Peru Sol **PEN**
Saint Lucia Dollar **XCD**
St. Vincent and Grenadines Dollar **XCD**
Suriname Dollar **SRD**

• Sub Sahara Africa

Angola Kwanza **AOA**
Benin Franc CFA **XOF**
Botswana Pula **BWP**
Burkina Faso Franc CFA **XOF**
Burundi Franc **BIF**
Cameroon Franc CFA **XAF**
Central African Rep. Franc CFA **XAF**
Chad Franc CFA **XAF**
Comoros Franc **KMF**
Côte d'Ivoire Franc CFA **XOF**
Dem. Rep. of the Congo Franc **CDF**
Equatorial Guinea Franc CFA **XAF**
Ethiopia Birr **ETB**
Gabon Franc CFA **XAF**
Gambia Dalasi **GMD**
Ghana Cedi **GHS**
Guinea Franc **GNF**
Guinea-Bissau Franc CFA **XOF**
Kenya Shilling **KES**
Lesotho Loti **LSL**
Liberia Dollar **LRD**
Madagascar Ariary **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 the Congo Franc CFA **XAF**
Rwanda Franc **RWF**
Senegal Franc CFA **XOF**
Sierra Leone Leone **SLL**
Somalia Shilling **SOS**
South Africa Rand **ZAR**
South Sudan Pound **SSP**
Sudan Pound **SDG**
Swaziland Lilangeni **SZL**
São Tomé and Príncipe Dobra **STD**
Tanzania Shilling **TZS**
Togo Franc CFA **XOF**
Uganda Shilling **UGX**
Zambia Kwacha **ZMW**

• Middle East+ North Africa

Algeria Dinar **DZD**
Djibouti Franc **DJF**
Egypt Pound **EGP**
Iran Rial **IRR**
Iraq Dinar **IQD**
Jordan Dinar **JOD**
Lebanon Pound **LBP**
Libya Dinar **LYD**
Morocco Dirham **MAD**
Syria Pound **SYP**
Tunisia Dinar **TND**
Yemen Rial **YER**

• Europe + Central Asia

Albania Lek **ALL**
Armenia Dram **AMD**
Azerbaijan Manat **AZN**
Belarus Ruble **BYN**
Bosnia and Herzegovina Mark **BAM**
Georgia Lari **GEL**
Kazakhstan Tenge **KZT**
Kyrgyz Republic Som **KGS**
Macedonia Denar **MKD**
Moldova Leu **MDL**
Mongolia Tugrik **MNT**
Serbia Dinar **RSD**
Tajikistan Somoni **TJS**
Turkey Lira **TRY**
Turkmenistan Manat **TMT**
Ukraine Hryvnia **UAH**
Uzbekistan Som **UZS**

• Asia

Afghanistan Afghani **AFN**
Bangladesh Taka **BDT**
Cambodia Riel **KHR**
China Renminbi **CNY**
Fiji Dollar **FJD**
India Rupee **INR**
Indonesia Rupiah **IDR**
Laos Kip **LAK**
Malaysia Ringgit **MYR**
Maldives Rufiyaa **MVR**
Myanmar Kyat **MMK**
Nepal Rupee **NPR**
Pakistan Rupee **PKR**
Papua New Guinea Kina **PGK**
Philippines Peso **PHP**
Samoa Tala **WST**
Solomon Islands Dollar **SBD**
Sri Lanka Rupee **LKR**
Thailand Baht **THB**
Tonga Pa'anga **TOP**
Vanuatu Vatu **VUV**
Vietnam Dong **VND**
Wallis and Futuna CFP Franc **XPF**

118
countries

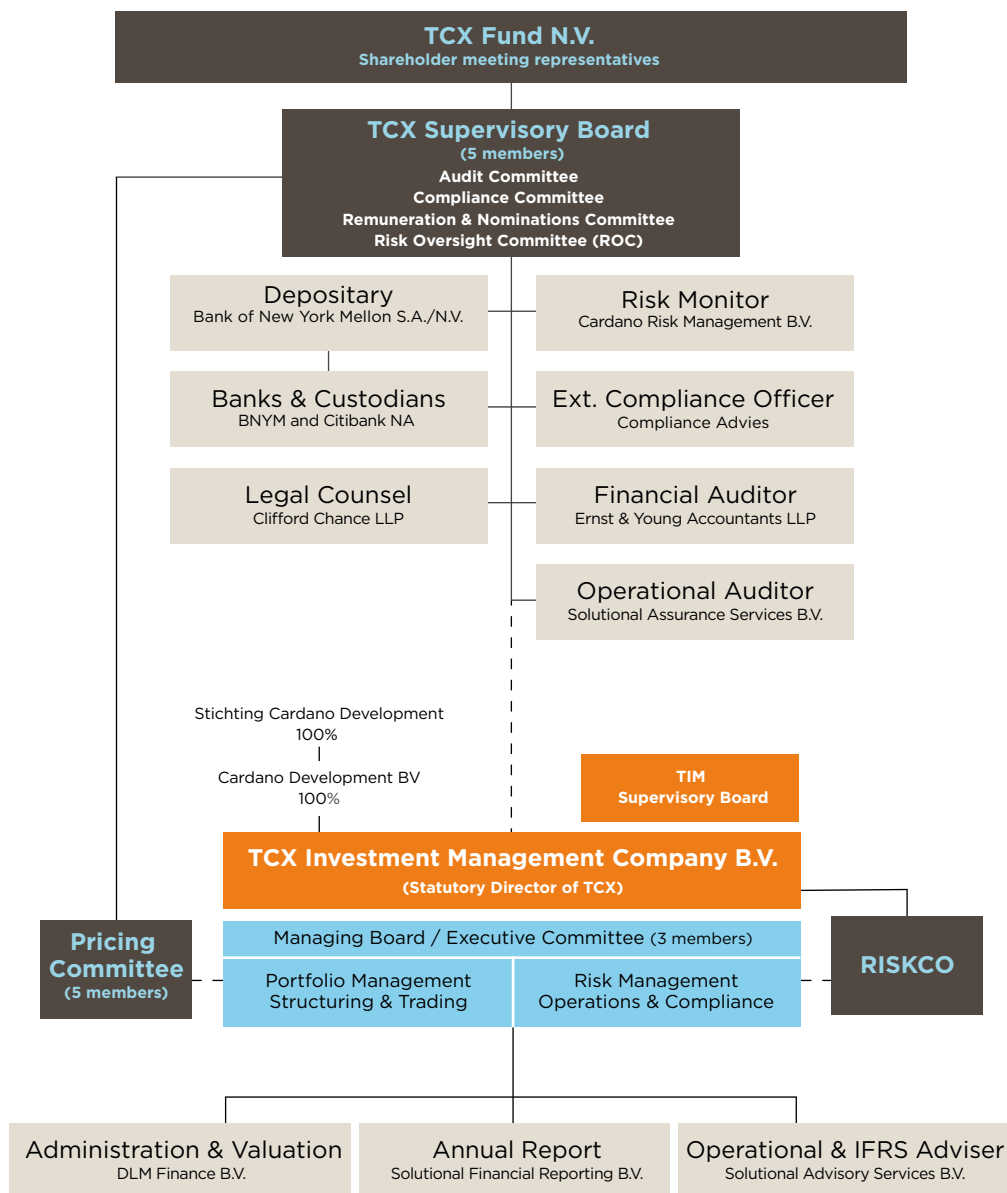
101
currencies



3.

Governance + Ownership

Organizational Chart



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 and head of its risk, finance, and compliance functions.

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 16 staff members at year-end 2017. Details on the team's remuneration may be found in Note 9 of the Financial Statements.

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

- o **The Fund's Risk Monitor, Cardano Risk Management B.V.**, a 100% subsidiary of Cardano Holding B.V.,⁴ 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;

- o **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;

- o **Bank of New York Mellon N.V., the Fund's Global Custodian and Depository.** As Depository, 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

- o **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 has no time limits and is restricted to managing TCX only, for the benefit of professional investors only. 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. ●

Risk Management

For integrated risk management purposes, TIM's Managing Board appoints each year the members of three committees that together constitute the **Risk Management Committee** of the Fund (a.k.a **RISCKO**). These committees are

the Asset & Liability Management Committee (ALCO), the Counterparty Risk Management Committee (CRC), and the Operations Committee (OPCO).⁵

⁴) Cardano Holding B.V. and Cardano Risk Management B.V. are unrelated to Stichting Cardano Development and Cardano Development B.V. (TIM's owners), 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).

⁵) Until 31 December 2017, the members of RISCKO were appointed by the TCX Supervisory Board, and RISCKO operated as a single committee with an agenda divided across the three dimensions mentioned.

RISCKO manages, monitors and reports on all risk issues impacting TCX, and either sets or proposes (to the TCX Supervisory Board) policies and guidelines in the areas of balance-sheet management, capital allocation, financial performance, and operational risk and control. It also decides on all counterparty risk matters, including KYC/AML and credit decisions. During 2017, RISCKO held 11 scheduled meetings and numerous interim meetings to address ad-hoc matters, primarily counterparty risk management issues.

Apart from members of the Managing Board and TIM staff members, RISCKO's voting

members include representatives of the Risk Monitor and the Administrator, plus select third-parties. During 2017, this included a director of Cardano Development B.V., TIM's parent. All members were not separately remunerated for their services on RISCKO.

Each member of RISCKO has a right of appeal to the Fund's Supervisory Board in case of disagreement with the committees' 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.

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.⁶

Supervisory Board members are appointed by the General Meeting by simple majority vote 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).⁷

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.

The Supervisory Board met 7 times during 2017. Supervisory Board meetings are attended by the members in person or by phone⁸, and by 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 four sub-committees to help it discharge its oversight functions: an Audit Committee, a Compliance Committee, a Remunerations & Nominations Committee, and a Risk Oversight 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.

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

7) In 2017, the attendance rate was 97% (2016: 87%).

8) In 2017, the personal attendance rate was 97% (2016: 87%).

o **The Audit Committee** assists the Supervisory Board on the Fund's valuations, controls, and financial reporting. Members of the Audit Committee are not separately remunerated for their work on the committee. During 2017, the Audit Committee held 2 meetings.

o **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 for their work on the committee. During 2017, the Compliance Committee held 4 meetings.⁹

o **The Remuneration and Nominations Committee** provides the Supervisory Board with non-binding advice regarding the variable Performance Fee payable to the Fund Manager¹⁰, as well as other specific advice requested by the Supervisory Board from time to time, including the nomination of candidates to become Supervisory Board members, as part of the Board's succession planning. Members of the Remuneration Committee are not separately remunerated for their work on the committee. During 2017, the Remuneration Committee held 3 meetings.

o **The Risk Oversight Committee** was appointed by the Supervisory Board effective 1 January 2018 to oversee the day-to-day risk management activities of RISKCO, and advise and otherwise assist the Supervisory Board in ensuring sound integrated risk management. Members of the Risk Oversight Committee are not separately remunerated for their work on the committee. During 2017, the Risk Oversight Committee held 1 preparatory meeting.

The Supervisory Board also appoints and oversees a Pricing Committee:

o **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 2017, 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).

Membership of the various committees is provided at the end of this Annual Report. ●

9) Given that the membership of the Compliance Committee includes the whole Supervisory Board, the committee does not meet separately. Its agenda is instead incorporated in the Supervisory Board's main agenda each time the External Compliance Officer submits his quarterly report.

10) 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 2017, the resulting Performance Factor was 1.35 on a scale of 0 to 1.6 (2016: 1.0). 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).

2007

2008

2009

2010

TCX uses fundamental macro-economic forecasting models to boost its reach into the most difficult markets.

2011

2012

2013

2014

2015

2016

2017



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.

As of 31 December 2017

Name of Investor	Issuance Date	A-Shares held	As % of Shares held	Issuance Value (USD)	As % of Investors
European Bank for Reconstruction and Development (EBRD)	28-Nov-07	140	14.9%	71,002,485	10.1%
Kreditanstalt für Wiederaufbau (KfW)	01-Oct-07	140	14.9%	70,000,000	9.9%
Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden N.V. (FMO) (*)	01-Oct-07	140	14.9%	70,000,000	9.9%
The European Investment Bank (EIB)	23-Jun-16	88	9.4%	45,496,609	6.5%
Japan Bank for International Cooperation (JBIC)	25-Feb-10	84	9.0%	49,969,283	7.1%
Agence Francaise de Developpement (AFD)	28-Nov-07	80	8.5%	40,592,701	5.8%
International Finance Corporation (IFC)	23-Aug-11	50	5.3%	29,712,897	4.2%
African Development Bank (AfDB) (*)	23-Jan-08	49	5.2%	24,777,732	3.5%
Development Bank of Southern Africa Ltd. (DBSA)	01-Oct-07	40	4.3%	20,000,000	2.8%
OPEC Fund for International Development (OFID)	08-Jul-08	40	4.3%	19,780,335	2.8%
Belgian Investment Company for Developing Countries SA/NV (BIO)	01-Oct-07	20	2.1%	10,000,000	1.4%
MFX Solutions LLC	26-Jun-09	14	1.5%	7,596,148	1.1%
Promotion et Participation pour la Cooperation Economique (PROPARCO)	28-Nov-07	10	1.1%	5,074,087	0.7%
European Fund for Southeast Europe (EFSE)	23-Jan-08	10	1.1%	5,048,299	0.7%
Compania Espanola de Financiacion del Desarrollo S.A. (COFIDES)	01-Oct-07	10	1.1%	5,000,000	0.7%
Ecumenical Development Cooperative Society U.A. (OIKOCREDIT) (*)	01-Oct-07	10	1.1%	5,000,000	0.7%
ASN Fund and Oxfam/Novib Fund (**)	23-Jan-08	5	0.5%	2,524,150	0.4%
Blue Orchard Microfinance Fund (BOMF)	22-Dec-10	4	0.4%	2,435,013	0.3%
Grameen Credit Agricole Microfinance Foundation (GCAMF) (**)	26-Aug-10	4	0.4%	2,395,146	0.3%
Total Shareholders Equity Paid in		938	100.0%	486,404,884	68.9%

Subordinated Loans Disbursed (Tier 2 capital)

IDB	20,000,000	2.8%
------------	-------------------	-------------

Subordinated Convertible Loans Disbursed (tier 1 capital)

Netherlands Minister for Development Cooperation	70,617,623	10.0%
KfW on behalf of the German Government (BMZ) (*)	58,155,830	8.2%
KfW on behalf of the German Government (BMZ)	26,728,875	3.8%
KfW on behalf of the German Government (BMU)	32,765,460	4.7%
Total Subordinated Convertible Debt	188,267,788	26.7%

First Loss Loan Disbursed (tier 1 capital)

Netherlands Minister for Development Cooperation	10,900,830	1.6%
Total Disbursed Capital	705,573,502	100.0%

* Investments through TCX Mauritius Ltd. (AfDB 49 shares; FMO 49 shares; Oikocredit: 10 shares)

** Investments through Oikocredit

4.

Financial Statements



Statement of financial position (as at 31 December)

(all amounts in thousand USD)	Notes	2017	2016
Assets			
Cash and cash equivalents	5	73,277	36,202
Financial assets at fair value through profit or loss	6	790,373	757,882
Cash collateral given	7	43,605	67,223
Other receivables	8	2,299	587
Total assets		909,554	861,894
Liabilities			
Cash collateral received	7	18,475	20,046
Financial liabilities at fair value through profit or loss	11	102,213	145,807
Accrued expenses and other payables	12	2,823	2,220
Subsidies granted by third-parties	13	1,197	3,815
Deferred subsidy income	14	7,135	1,185
Subordinated loan	15	20,162	20,090
Subordinated convertible debt	16	150,409	121,622
Grants linked to the subordinated convertible debt	16	37,859	39,917
First loss loan	17	6,192	5,603
Grants linked to the First loss loan	17	4,709	5,298
Total liabilities (excluding Class A shares)		351,174	365,603
Net assets attributable to holders of redeemable shares Class A	18	558,380	496,291
Total liabilities		909,554	861,894

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

(all amounts in thousand USD)	Notes	2017	2016
Investment result			
Net result on financial instruments at fair value through profit or loss	19	81,687	77,814
Provision for credit losses on Primary book	8	1,128	(1,128)
Interest income	21	7,011	3,232
Realised grant interest income	14	1,593	-
		91,419	79,918
Other results			
Contributions to Donors Assets	12	(4,311)	(4,263)
Foreign currency translation	20	6,140	(645)
Interest expense		(72)	(84)
Other results		47	-
		1,804	(4,992)
Operational expenses			
Management fee	9	(5,544)	(5,297)
Performance fee	9	(1,217)	(978)
Governance expenses	9	(332)	(332)
Risk monitoring fee	10	(1,196)	(1,158)
Audit fees	10	(296)	(350)
Depositary fees	10	(162)	(209)
Other general expenses	22	(801)	(902)
		(9,548)	(9,226)
Operating income		83,675	65,700
Distribution to holders of redeemable shares Class A	18	-	-
Change in net assets resulting from operations attributable to holders of redeemable shares Class A		83,675	65,700

Statement of cash flows (for the year ended 31 December)

(all amounts in thousand USD)	Notes	2017	2016
Cash flow from operating activities			
Net receipts from Primary, Trading and Hedging financial instruments at FVtPL		30,346	8,309
Net payment for Debt instruments at FVtPL		(24,744)	(87,242)
Interest received		6,683	2,012
Risk monitoring fee paid		(1,196)	(1,158)
Management fee paid		(5,614)	(5,371)
Performance fee paid		(945)	(1,130)
Audit fees paid		(372)	(331)
Governance expenses paid		(332)	(332)
Depository fees paid		(162)	(209)
Cash collateral received		22,047	18,032
Transfers of Donor Assets		(3,684)	(3,640)
Other general expenses paid		(1,160)	(291)
Net cash flow generated from (used in) operating activities		20,867	(71,351)
Cash flow from financing activities			
Proceeds from issued redeemable shares Class A		-	45,497
Payments for redemption of redeemable shares Class A		(21,586)	-
Proceeds from Subordinated Convertible Debt		26,729	-
Proceeds from subsidies granted		4,925	5,000
Net cash flow generated from (used in) financing activities		10,068	50,497
Net cash flow generated during the year		30,935	(20,854)
Cash and cash equivalents at the beginning of the year		36,202	57,701
Foreign currency translation of cash positions		6,140	(645)
Cash and cash equivalents at end of period	5	73,277	36,202
Analysis of cash and cash equivalents			
Cash at Citibank		48,139	30,139
Cash at BNY Mellon		25,138	6,063
Cash and cash equivalents at end of period	5	73,277	36,202

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)	2017	2016	2017	2016
Net assets at beginning of year	496,291	385,094	978	890
Shares issued	-	45,497	-	88
Redemption of shares	(21,586)	-	(40)	-
Net change from transactions with shareholders	(21,586)	45,497	(40)	88
Change in net assets from operations	83,675	65,700		
Net assets at end of the year Class A	558,380	496,291	938	978

2007

2008

2009

2010

2011 — **TCX reaches USD 1 billion in loans hedged since its launch.**

2012

2013

2014

2015

2016



2017

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

There were no material events after the reporting period.

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. 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 12 April 2018.

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 cross-currency interest rate swaps and forwards, risk-managed through internal portfolio diversification. The maximum tenor for individual currencies is set by the Pricing Committee.

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.

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 94% (2016: 93%) 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:

2007

2008

2009

2010

2011



2012

**The Primary portfolio grows 35%,
with Eastern Europe and Central Asia
experiencing the fastest growth.**

2013

2014

2015

2016

2017

(all amounts in thousand USD)

	2017		2016	
	Fair Value in USD	% of NAV	Fair Value in USD	% of NAV
Cross currency swaps	(29,553)	(5.3)	(75,083)	(15.1)
Forwards	(9,942)	(1.8)	(10,449)	(2.1)
Commercial papers	429,995	77.0	417,137	84.1
Floating rate notes	271,043	48.5	218,595	44.0
Fixed rate bonds	16,643	3.0	51,893	10.5
Frontier Clearing Fund Junior	9,974	1.8	9,983	2.0
Financial instruments at fair value through profit or loss	688,160	123.2	612,075	123.3
Cash collateral given	43,605	7.8	67,223	13.5
Cash collateral received	(18,475)	(3.3)	(20,046)	(4.0)
Cash and cash equivalents	73,277	13.2	36,202	7.3
Subsidies granted by third-parties	(1,197)	(0.2)	(3,815)	(0.8)
Deferred subsidy income	(7,135)	(1.3)	(1,185)	(0.2)
Other	(524)	(0.1)	(1,633)	(0.3)
Subordinated loan	(20,162)	(3.6)	(20,090)	(4.0)
Subordinated convertible debt	(150,409)	(26.9)	(121,622)	(24.6)
Grants linked to the subordinated convertible debt	(37,859)	(6.8)	(39,917)	(8.0)
First loss loan	(10,901)	(2.0)	(10,901)	(2.2)
Net assets attributable to holders of redeemable shares Class A	558,380	100.0	496,291	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.¹

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.

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

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 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:

- 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 2017, 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 64.3 million (2016: USD 45.5 million), consisting of the following:

(all amounts in USD millions)	2017	2016
Foreign currency exchange risk (Book 1)	40.0	27.2
Interest rate risk mature market (Book 2)	4.8	3.5
Interest rate risk emerging markets (Book 3)	19.7	15.4
NDF (Non-Deliverable Forward) spread (Book 4)	1.6	0.7
Adjustment for cross-effects	(1.8)	(1.3)
Total	64.3	45.5

The 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)² is equal to 100% of the nominal amount of a related hedge³ 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 hedge⁴;
- 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 2017 each individual currency has a notional limit of USD 139.1 million (2016: USD 101.4 million). The Fund's largest exposures per currency compared to this limit (net of offsetting hedging transactions) are as follows:

	% of limit 31 December 2017	% of limit 31 December 2016
Georgian Lari	71.7	9.2
West African CFA Franc	59.1	71.9
Costa Rican colon	56.6	49.4
Indian Rupee	49.8	53.9
Dominican Republic Peso	49.5	67.4

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 2017	Actual concentrations 31 December 2016
Latin America	40%	31%	29%
Emerging Europe / Central Asia	40%	28%	24%
Sub-Sahara Africa	50%	21%	27%
Asia	40%	16%	14%
Middle East / North Africa	30%	4%	5%

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

3) 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.

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

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 2017	Notional value 2017	Fair value 2016	Notional value 2016
Short USD				
Argentine Peso	204	7,500	-	-
Armenian Dram	-	-	67	5,000
Azerbaijani Manat	(4,272)	52,829	17,824	108,235
Central African CFA franc	-	-	2	494
Costa Rican Colon	339	15,000	-	-
Dominican Peso	(785)	10,000	-	-
Georgian Lari	89	8,226	-	-
Indian Rupee	(1,057)	21,846	(32)	9,844
Jamaican Dollar	(742)	10,039	-	-
Jordanian Dinar	(17)	1,200	(146)	4,500
Kenyan Shilling	(19)	900	-	-
Kazakhstani Tenge	(1,058)	8,148	(504)	8,148
Kyrgyzstani Som	(251)	3,500	(205)	9,488
Malawian Kwacha	(91)	448	-	-
Nigerian Naira	-	-	148	1,500
Philippine Peso	(26)	1,464	-	-
Pakistan Rupee	128	3,059	-	-
Tajikistan Somoni	3	500	-	-
Tunisian Dinar	(148)	3,000	(38)	5,000
Ukrainian Hryvnia	159	5,000	-	-
Uruguayan Peso	(3,552)	12,656	(1,654)	12,656
West Africa Franc	(82)	1,102	-	-
Zambian Kwacha	(13,203)	13,000	(9,267)	14,700
Short EUR				
Ghanaian Cedi	195	3,046	24	2,669
Indian Rupee	(1,035)	14,564	(1,401)	16,805
Mexican Peso	-	-	8	843
West Africa Franc	(173)	2,404	-	-
Long USD				
Costa Rican Colon	-	-	107	10,000
Euro	-	-	1,096	28,911
Long EUR				
Euro	3,673	87,833	(1,306)	51,584
Total hedging transactions	(21,721)	287,264	4,723	290,377

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. 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)			
	Internal Credit rating	EAD 2017	EAD 2016
	AAA	558,749	469,401
	AA	233,559	239,223
	A	63,376	62,371
	BBB	21,387	17,931
	BB	49,085	9,827
	D	-	1,365
Total		926,156	800,118

The Risk Weighted Assets for the credit risk exposures shown above totals USD 86.3 million (2016: USD 74.4 million), after taking into account the applicable PDs and LGDs.

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:

2017 (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	46,204	-	46,204	-	-
Forwards	16,514	-	16,514	-	-
Total financial assets	62,718	-	62,718	(18,475)	44,243
Financial liabilities					
Cross currency swaps	(75,757)	-	(75,757)	-	-
Forwards	(26,456)	-	(26,456)	-	-
Total financial liabilities	(102,213)	-	(102,213)	43,605	(58,608)
Total	(39,495)	-	(39,495)	25,130	(14,365)

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 ⁶	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)

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 2017, 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.

5) Consists of collateral received or paid

6) Consists of collateral received or paid

The gap analysis for the year ended 31 December **2017** is as follows:

(all amounts in thousand USD)

Currency EUR	One week	One month	Over one month
Cash In	44,031	20,547	125,687
Cash Out	-	-	(49,127)
Net Position	44,031	20,547	76,560
Cum Net Position	44,031	64,578	141,138
Limit	(385,365)	(385,365)	-

Currency USD	One week	One month	Over one month
Cash In	30,886	53,534	783,431
Cash Out	(164)	(3,640)	(293,911)
Net Position	30,721	49,893	489,520
Cum Net Position	30,721	80,615	570,135
Limit	(385,365)	(385,365)	-

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

(all amounts in thousand USD)

Currency EUR	One week	One month	Over one month
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)	-

Currency USD	One week	One month	Over one month
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)	-

TCX invests its liquid assets in cash deposits, commercial papers, fixed rate bonds and floating rate notes. About 71% (2016: 85%) of these assets have a remaining term shorter than 1 year. Though longer-dated, the other 29% (2016: 15%) 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 429,995 representing 77.0% of the NAV (2016: USD 417,137 representing 84.1% 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 2017 were the Kenyan Shilling and Dominican Republic Peso, for a total notional of USD 17 million (2016: USD 18 million notional, in Kenyan Shilling, Indonesian Rupiah and Dominican Republic Peso).

Subsidies granted and deferred subsidy: The Fund's financial liabilities include subsidies granted and deferred subsidy for an undiscounted cash flow amount of USD 8,332 (2016: USD 5,000), representing 0.9% (2016: 0.6%) 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.

Subordinated Loan: The Fund's financial liabilities include a Subordinated Loan for an undiscounted cash flow amount of USD 20,162 (2016: USD 20,090), representing 2.2% (2016: 2.3%) of the total financial liabilities (see Note 15 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.

Subordinated Convertible Debt: The Fund's financial liabilities include Subordinated Convertible Debt for a nominal amount of USD 188,268 (2016: USD 161,539), consisting of an undiscounted cash flow amount of USD 150,409 (2016: USD 121,622), representing 16.5% (2016: 14.1%) of the total financial liabilities, and "Grants linked to the Subordinated Convertible Debt", for an amount of USD 37,859 representing 4.2% of the total financial liabilities (2016: USD 39,917 and 4.6% respectively) (see Note 16 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.

First loss loan: The Fund's financial liabilities include a First loss loan for an undiscounted cash flow amount of USD 10,901 (2016: USD 10,901), representing 1.2% (2016: 1.3%) of the total financial liabilities (see Note 17 for further details). The First loss loan has a final maturity date and repayment date of 31 December 2025.

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)		2017	2016
Year of maturity			
2017	-	99,258	
2018	111,676	79,407	
2019	89,341	63,525	
2020	71,473	50,820	
2021	57,178	40,656	
2022	45,743	32,525	
2023	36,594	26,020	
2024	29,275	20,816	
2025	117,100	83,264	
Total	558,380	496,291	

Other liabilities: The Fund holds other liabilities for an undiscounted cash flow amount of USD 2,823 (2016: USD 2,220) with a maturity date of less than 3 months, representing 0.3% of the total financial liabilities (2016: 0.3%).

Fair value of other financial assets and financial liabilities

There is no material difference between the value of the other financial assets and liabilities, as shown in the balance sheet, and their fair value due to the short term, except for the Subordinated Convertible Debt (see Note 16 for further details), Subordinated Loan (Note 15) and First loss loan (Note 17).

5. Cash and cash equivalents

At 31 December 2017 and 2016, 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)	2017		2016	
	Fair value in USD	% of NAV	Fair value in USD	% of NAV
Level 2 financial instruments				
Commercial paper	429,995	77.0	417,137	84.1
Debt instruments	287,686	51.5	270,488	54.5
Cross currency interest rate swaps – Hedging	3,867	0.7	4,685	0.9
FX Forward contracts – Trading	-	-	1,064	0.2
FX Forward contracts – Hedging	1,370	0.2	15,156	3.1
Level 3 financial instruments				
Cross currency interest rate swaps – Primary	42,337	7.6	31,438	6.3
FX Forward contracts – Primary	15,144	2.7	7,932	1.6
Frontier Clearing Fund Junior (TCX)	9,974	1.8	9,983	2.0
Total	790,373	141.5	757,882	152.7

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 27. The Level 3 investments are detailed as follows (for liabilities see Note 11):

(all amounts in thousand USD)	2017	2016
Assets	67,455	49,353
Liabilities	(75,255)	(130,429)
Total	(7,800)	(81,076)

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

For the year 2017	Assets	Liabilities
Balance at 1 January 2017	49,353	(130,429)
Transfers into or out of the Level investment category	-	-
Adjusted Opening balance	49,353	(130,429)
Early termination swap contract	(6,258)	11,508
Matured deals	(9,104)	47,068
Unrealized gains and (losses)	33,464	(3,402)
Balance at 31 December 2017	67,455	(75,255)

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)

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 (2016: no results).

The results on financial instruments at fair value through profit or loss include an amount of USD 5,250 (2016: USD 14,006) 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 153 (2016: USD 205).

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 2017, no CVA adjustment was made (2016: USD 1,365).

7. Cash collateral

As at 31 December 2017, the Fund transferred cash to margin accounts as collateral against open derivatives contracts for a total net amount of USD 25,130 (2016: USD 47,177). 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)	2017	2016
repaid interest on Subordinated convertible debt	1,765	-
Interest receivable	204	513
Prepaid management fee	144	74
Other	186	-
Total other receivables	2,299	587

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 (2016: EUR 50), EUR 22 for each other member (2016: EUR 22 for each other members). These fees are presented as part of the governance expenses. In relation to 2017, a total of EUR 116 (2016: EUR 117) 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 2017, one regular member did so (2016: 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 4,971 equal to USD 5,544 (2016: EUR 4,783 equaling USD 5,297);
- Annual 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 2017 amounts to USD 1,058⁷. Together with the approved surplus over the performance fee estimate accrued for the year 2016 of USD 159, the total performance fee recognized in the 2017 statement of comprehensive income amounts to USD 1,217. In 2016 the total recognized performance fee amounted to USD 978, representing the accrued performance fee for the performance over the year 2016 of USD 876, plus the approved surplus over the performance fee estimate accrued for the year 2015 of USD 102.
- Long-term incentive fee: a Carried Interest clause whereby the Fund Manager was scheduled to receive a portion of any excess value realized on any transfer of Class A or Class B shares over their original issuance value expired on 5 September 2017 without any payment ever having been made to the Fund Manager. An alternative scheme focusing on the achievement of strategic milestones set by the Supervisory Board will be proposed to the Fund's investors at the General Meeting of May 2018.

Remuneration of directors and staff of the Fund Manager: At the end of 2017, the Fund Manager had 16 employees (2016: 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:

2017 (all amounts in thousands)	Fixed EUR	Variable EUR	Total EUR	Total USD ⁸
Senior Management	891	208	1,099	1,321
Other personnel	1,179	256	1,435	1,725
Total remuneration in 2017	2,070	465	2,535	3,047
2016 (all amounts in thousands)	Fixed EUR	Variable EUR	Total EUR	Total USD ⁹
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

7) In February 2018, the Supervisory Board approved a performance fee of USD 1,424 for 2017. The excess of USD 366 compared to the amount accrued in 2017 will be recognized in 2018

8) Translated at the year-end USD/EUR exchange rate of EUR 0.832

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

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).

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. 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 was 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 and its committees, the investors, and regulators. The expenses for these services are included in the Management Fee discussed in Note 9 above.

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 2017, Cardano Risk Management B.V. received a fixed fee equal to EUR 1,050 or USD 1,196 (2016: EUR 1,050 equaling USD 1,158).

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 2017, BNYM received fees of USD 162 (2016: USD 209). 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 2017 consisted EUR 171 in audit fees, equal to USD 201 (2016: EUR 214 equaling USD 228). The Independent Auditor is engaged to perform the audit of the financial statements, annual compliance audits on the Funds activities, NAV audits and review procedures. The Independent Auditor did not provide any non-audit services to the Fund (2016 EUR 36 equaling USD 37).

The remaining part USD 95 (2016: USD 122) of the total audit fees of USD 296 (2016: USD 350) 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.

2007

2008

2009

2010

2011

2012



2013

The Primary portfolio stands at USD 1.1 billion at year-end, spread across 543 transactions in 47 currencies.

2014

2015

2016

2017

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)		2017		2016	
		Fair value in USD	% of NAV	Fair value in USD	% of NAV
Level 2 financial instruments					
Cross currency interest rate swaps - Hedging		2,841	0.5	890	0.2
FX Forward contracts - Trading		-	-	457	0.1
FX Forward contracts - Hedging		24,117	4.3	14,031	2.8
Level 3 financial instruments					
Cross currency interest rate swaps - Primary		72,916	13.1	110,316	22.2
FX Forward contracts - Primary		2,339	0.4	20,113	4.1
Total		102,213	18.3	145,807	29.4

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)		2017	2016
Donor Commitments		1,407	780
Audit fee payable		24	100
Other general fees payable		267	487
Management fee and performance fee payable		1,125	853
Total accrued expenses and other payables		2,823	2,220

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 was used to fund a new program at Cardano Development Services B.V. for the account of the German government). As per 31 December 2017, 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 2017 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	2017	2016
Interest calculated based on market interest rates		(6,958)	(6,321)
Amortization of government grants	16,17	2,647	2,058
Contributions to Donor Assets		(4,311)	(4,263)

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. In 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 2017 the Fund had received all tranches of the LIFT facility for a total amount of USD 9,925, against which a substantive amount of transactions had 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.

Movement during the period

(all amounts in thousand USD)	2017	2016
Opening balance	3,815	-
Received subsidies from LIFT	4,925	5,000
Subsidies on transactions executed during the year	(7,543)	(1,185)
Total end of year	1,197	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)	2017	2016
Opening balance	1,185	-
Deferred subsidy assigned to executed transactions during the year	7,543	1,185
Recognised interest grant through Statement of Comprehensive Income	(1,593)	-
Total end of year	7,135	1,185

15. 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 16 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 2017 was calculated based on an internally developed valuation model (Level 3) and amounted to USD 20.7 million (2016: USD 20.7 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)	2017	2016
Opening balance	20,090	20,006
Interest compensation	72	84
Total end of year	20,162	20,090

16. 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.

Fair value information

The estimation of the fair value of the Subordinated Convertible Debt at 31 December 2017 was calculated based on an internally developed valuation model and amounted to USD 102 million (2016: USD 71 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

	Subordinated Convertible Debt at market interest	Government grants	Total
(all amounts in thousand USD)			
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
Amortization during the year	2,058	(2,058)	-
Drawdown December 2017	26,729	-	26,729
Total position at 31 December 2017	150,409	37,859	188,268

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 16) 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 2017 was calculated based on an internally developed valuation model and amounted to USD 4.8 million (2016: 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 on 29 December 2016	5,603	5,298	10,901
Amortization during the year	-	-	-
Total position at 31 December 2016	5,603	5,298	10,901
Amortization during the year	589	(589)	-
Total position at 31 December 2017	6,192	4,709	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 2017, 938 Shares Class A are in issue (31 December 2016: 978 shares). No Shares Class B are in issue. The single C Ordinary Share is held in treasury by TCX itself.

2007

2008

2009

2010

2011

2012

2013



2014

Joost Zuidberg steps down as CEO after having served more than 7 years. Ruurd Brouwer succeeds him.

2015

2016

2017

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)	2017	2016
Net assets attributable to holders of Shares Class A	558,380	496,291
Subordinated Convertible Debt	150,409	121,622
Grants linked to the Subordinated Convertible Debt	37,859	39,917
First loss loan	10,901	10,901
Frontier Clearing investment capital usage	(6,982)	(6,998)
Total Tier 1 capital	750,567	661,733

The Fund has one Subordinated Loan classified as Tier 2 capital (see Note 15 for further details).

(all amounts in thousand USD)	2017	2016
Subordinated Loan	20,162	20,090
Total Tier 2 capital	20,162	20,090

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 ratio¹⁰ of 14% (Tier 1 plus Tier 2 capital over Risk Weighted Assets); (at 31 December 2017: 26%; 2016: 32%)
- Minimum Tier 1 ratio of 10% (Tier 1 capital over Risk Weighted Assets); (at 31 December 2017: 25%; 2016: 31%);

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:

2017 (all amounts in thousand USD)	Profits		Losses		Net result
	unrealised	realised	unrealised	realised	
Cross Currency Swaps- Primary	102,598	92,895	(54,300)	(54,386)	86,807
Cross Currency Swaps- Hedging	4,003	9,502	(6,772)	(11,397)	(4,664)
FX forward- Primary	30,294	4,214	(5,307)	(15,107)	14,094
FX forward- Trading	458	1,442	(1,064)	(326)	510
FX forward- Hedging	3,410	3,450	(27,281)	-	(20,421)
FX Options	-	332	-	(275)	57
Debt instruments	5,534	-	(33)	(197)	5,304
Total	146,297	111,835	(94,757)	(81,688)	81,687

2016 (all amounts in thousand USD)	Profits		Losses		Net result
	unrealised	realised	unrealised	realised	
Cross Currency Swaps- Primary	114,500	67,142	(34,939)	(65,714)	80,989
Cross Currency Swaps- Hedging	3,689	8,496	(2,361)	(4,850)	4,974
FX forward- Primary	16,976	9,555	(15,354)	(12,053)	(876)
FX forward- Trading	3,966	8,249	(3,376)	(2,672)	6,167
FX forward- Hedging	7,974	457	(20,900)	-	(12,469)
FX Options	-	171	-	(473)	(302)
Debt instruments	12,549	-	-	(11,853)	696
Credit Value Adjustment	-	-	(1,365)	-	(1,365)
Total	159,654	94,070	(78,295)	(97,615)	77,814

The interest component included in the Cross Currency Swaps amounts to USD 88,141 (2016: USD 73,042).

¹⁰⁾ 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.

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 gain of USD 6,140 (2016: loss of USD 645). For the translation of the non-USD positions at balance sheet date, a closing rate of EUR 0.832 (2016: EUR 0.950) 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 thousands USD)	2017	2016
Financial instruments at fair value through profit or loss		
Commercial paper	3,431	1,251
Floated rate notes	2,667	1,396
Fixed rate bonds	694	435
Subtotal debt instruments	6,792	3,082
Cash and cash equivalents		
Cash collateral	219	150
Subtotal cash and cash equivalents	219	150
Total interest income	7,011	3,232

22. Other general expenses

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

(all amounts in thousands USD)	2017	2016
Legal fees	80	200
Rating agency fees	83	74
Guarantee fee	66	99
VAT	-	6
Compliance fees	38	35
Tax advisory fees	13	9
Research fees	280	193
Other expenses	241	286
Total other general expenses	801	902

23. Personnel

The Fund did not employ any personnel during the reporting period ending 31 December 2017 (2016: none)

24. Assets Under Management

As defined under the AIFMD, the Assets Under Management ('AUM') of the Fund at 31 December 2017 totaled USD 3,084 million (2016: USD 2,502 million), including the derivatives portfolio at notional value. In previous year calculation methodology the notional value of the hedging positions were excluded in the calculation of the AUM. Based on the reporting guidelines, the calculation methodology was adjusted and the notional value of the hedging positions are included in the calculation of the AUM. As a result, the comparative figure has been adjusted.

2007

2008

2009

2010

2011

2012

2013

2014



2015

TCX receives a EUR 30 million capital increase from the German government, to enhance the Fund's trading capacity and incentivize sustainable energy transactions, in Africa especially.

2016

2017

25. Leverage

As defined under the AIFMD, the Leverage of the Fund at 31 December 2017 was 4.8 times its NAV using the Gross Method, and 4.2 times its NAV using the Commitment Method (2016: 4.2 times and 3.2 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 18.

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 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.

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 impact on the Fund's financial statements based on the adjustments and new requirements is minimal as the fair value approach of financial assets has not changed as a result of the introduction of IFRS 9.

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 assessed the impact on the Fund's financial statements based on the adjustments and new requirements and concludes that the introduction of IFRS 15 does not impact the financial statements.

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 27, 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.

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

Article 29

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

Article 31

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

The statutory managing board proposes to the general meeting to allocate the operating income of USD 83,675 for the period ended 31 December 2017 as follows: for an amount of USD 83,675 to the other reserves corresponding with each relevant class of shares. As per 31 December 2017, 938 shares are in issue. No dividends shall be distributed to shareholders with respect to the period ended 31 December 2017.

2007

2008

2009

2010

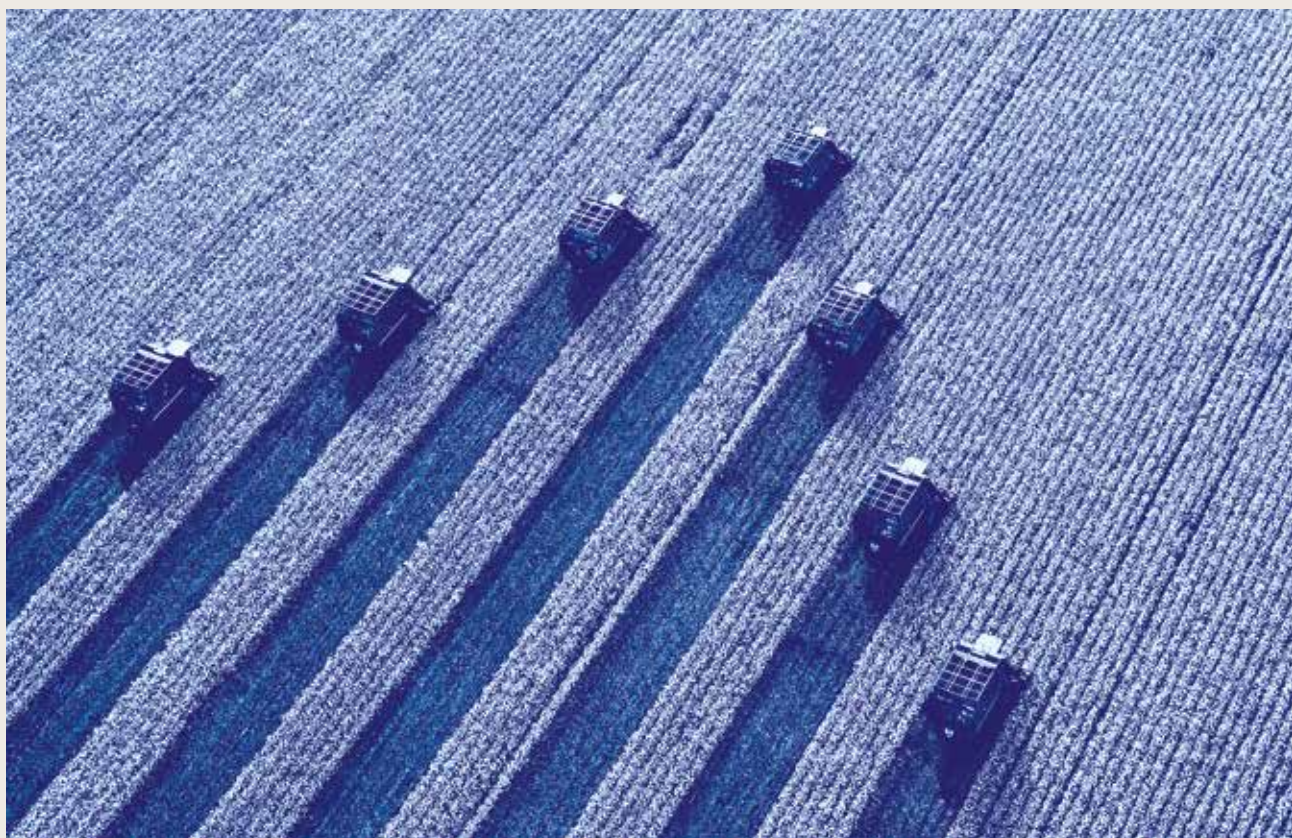
2011

2012

2013

2014

2015



2016

As the FX markets stabilize, TCX harvests the positive interest carry embedded in its portfolio, and books a net result of USD 66 million.

2017

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; DLM Finance B.V., regarding back office, valuation and fund administration services; and Compliance Advies Financiële Ondernemingen regarding compliance 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 and the 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 periodic 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 2017 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 12 April 2018 by Solution Assurance Services B.V., the Fund's operational auditor, in cooperation with the Fund's financial auditor, Ernst & Young Accountants LLP. The scope of the operational audit was to report on the 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's business model gives rise to client, supplier, and employee acceptance issues that require careful attention to ensure that the Fund's reputation as a quality provider of financial services remains intact at all times. TCX manages these issues through strict adherence to the Fund's code of conduct, know-your-client, anti-money laundering, and environmental & sustainability policies and procedures. Compliance with these procedures is reported on a quarterly basis 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 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 could lead to continuity issues, breaches of payment obligations, and to the loss of data integrity 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 2017, TCX experienced no new 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 2017;
- that no material issues or incidents have occurred in the financial year ending 31 December 2017;
- 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 2018, except for upgrading the security of its ICT systems, and reviewing the policies, processes, and controls surrounding the management and use of these systems. ●

Amsterdam, 12 April 2018

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.

Our opinion We have audited the financial statements 2017 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 2017, and of its result and its cash flows for 2017 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.

The financial statements comprise:

- The statement of financial position as at 31 December 2017
- The following statements for 2017: 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 Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), 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.

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.

Description of responsibilities for the financial statements

Responsibilities of the managing board and the supervisory board for the financial statements The managing board is 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. 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 engagement 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 detect all material errors and fraud during our audit.

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 among others:

- 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, 12 April 2018

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. The Supervisory Board presently consists of the following individuals:

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. Bernd Loewen, Vice-Chairman

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. 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

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 Universität 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.

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.

Expiry dates of the mandates of the members of the Supervisory Board

Mr. Loewen | May 2018 (renewable for a second term)

Mrs. Shyam-Sunder | May 2019 (renewable for a second term)

Mr. Imoukhuede | December 2019 (renewable for a second term)

Mr. Arnold | May 2020 (end of second term; not renewable)

Mr. Fedder | January 2021 (renewable for a second term)

Audit Committee

Mr. Bernd Loewen (Chair)

Mr. Marcus Fedder

Compliance Committee

All Supervisory Board members

Mr. Brice Ropion, Internal Compliance Officer, TCX Investment Management Company B.V. (non-voting)

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

Remuneration Committee

Mrs. Lakshmi Shyam-Sunder (Chair)

Mr. Arthur Arnold

Risk Oversight Committee

Mr. Marcus Fedder (Chair)

Mr. Aigboje Aig-Imoukhuede

Mr. Ruurd Brouwer, CEO, TCX Investment Management Company B.V. (non-voting)

Mr. Harald Naus, CEO, Cardano Risk Management B.V. (non-voting)

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"). 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. The current members are as follows:

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,¹¹ 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.

¹¹) Presently, Ruurd Brouwer is a Supervisory Board member of a counterparty of the Fund under a bilateral arrangement that precludes him from discussing joint issues.

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 and branch management 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.

Members of the Pricing Committee

The members of the Pricing Committee are appointed by the TCX Supervisory Board. The current members are as follows:

Mr. Nikolaus Siegfried, Chairman¹²

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 and was appointed Chairman in December 2017.

Mr. Sebastian Espinosa

Sebastian Espinosa is the Managing Director of White Oak Advisory Limited, a firm he co-founded in 2009. White Oak Advisory is one of the world's leading providers of financial advice on matters relating to sovereign debt and public finances. Its clients include governments, central banks, state-owned enterprises, and financial institutions active in the sovereign debt markets. Prior to this, he was Managing Director of Houlihan Lokey in London, a firm specialized in providing financial advice on sovereign debt restructuring, liability management, and other debt and funding-related matters. From 2000 to 2005, he was a Director in the Sovereign Advisory unit of UBS Investment Bank in London. His earlier career was spent as an Associate Director in the Sovereign Ratings team of Fitch IBCA Ltd. and as an Economist in The Economist Intelligence Unit Ltd (EIU). He holds a M.Phil in Development Studies and a BA in Philosophy with Politics from the University of Sussex. He joined the TCX Pricing Committee in February 2018.

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.

¹²) Mr. Matthew Vogel, the previous Chairman, resigned in November 2017.

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. 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.

Mr. Bert van Lier

Chief Investment Officer, TCX Investment Management Company B.V. (non-voting)

Mr. Jeroen van der Hoek

Senior Risk Manager, Cardano Risk Management B.V. (non-voting)

General information

Supervisory Board

Mr. Arthur Arnold (chairman)
Mr. Bernd Loewen (vice-chairman)
Mr. Aigboje Aig-Imoukhuede
Mr. Marcus Fedder
Mrs. Lakshmi Shyam-Sunder

Depository

Bank of New York Mellon N.V.
WTC/B, Strawinskylaan 337
1077 XX Amsterdam
The Netherlands

Risk Monitor

Cardano Risk Management B.V.
Weena 690, 21st floor
3012 CN Rotterdam
The Netherlands

Independent Financial Auditor

Ernst & Young Accountants LLP
Antonio Vivaldistraat 150
1008 AB Amsterdam
The Netherlands

Legal & Netherlands tax advisor

Clifford Chance LLP
Droogbak 1a
1013 GZ Amsterdam
The Netherlands

Managing Board and Fund Manager

TCX Investment Management Company B.V.
Mauritskade 63
1092 AD Amsterdam
The Netherlands

Custodians and Banks

Bank of New York Mellon N.V.
Citibank NA

Administrator & Valuer

DLM Finance B.V.
Mauritskade 63
1092 AD Amsterdam
The Netherlands

Independent Operational Auditor

Solutional Assurance Service B.V.
Arentsburghlaan 3
2275 TT Voorburg
The Netherlands

Registered Office

Mauritskade 63
1092 AD Amsterdam
The Netherlands

General information

Amsterdam Chamber of Commerce number 3427 7912
www.tcxfund.com
info@tcxfund.com



TCX Investment Management Company

Mauritskade 63 | 1092 AD Amsterdam | The Netherlands
e | info@tcxfund.com t | +31 20 531 4851 w | www.tcxfund.com

design | K Birnholz Creative, Amsterdam

photography | Arno Bosma, Eddo Hartmann, Getty Images

graphs | Ruud Vogelesang

print | Response Network BV, Amsterdam

Printed on FSC paper

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

2017



TCX closes 409 Primary trades, that together account for USD 1 billion in annual production - a record for the Fund. The amount of loans hedged since inception reaches USD 5 billion.

TCX@10

We've only just begun

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

2017