Frontier Clearing Corporation B.V.
Amsterdam
ANNUAL REPORT 2017

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ANNUAL REPORT

Report from the Supervisory Board

The Supervisory Board is pleased to present the audited 2017 annual accounts of the Frontier Clearing Corporation B.V. (hereinafter "Frontclear," the "Company" or "FCC").

Frontclear is a financial markets development company focused on catalyzing more stable and inclusive financial markets in emerging and developing countries (EMDCs). Frontclear facilitates access to interbank markets for local financial institutions in EMDCs through the provision of credit guarantees to cover a transacting institution's counterparty credit risk and through the establishment of financial market infrastructure. Frontclear allows the local financial institutions to post local currency collateral in the guaranteed transactions, therewith resolving the reduced access to international financial markets that results from post-GFC margining requirements. Frontclear further aims to develop local money markets into more stable, inclusive and liquid environments.

Interbank markets are significantly underdeveloped in EMDCs. In a 2017 study of the structure of repo markets, Frontclear found that only 24 out of 127 frontier markets surveyed had functioning repo markets. Interbank markets are crucial for the overall functioning of the financial system, and thus to economic growth and poverty alleviation. High counterparty risk and a limited supply of high quality collateral in EMDCs contribute to high credit spreads, resulting in limited access to interbank financial markets for local institutions. Collateral is central to credit risk mitigation in modern financial markets, yet the market for local currency collateral is almost non-existent, or inaccessible. The result is that interbank markets remain segmented and local institutions have limited ability to manage liquidity and market risk positions needed to be able to responsibly support their clients, notably for trade finance and other SME lending. FCC supports local institutions by guaranteeing their exposures subject to posting of local currency collateral.

FCC has successfully expanded its operations in 2017 and has established and extended commercial relationships with both global and local financial institutions in multiple continents, signifying the relevance of the proposition of FCC. The Frontclear Technical Assistance Program has been successful in supporting the development of local money markets in areas other than overcoming credit concerns and has seen its first interventions in Latin America and Asia in 2017. Finally, the Supervisory Board is pleased to note that the "rendezvous" vote, agreed with investors to take place within thirty days of the third anniversary of Frontclear and requiring a qualified majority of votes in favor of continuing the operations, has been brought forward and passed with unanimous support of all investors on 30 January 2018.

The Supervisory Board wishes to thank the Management Board and staff for their solid contribution in 2017.
Amsterdam, 31 May 2018,

The Supervisory Board of Frontier Clearing Corporation B.V.,

Mr. Axel van Nederveen (Chairman)
Mr. Michael Bristow
Mr. Bokar Cherif
Mr. Thomas Heinig

Report from the Managing Board

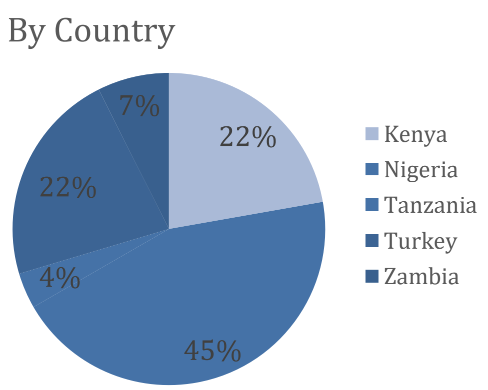
Frontclear Management B.V. is the statutory director of Frontier Clearing Corporation B.V (hereinafter "FCC" or the "Company") and pursuant to the FCC Management Agreement acts as the manager of FCC. The Managing Board of Frontclear Management B.V. (hereinafter "FCM" or the "Manager") is pleased to present the audited annual accounts of FCC.

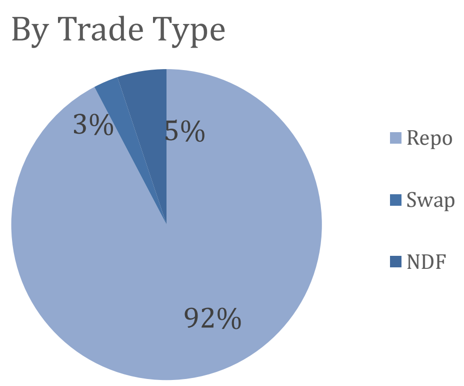
Mandate and impact strategy
FCC is a financial markets development company with a long-term impact strategy focused on building more inclusive and stable interbank markets in emerging and frontier economies. Developments in interbank markets can have profound implications for financial stability and the growth of the entire economy. Being an essential source of bank funding, liquidity and risk management, money markets have a significant impact on balance sheet of financial intermediaries and the amount of credit they can extend. The liquidity of bond markets depends on the functioning of money markets. Without a liquid repo market for instance, primary bond market dealers cannot repo existing inventory to fund the purchase of new issuances, whilst secondary market makers have no ability of hedge price risk and must maintain high inventory levels to ensure adequate supply.

To achieve this long-term impact, our impact strategy is broadly split in two overlapping phases. The first 5-year phase is primarily focused on achieving financial sustainability, whilst delivering impact by means of facilitating demonstrative cross-border bilateral OTC transactions between our global partner beneficiaries and local obligors. These transactions introduce best practice to local markets and identify the practical priorities for local financial market infrastructure development and impact interventions. The Frontclear Technical Assistance Program ("FTAP") complements the developmental impact by addressing transaction hurdles other than credit concerns, by means of targeted training interventions to build transaction and risk management capabilities, by means of legal and regulatory advisory projects that aim to support local regulators in transforming their markets and by supporting the development of local market infrastructure. For further information on our development impact, please see our 2017 Impact Report.

In FCC's second phase, the focus will increasingly shift to the establishment of onshore financial infrastructure and to the facilitation of onshore local financial markets. In practice, the phasing overlaps. With the FTAP support for a feasibility study of setting up a clearing house for bond and bond derivatives trading in Nigeria and with the development of TradeClear, an umbrella guarantee structure to support an ecosystem of bank within one jurisdiction that can trade bilaterally within pre-defined eligibility criteria without the prior approval of Frontclear, this overlapping second phase was initiated with force in 2017.

2017 Performance
FCC closed the year with an outstanding guarantee portfolio of USD 97.5 million (2016: USD 45 million). The total volume of guarantees issued to date stands at USD 162.5 million, which supported a total of USD 275 million in funding provided to emerging market based financial institutions. An overview of the guarantee portfolio as at 31 December 2017 is presented by the following graphs:





Cash flow from guarantee fees increased to USD 1.8 million (2016: USD 1.1 million), partially offset by increased financing costs resulting from higher commitments and notes issued. Due to the USD 30 million participation in the Frontier Clearing Fund Senior committed by FMO on 13 February 2017, the available capital under the PPN Agreement has increased to USD 112.3 million. Of this amount, USD 47.8m was drawn by FCC at 31 December 2017. The resulting net cash flow from operating activities and financing, corrected for capital increases, stands at minus USD 2.1 million in 2017 (2016: minus USD 2.4 million). The net result from operating activities, with income and expenses based on fair value movements and accruals, ended at minus USD 2.6 million (2016: USD 2.7 million).

FCC achieved several key strategic targets in 2017. On 13 February 2017, FMO committed USD 30 million in funding to the Frontier Clearing Fund Senior, increasing total committed capital to USD 112.3 million. The KfW counter-guarantee agreement was extended to 31 December 2021, providing stability to Frontclear's credit structure and sufficient time for FCC to achieve an external rating. The Supervisory Board approved new guarantee structures, including collateral swap transactions and TradeClear. TradeClear is a first loss umbrella guarantee structure to promote onshore interbank trading among multiple financial institutions. Both structures are important steps towards Frontclear long-term ambitions of going onshore and its mandate of enabling stable and inclusive money markets in emerging and frontier economies.

Frontclear's technical assistance program, FTAP, engages in strategic technical assistance interventions designed to complement the Company guarantee structures with the goal of realizing long term development impact in target countries. 2017 saw FTAP evolve and focus increasingly on high value advisory projects such as assisting authorities in target markets with netting law reforms and establishing financial infrastructure. At 31 December 2017, total funds spent by FTAP since inception approximated USD 1.0 million in 18 projects in 12 countries. FTAP received new commitments in 2017 of GBP 0.4 million from FSD Africa, USD 0.25 million from Barclays Africa for further interventions in Africa. With that FTAP is well-positioned to continue to deliver its impact and support the development of viable business environments for FCC. For more detailed information on FTAP, please see the annual report of the custodian of FTAP, Stichting Frontclear.

Rendezvous clause
On 31 January 2018, the Investors of the Frontier Clearing Fund unanimously voted in favor of a motion to continue Frontclear, in the so-called rendezvous clause vote that was agreed with Investors at first financial close. The unanimous vote is a powerful signal of our Investor's long-term commitment to Frontclear and confirms Frontclear's developmental and financial return potential.

Outlook for 2018
The outlook for 2018 is positive. The investors in Frontclear have confirmed their confidence by unanimously voting in favor of continuing the operations of Frontclear at the rendezvous vote, held at an extraordinary Joint Investor Meeting at 30 January 2018. Management's focus in 2018 is to continue growing the cross-border guarantee portfolio to achieve operational break-even whilst increasingly focusing on delivering onshore solutions to develop money markets in its target emerging and frontier economics. Management will also seek to expand the available capital in order to fund its growth beyond 2018 and position the Company to be externally rated by 2019.

FCC does not have any employees and is fully managed by FCM. The results mentioned above would not have been achieved without the dedication of the staff of FCM and our third-party service providers.

Amsterdam, 31 May 2018,

The Managing Board of Frontclear Management B.V.,

Mr. Philip Buyskes, Chief Executive Officer
Mr. Erik van Dijk, Chief Risk & Finance Officer

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

(as at 31 December, before profit appropriation)

(all amounts in USD)	Notes	2017	2016
Assets			
Non current assets			
Intangible fixed assets	6	22,891	114,454
Deferred tax asset	12	1,610,907	-
Total non-current assets		1,633,798	114,454
Current assets			
Cash and cash equivalents	7	39,627,369	31,267,333
Prepaid guarantee expenses		263,664	36,644
Other receivables		71,569	43,475
Total current assets		39,962,602	31,347,452
Total assets		**41,596,400**	**31,461,906**
Equity			
Shareholders' equity			
Issued share capital	8	1	1
General reserve	9	192,344	224,113
Undistributed result for the period	10	(5,125,784)	(31,769)
Total shareholders' equity		(4,933,439)	192,345
Liabilities			
Long-term liabilities			
Senior Notes	11	10,500,000	-
Junior Notes	11	26,400,000	26,400,000
Subordinated Notes	11	8,279,260	4,067,989
Deferred tax liability	12	-	85,479
Total long term liabilities		45,179,260	30,553,468
Short-term liabilities			
Financial guarantee contracts	13	792,783	256,539
Accrued fees	14	201,044	100,570
Management fee payable	15	299,678	333,110
Other liabilities	16	57,074	25,874
Total short term liabilities		1,350,579	716,093
Total equity & liabilities		**41,596,400**	**31,461,906**

The notes to the consolidated financial statements are an integral part of these financial statements

Consolidated statement of comprehensive income

(all amounts in USD)	Notes	**2017**	**2016**
Revenues			
Change in fair value financial guarantee contracts	18	1,230,748	829,127
Guarantee expenses	19	(307,344)	(195,856)
		923,404	633,271
Finance costs			
Senior Notes - Standby Fee	20	(343,541)	(225,616)
Subordinated Notes - DTAF Fee	21	(218,241)	(174,477)
Senior Notes - Commitment Fee		(22,654)	-
Senior Notes - Liquidity Fee		(42,657)	-
Counter Guarantee Fee	22	(378,301)	(357,825)
		(1,005,394)	(757,918)
Other results			
Interest income	23	313,942	140,432
Change in fair value of investments		5,955	(1,702)
Realized FX results		4,802	(3,985)
Unrealized FX results		(12,556)	5,002
		312,143	139,747
Total operating income		**230,153**	**15,100**
Operating expenses			
Management Fees	24	(1,999,273)	(2,122,366)
Performance Fees	25	(150,751)	(164,626)
Legal Fees		(82,931)	-
Third party service providers	26	(239,488)	(214,903)
Depreciation	6	(91,563)	(91,563)
Other operating expenses	28	(277,046)	(147,959)
Total operating expenses		**(2,841,052)**	**(2,741,417)**
Operating result		**(2,610,899)**	**(2,726,317)**
Revaluation of Subordinated Notes	11	(4,211,271)	2,696,167
Net loss for the period before tax		**(6,822,170)**	**(30,150)**
Income tax	12	1,696,386	(1,619)
Comprehensive loss for the period		(5,125,784)	**(31,769)**
Comprehensive loss for the period attributable to the holder of the issued share of FCC	29	(5,125,784)	(31,769)

The notes to the consolidated financial statements are an integral part of these financial statements

Consolidated statement of cash flows

(all amounts in USD)	Notes	2017	2016
Cash flow from operating activities			
Guarantee fees received	18	1,766,992	1,085,666
Guarantee expenses paid		(534,364)	(232,500)
Interest received		292,211	131,692
Management fees paid	24	(2,032,705)	(2,094,475)
Other operational expenses paid		(684,198)	(543,815)
Net cash flow used in operating activities		**(1,192,064)**	**(1,653,432)**
Cash flow from financing activities			
Senior Notes – Standby Fee	20	(343,541)	(225,616)
Senior Notes	11	10,500,000	-
Subordinated Notes	11	-	2,200,000
Subordinated Notes - DTAF Fee	21	(218,241)	(174,477)
Counter-guarantee fee	22	(378,364)	(356,842)
Net cash flow generated from (used in) financing activities		**9,559,854**	**1,443,065**
Net cash flow generated during (used in) the year		**8,367,790**	**(210,367)**
Cash and cash equivalents at beginning of the period		31,267,333	31,476,683
Foreign currency translation of cash positions		(7,754)	1,017
Cash and cash equivalents at the end of the period		**39,627,369**	**31,267,333**
Analysis of cash and cash equivalents			
Cash at banks		39,627,369	31,267,333
Total of cash and cash equivalents	**7**	**39,627,369**	**31,267,333**

The notes to the consolidated financial statements are an integral part of these financial statements

Statement of changes in equity

(all amounts in USD)	Amounts		Number of shares	
	2017	**2016**	**2017**	**2016**
Equity at beginning of the period	192,345	224,114	1	1
Proceeds from shares issued	-	-	-	-
Net change from transactions with shareholders	-	-	-	-
Comprehensive income for the period	(5,125,784)	(31,769)		
Equity at end of year	**(4,933,439)**	**192,345**	**1**	**1**

The notes to the consolidated financial statements are an integral part of these financial statements

Notes to the consolidated financial statements

1. General information

Frontier Clearing Corporation B.V. ("the Company") and together with its subsidiary also referred to as "the Group" or "FCC") is a financial markets development company focused on catalyzing more stable and inclusive financial markets in emerging and developing countries ("EMDCs"). FCC facilitates access to financial markets for local institutions in EMDCs through the provision of credit guarantees to cover a transacting institution's counterparty credit risk.

FCC guarantees are made available under the condition that local currency collateral is posted by the institution that is guaranteed. FCC works in partnership with financial market infrastructure providers to build more stable and efficient market places.

The registered address of FCC is Mauritskade 63, 1092 AD, Amsterdam, The Netherlands. The company is registered with Chamber of Commerce number 61998583, and was incorporated on 1 December 2014.

FCC's operations are managed by Frontclear Management B.V. ("FCM") under the terms of the FCC Management Agreement. The administrating function has been outsourced to DLM Finance B.V.

2. Events after the reporting period

On 30 January 2017, the investors have unanimously voted in favor of continuing the operations of the Frontier Clearing Funds and therefore of FCC. The vote was scheduled to take place within 30 days of 15 April 2018, the third anniversary date of the Frontier Clearing Funds, but has been brought forward with consent of all investors in order to allow FCC to continue its operations without unnecessary delay.

On 15 February 2018, the Supervisory Board of FCC awarded FCM with a Performance Fee being the sum of USD 181,143 and EUR 120,922. FCC has been invoiced by FCM for the amount of EUR 120,922 relating to the variable compensation of FCM staff. The remainder of the Performance Fee is vested until FCC breaks even in accordance with the conditions set forth in the FCC Management Agreement.

The Performance Fee will be recognized in 2018 accordingly.

3. Statement of compliance

The consolidated financial statements of FCC have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and Part 9 of Book 2 of The Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Managing Board on 31 May 2018.

4. Summary of significant accounting policies

Basis for preparation

The consolidated financial statements are prepared on a fair value basis for financial assets and financial liabilities. Certain financial assets and financial liabilities are stated at amortized cost.

New standards, amendments and interpretations to existing standards which are relevant to FCC
In January 2016, the IASB issued amendments to IAS 7 which are effective as per 1 January 2017 as part of the IASB's Disclosure Initiative on 6 November 2017 the amendments to IAS 7 were endorsed by the EU. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The adoption does not have a substantive effect on the Fund's financial statements as the amendments to IAS 7 only require an additional disclosure with the movements in liabilities arising from financing activities. The adoption of this amendment does not have any impact on the amounts recognized in prior, current and future periods.

New standards, amendments and interpretations to existing standards which are relevant to FCC and not yet effective
The International Accounting Standards Board (IASB) completed the final element of its comprehensive response to the financial crisis with the publication of IFRS 9 Financial Instruments in July 2014 which is effective as per 1 January 2018, on 22 November 2016 this standard was endorsed by the EU. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is not having a substantive effect on the Fund's financial statements. The Fund measures and continues to measure its financial instruments at fair value and therefore will not be significantly affected by the introduction of the expected credit loss model. The Fund also doesn't apply hedge accounting.

IFRS 15 Revenue from Contracts with Customers - The IASB has issued a new standard for the recognition of revenue. This will replace 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.

FCC assessed the impact on its financial statements based on the new requirements of IFRS 15 and conclude that financial guarantee contracts are not within the scope of IFRS 15 taken into account the fair value approach of the financial guarantee contracts. The introduction of IFRS 15 will not affect the financial statements of FCC.

Basis for consolidation
Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. The consolidated financial statements are prepared for the same period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealized gains and losses from intra-group transactions are eliminated in full.

Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group uses the purchase accounting method to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date, irrespective of the extent of any non-controlling Interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income.

Incorporation of subsidiary
In 2017 the Company incorporated FCC Securities B.V. for the amount of EUR 1 which comprises the paid-in capital. This amount was paid on incorporation date. At the date of incorporation, the fair value was equal to the acquisition cost. Since incorporation date the subsidiary had no activities yet. The paid-in shareholders' capital is the only asset. The consolidated financial statements comprise financial statements of Frontier Clearing Corporation B.V. and FCC Securities B.V.

Foreign currency translation

Functional currency and presentation currency
The functional currency of FCC is the United States Dollar ("USD"), reflecting the fact that the majority of the transactions are settled in USD. FCC has adopted the USD as its presentation currency as 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 results.

Financial Instruments

Classification
FCC classifies its investments in cash accounts, term deposits, interest receivable and other payables as financial instruments at amortized costs whose carrying amounts approximate fair value because of the short nature and the high credit quality of counterparties. Its investments in money market funds and term deposits are at fair value through profit or loss.

FCC classifies its Subordinated, Junior and Senior Notes (together the "Profit Participating Notes" or "PPN") as financial liabilities in accordance with the substance of the contractual arrangements, given that the total expected cash flows attributable to the instruments 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 FCC during the life of the instrument.

FCC classifies its issued financial guarantee contracts as financial liabilities at fair value through profit or loss.

Recognition
FCC recognizes a financial instrument on its balance sheet when it becomes a party to the contractual provisions of the instrument. Financial instruments are initially recognized using trade date accounting. Gains and losses are recognized from this date on. Drawdowns under the PPN are treated as loans. A further description of this feature is disclosed in Note 11.

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 liabilities 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.

Fair value measurement principles
For all financial instruments which are highly rated and liquid such as money market funds or deposits for which reference prices are available in an active market, the fair value is determined based on market standard cash flow methodologies and are further referred to as Level 2 financial instruments.

The fair value of the Profit Participating Notes is set equal to the exit value of the assets. The exit value is the higher of the redemption value based on the level of Available Cash in accordance with the PPN Agreement and the value determined by a discounted cash flow model. A further description of the valuation of the PPN is disclosed in Note 11.

The fair value of financial guarantees at initial recognition is equal to the consideration received for the guarantee at inception. Subsequent measurement is based on a model that reflects the probability of default of the obligor whose obligations are guaranteed, the expected exposure at time of default and the loss given default assumptions, with changes in their fair value recognized as gains or losses in the statement of comprehensive income. The difference between fair value at inception and transaction price is accrued over the life of each transaction. At initial recognition any difference is recognized on the consolidated statement of financial position and recognized in the statement of comprehensive income on a straight line basis.

A further description of the valuation of the financial guarantee contracts is disclosed in Note 13.

Derecognition
FCC derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for de-recognition. A transfer will qualify for de-recognition when the Company 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.

The date of initial recognition is the date that FCC became a party to the irrevocable commitment.

Intangible fixed assets
Intangible fixed assets are presented at cost less accumulated depreciation. Depreciation is based on the estimated useful life and calculated as a fixed percentage of cost, taking into account any residual value. Depreciation is provided from the date an asset comes into use.

Cash and cash equivalents
Financial instruments are classified as cash and cash equivalents when the financial instruments are short-term positions which are highly liquid that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Unless indicated otherwise, they are at the Company's free disposal.

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

Accrued expenses and other payables
Accrued expenses and other payables are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

Income and expense recognition
Income is recognized to the extent that it is probable that the economic benefits flow to FCC and the income can be reliably measured.

Interest income and expenses are recognized as the interest accrues (taking into account the effective yield on the asset).

Interest received by FCC may be subject to withholding tax imposed in the country of origin. Interest and dividend income is recorded gross of such taxes.

The management fee is based on invoices and is subject to 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 FCM.

Other fees and expenses such as guarantee expenses are recognized in profit or loss as the related services are performed.

Depreciation and amortization
The calculation of depreciation of fixed assets is based on the purchase price or cost of manufacture. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Realized capital gains and losses on the disposal of fixed assets are included under depreciation and amortization expenses.

Taxation

Current income tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:
- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Events after the reporting period
The consolidated financial statements are adjusted to reflect material events that occurred between the end of the reporting period and the date when the consolidated 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 consolidated financial statements themselves.

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

Significant accounting estimates
The fair value measurement of financial instruments include valuation based on non-market observable inputs. The determination of the fair value for the Profit Participating Notes and the financial guarantee contracts are based on non-observable inputs. See for further explanation Note 11 and 13 where the inputs are described including the impact of each variable for the determination of the fair value as well as the sensitivity towards each fair value.

Judgement
In the process of applying FCC's accounting policies, FCC has made the following judgement, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements. FCC determines the classification of positions in money market funds as disclosed in Note 7 as cash and cash equivalents, as the positions at money market funds are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Going concern
The Manager has made a going concern assessment and is satisfied that FCC has the resources to continue in business for the foreseeable future. The Manager is not aware of any material uncertainties that may lead to significant doubt about the FCC's ability to continue as a going concern. Therefore, The consolidated financial statements continue to be prepared on a going concern basis.

5. Risk Management

FCC's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and the operating risks are an inevitable consequence of being in business.

FCC aims to achieve an appropriate balance between risks and return and minimize potential adverse effects on its financial performance. The Company's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. FCC regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Market price risk
Market price risk is the risk that the value of an instrument fluctuates as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

FCC limits the average duration of its liquidity investments to two years. At 31 December 2017, the Company has no assets or liabilities subject to significant market risk.

Interest rate risk
The general purpose of managing interest rate risk is to limit the adverse impact of interest-rate fluctuations on the net asset value of the Company. The Company is exposed to interest rate risks in connection with interest bearing assets and liabilities.

The majority of the Company's financial liabilities are issued on a floating rate basis, i.e. the Senior Notes. FCC monitors its interest rate exposure in relation to its floating rate obligations by means of a gap report. The proceeds of the Junior Notes and Subordinated Notes, i.e. the fixed rate financial liabilities of FCC, are invested with a maximum average duration of two years.

At 31 December 2017, the proceeds of the Notes were invested in instruments with an interest rate sensitivity of less than 1 month (2016: 2 months). See Note 7 for information on liquidity investments.

Foreign currency exchange rate risk

The Company may hold financial instruments denominated in currencies other than the USD, the functional currency. It may therefore be exposed to currency risk, as the value of the financial instruments denominated in other currencies fluctuates due to changes in exchange rates.

FCC does not engage in open currency positions for the purpose of investing its liquidity. In case FCC is exposed to local currency instruments as a result of the default of one of its risk clients, the maximum allowed foreign currency exposure is limited by means of one-month Value-at-Risk limits per currency and in aggregate. The maximum one-month Value-at-Risk in aggregate with a 97.5% confidence interval is limited to 10% of available cash.

Liquidity risk

Liquidity risk is defined as the risk that an entity encounters difficulty in meeting obligations associated with financial liabilities and off-balance sheet instruments.

FCC is mainly exposed to liquidity risk in case it receives a call for payment under financial guarantees issued. FCC mitigates its liquidity risk by testing the adequacy of its liquidity buffer under certain stress scenarios, where both credit losses on its liquidity investments and payment obligations under financial guarantees are considered.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument causes a financial loss for the other party by failing to discharge an obligation. Credit risk arising from the inability of a counterparty to meet the terms of the Company’s financial instrument contracts exists as the Company has entered into significant financial instrument transactions that are exposed to credit risk.

FCC has limited the minimum counterparty rating for the purpose of investing liquidity to AA- and has assigned counterparty limits based on counterparty rating and type of financial instruments to ensure diversification in its liquidity investments.

The following table shows the credit exposure for liquidity investment as at December 31, 2017:

(all amounts in USD)	**Credit rating**	**Exposure 2017**	**Exposure 2016**
Money market funds	AAA	30,000,000	20,000,000
Term Deposits	AA-	6,006,139	7,500,184
Cash positions	AA-	3,621,230	3,767,149
Total		**39,627,369**	**31,267,333**

FCC is exposed to credit risk under the financial guarantees it has issued to cover the counterparty credit risk on interbank transactions, where the risk client is typically located in an emerging or frontier market. The exposure under financial guarantees issued is affected by both country risk factors and credit risk factors relating to the risk client.

FCC assigns country limits and counterparty limits based on a fundamental analysis of the country and counterparty. The maximum net notional exposure per country is limited to USD 30,000,000 and the maximum net notional exposure per counterparty to USD 15,000,000. The maximum amount of guarantees that FCC can issue against available liquidity is controlled by both a deterministic economic capital model and a stochastic capital model.

The following table shows the notional amounts of outstanding guarantees per country:

2017

(all amounts in USD)	**Gross notional exposure**	**Hedged**	**Net notional exposure**	**Fair Value**
Turkey	20,000,000	(5,000,000)	15,000,000	265
Kenya	25,000,000	(10,000,000)	15,000,000	32,620
Nigeria	45,000,000	(15,000,000)	30,000,000	161,691
Tanzania	2,500,000	-	2,500,000	18,325
Zambia	5,000,000	-	5,000,000	10,709
Total	**97,500,000**	**(30,000,000)**	**67,500,000**	**223,610**

2016

(all amounts in USD)	**Gross notional exposure**	**Hedged**	**Net notional exposure**	**Fair Value**
Kenya	25,000,000	(10,000,000)	15,000,000	116,330
Nigeria	15,000,000	-	15,000,000	140,209
Total	**40,000,000**	**(10,000,000)**	**30,000,000**	**256,539**

Hedged exposure
FCC has obtained non-payment insurance to hedge USD 30 million of its gross notional exposure. The timing and the maturity of the hedged agreement aligns with the maturity of the gross exposure.

Capital models
FCC assigns economic capital to each of its exposures under guarantees based on the exposure at default and loss given default of the underlying transaction. The exposure at default and loss given default are informed by the recovery rates of any collateral posted against the underlying transaction and the average expected depreciation of the local currency involved over the liquidation period, conditional upon a default of the risk client under severe economic circumstances. FCC does not consider a probability of default of less than 100% for each exposure until the exposures in the portfolio are sufficiently diversified. The average expected depreciation used for economic capital calculations at 31 December 2017 is set to 40%.

The stochastic capital model determines the ability of FCC to meet its obligations under outstanding financial guarantees by simulating defaults in the portfolio in a Monte Carlo analysis based on the probability of default and correlation statistics of external rating agencies and determining the loss relating to each default based on stressed depreciation of the currency. The result of the stochastic capital model is expressed as the implied rating of FCC in accordance with the rating methodology of the external rating agencies. The minimum implied rating for FCC is set to A- and as at 31 December was A+.

6. Intangible fixed assets

(all amounts in USD)	**2017**	**2016**
Balance as per beginning period	114,454	206,017
Movements		
Investments	-	-
Depreciation	(91,563)	(91,563)
Balance movements during the period	(91,563)	(91,563)
Balance as at 31 December	274,689	274,689
Accumulated depreciation	(251,798)	(160,235)
Book value as at 31 December	**22,891**	**114,454**

Intangible fixed assets represent license fees for a software application.

Annual depreciation percentage	33%	33%

7. Cash and cash equivalents

(all amounts in USD)

	2017	**2016**
Money market funds	30,000,000	20,000,000
Term deposits	6,006,139	7,500,184
USD cash account	3,585,389	1,565,893
Cash in transit	-	2,200,000
EUR cash account	35,841	1,256
Total cash and cash equivalents	**39,627,369**	**31,267,333**

No restrictions to the usage of cash and cash equivalents exists at year end. Interest income related to cash and cash equivalents amounted to USD 313,942 (2016: USD 140,432). The cash in transit has been received 3 January 2017.

8. Issued share capital

The authorized and issued share capital consists of 1 ordinary share of € 1 and has been fully paid. Frontclear Management B.V. holds the share of FCC.

9. General reserve

(all amounts in USD)	**2017**	**2016**
Balance as at beginning of period	224,113	-
Distributed from undistributed result for the period	(31,769)	224,113
Balance as at 31 December	**192,344**	**224,113**

10. Undistributed result for the period

(all amounts in USD)	2017	2016
Balance as at beginning of period	(31,769)	224,113
Distributed to general reserve	31,769	(224,113)
Comprehensive income for the period	(5,125,784)	(31,769)
Balance as at 31 December	**(5,125,784)**	**(31,769)**

Minimum capital requirement
FCC as separate entity is not subject to any internal or external imposed minimum capital requirement.

11. Long term liabilities

The long term liabilities are detailed as follows:

(all amounts in USD)	Junior Notes	Senior Notes	Subordinated Notes	Total
Total position at beginning of period	**26,400,000**	**-**	**4,564,156**	**30,964,156**
Notes issued during the period	-	-	2,200,000	2,200,000
Revaluation during the period	-	-	(2,696,167)	(2,696,167)
Total position at 31 December 2016	**26,400,000**	**-**	**4,067,989**	**30,467,989**
Notes issued during the period	-	10,500,000	-	10,500,000
Revaluation during the period	-	-	4,211,271	4,211,217
Total position at 31 December 2017	**26,400,000**	**10,500,000**	**8,279,260**	**45,179,260**

Senior Notes

Status
Subject to the terms and conditions of the PPN Agreement between FCC and Frontier Clearing Fund Senior ("FCF Senior") dated 27 March 2015, FCF Senior is committed to invest in Senior Notes to be issued by FCC for a maximum of USD 75 million. As per 31 December 2017, USD 10,500,000 of Senior Notes were issued to Frontier Clearing Fund Senior (2016: no Senior Notes issued). The remaining Senior Commitment is equal to USD 64,500,000.

Repayment and interest
FCC pays each quarter on the first business day of April, July October and January of each calendar year a Standby Fee of 0.50% over the remaining Senior Commitment (to be drawn subject to investor approval only), Commitment Fee of 1.75% over the sum of Effectuated Senior Notes (i.e. funds available for drawdown by FCC but not yet drawn) and Senior Notes issued and a Liquidity Fees equal to three-months USD LIBOR over Senior Notes issued.

The Senior Note shall be repaid in full on 15 April 2030. However, FCF Senior has the option during the period 15 April 2028 through 15 April 2029 to postpone the repayment date to 15 April 2040. Repayment of Senior Notes is subject to Available Cash and ranks senior to repayment of the Junior Notes and junior to repayment of the Subordinated Notes.

Junior Notes

Status
The Junior Notes of USD 26,400,000 were issued to Frontier Clearing Fund Junior ("FCF Junior) on 15 April 2015 and have been fully paid.

Repayment and interest
FCC pays each quarter on the first business day of April, July October and January of each calendar year all of its Available Cash remaining after FCC has paid all accrued Standby Fee, Commitment Fees, Liquidity Fees and DTAF Fees (if applicable) and (ii) reduced by the total amount of any outstanding Senior Funds (as per 31 December 2017 USD nil), Junior Funds (as per 31 December 2017 USD 26,400,000) and Subordinated Funds (as per 31 December 2017 USD 8,700,000) as interest on the Junior Notes. During the period, no interest has been paid.

The Junior Note shall be repaid in full on 15 April 2030. However, FCF Junior has the option during the period 15 April 2028 through 15 April 2029 to postpone the repayment date to 15 April 2040. Repayment of Junior Notes is subject to Available Cash and ranks junior to repayment of the Senior Notes and senior to repayment of the Subordinated Notes.

Subordinated Notes

Status
The first Subordinated Notes were issued to Frontier Clearing Fund Subordinated ("FCF Subordinated) on 15 April 2015 with a total commitment of USD 8,700,000 and have been fully paid. On 29 December 2016, FCC issued an additional USD 2,200,000 in Subordinated Notes, for which payment has been received. The total amount of outstanding Subordinated Notes at 31 December 2017 is USD 10,900,000.

Repayment and interest
FCC pays each quarter on the first business day of April, July, October and January of each calendar year the DTAF Fee of 2% per annum.

The Subordinated Notes shall be repaid in full on 15 April 2030. However, FCF Subordinated has the option during the period 15 April 2028 through 15 April 2029 to postpone the repayment date to 15 April 2040. The repayment of the Subordinated Notes is subject to Available Cash and ranks junior to the repayment of Senior Notes and Junior Notes.

Fair value of Senior Notes, Junior Notes and Subordinated Notes
The Senior Notes, Junior Notes and Subordinated Notes, together referred to as the Profit Participating Notes ("PPN" or the notes), can only be transferred subject to the approval of FCC and the investors in the respective notes. The PPN have not been traded and are unlikely to trade as a financial investment only outside of the most advantageous market. As a result, the fair value of the PPN is not obtained from market prices, but derived from a level 3 proxy model as further described below.

The most advantageous market for the Notes is formed by investors encompassing governments, development finance institutions and other strategic investors that will value the business of Frontclear beyond the financial return offered by or the fair value of the instruments, in line with their development angle. These investors can therefore accept financial returns that may deviate significantly from those sought after by commercial investors. The fair value model reflects the assumptions that these market participants would use to value the Notes.

The fair value of the PPN's at 31 December 2017 is the value derived from the proxy model plus the amount by which the redemption value of the notes based on the PPN Agreement exceeds that value, if any.

Level 3 proxy model
FCC values the PPN with a level 3 model, the core of which projects the expected value of cash available in FCC for distribution to the investors in the PPN at the redemption date of the notes.

The model uses the following significant unobservable inputs for determining the fair value:

Description	Definition
Risk Capital	Risk Capital is the capital committed to FCC, i.e. the total amount of PPN issued plus any undrawn commitments to invest in PPN. The risk capital is specified in both amounts and the average lifetime that it will be available to FCC;
Leverage allowed	The leverage is the maximum factor of outstanding guarantee portfolio over risk capital allowed;
Pricing	The average guarantee fee earned over the projected horizon;
Utilization rate	The average level of risk capital allocated over the projected horizon;
OPEX	The level of annual operational expenses of FCC;
Risk costs	The expected loss incurred in the portfolio of guarantees issued over the projected horizon.

The product of risk capital, leverage factor, average guarantee fee and utilization rate provides an estimate of the amount of income that FCC will generate over the remaining life of the PPN. The level of annual operational expenses and risk costs over the life of the PPN estimates the total amount of expenses. The model assumes cash and net profits are reinvested in the observable cash rate and distributions under the PPN are reinvested at the prevailing discount rate for the notes until the redemption date. The discount rates are composed of the observable interest rate for the remaining tenor of the Notes and the risk premium observed in the latest transaction of the Notes and hence reflect the return expectation of investors in the most advantageous market for FCC.

The projection of the cash available at redemption date with the assumption of reinvestment of cash flows leaves the valuation model insensitive to timing differences between cash inflows and outflows. Any timing differences between cash inflows and outflows may in practice lead to a lower utilization of risk capital, which consideration is included in setting the utilization rate. Given the uncertainty in projecting timing and size of future cash flows up to the redemption date, this modelling simplification is deemed acceptable.

For the purpose of fair value measurement, the model does not take into account any issuance of PPN beyond the level of confirmed commitments.

Redemption value
The redemption value of the PPN is based on the contractual cash flows attributable to the notes under the PPN Agreement. In accordance with the PPN Agreement, the redemption value is determined by the level of Available Cash to be attributed to each class of the PPN in line with their ranking.

The level of Available Cash is equal to the fair value of cash and cash equivalents, minus a provision for amounts to be paid under legally binding obligations and expenses and minus the reasonable remuneration to the shareholder of FCC, defined in the PPN Agreement as 5% of the Approved Budget. The Approved Budget is the budget of operational expenses relating to the financial period, as approved by the FCC Supervisory Board. The Approved Budget for 2017 is equal to USD 2,656,000.

For the purpose of the determination of the fair value of the PPN, the provision for amounts to be paid under legally binding obligations, i.e. financial guarantees issued, is set equal to the fair value of the outstanding guarantees on the reporting date.

The investors in the Frontier Clearing Funds have the right to liquidate the Frontier Clearing Funds at any time subject to Investor Special Consent, i.e. with more than 80% of votes or the consent of all investors minus one. The redemption value of the PPN is a proxy of the value noteholders would receive in case of liquidation on the reporting date. Rational investors are expected to table a vote for liquidation if they would deem the value they would receive from the notes in case of continuation of the fund to be below the redemption value. Absent any indication of such inclination of investors, the redemption value serves as a floor to the valuation of the PPN.

Fair value end of period

The table below provides an overview of valuations of the PPN. The final column in the table below reflects the value of the PPN under a scenario including new capital commitments to FCC in the proxy valuation. This value corresponds to the business case for FCC and is used to negotiate new commitments to FCC:

2017

(all amounts in USD)	**Fair value Proxy Value Committed Capital**	**Redemption Value at 31 December**	**Fair Value at 31 December**	**Business case Total PPN of USD 200 million**
Senior Notes	10,500,000	10,500,000	10,500,000	10,500,000
Junior Notes	7,777,883	26,400,000	26,400,000	26,065,552
Subordinated Notes	8,279,260	2,111,776	8,279,260	10,326,168
Total	**26,557,143**	**39,011,776**	**45,179,260**	**46,891,719**

2016

(all amounts in USD)	**Fair value Proxy Value Committed Capital**	**Redemption Value at 31 December**	**Fair Value at 31 December**	**Business case Total PPN of USD 200 million**
Senior Notes	-	-	-	-
Junior Notes	6,475,559	26,400,000	26,400,000	27,380,826
Subordinated Notes	2,405,703	4,067,989	4,067,989	10,392,535
Total	**8,881,262**	**30,467,989**	**30,467,989**	**37,773,361**

A reported fair value exceeding the redemption value does not imply that investors can monetize that value by redeeming their commitment. Furthermore, as FCC does not have an obligation to its investors to distribute more than the redemption value at liquidation, a negative equity position resulting from a reported fair value exceeding the redemption value of the notes does not imply a going concern issue but reflects the perceived value of the future performance of FCC.

The entrance of new investors in the Frontier Clearing Funds will be subject to negotiation of an acceptable risk premium to both parties and the price against which new PPN are issued to the Frontier Clearing Funds may therefore deviate from the prices reported in the final column. The resulting agreed upon risk premiums will serve as input for the valuation model, in line with the description above.

In line with the above, at 31 December 2017 the Senior Notes are valued at USD 10,500,000 (2016: nil), the Junior Notes are valued at USD 26,400,000 (2016: USD 26,400,000) and the Subordinated Notes at USD 8,279,260 (2016: USD 4,067,989).

Sensitivity analysis
The input parameters for the proxy model are reassessed as part of the business planning cycle towards the end of each calendar year. The uncertainty of each significant input reflects the measure of uncertainty that FCC faces in estimating each significant input (1 is less uncertain, 5 is most uncertain) over the projected horizon. The sensitivity of the inputs is measured in terms of the changes in value of the Junior Notes. None of the reasonable possible changes impacts on the value of the other PPN.

The significant unobservable inputs for the calculation of the proxy fair value as per 31 December 2017 are defined as follows in the context of the projected horizon being 15 April 2030. The ranking of the PPN influences the sensitivity of each individual note type. The most junior ranking notes, i.e. the Subordinated Notes, are most sensitive to changes in inputs that affect the projected total amount of cash available for distribution to the noteholders.

2017				**Change in proxy fair value** in USD 1,000		
	Uncertainty Capital	**Inputs**	**Reasonable possible change**	**Senior Note**	**Junior Note**	**Subordinated Note**
Risk Capital[1]	4	12.5	-1	-	-	(2,527)
Leverage (down)	2	2.8	- 0.3	-	(463)	(6,048)
Leverage (up)	2	2.8	+0.3	-	2,050	2,047
Pricing	4	2.5%	- 0.5%	-	(3,324)	(6,048)
OPEX	1	3,758	+10%	-	-	(3,948)
Risk costs (in 1,000 USD)	2	15,000	+15,000	-	(3,552)	(2,100)
Utilization rate	2	95%	-10%	-	(613)	(6,048)

2016				**Change in proxy fair value** in USD 1,000		
	Uncertainty Capital	**Inputs**	**Reasonable possible change**	**Senior Note**	**Junior Note**	**Subordinated Note**
Risk Capital[1]	4	12.5	-1	-	(637)	-
Leverage (down)	2	2.8	- 0.3	-	(2,062)	-
Leverage (up)	2	2.8	+0.3	-	637	3,876
Pricing	4	2.5%	- 0.5%	-	(4,125)	-
OPEX	1	3,758	+10%	-	(1,560)	-
Risk costs (in 1,000 USD)	2	15,000	+15,000	-	(5,156)	-
Utilization rate	2	95%	-10%	-	(2,171)	-

The redemption value of the PPN is based on the level of Available Cash at the measurement date. The level of Available Cash is driven by the commercial operations of FCC and is subject to business risk, i.e. the ability of FCC to generate cash from its business activities and the operational expenses incurred in the course of these activities.

[1] Weighted average maturity - years

12. Tax position

(all amounts in USD)	**2017**	**2016**
Cumulative result prior to revaluation of PPN	(9,165,086)	(6,554,188)
Cumulative difference to depreciation of intangible fixed asset	100,719	64,095
Cumulative fiscal result over the period 2015 to 2017	(9,064,367)	(6,490,093)
Deemed recoverable	(9,064,367)	(6,490,093)
(A) Resulting deferred tax asset (25% rate)	2,266,092	1,622,523
Temporary differences in carrying amounts		
Revaluation of Subordinated Notes	2,620,740	6,832,011
(B) Resulting deferred tax liability (25% rate)	(655,185)	(1,708,002)
Total tax position (A+B, +asset, -/- liability)	**1,610,907**	**(85,479)**

The fiscal result of the company is equal to the result prior to the revaluation of the PPN, corrected for the depreciation of Intangible fixed asset is 5 rather than 3 years for tax purposes. The cumulative loss is deemed to be fully recoverable and leads to a deferred tax asset. The revaluation of PPN is expected to be reversed over time and leads to a temporary difference between the accounting book base and the tax book base, resulting in a deferred tax liability.

Tax position
FCC offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority. The deferred tax asset and liability relate to income taxes levied by the same tax authority and have been offset, resulting in a net deferred tax asset at 31 December 2017 of USD 1,610,907 (2016: a deferred tax liability of USD 85,480).

13. Financial guarantee contracts

The following guarantees were outstanding at 31 December 2017:

(all amounts in USD)	Gross notional exposure	Hedged	Net notional exposure	Fair Value
Turkey	20,000,000	(5,000,000)	15,000,000	265
Kenya	25,000,000	(10,000,000)	15,000,000	32,620
Nigeria	45,000,000	(15,000,000)	30,000,000	161,691
Tanzania	2,500,000	-	2,500,000	18,325
Zambia	5,000,000	-	5,000,000	10,709
Total	**97,500,000**	**(30,000,000)**	**67,500,000**	**223,610**

2016

(all amounts in USD)	Gross notional exposure	Hedged	Net notional exposure	Fair Value
Kenya	25,000,000	(10,000,000)	15,000,000	116,330
Nigeria	15,000,000	-	15,000,000	140,209
Total	**40,000,000**	**(10,000,000)**	**30,000,000**	**256,539**

Issued Guarantees - Fair value information
The fair value of issued guarantees is set at the price received for each guarantee at inception and to the price that would be required for each guarantee at any consequent measurement date. Changes in fair value are recorded in the Statement of Comprehensive Income.

FCC guarantees interbank transactions that may be subject to wrong-way risk, i.e. the risk that the exposure at default and loss given default rise together with the probability of default in relation to one of the counterparties to the trade. General wrong-way risk arises when the probability of default of the risk client and the exposure at default and loss given default are influenced by the same country risk factors. Specific wrong-way risk arises when the default of the obligor bank is likely to affect the market parameters driving the exposure at default and loss given default, e.g. by triggering a currency crisis.

FCC is expected to pay out under its guarantees in case a default of an obligor occurs simultaneously with a country event. In case of an idiosyncratic default of the obligor bank, i.e. not occurring simultaneously with a country event, the loss under the guarantee is expected to be minimal as a result of the collateral requirements imposed on the interbank transaction guaranteed.

Given the bespoke nature of the guarantees, their fair value cannot be determined by market prices or observable inputs only. The price required at the consequent measurement date is therefore determined by non-observable inputs (level 3 model), determining the expected loss under the guarantee over the remaining lifetime of the guarantee.

Level 3 model
The level 3 model is based on the exposure at default and loss given default of each guarantee conditional on the simultaneous occurrence of a country event at the time of default of the risk client, multiplied by the probability of such simultaneous occurrence.

The exposure at default and loss given default for each guarantee are assessed as part of the required economic capital per transaction. The economic capital model assesses the exposure under any guarantee as a result of losses due to the conversion of collateral to local currency cash under illiquid market circumstances and the conversion of local currency cash to USD. The parameters involved are reviewed at least annually as part of the country and counterparty review process and are subject to the review and approval of the Investment Committee. The economic capital model is reviewed annually as part of the internal capital adequacy assessment procedure and is subject to the approval of the FCC Supervisory Board.

The probability of default is derived from observable spread of CDS contracts or USD denominated government securities of the country of the obligor bank. The resulting probability of default of the country is multiplied with a correlation scaling factor that reflects the level of general and specific wrong-way risk of the obligor bank. The correlation between an obligor bank and country event is determined based on the rating of the country and the ranking of the obligor bank within the country.

The level 3 model uses the following significant unobservable inputs for determining the fair value:

Description	*Definition*
FX jump factor	The percentage by which a currency is expected to depreciate during a country event
Recovery rate	The percentage of the collateral value that can be recovered during a country event
Correlation scaling factor	The factor by which the probability of default of a risk country is multiplied to reflect the probability of a simultaneous occurrence of a country event and default of the obligor bank
Collateral terms	Terms agreed between the transacting counterparties in the interbank transaction guaranteed, i.e. type of collateral, haircuts, initial margin. The collateral terms are in principle fixed once agreed between parties.

Obligations under guarantees issued by FCC rank senior to any obligations of FCC under the Profit Participating Notes. Own credit risk will only be considered in relation to the fair value of guarantees in case the sum of fair values approximates the level of Available Cash (see Note 11).

In case FCC has obtained risk mitigation for guarantees issued, the reported fair value reflects the gross exposure under the guarantee to FCC.

<u>Sensitivity analysis</u>
The uncertainty of each significant input reflects the measure of uncertainty that FCC faces in estimating each significant input (1 is less uncertain, 5 is most uncertain) over the lifetime of each guarantee and the contribution to the outcome (1 is low, 5 is high). The sensitivity of the inputs is expressed in terms of the impact being linear or non-linear:

2017

(all amounts in USD)	**Uncertainty (1-5)**	**Contribution (1-5)**	**Reasonable possible change**	**Change in fair value**
FX jump factor	4	5	+/- 10%	Linear (+/- 10%)
Recovery rate	2	2	+/- 10%	Non-linear (< +/- 10%)
Correlation scaling factor	4	2	+/- 5%	Linear (+/- 5%)
Collateral terms	1	4	n/a	Non-linear
Probability of default	2	5	+/- 1%	Linear (+/- 1%)

2016

(all amounts in USD)	**Uncertainty (1-5)**	**Contribution (1-5)**	**Reasonable possible change**	**Change in fair value**
FX jump factor	4	5	+/- 10%	Linear (+/- 10%)
Recovery rate	2	2	+/- 10%	Non-linear (< +/- 10%)
Correlation scaling factor	4	2	+/- 5%	Linear (+/- 5%)
Collateral terms	1	4	n/a	Non-linear
Probability of default	2	5	+/- 1%	Linear (+/- 1%)

The significant inputs are country and counterparty specific and reviewed at least annually by the Investment Committee.

Day 1 results
Based in the model above and the premiums received for financial guarantee contracts issued in 2017, FCC has booked day 1 results in 2017 that it has accrued over the life of the financial guarantee contracts.

The movement of the day 1 results is as follows:

(all amounts in USD)	2017	2016
Opening balance	-	-
Day one results at initial recognition	1,044,917	-
Amortisation throughout Changes in fair value of Financial guarantee contracts	(475,744)	-
Deferred day one results	**569,173**	**-**

14. Accrued fees

(all amounts in USD)	2017	2016
Accrued Senior Notes fees	146,096	56,712
Accrued Subordinated Notes fees	54,948	43,858
Total Accrued fees	**201,044**	**100,570**

15. Management fee payable

(all amounts in USD)	2017	2016
Management fee payable	299,678	333,110
Total management fee payable	**299,678**	**333,110**

16. Other liabilities

(all amounts in USD)	2017	2016
Other liabilities	57,074	25,873
Total other liabilities	**57,074**	**25,873**

17. Off-balance-sheet rights, obligations and arrangements

Deferred performance fee
On 28 February 2017, the Supervisory Board of FCC awarded FCM with a Performance Fee for its performance during 2016. The amount of USD 207,829 is deferred in accordance with clause 5 of Schedule 2 of the FCC Management Agreement, with payment conditional on FCC achieving operational break-even.

On 15 February 2018, the Supervisory Board of FCC awarded FCM with a Performance Fee for its performance during 2017. The amount of USD 181,143 is deferred in accordance with clause 5 of Schedule 2 of the FCC Management Agreement, with payment conditional on FCC achieving operational break-even.

The total amount of deferred Performance Fee in accordance with the above is therefore USD 614,242 (2016: USD 433,099).

18. Change in fair value financial guarantee contract

(all amounts in USD)	2017	2016
Fair value of contracts at beginning of the period	256,539	-
Fair value of contracts issued during the period at inception	1,766,992	1,085,666
Deferred day-one results financial guarantee contracts	(569,173)	-
Fair value of contracts at end of the period	(223,610)	(256,539)
Change in fair value financial guarantee contracts	**1,230,748**	**829,127**

19. Guarantee expenses

(all amounts in USD)	2017	2016
Hedging costs	307,344	151,630
Acquisition costs	-	44,226
Total guarantee expenses	**307,344**	**195,856**

20. Standby fees Senior Notes

The Standby fees Senior Notes are fees calculated based on 0.50% per annum based on the Standby Senior Commitment. The Standby Senior Commitment equals the Senior Commitment (as per 31 December 2017: USD 45,000,000) reduced by the Effectuated Senior Commitment (as per 31 December 2017: USD nil). The fees are paid to FCF Senior.

21. DTAF Fee Subordinated Notes

The DTAF Fee Subordinated Notes is a fee calculated based on 2% per annum based on the Subordinated Notes outstanding. The fees are paid to FCF Subordinated.

22. Counter Guarantee fee

The Counter Guarantee fee is a fee calculated based on the counter guarantee agreement between FCC and KfW. The agreement guarantees the financial obligations of FCC towards third parties under financial guarantee contracts, in case FCC is unable to meet such obligations. The guaranteed amount is the sum of the aggregate of the nominal amounts of the Subordinated Notes, Junior Notes and the paid-in Senior Notes as per the PPN Agreement and with a maximum of USD 100,000,000. On 28 November 2017, the duration of the KfW Counter Guarantee has been extended from 31 December 2018 to 31 December 2021 and the pricing has been amended in favor of FCC.

Depending on FCC's credit rating a counter-guarantee fee is charged between 0.90 % and 1.15% (2016: 1.00% and 1.25%) of the guaranteed amount. At 31 December 2017, the nominal amounts of the outstanding notes amount to USD 47.800,000.

23. Interest income

(all amounts in USD)	2017	2016
Interest income	313,942	140,432
Total interest income	**313,942**	**140,432**

24. Management fee

FCM is the manager of FCC. The fee for this service is based on the FCC Management Agreement between FCC and FCM. For the year 2017, the management fee amounts to USD 1,999,273 (EUR 1,931,691) (2016: USD 2,122,366 (EUR 1,931,848)) and is in accordance with the budget approved by the Supervisory Board.

The management fee has been invoiced to FCC by FCM in EUR and is recorded in FCC at month-end exchange rates. The following table provides the breakdown of the management fee invoiced:

(all amounts in EUR)	2017	2016
Activated expenses	-	21,824
Salaries & Remuneration	1,133,152	920,435
Business Development, Travel & Sundry	340,480	309,339
Third Party Service Providers	159,225	229,466
Insurance Costs	103,066	106,851
Subscription & License Fees	87,221	83,123
Information Technology	4,714	6,297
Office Expenses	98,580	102,111
Other	5,253	152,402
Total management fee in EUR	**1,931,691**	**1,931,848**

The balance for Third Party Service Providers includes commercial legal fees of EUR 18,319 (2016: EUR 89,830) and audit fees related to FCC of EUR nil (2016: EUR 39,107).

25. Performance fee

(all amounts in USD)	2017	2016
Performance fee	150,751	164,626
Total Performance fee	**150,751**	**164,626**

On 15 February 2018, the Supervisory Board of FCC has awarded FCM with a Performance Fee being the sum of USD 181,143 and EUR 120,922 in relation to its performance as Fund Manager and Manager in 2017. FCM has invoiced FCC for the amount of EUR 120,922 in 2018.

The amount of USD 181,143 is deferred in accordance with clause 5 of Schedule 2 of the FCC Management Agreement, with payment conditional on FCC achieving operational break-even.

26. Third party service providers

(all amounts in USD)	2017	2016
Back office services	111,485	110,847
Accounting & financial reporting	45	-
Quantifi PMS – license fee	126,152	104,056
Other IT costs	1,806	-
Total third party service providers	**239,488**	**214,903**

27. Related party transactions

Related party transactions are transfers of resources, services or obligations between related parties and FCC, 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 FCC. The following parties are considered related parties.

Managing Board
FCM received remuneration for services provided as FCC's statutory director which is included in the overall agreement with both parties. See below under Manager for further details.

Supervisory Board
The Supervisory Board members are entitled to receive fixed annual fees of USD 25,000 for the Chairman and USD 20,000 for each other member. The amount expensed each year depends inter alia on the VAT treatment of the fees, the timing of actual payments and Supervisory Board appointments.

Manager
FCM is appointed as the Manager of FCC in accordance with the terms of the FCC Management Agreement. The main responsibilities of the Manager are to manage FCC's investments according to FCC's investment guidelines and risk management and operational guidelines, to represent FCC in communication with its stakeholders, counterparties and services providers and to ensure the FCC's optimal access to international and local markets to promote the FCC's products.

Management and performance fee
Under the terms of the FCC Management Agreement, the Manager receives a Management Fee to cover operational expenses made in relation to the management of FCC and a Performance Fee as remuneration for its services. The Management Fee paid to FCM in 2017 is disclosed under Note 24. The Performance Fee over 2017 is substantially based on discretionary elements subject to the approval of the FCC Supervisory Board in 2018 and subsequently no accrual has been included as per 31 December 2017.

28. Other operating expenses

(all amounts in USD)	**2017**	**2016**
Supervisory Board	85,105	77,536
Audit & Financial Reporting	26,771	47,985
Bank costs	2,519	2,281
VAT costs	37,651	20,157
Consultants & Agents	125,000	-
Total other operating expenses	**277,046**	**147,959**

29. Proposal appropriation of result

Based on the results over the year ended December 31, 2017, the Board of Directors proposes to deduct the result of USD 5,125,783 from the other reserves.

OTHER INFORMATION

Statutory requirements for processing results

Article 24. PROFITS AND RESERVES

24.1 The general meeting is authorised to appropriate the profits, which are determined by adoption of the Annual Accounts and to determine distributions, in as far as the shareholders' equity of the Company exceeds the reserves which must be maintained pursuant to the law. Notwithstanding the provisions of the previous sentence and in accordance with the provisions of article 24.4, the management board is authorised to resolve to decide to make interim distribution of profits

24.2 The general meeting shall determine the allocation of the accrued profits. In calculating the amount of profit, that shall be distributed on each share, the nominal value of the shares shall be taken into account, regardless if these shares have been fully paid up.

24.3 A distribution of profits shall take place after the adoption of the Annual Accounts. The distribution of profits shall be due for payment within two weeks after the resolution of the management board to approve the distribution as meant in article 24.6, unless the management board for reasons of special circumstances resolves otherwise.

24.4 Subject to article 24.1, the management board may resolve to interim distribution of profits. The management board shall not resolve to decide to make interim distributions if it knows or reasonably should foresee that the Company shall get into a position in which it cannot continue to pay its due and payable debts after the distribution.

24.5 The general meeting may resolve to make distributions out of a reserve in whole or in part.

24.6 A resolution to distribute profits or reserves shall not have consequences as long as the management board has not granted its approval. The management board shall only withhold its approval if it knows or reasonably should foresee that the Company cannot continue to pay its due and payable debts after the distribution has been made.

24.7 The claim of a shareholder to receive any distributions shall lapse within five years after they have become due for payment.

24.8 In calculating the amount of any distribution on shares, shares held by the Company shall be disregarded.

Auditor’s report of the independent accountant

The auditor’s report is included on the next page of this annual report.

Auditor's report

To: the shareholders and the supervisory board of Frontier Clearing Corporation B.V. and the managing board of Frontclear Management B.V.

Report on the audit of the consolidated financial statements 2017 included in the annual report

Our opinion
We have audited the financial statements 2017 of Frontier Clearing Corporation B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Frontier Clearing Corporation B.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 equity 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 Frontier Clearing Corporation B.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Report on other information included in the annual report
In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- Report from the managing board
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code
- Report from the supervisory board

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 substantially 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 report from the managing board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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 company'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 company 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 company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company'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 company'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 company'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 company 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 managing board and the supervisory board 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.

The Hague, 31 May 2018

Ernst & Young Accountants LLP

signed by R.J. Bleijs