Frontier Clearing Corporation B.V.
Amsterdam
ANNUAL REPORT 2018

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ANNUAL REPORT

Report from the Supervisory Board

We are delighted to present Frontier Clearing Corporation B.V.'s (hereafter "Frontclear" or the "Company") 2018 Annual Report.

It is the premise of Frontclear that the development of stable and inclusive money markets is a development policy priority.[1] Money markets play an underpinning role in all areas of the wider financial system and a liquid and stable financial system is a pre-condition to achieving poverty reducing economic growth in emerging and frontier economies.

The core role of money markets is to provide a stable bridge between those who have excess short term cash and those who need short term liquidity. Stable access to liquidity means banks and other intermediaries can allocate capital for longer periods and improve balance sheet efficiency. Stable and inclusive money markets are a prerequisite to the development of liquid bond markets and play a key role in price benchmarking and in transmitting monetary policy into the real economy. Indeed, in advanced markets, money markets are a large and significant part of the wider financial system, notionally accounting for as much as 32% of outstanding government debt in the EU and as much as 44% in Sweden.[2]

In an emerging and frontier market context, money markets should help mobilize domestic local currency savings from corporates, pension funds and insurance companies and make them available to banks and the capital markets. They should facilitate the flow of liquidity between banks, and they should support international flows by providing hedging instruments such as swaps to lenders and borrowers alike. Yet, money markets in emerging and frontier markets are plagued by barriers preventing stability and inclusiveness and have remained significantly under developed and illiquid across all developing regions.

Frontclear is a financial markets development finance company that is uniquely focused on the development of the secured segment of the money markets in emerging and frontier economies, with a strong focus on the repo and derivative markets. By issuing guarantees covering counterparty credit risk, Frontclear absorbs the key risks that prevent market development and assists local financial institutions in emerging and frontier markets to access both local and global money markets, often facilitating use of local currency risk free securities as collateral. Frontclear's guarantees are complemented by the deployment of technical assistance in partnership with local industry associations and regulators to remove structural barriers to market development. Combined, Frontclear guarantees and technical assistance provide significant flexibility to deliver tailored solutions that drive real market development. Ultimately, Frontclear seeks to establish and guarantee local financial infrastructure providers, such as central clearing counterparties, to support the establishment of stable and inclusive money markets.

Frontclear's growth momentum accelerated decisively during the year with the notional value of guarantees issued in 2018 having increased to USD 176.5 million, from USD 97.5 million in 2017 - an 84% increase year-on-year. As at 31 December 2018, Frontclear had facilitated money market transactions with a cumulative notional value of USD 565 million on the back of a notional guarantee issuance of USD 315 million in 9 countries across Sub-Saharan Africa, the Middle East and Asian regions. Frontclear technical assistance program is active in 16 countries, having committed USD 2.1 million to 33 high impact money market projects.

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[1] For instance, see Financial Stability Board. (2011). Financial stability issues in emerging market and developing economies. Report to G-20 Finance Ministers and Central Bank Governors. Section V; World Bank. (2013). Rethinking the role of the state in finance. Global Financial Development Report. Page 153; African Development Bank. (2014). Segmentation and efficiency of the interbank market and their implication for the conduct of monetary policy. Working paper series 202 – April 2014; OECD. (2009). Impact of global crisis on SME financing and policy responses. IMF, World Bank. (2016). G20 note on Development of local currency bond markets, see paragraphs 41-46; IMF. (2013). Local currency bond markets – a diagnostic framework. See paragraphs 27-28; IMF. (2014). The development of local capital markets: Rationale and Challenges. IMF working paper; and IMF. (2009). Developing essential financial markets in smaller economics. Occasional Paper 265.

[2] Bank of International Settlements. (2017). Repo market functioning. CFFS Papers No. 59.

2018 has thus marked the beginning of a new growth phase and Frontclear is seeking to scale its capital base and extend its global reach as it consolidates its position as thought leader in money market development. The Supervisory Board wishes to thank the Management Board, staff and the Company's operational partners for their solid contribution in 2018.

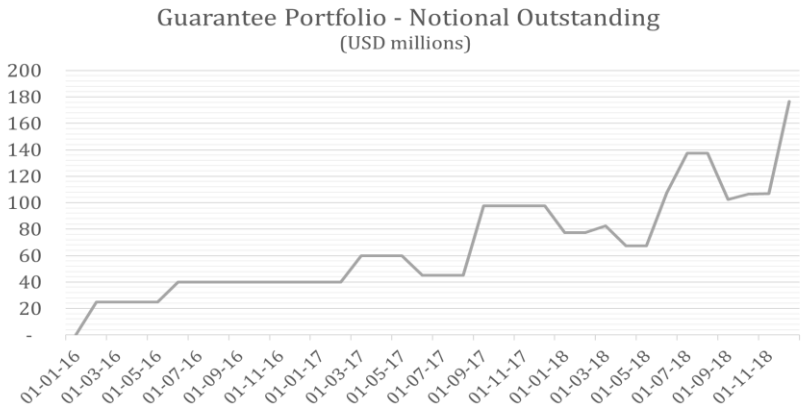
The Supervisory Board of Frontier Clearing Corporation B.V.,

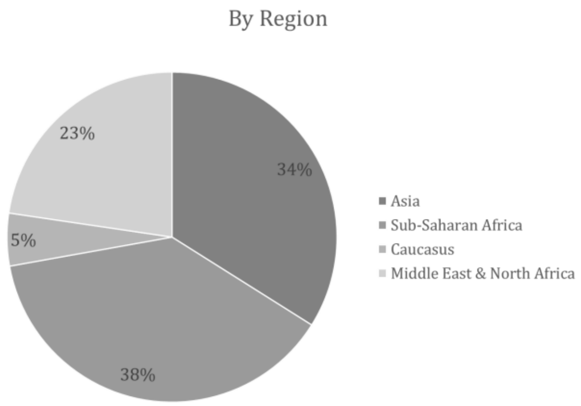
Mr. Axel van Nederveen (Chairman)
Mr. Michael Bristow
Mr. Bokar Chérif
Mr. Thomas Heinig

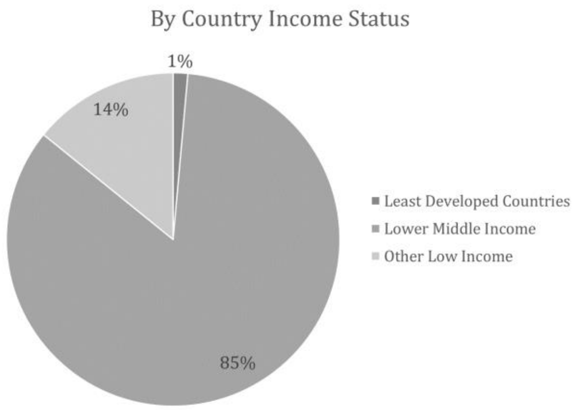
Report from the Managing Board

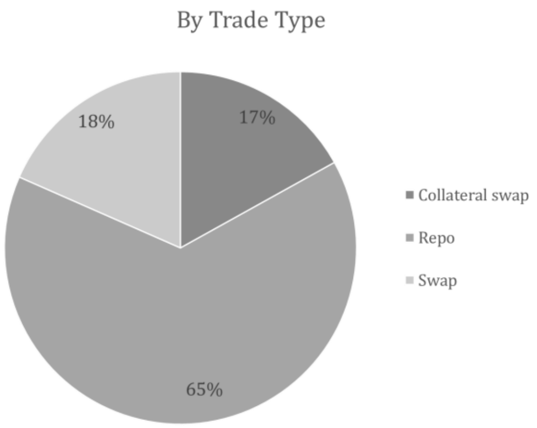
Frontclear Management B.V. is the statutory director of Frontier Clearing Corporation B.V (hereinafter "FCC" or the "Company") and pursuant to the FCC Management Agreement acts as the manager of FCC. The Managing Board of Frontclear Management B.V. (hereinafter "FCM" or the "Manager") is pleased to present the audited annual accounts of FCC for 2018.

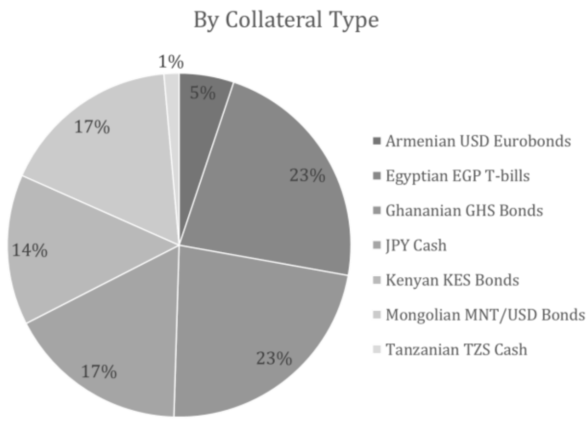
During the financial year ending 31 December 2018, FCC issued USD 176.5 million in notional guarantees, up 84% year-on-year from USD 97.5 million in 2017. Cumulatively, Frontclear has facilitated USD 564 million in money market transactions in 9 countries across Sub Saharan Africa, the Middle East and Asia. The figures below provide an overview of the guarantee portfolio as at 31 December 2018.











Guarantee issuance resulted in gross fees generated[3] in 2018 of USD 3.269 million (2017: USD 1.825 million), up 67%. An increase in transaction size in 2018 meant that out of USD 176.5 million in guarantees issued (including guarantees issued on transactions involving FCC Securities), USD 90 million was insured to bring net exposures within FCC's single obligor limits, leading to a net exposure of USD 86.5 million (2017: USD 68 million). FCC realized USD 2.237 million in guarantee revenue in 2018 (2017: USD 1.231 million), of which USD 0.606 million was paid on insurance premiums. Financing costs, being fees payable under the Profit Participating Notes and the Counter Guarantee, increased by 53% to USD 1.535 million (2017: 1.005 million) as a result of an increase in total commitments drawn (USD 58.3 million at YE18 versus USD 47.8 million in 2017) and an increase in USD Libor. FCC also increased interest and other income to USD 0.751 million (2017: USD 0.312 million). Combined, these changes led to a total operating income increase of 368% to USD 0.847 million (2017: USD 0.230 million). Operating expenses remained broadly stable with total expenses in 2018 of USD 3.105 million (2017: USD 2.841). The resulting net operating income for 2018 is a loss of USD 2.258 million (2017: loss of USD 2.611 million). On a cash basis, as measured by the change in the redemption value of the Frontier Clearing Fund Subordinated, a loss of USD 1.154 million is recognized – a significant reduction from 2017's USD 2.207 million.

Frontclear saw a strong acceleration of activity during 2018 and achieved key milestones through the year. The Company received unanimous investor consent to continue operating past its 3-year first close anniversary in the so called "rendezvous vote" on 30 January 2018, marking the end of its start-up phase and a move into a new growth phase. Frontclear for the first time expanded its transaction activities beyond Sub Saharan Africa, having closed transactions in the MENA, Asian and Caucasus regions in 2018. In June 2018 Frontclear executed its first collateral swap transaction in Mongolia using FCC Securities B.V., a 100% owned subsidiary of FCC established in [2017]. FCC Securities was subsequently utilized for transaction structuring purposes in additional transactions in Mongolia and Ghana. Frontclear's technical assistance program ("FTAP") also saw acceleration in activity and welcomed several new partners to the FTAP Partnership Facility. FTAP's available technical assistance funds increased from USD 0.957 million to USD 2.113 million in 2018, ensuring continuity and sufficient funding for planned programs until 2021.

Frontclear's pipeline of transactions continues to see strong growth in both notional value as well as across regions and countries. A key strategic goal for Management in 2019 is to further position Frontclear to achieve the necessary scale to increase its transaction capabilities, achieve financial sustainability and accelerate its development impact.

The Management Board would like to thank the staff of Frontclear Management B.V. for the commitment and performance during 2018, as well our operational partners, without which the achievements in 2018 would not have been possible.

Amsterdam, 28 May 2019,

The Managing Board of Frontclear Management B.V.,

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

[3] Gross fees generated equals the nominal amount of fees to be earned over the risk period of guarantees issued in 2018. The risk period is either the full tenor of the guarantee or the period up to the first date at which FCC has the right to terminate the guarantee, if any. The weighted average tenor of the risk period for guarantees issued in 2018 is 1.03 years (2017: 0.89 years).

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

(as at 31 December, before profit appropriation)

(all amounts in USD)	Notes	2018	2017
Assets			
Non-current assets			
Intangible fixed assets	6	-	22,891
Deferred tax asset	12	1,259,870	1,610,907
Total non-current assets		1,259,870	1,633,798
Current assets			
Cash and cash equivalents	7	47,751,500	39,627,369
Financial instruments at FVTPL	14	349,079	-
Prepaid guarantee expenses		258,292	263,664
Other receivables		194,423	71,569
Total current assets		48,553,294	39,962,602
Total assets		**49,813,164**	**41,596,400**
Equity			
Shareholders' equity			
Issued share capital	8	1	1
General reserve	9	(4,933,440)	192,344
Undistributed result for the period	10	(21,072)	(5,125,784)
Total shareholders' equity		(4,954,511)	(4,933,439)
Liabilities			
Long-term liabilities			
Senior Notes	11	21,000,000	10,500,000
Junior Notes	11	26,400,000	26,400,000
Subordinated Notes	11	5,691,323	8,279,260
Total long term liabilities		53,091,323	45,179,260
Short-term liabilities			
Financial guarantee contracts at FVTPL	13	275,879	223,610
Deferred guarantee revenue	19	-	569,173
Financial instruments at FVTPL	14	279,095	-
Accrued fees	15	346,882	201,044
Management fee payable	16	285,510	299,678
Other liabilities	17	488,986	57,074
Total short term liabilities		1,676,352	1,350,579
Total equity & liabilities		**49,813,164**	**41,596,400**

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	**2018**	**2017**
Revenues			
Realized fees on contracts at FVTPL	19	2,219,398	1,197,819
Change in fair value of contracts at FVTPL	20	17,726	32,929
Guarantee expenses	21	(606,472)	(307,344)
Total revenues		**1,630,652**	**923,404**
Finance costs			
Senior Notes - Standby Fee	22	(295,890)	(343,541)
Subordinated Notes - DTAF Fee	23	(218,000)	(218,241)
Senior Notes - Commitment Fee	11	(45,812)	(22,654)
Senior Notes - Liquidity Fee	11	(532,659)	(42,657)
Counter Guarantee Fee	24	(442,615)	(378,301)
		(1,534,976)	(1,005,394)
Other results			
Interest income	25	761,464	313,942
FX results and fair value changes in liquidity investments		(9,862)	(1,799)
		751,602	312,143
Total operating income		**847,278**	**230,153**
Operating expenses			
Management Fees	26	(2,170,500)	(1,999,273)
Performance Fees	27	(300,830)	(150,751)
Legal Fees	28	(269,782)	(82,931)
Third party service providers	29	(177,813)	(239,488)
Depreciation	6	(22,891)	(91,563)
Other operating expenses	31	(163,435)	(277,046)
Total operating expenses		**(3,105,251)**	**(2,841,052)**
Operating result		**(2,257,973)**	**(2,610,899)**
Revaluation of Subordinated Notes	11	2,587,937	(4,211,271)
Net loss for the period before tax		**329,964**	**(6,822,170)**
Income tax	12	(351,036)	1,696,386
Comprehensive loss for the period		(21,072)	(5,125,784)
Comprehensive loss for the period attributable to the holder of the issued share of FCC	32	(21,072)	(5,125,784)

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	2018	2017
Cash flow from operating activities			
Guarantee fees received	19	1,136,442	1,766,992
Guarantee expenses paid		(726,100)	(534,364)
Income received from financial instruments at FVTPL		513,783	-
Interest received		731,992	292,211
Management fees paid	26	(2,184,668)	(2,032,705)
Other operational expenses paid		(1,027,827)	(773,582)*
Net cash flow used in operating activities		**(1,556,378)**	**(1,281,448)**
Cash flow from financing activities			
Senior Notes –fees paid		(150,052)	(254,157)*
Senior Notes received	11	10,500,000	10,500,000
Subordinated Notes - DTAF Fee paid	23	(218,000)	(218,241)
Counter-guarantee fee paid	24	(441,577)	(378,364)
Net cash flow generated from (used in) financing activities		**9,690,371**	**9,649,238**
Net cash flow generated during (used in) the year		**8,133,993**	**8,367,790**
Cash and cash equivalents at beginning of the period		39,627,369	31,267,333
Foreign currency translation of cash positions		(9,862)	(7,754)
Cash and cash equivalents at the end of the period		**47,751,500**	**39,627,369**
Analysis of cash and cash equivalents			
Cash at banks		47,751,500	39,627,369
Total of cash and cash equivalents		**47,751,500**	**39,627,369**

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

*) Adjusted for comparative purposes

Statement of Changes in Equity

(all amounts in USD)	Amounts		Number of shares	
	2018	**2017**	**2018**	**2017**
Equity at beginning of the period	(4,933,439)	192,345	1	1
Proceeds from shares issued	-	-	-	-
Net change from transactions with shareholders	-	-	-	-
Comprehensive income for the period	(21,072)	(5,125,784)		
Equity at end of year	**(4,954,511)**	**(4,933,439)**	**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 6 March 2019, the Supervisory Board of FCC awarded FCM with a Performance Fee being the sum of USD 372,159.57 and EUR 306,554.64. FCC has been invoiced by FCM for the amount of EUR 306,554.64 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.

An accrual relating to the Performance Fee of EUR 130,913.01 has been recognized in 2018. The remainder of the Performance Fee will be recognized in 2019.

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 28 May 2019.

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
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.

The Fund adopted and assessed the impact of the implementation of IFRS 9 as per 1 January 2018 and concluded that IFRS 9 did not substantively affect the Fund's financial statements. The Fund measures and continues to measure its financial instruments and its financial guarantee contracts at fair value and therefore the new requirements did not be significantly affect the financial statements. The Fund also does not 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.

New standards, amendments and interpretations to existing standards which are relevant to FCC and not yet effective
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

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.

Subsidiary FCC Securities B.V.
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 initiated activities in Mongolia to support local collateral swap deals. 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.

Change in fair value measurement principles financial guarantees
In 2018 the Manager has refined and reassessed its fair value methodology for financial guarantee contracts. Whereas the fair value model for financial guarantee contracts in 2017 only include the fair value of future fee payments and the calculation of the Expected Credit Loss, the model applied at 31 December 2018 includes the following items:

1. The fair value of the future fee payments;
2. A Credit Value Adjustment (CVA) with the following components:
   a. The Expected Credit Loss (ECL);
   b. The Cost of Capital (COC) related to the Marginal Economic Capital Requirement for the financial guarantee;
   c. An Add-on for elements not captured in the ECL and COC such as legal risk and market illiquidity.

The fair value of financial guarantees at initial recognition is equal to the consideration received for the guarantee at inception minus a credit value adjustment, containing expected credit loss, cost of capital and add on elements. 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, loss given default assumptions and the cost of the marginal economical capital allocation to the transaction, with changes in their fair value recognized as gains or losses in the statement of comprehensive income. The credit value adjustment is calibrated to match the consideration received for the guarantee at inception. The methodology hence eliminates day one results and the consequent recording of deferred guarantee revenues.

The refinements of the fair value models did not result in a significant impact on equity or financial results:

	At 31 December 2018
Fair value of guarantees – old method	350,048
Deferred day one revenue	(463,735)
	(113,687)
Fair value of guarantees – new methodology	(114,251)
Deferred day one revenue	-
	(114,251)
Insignificant difference	(561)

A further description of the valuation of the financial guarantee contracts is disclosed in Note13.

Fair value measurement of financial instruments entered into by FCC Securities
The fair value of repo and derivative contracts entered into by FCC Securities is measured against the present value of cash flows at the prevailing cash rates plus a net credit value adjustment or net debt value adjustment, dependent on the credit quality of the counterparty, relative to FCC Securities with support from FCC. The credit value adjustment is calculated in accordance with the fair value model for financial guarantees.

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.

Derivative financial instruments
Typically, derivative contracts serve as components of the Fund's investment strategy and are utilized primarily to structure and hedge investments, to enhance performance and reduce risk to the Fund.

The derivative contracts that the Fund may hold or issue include currency swap agreements. Derivatives often reflect at their inception only a mutual exchange of promises with little or no transfer of tangible consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the underlying of a derivative contract may have a significant impact on the profit or loss of the Fund.

Derivatives often reflect at their inception only a mutual exchange of promises with little or no transfer of tangible consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the underlying of a derivative contract may have a significant impact on the profit or loss of the Fund.

OTC derivatives may expose the Fund to the risks associated with the absence of an exchange market on which to close out an open position. The Manager closely monitors the Fund's exposure under derivative contracts as part of the overall risk management framework.

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 assets and liabilities 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 0 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 Note7 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 and the maximum duration of any individual investment to five years. At 31 December 2018, 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 Company's financial liabilities are issued on both a fixed rate basis, i.e. the Subordinated and Junior Notes, and a floating rate basis, i.e. the Senior Notes. FCC monitors its interest rate exposure by means of a gap report.

Given the long-term nature of the liabilities of FCC and the short-term nature of its liquidity investments, FCC is exposed to negative changes to the net asset value of the Company when interest rates decline and to positive changes to its net asset value when interest rates rise. FCC does not use derivative instruments to hedge against interest rate exposures due to potential changes in its asset base resulting from claims under issued financial guarantees. FCC expects the individual noteholders to hedge their exposure to changes in value of the individual PPN resulting from interest rate fluctuations.

At 31 December 2018, the net duration of the financial assets and liabilities of FCC stood at -5.1 years (2017: -5.6 years). 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, as a result of purchasing local currency denominated collateral instruments in a work-out scenario. 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 stress scenarios, where both credit losses on its liquidity investments and payment obligations under financial guarantees are considered. FCC runs the following liquidity stress-tests:

Scenario	*Test*	*Note*
Counterparty event – idiosyncratic defaults under normal market conditions	Liquidity buffer, corrected with 50% of largest single liquidity investment, over the sum of the two largest liquidity exposures (i.e. loss given default of gross guarantee exposure)	FCC able to meet the payment demand on any two guarantees outstanding
Market or legal risk event – counterparty default under illiquid market circumstances	Liquidity buffer, corrected with 50% of largest single liquidity investment, over the largest gross notional guarantee exposures	FCC able to purchase collateral instruments under any outstanding guarantee following a market liquidity event upon default of a risk client
Country event – all counterparties in one country defaulting under stressed market circumstances	Liquidity buffer, corrected with 50% of largest single liquidity investment, over the largest gross notional country exposures times 75%	FCC able to meet payment demands on all guarantees outstanding in any country, when collateral instruments in a forced-sale only deliver 25% of last recorded market value

FCC will effectuate and draw down additional Senior Commitments in case any of the above tests fails. At 31 December 2018, the Stand-by Senior Commitment available for effectuation stands at USD 54,000,000 (2017: USD 64,500,000). Effectuation is subject to investor approval.

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. Capital requirements for liquidity investments follow the standardized approach under CRR.

The following table shows the credit exposure for liquidity investment as at December 31, 2018:

(all amounts in USD)	**Credit rating**	**Exposure 2018**	**Exposure 2017**
Money market funds	AAA	35,000,000	30,000,000
Term Deposits	AA-	-	6,006,139
Cash positions	AA-	12,751,500	3,621,230
Total		**47,751,500**	**39,627,369**

The credit limits are based on the lowest published credit rating by Standard & Poor's, Moody's or Fitch and internal assessments. 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 for risk clients 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 the economic capital framework.

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

2018

(all amounts in USD)	**Gross notional exposure**	**Hedged**	**Net notional exposure**	**Fair Value**
Kenya	25,000,000	(10,000,000)	15,000,000	(64,587)
Tanzania	2,500,000	-	2,500,000	(33,906)
Armenia	9,131,195	-	9,131,195	(43,014)
Egypt	40,000,000	(25,000,000)	15,000,000	(23,735)
Ghana	40,000,000	(25,000,000)	15,000,000	(110,637)
Mongolia	59,917,492	(30,000,000)	29,917,492	69,983
Total	**176,548,687**	**(90,000,000)**	**86,548,687**	**(205,896)**

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)**

Hedged exposure
FCC has obtained non-payment insurance to hedge USD 90,000,000 million (2017: 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 requirements for exposures to insurance companies follows the standardized approach under Basel III.

Capital models
FCC assigns economic capital against its portfolio of financial guarantee exposures under an economic capital framework that addresses both credit and counterparty credit risk in Pillar I and liquidity, market and operational risk in Pillar II.

The Pillar I capital requirements for credit and counterparty credit risk are based on the loss given default of the exposures, the probabilities of default and correlations in the portfolio using a stochastic capital model. The stochastic capital model determines the loss distribution of the portfolio by simulating defaults in the portfolio in a Monte Carlo analysis based on the probability of default and correlation statistics of external credit rating agencies and the loss given default per exposure. The loss given default of each individual financial guarantee exposure is informed by the recovery rates of the collateral instruments posted in the underlying transaction – typically local government securities - and the average expected depreciation of the local currency involved over the liquidation period, both conditional upon a default of the risk client under severe economic circumstances. The recovery rates reflect expected movements in the local yield curve and are dependent on the duration of the collateral instruments posted. The average expected depreciation used for economic capital calculations at 31 December 2018 is set between 30% and 50%. The Pillar I capital requirement is equal to the 99.75% percentile of the loss distribution plus an additional buffer of 20%.

The Pillar II capital add-on for liquidity risk is determined by the liquidity stress-tests described under *Liquidity Risks* above. FCC reserves 5% of available capital for market and operational risk.

The stochastic capital model used for Pillar I also expresses the ability of FCC to meet its obligations under outstanding financial guarantees 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)	**2018**	**2017**
Balance as per beginning period	22,891	114,454
Movements		
Investments	-	-
Depreciation	(22,891)	(91,563)
Balance movements during the period	(22,891)	(91,563)
Balance as at 31 December	274,689	274,689
Accumulated depreciation	(274,689)	(251,798)
Book value as at 31 December	**-**	**22,891**

Intangible fixed assets represent license fees for a software application.

Annual depreciation percentage	33%	33%

7. Cash and cash equivalents

(all amounts in USD)

	2018	**2017**
Money market funds	35,000,000	30,000,000
Term deposits	-	6,006,139
USD cash account	12,742,960	3,585,389
EUR cash account	8,440	35,841
Other cash account	100	-
Total cash and cash equivalents	**47,751,500**	**39,627,369**

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 761,464 (2017: USD 313,942).

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)	2018	2017
Balance as at beginning of period	192,344	224,113
Distributed from undistributed result for the period	(5,125,784)	(31,769)
Balance as at 31 December	**(4,933,440)**	**192,344**

10. Undistributed result for the period

(all amounts in USD)	2018	2017
Balance as at beginning of period	(5,125,784)	(31,769)
Distributed to general reserve	5,125,784	31,769
Comprehensive income for the period	(21,072)	(5,125,784)
Balance as at 31 December	**(21,072)**	**(5,125,784)**

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**	**-**	**4,067,989**	**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**
Notes issued during the period	-	10,500,000	-	10,500,000
Revaluation during the period	-	-	(2,587,937)	(2,587,937)
Total position at 31 December 2018	**26,400,000**	**21,000,000**	**5,691,323**	**53,091,323**

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 2018, USD 21,000,000 of Senior Notes were issued to Frontier Clearing Fund Senior (2017: USD 10,500,000). The remaining Senior Commitment is equal to USD 54,000,000.

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 2018 USD 21,000,000), Junior Funds (as per 31 December 2018 USD 26,400,000) and Subordinated Funds (as per 31 December 2018 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. The total amount of outstanding Subordinated Notes at 31 December 2018 is USD 10,900,000 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 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 is 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 2018 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.

<u>Level 3 proxy model</u>
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.

<u>Redemption value</u>
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 2018 is equal to USD 3,111,000 (2017: 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:

2018

(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	21,000,000	21,000,000	21,000,000	21,000,000
Junior Notes	8,339,404	26,400,000	26,400,000	27,310,136
Subordinated Notes	5,691,323	957,762	5,691,323	10,060,117
Total	**35,030,727**	**48,357,762**	**53,091,323**	**58,370,253**

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**

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 2018 the Senior Notes are valued at USD 21,000,000 (2017: USD 10,500,000), the Junior Notes are valued at USD 26,400,000 (2017: USD 26,400,000) and the Subordinated Notes at USD 5,691,323 (2017: USD 8,279,260).

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 2018 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.

2018				**Change in proxy fair value** in USD 1,000		
	Uncertainty Capital	**Inputs**	**Reasonable possible change**	**Senior Note**	**Junior Note**	**Subordinated Note**
Risk Capital[4]	4	10.75	-0.5	-	-	(1,101)
Leverage (down)	2	4.0	-0.4	-	(1,205)	(3,678)
Leverage (up)	2	4.0	+0.4	-	915	4,354
Pricing	4	2.0%	-0.5%	-	(5,377)	(3,678)
OPEX	1	3,758	+10%	-	-	(3,608)
Risk costs (in 1,000 USD)	2	15,000	+15,000	-	(4,854)	(3,678)
Utilization rate	2	85%	-10%	-	(1,695)	(3,678)

2017				**Change in proxy fair value** in USD 1,000		
	Uncertainty Capital	**Inputs**	**Reasonable possible change**	**Senior Note**	**Junior Note**	**Subordinated Note**
Risk Capital[5]	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)

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.

[4] Weighted average maturity - years
[5] Weighted average maturity - years

12. Tax position

(all amounts in USD)	2018	2017
Cumulative result prior to revaluation of PPN	(11,423,058)	(9,165,086)
Cumulative difference to depreciation of intangible fixed asset	68,672	100,719
Cumulative fiscal result over the period 2015 to 2018	(11,354,386)	(9,064,367)
Deemed recoverable	(11,354,386)	(9,064,367)
(A) Resulting deferred tax asset (20.5% rate)	2,327,649	2,266,092
Temporary differences in carrying amounts		
Revaluation of Subordinated Notes	(5,208,677)	2,620,740
(B) Resulting deferred tax liability (20.5% rate)	(1,067,779)	(655,185)
Total tax position (A+B, +asset, -/- liability)	**1,259,870**	**1,610,907**

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 fiscal result over the period 2015 to 2018 is built up over annual fiscal results that can be carried forward as per the following table:

(all amounts in USD)	Carry forward to	Amount
Fiscal result 2015	2024	(3,800,402)
Deemed recoverable	2025	(2,689,692)
Deemed recoverable	2026	(2,574,273)
Deemed recoverable	2027	(2,290,019)
Cumulative fiscal result over the period 2015 to 2018		(11,354,386)

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. The deferred tax asset and deferred tax liability are determined at the corporate income tax rate of 20.5% applicable as of 2021.

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 2018 of USD 1,259,870 (2017: a deferred tax asset of USD 1,610,907).

13. Financial guarantee contracts

FCC issues financial guarantees on repo, derivative and other money market transactions between EMDC-based regulated financial institutions and their local, regional or global counterparties. In some cases, transactions are structured using the wholly-owned subsidiary FCC Securities as a structuring vehicle. All risks of transactions structured through FCC Securities are guaranteed by FCC and all net income of such transactions is paid to FCC in lieu of an FCC guarantee issued to the counterparty or counterparties of FCC Securities, as the case may be.

In consolidating the accounts of FCC and FCC Securities, the transactions between FCC and FCC Securities are eliminated. The consolidated annual accounts of FCC therefore only contain financial guarantee contracts for which FCC receives a remuneration from a third party.

The following FCC guarantees were outstanding at 31 December 2018:

(all amounts in USD)	**Gross notional exposure**	**Hedged**	**Net notional exposure**	**Fair Value**
Kenya	25,000,000	(10,000,000)	15,000,000	(64,587)
Tanzania	2,500,000	-	2,500,000	(33,906)
Armenia	9,131,195	-	9,131,195	(43,014)
Egypt	40,000,000	(25,000,000)	15,000,000	(23,735)
Ghana	40,000,000	(25,000,000)	15,000,000	(110,637)
Mongolia	59,917,492	(30,000,000)	29,917,492	69,983
Subtotal	176,548,687	(90,000,000)	86,548,687	(205,896)
Of which issued to third parties for exposure on FCC Securities (see Note 14)	(99,917,492)	-	-	(69,983)
Total	**76,631,195**	**(90,000,000)**	**86,548,687**	**(275,879)**

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)**

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.

<u>Level 3 model</u>
The level 3 model valuation is based on the fair value of fee payments receivable under the financial guarantee contract, minus the sum of i) the expected credit loss of the financial guarantee conditional on the simultaneous occurrence of a country event at the time of default of the risk client, ii) capital costs associated with marginal economic capital requirement of the financial guarantee and iii) an adjustment factor capturing elements not included in the calculation of expected credit loss and capital costs.

The expected credit loss is equal to the loss given default assessed as part of the Pillar I economic capital requirement per transaction, times the probability of a simultaneous occurrence of a country event and default of the risk client, i.e. the probability of joint default. The economic capital model assesses the loss given default for 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 framework is reviewed annually as part of the internal capital adequacy assessment procedure (ICAAP) and is subject to the approval of the FCC Supervisory Board.

The probability of joint 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 capital costs per exposure are calculated as the weighted average return requirement of the effective capital components plus the expense rate, i.e. level of annual operational expenses over effective capital components at the measurement date, multiplied by the loss given default minus the expected credit loss as the best proxy to marginal economic capital requirement of the exposure.

<u>Unobservable inputs</u>
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.

Sensitivity analysis
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:

2018

(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%)

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%)

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

Other financial guarantee contracts – fair value information
In case FCC Securities is used for structuring transactions, FCC Securities will function as a pass-through vehicle for a transaction between the counterparty of FCC Securities that will also receive a financial guarantee from FCC - referred to as the “lender” - and the second, EMDC-based counterparty - the “obligor”. FCC Securities is wholly-owned by FCC and managed by Frontclear Management B.V. under the FCC Management Agreement between FCC and Frontclear Management B.V. The capital position of FCC Securities is EUR 1.

14. Financial instruments at fair value through profit or loss

FCC issues financial guarantees on repo, derivative and other money market transactions between EMDC-based regulated financial institutions and their local, regional or global counterparties. In some cases, transactions are structured using the wholly-owned subsidiary FCC Securities as a structuring vehicle. The transactions entered into by FCC Securities are back-to-back transactions, where FCC Securities transacts with an EMDC-based counterparty (the “obligor”) and hedges the exposure with a reverse transaction with a regional or global counterparty (the “beneficiary” or the “lender”). All risks of transactions structured through FCC Securities are guaranteed by FCC and all net income of such transactions is paid to FCC in lieu of an FCC guarantee issued to the counterparty of FCC Securities.

Financial instruments - Fair value information
Absent any credit risk mitigation, the lender, through the transaction with pass-through vehicle FCC Securities, would have the same exposure to FCC Securities as FCC Securities has to the EMDC-based obligor. This would lead to a debt value adjustment (DVA) on the transaction between FCC Securities and the lender. The financial guarantee issued by FCC to the lender however absorbs a significant part of this exposure. The value of the risk absorbed by FCC is calculated based on the credit value adjustment (CVA) model described in the section above.

The residual net DVA reflects the residual exposure of the lender to the transaction as a result of the credit risk exposure to FCC under the financial guarantee contract. This residual net DVA (Net DVA) is amortized linearly over the life of the transaction.

In the transaction between FCC Securities and the obligor, FCC Securities will charge a CVA reflecting the financial value of the exposure of FCC Securities to the obligor, which is equal to the CVA of the guarantee (for the risk absorbed by FCC) plus the Net DVA on recognition (for the residual risk the lender is exposed to). The CVA between FCC Securities and the obligor at any consequent measurement date is equal to the sum of the CVA calculated for the FCC financial guarantee and the linearly amortized Net DVA between FCC Securities and the lender.

The following financial instruments were outstanding in back-to-back transactions at 31 December 2018 (each line representing two contracts in total – one between FCC Securities and the obligor and one offsetting transaction between FCC Securities and the lender):

2018

(all amounts in USD)	Type	Maturity	Notional exposure	Fair value
Mongolia	Collateral transformation swap	31-07-2019	29,917,492	50,991
Mongolia	CC-IRS	21-06-2021	30,000,000	18,992
Ghana	TRS	6-12-2019	40,000,000	-
Total financial instruments			**99,917,492**	**69,983**

The net income generated by FCC Securities on the contracts in financial instruments, which is paid to FCC in lieu of the guarantee issued to the counterparty of FCC Securities, is recognized in the calculation of fair value of the guarantees issued by FCC. The income received by FCC from FCC Securities and the fair value of guarantees issued to counterparties of FCC Securities are eliminated in the consolidation.

Sensitivity analysis

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:

2018

(all amounts in USD)	Uncertainty (1-5)	Contribution (1-5)	Change in FV +10%	Change in FV -10%
FX jump factor	4	5	(12,910)	12,910
Recovery rate	2	2	15,778	(15,778)
Correlation scaling factor	4	2	(11,197)	11,197
Collateral terms	1	4	7,065	(6,484)
Probability of default	2	5	(11,197)	11,197

Recognition

The individual contracts are recognized as an asset or liability according to the fair value per contract:

For the year 2018	**Assets**	**Liabilities**
Opening balance	-	-
Unrealized gains and (losses)	349,079	279,095
Balance at 31 December 2018	**349,079**	**279,095**

Collateral balance

Any collateral posted to FCC Securities by the obligor or vice versa is offset by an equal collateral posting by FCC Securities to the lender of vice versa. The net collateral balance held by FCC Securities at 31 December 2018 is USD 0 (2017: n/a).

15. Accrued fees

(all amounts in USD)	**2018**	**2017**
Accrued Senior Notes fees	291,934	146,096
Accrued Subordinated Notes fees	54,948	54,948
Total Accrued fees	**346,882**	**201,044**

16. Management fee payable

(all amounts in USD)	**2018**	**2017**
Management fee payable	285,510	299,678
Total management fee payable	**285,510**	**299,678**

17. Other liabilities

(all amounts in USD)	**2018**	**2017**
Third party service provider fees payable	7,335	-
Accrued performance fees	149,872	-
Other liabilities	331,779	57,074
Total other liabilities	**488,986**	**57,074**

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

Deferred performance fee

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.

On 6 March 2019, the Supervisory Board of FCC awarded FCM with a Performance Fee for its performance during 2018. The amount of USD 372,160 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 986,402 (2017: USD 614,242).

19. Realized fees on contracts at FVTPL

(all amounts in USD)	2018	2017
Realized fees on financial guarantee contracts at FVTPL	1,136,442	1,766,992
Realized fees of financial instruments at FVTPL	513,783	-
Deferred guarantee revenue end of period	-	(569,173)
Amortisation of deferred guarantee revenue	569,173	-
Total realized and accrued fees	**2,219,398**	**1,197,819**

20. Changes in fair value on contracts at FVTPL

(all amounts in USD)	2018	2017
Fair value of financial guarantee contracts at beginning of the period	223,610	256,539
Fair value of financial instruments at beginning of the period	-	-
Rounding differences	11	-
Fair value of financial guarantee contracts at end of the period	(275,879)	(223,610)
Fair value of financial instruments at FVTPL at end of the period	69,984	-
Total change in fair value	**17,726**	**32,929**

Reclassification of 2017

(all amounts in USD)	2017
Realized fees on financial guarantee contracts	1,197,819
Change in fair value of financial guarantee contracts	32,929
Reported change in fair value Annual Report 2017	1,230,748

21. Guarantee expenses

(all amounts in USD)	2018	2017
Hedging costs	606,472	307,344
Total guarantee expenses	**606,472**	**307,344**

22. 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 2018: USD 54,000,000) reduced by the Effectuated Senior Commitment (as per 31 December 2018: USD nil). The fees are paid to FCF Senior.

23. 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.

24. 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% (2017: 0.90% and 1.15%) of the guaranteed amount. At 31 December 2018, the nominal amounts of the outstanding notes amount to USD 47.800,000 (2017: USD 47,800,000).

25. Interest income

(all amounts in USD)	**2018**	**2017**
Interest income	761,464	313,942
Total interest income	**761,464**	**313,942**

26. 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 2018, the management fee amounts to USD 2,170,500 (EUR 1,848,339) (2017: USD 1,999,273 (EUR 1,931,691)) 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)	**2018**	**2017**
Salaries & Remuneration	1,039,913	1,133,152
Business Development, Travel & Sundry	298,895	340,480
Third Party Service Providers	118,719	159,225
Insurance Costs	112,066	103,066
Subscription & License Fees	99,209	87,221
Information Technology	10,309	4,714
Office Expenses	111,973	98,580
Other	57,255	5,253
Total management fee in EUR	**1,848,339**	**1,931,691**

The balance for Third Party Service Providers includes commercial legal fees of EUR 34,563 (2017: EUR 18,319) and audit fees related to FCC of EUR nil (2017: EUR nil).

27. Performance fee

(all amounts in USD)	2018	2017
Performance fee	300,830	150,751
Total Performance fee	**300,830**	**150,751**

On 6 March 2019, the Supervisory Board of FCC has awarded FCM with a Performance Fee being the sum of USD 372,160 and EUR 306,555 in relation to its performance as Fund Manager and Manager in 2018. FCM has invoiced FCC for the amount of EUR 306,555 in 2019.

The amount of USD 372,160 is deferred in accordance with clause 5 of Schedule 2 of the FCC Management Agreement, with payment conditional on FCC achieving operational break-even.

28. Legal fees

All legal fees for 2018 and 2017 relates to commercial activities of structuring financial contracts.

29. Third party service providers

(all amounts in USD)	2018	2017
Back office services	147,231	111,485
Accounting & financial reporting	-	45
Quantifi PMS – license fee	30,582	126,152
Other IT costs	-	1,806
Total third party service providers	**177,813**	**239,488**

30. 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 2018 is disclosed under Note 26. The Performance Fee over 2018 is substantially based on discretionary elements subject to the approval of the FCC Supervisory Board in 2019 and subsequently no accrual has been included as per 31 December 2018.

31. Other operating expenses

(all amounts in USD)	2018	2017
Supervisory Board	75,093	85,105
Audit & Financial Reporting	79,406	26,771
Bank costs	8,269	2,519
VAT costs	174	37,651
Other travel & hotel expenses	493	-
Consultants & Agents	-	125,000
Total other operating expenses	**163,435**	**277,046**

32. Proposal appropriation of result

Based on the results over the year ended December 31, 2018, the Board of Directors proposes to deduct the result of USD 21,072 from the other reserves.

33. Company Only Financial Statements Frontier Clearing Corporation B.V.

The company only financial statements are presented below, were notes are referring to the disclosures of the consolidated financial statements were applicable.

Company Only Statement of Financial Position

(as at 31 December, before profit appropriation)

(all amounts in USD)	Notes	2018	2017
Assets			
Non-current assets			
Subsidiary FCC Securities B.V.	41	(4,367)	1
Intergroup receivable		5,097	-
Intangible fixed assets	6	-	22,891
Deferred tax asset	12	1,259,870	1,610,907
Total non-current assets		1,260,600	1,633,799
Current assets			
Cash and cash equivalents	36	47,666,670	39,627,369
Financial guarantee contracts at FVTPL	14	69,983	-
Prepaid guarantee expenses		258,292	263,664
Other receivables		194,423	71,568
Total current assets		48,189,368	39,962,601
Total assets		**49,449,968**	**41,596,400**
Equity			
Shareholders' equity			
Issued share capital	8	1	1
General reserve	9	(4,933,440)	192,344
Undistributed result for the period	10	(21,072)	(5,125,784)
Total shareholders' equity		(4,954,511)	(4,933,439)
Liabilities			
Long-term liabilities			
Senior Notes	11	21,000,000	10,500,000
Junior Notes	11	26,400,000	26,400,000
Subordinated Notes	11	5,691,323	8,279,260
Total long term liabilities		53,091,323	45,179,260
Short-term liabilities			
Financial guarantee contracts at FVTPL	13	275,879	792,783
Accrued fees	15	346,882	201,044
Management fee payable	16	285,510	299,678
Other liabilities	37	404,885	57,074
Total short term liabilities		1,313,156	1,350,579
Total equity & liabilities		**49,449,968**	**41,596,400**

Company Only Statement of Comprehensive income

(all amounts in USD)	Notes	2018	2017
Revenues			
Realized fees on contracts at FVTPL	19	2,219,398	1,197,819
Change in fair value of financial guarantee contracts at FVTPL	38	17,726	32,929
Guarantee expenses	21	(606,472)	(307,344)
		1,630,652	923,404
Finance costs			
Senior Notes - Standby Fee	22	(295,890)	(343,541)
Subordinated Notes - DTAF Fee	23	(218,000)	(218,241)
Senior Notes - Commitment Fee	11	(45,812)	(22,654)
Senior Notes - Liquidity Fee	11	(532,659)	(42,657)
Counter Guarantee Fee	24	(442,615)	(378,301)
		(1,534,976)	(1,005,394)
Other results			
Interest income	39	760,545	313,942
FX results and fair value changes in term deposits		(9,771)	(1,799)
		750,774	312,143
Total operating income		**846,450**	**230,153**
Operating expenses			
Management Fees	26	(2,170,500)	(1,999,273)
Performance Fees	27	(300,830)	(150,751)
Legal Fees	28	(269,782)	(82,931)
Third party service providers	29	(177,813)	(239,488)
Depreciation	6	(22,891)	(91,563)
Other operating expenses	40	(158,239)	(277,046)
Total operating expenses		**(3,100,055)**	**(2,841,052)**
Operating result		**(2,253,605)**	**(2,610,899)**
Revaluation of Subordinated Notes	11	2,587,937	(4,211,271)
Net result FCC Securities B.V.	41	(4,368)	-
Net loss for the period before tax		**329,964**	**(6,822,170)**
Income tax	12	(351,036)	1,696,386
Comprehensive loss for the period		**(21,072)**	**(5,125,784)**
Comprehensive loss for the period attributable to the holder of the issued share of FCC	32	(21,072)	(5,125,784)

34. General information

Frontier Clearing Corporation B.V. ("the Company" 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.

35. Summary of significant accounting policies

The company only financial statements have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. In accordance with 2:362.8 of the Dutch Civil Code, the Company's financial statements are prepared based on the accounting principles of recognition, measurement and determination of profit, as applied in the consolidated financial statements. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities.

The group companies are stated at their net asset value, determined on the basis of the consolidated accounting policies as applied in the consolidated financial statements. For details on the accounting policies applied for the group companies refer to the consolidated financial statements.

A reference is made to Note 4 Summary of significant accounting policies of the consolidated financial statements for the description of the accounting policies applied.

36. Cash and cash equivalents

(all amounts in USD)

	2018	2017
Money market funds	35,000,000	30,000,000
Term deposits	-	6,006,139
USD cash account	12,657,912	3,585,389
EUR cash account	8,758	35,841
Total cash and cash equivalents	**47,666,670**	**39,627,369**

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 760,545 (2017: USD 313,942).

37. Other liabilities

(all amounts in USD)	2018	2017
Third party service provider fees payable	7,335	-
Accrued performance fees	149,872	-
Other liabilities	247,678	57,074
Total other liabilities	**404,885**	**57,074**

38. Changes in fair value on financial guarantee contracts at FVTPL

(all amounts in USD)	2018	2017
Fair value of financial guarantee contracts at beginning of the period	223,610	256,539
Rounding differences	11	-
Fair value of financial guarantee contracts at end of the period	(205,895)	(223,610)
Total change in fair value	**17,726**	**32,929**

39. Interest income

(all amounts in USD)	2018	2017
Interest income	760,545	313,942
Total interest income	**760,545**	**313,942**

40. Other operating expenses

(all amounts in USD)	2018	2017
Supervisory Board	75,093	85,105
Audit & Financial Reporting	79,406	26,771
Bank costs	3,247	2,519
VAT costs	-	37,651
Other travel & hotel expenses	493	-
Consultants & Agents	-	125,000
Total other operating expenses	**158,239**	**277,046**

41. Subsidiary FCC Securities B.V.

(all amounts in USD)	2018	2017
Opening balance	1	-
Paid in capital	-	1
Net result for the year	(4,368)	-
Total at year end	**(4,367)**	**1**

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 2018 included in the annual report

Our opinion
We have audited the financial statements 2018 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 2018, and of its result and its cash flows for 2018 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 consolidated and company only statements of financial position as at 31 December 2018
- The consolidated and company only statements of comprehensive income
- The consolidated statement of cash flows and statement of changes in equity
- 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 a 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, 28 May 2019

Ernst & Young Accountants LLP

Signed R.J. Bleijs