

**Frontier Clearing Corporation B.V.**  
Amsterdam  
**ANNUAL REPORT 2019**

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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") 2019 Annual Report.

2019 was a watershed year for Frontclear. The guarantee portfolio continued its strong growth and diversification path, expanding 43% year-on-year. For the first time, the portfolio is diversified across all emerging market regions. Frontclear's capital and liquidity positions improved following the successful completion of the second financial close on 2 December 2019. The second close improved FCC's liquidity position and expanded total capital committed (incl. the counter-guarantee) from USD 138 million to USD 279 million. These structural changes have positioned Frontclear to achieve break-even at current portfolio levels and significantly scale its operations in 2020 and beyond.

Most importantly, Frontclear has undoubtedly demonstrated its ability to combine its risk bearing capacity, technical assistance and networks to achieve system level change and lay the groundwork for the emergence of inclusive and stable money markets in its countries of operation. Frontclear is uniquely focused on the development of the secured segment of the money markets in emerging and frontier economies, with a strong focus on interbank repo and derivative markets. Money markets are central to the functioning of financial systems and their ability to support economic growth and poverty reduction. Unfortunately, money markets are sorely underdeveloped in many emerging and frontier markets, thus hindering the allocation of liquidity and capital, impairing monetary policy transmission and limiting the depth and liquidity of domestic bond and derivative markets.

The underdevelopment of money markets in emerging and frontier economies is driven by high counterparty risk and limited availability of risk-free collateral to mitigate that risk. Moreover, a lack of knowledge and capacity, legal and regulatory challenges and inadequate financial infrastructure create structural barriers to market development. Frontclear seeks to address these challenges through the issuance of guarantees covering counterparty credit risk and collateral liquidity risk, often facilitating the use of local currency 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's 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.

At the time of writing, the world faces an unprecedented economic crisis following the outbreak of the Covid-19 pandemic. Emerging market are particularly badly hit, with capital outflows having exceed USD 100 billion, more than 3x larger than during the 2008 financial crisis. With the retreat of capital, access to money markets and liquidity has been severely curtailed for many emerging market financial institutions, precisely when they are being asked to go above and beyond in mitigating the impact of the economic shock on households, corporates and SMEs. No doubt the goal of establishing stable and inclusive money markets in emerging and frontier economies is more important than ever. With the results achieved in 2019, Frontclear is well positioned to accelerate its achievement of scale in order to play a decisive role in stabilizing money market going forward.

The Supervisory Board wishes to thank the Management Board, staff and the Company's operational partners for their solid contribution in 2019.

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

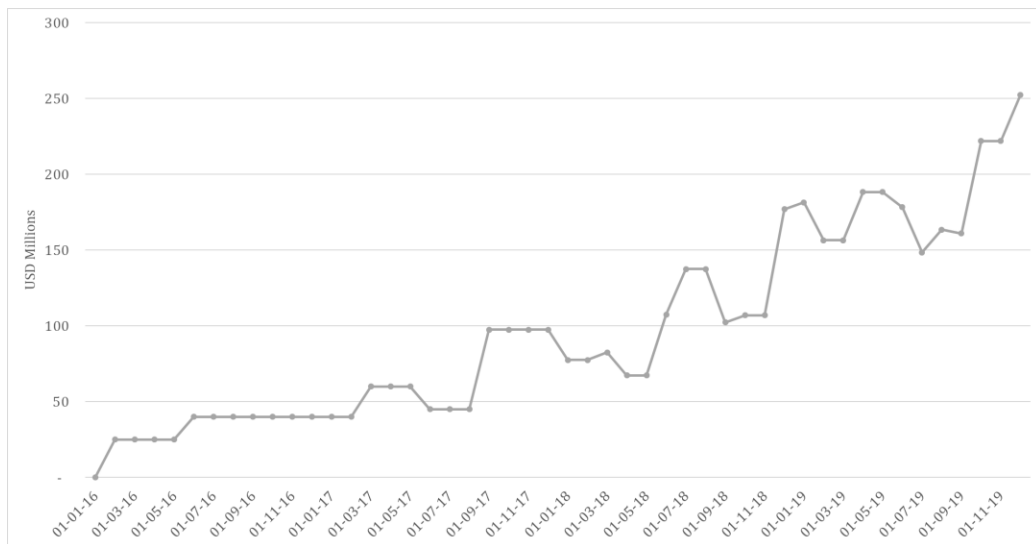
Mr. Axel van Nederveen (Chairman)  
Mr. Michael Bristow  
Mr. Bokar Chérif  
Mr. Thomas Heinig

## Report from the Managing Board

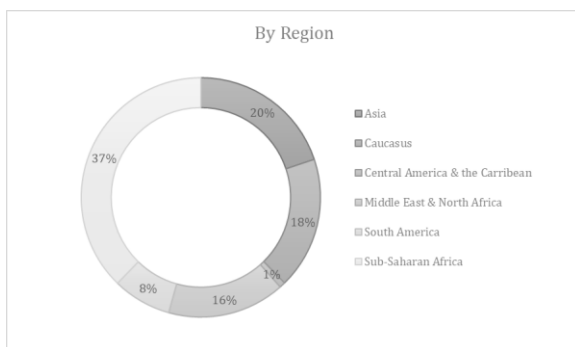
Frontclear Management B.V. is the statutory director of Frontier Clearing Corporation B.V (hereinafter “FCC” or the “Company”) and pursuant to the FCC Management Agreement acts as the manager of FCC. The Managing Board of Frontclear Management B.V. (hereinafter “FCM” or the “Manager”) is pleased to present the audited consolidated annual accounts of FCC for 2019.

Frontclear maintained its steady growth path during 2019, having issued and extended USD 262 million in guarantees during the year, up 48% year-on-year from USD 177 million in 2018. Cumulatively, Frontclear has facilitated USD 985 million (2019: USD 422 million) in money market transactions in 13 countries across all emerging market regions. The figures below provide an overview of the portfolio as at 31 December 2019 by region, country, transaction type, obligor tier and type of collateral provided in the guaranteed transactions, as well as cumulative statistics.

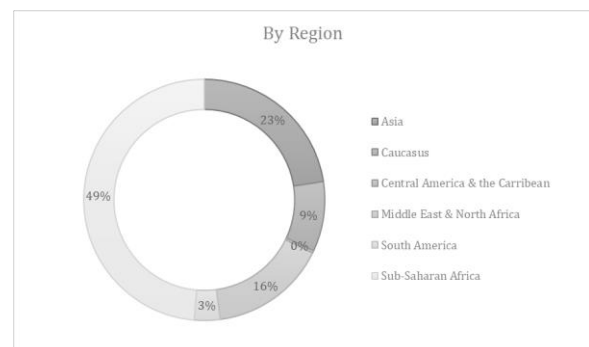
**Frontclear guarantee portfolio – Notional Outstanding (USD millions)**



**Portfolio as at 31 December 2019**

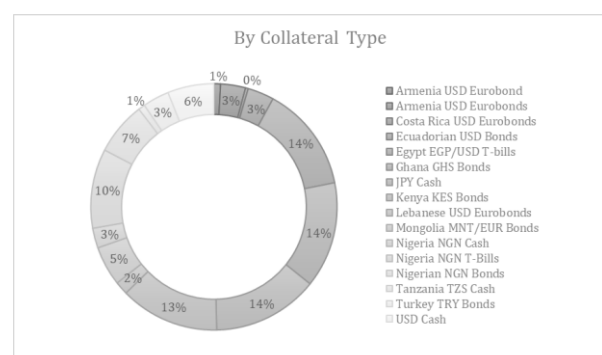
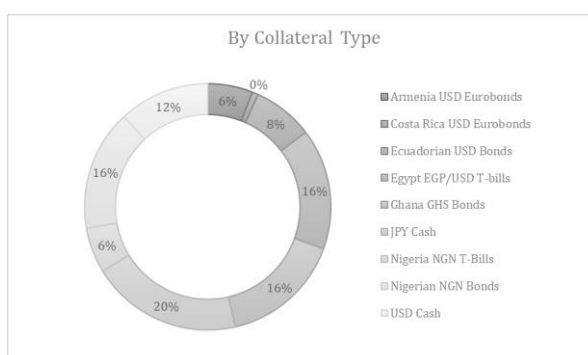
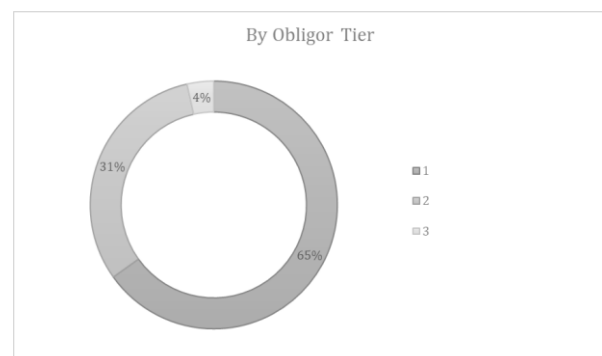
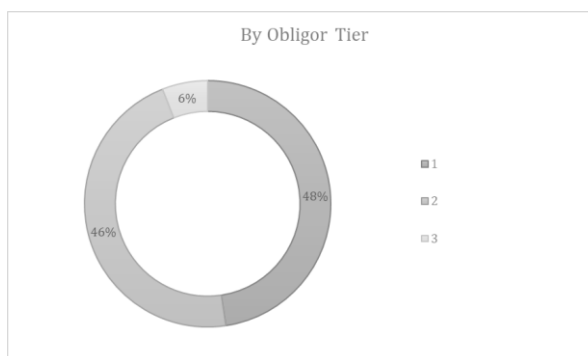
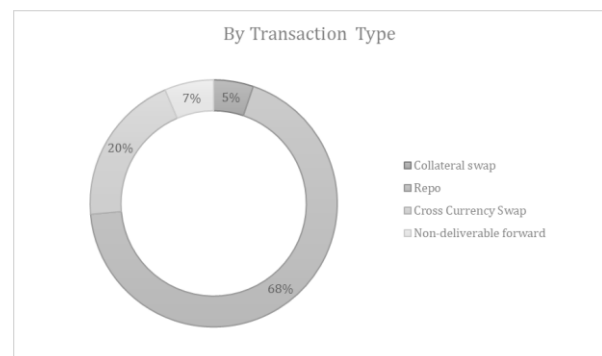
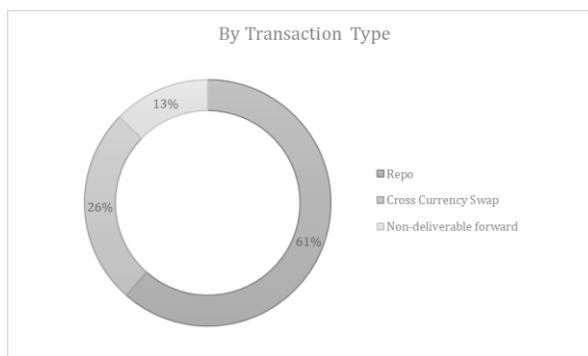
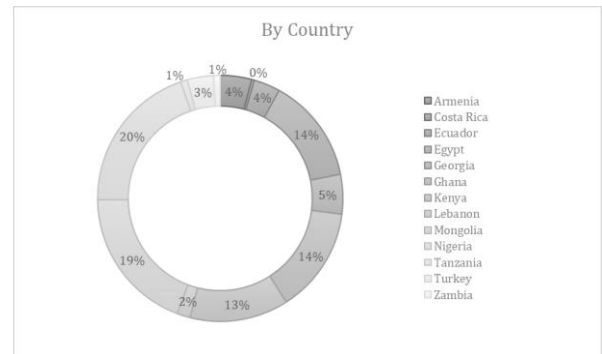
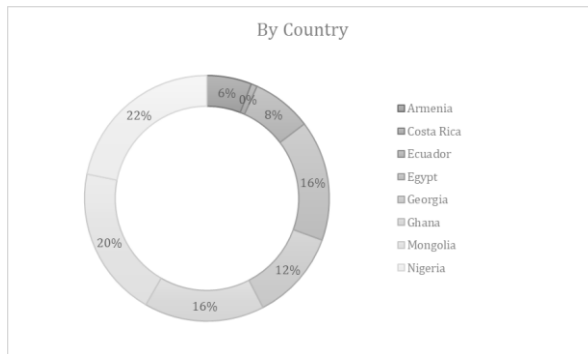


**Cumulative portfolio since inception**



**Portfolio as at 31 December 2019**

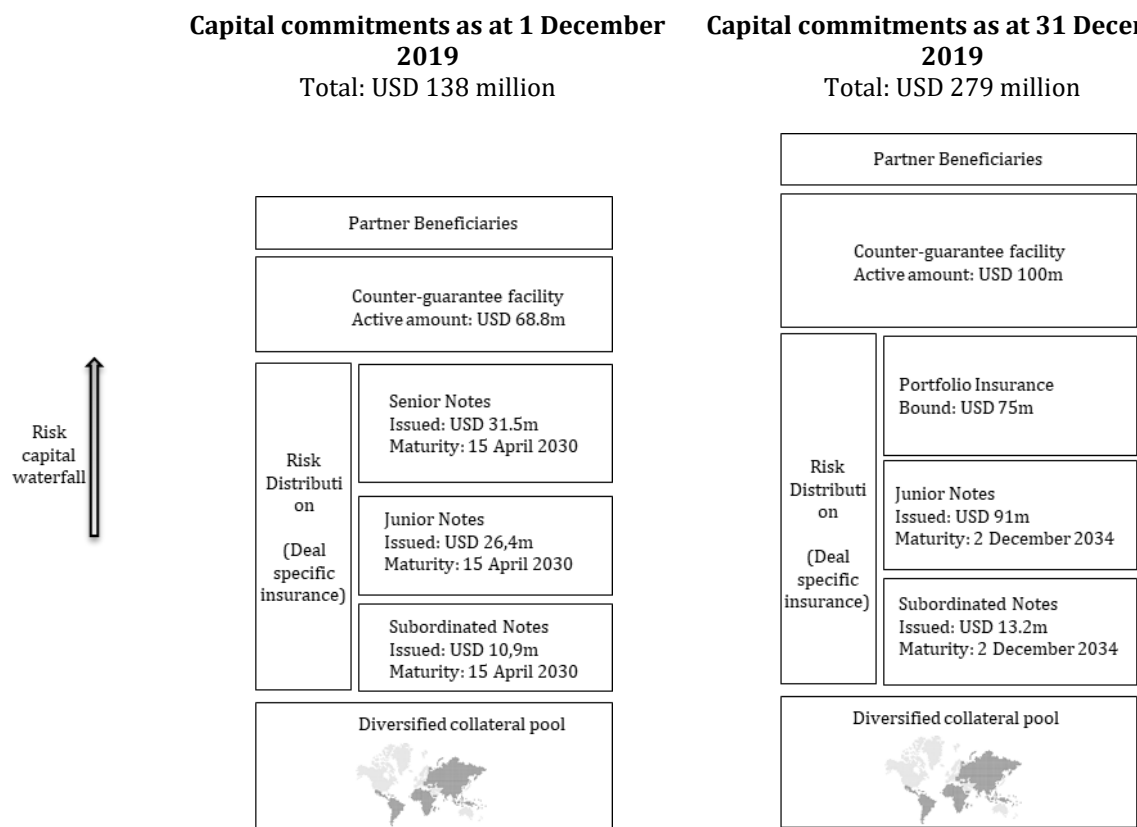
**Cumulative portfolio since inception**



FCC realized USD 3,222,435 in guarantees fees in 2019, up 45% from USD 2,219,398 in 2018. After adjustments for fair value and guarantee expenses (being insurance premiums paid on transaction specific risk insurance), total guarantee revenue of USD 1,859,838 was generated versus USD 1,630,652 in 2018. Finance costs, being interest and fees paid in accordance with the terms of the Profit Participating Notes (PPNs) Agreement and the Counter-Guarantee Agreement totaled USD 2,068,554 in 2019, up USD 1,534,976 in 2018. The increase in finance costs was primarily due to the increase in Libor and capital drawdowns through the year. Other results,

being investment income on FCC's liquidity portfolio and FX results was USD 1,101,050 in 2019. The net result is an operating income of USD 891,334 realized in 2019, up marginally from USD 847,278 in 2018. With operating expenses having increased to USD 3,550,243 in 2019 from USD 3,105,251 in 2018 on the back of costs related to the second financial close (see below), investments in FCC's capital model and an expansion of the management team, the total operating loss increased 18% to USD 2,658,909 in 2019 from USD 2,257,973 in 2018.

FCC is primarily funded through its PPN program, whereby it issues Subordinated Notes, Junior Notes, Senior Notes and Callable Notes to the Frontier Clearing Funds. Following the 2 December 2019 Second Financial Close, total assets increased 89% to USD 94,368,425 in 2019 from USD 49,813,164 in 2018 on the back of new notes being issued. Notes issued under the PPNs are recorded as long-term liabilities and were valued at a fair basis of USD 101,057,105 as at 31 December 2019, up from USD 53,091,323 (see footnote 10). The fair value of the PPN's is derived from a discounted cashflow model plus the amount by which the redemption value of the notes exceeds that value, if any. An increase in the value of long-term liabilities thus reflects an expectation of increased future profit and subsequently results in a negative equity position for FCC. The negative equity position as at 31 December 2019 was USD 8,695,484, up from USD 4,954,511. The diagram below summarizes the key changes in capital commitments as per 2 December 2019.



Going forward, the second financial close will have a material impact on FCC's financial performance. The second financial close resulted in all Senior Notes being redeemed, the new issuance of Junior and Subordinated Notes and a decrease in the cost of the counter-guarantee facility. For the first time, FCC secured private sector capital in the form of a USD 75 million excess-loss portfolio insurance policy. The result is that financing costs are expected to decrease by more than 50% in 2020 despite the 102% increase in committed capital. The introduction of a more risk sensitive limit framework should also result in reduced guarantee expenses as an overall percentage of the portfolio revenue. The net result is that FCC is expected to operate at or near break-even levels in 2020.

Frontclear expanded its impact footprint in all operating regions in 2019 and deepened results in countries

where Frontclear has been operating since 2016. For a complete overview of Frontclear's impact activities and results we are pleased to publish the 2019 annual Impact Report.

The COVID-19 pandemic in 2020 has created increased uncertainty with regard to the immediate portfolio development of FCC. COVID-19 has caused significant volatility in financial markets and has increased the financial risk FCC is exposed to under its guarantee portfolio. The impact of COVID-19 on financial markets however also further underline the relevance of the mandate of Frontclear in making markets more resilient. Even though a reasonable estimate of the potential financial impact cannot be determined, the outbreak of COVID-19 does not impact the company's ability to operate as a going concern.

The Management Board would like to thank the staff of Frontclear Management B.V. as well as our operational partners for their commitment and performance during 2019, without which the achievements in 2019 would not have been possible.

Amsterdam, 29 May 2020,

**The Managing Board of Frontclear Management B.V.,**

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

## FINANCIAL STATEMENTS

### Consolidated Statement of Financial Position

(as at 31 December, before profit appropriation)

(all amounts in USD)	Notes	2019	2018
		2019	2018
<b>Assets</b>			
<b>Non-current assets</b>			
Deferred tax asset	11	2,702,905	1,259,870
<b>Total non-current assets</b>		2,702,905	1,259,870
<b>Current assets</b>			
Cash and cash equivalents	6	34,863,333	47,751,500
Financial instruments at FVTPL - Securities	14	55,330,657	-
Financial guarantee contracts at FVTPL	12	74,926	-
Financial instruments at FVTPL - Other	13	876,276	349,079
Prepaid guarantee expenses		140,404	258,292
Other receivables		379,924	194,423
<b>Total current assets</b>		91,665,520	48,553,294
<b>Total assets</b>		94,368,425	49,813,164
<b>Equity</b>			
<b>Shareholders' equity</b>			
Issued share capital	7	1	1
General reserve	8	(4,954,512)	(4,933,440)
Undistributed result for the period	9	(3,740,973)	(21,072)
<b>Total shareholders' equity</b>		(8,695,484)	(4,954,511)
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Senior Notes	10	-	21,000,000
Junior Notes	10	89,769,556	26,400,000
Subordinated Notes	10	11,287,549	5,691,323
<b>Total long term liabilities</b>		101,057,105	53,091,323
<b>Short-term liabilities</b>			
Financial guarantee contracts at FVTPL	12	694,711	275,879
Financial instruments at FVTPL - Other	13	784,356	279,095
Accrued fees	15	56,460	346,882
Management fee payable	16	48,747	285,510
Other liabilities	17	422,530	488,986
<b>Total short term liabilities</b>		2,006,804	1,676,352
<b>Total equity &amp; liabilities</b>		94,368,425	49,813,164

*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	2019	2018
		2019	2018
<b>Revenues</b>			
Realized fees on contracts at FVTPL	19	3,222,435	2,219,398
Change in fair value of contracts at FVTPL	20	(321,970)	17,726
Guarantee expenses	21	(1,040,627)	(606,472)
<b>Total revenues</b>		<b>1,859,838</b>	<b>1,630,652</b>
<b>Finance costs</b>			
Senior Notes - Standby Fee	22	(213,021)	(295,890)
Subordinated Notes - FTAP Fee	23	(219,512)	(218,000)
Senior Notes - Commitment Fee	10	(45,308)	(45,812)
Senior Notes - Liquidity Fee	10	(1,011,425)	(532,659)
Counter Guarantee Fee	24	(580,288)	(442,615)
		(2,069,554)	(1,534,976)
<b>Other results</b>			
Interest income	25	1,096,736	761,464
FX results and fair value changes in liquidity investments		(10,710)	(9,862)
Other income		15,024	-
		1,101,050	751,602
<b>Total operating income</b>		<b>891,334</b>	<b>847,278</b>
<b>Operating expenses</b>			
Management Fees	26	(2,527,792)	(2,170,500)
Performance Fees	27	(422,365)	(300,830)
Legal Fees	28	(193,275)	(269,782)
Third party service providers	29	(66,938)	(177,813)
Depreciation		-	(22,891)
Other operating expenses	31	(339,873)	(163,435)
<b>Total operating expenses</b>		<b>(3,550,243)</b>	<b>(3,105,251)</b>
<b>Operating result</b>		<b>(2,658,909)</b>	<b>(2,257,973)</b>
Revaluation of Subordinated Notes	10	(3,596,226)	2,587,937
Revaluation of Junior Notes	10	1,071,128	-
<b>Net loss for the period before tax</b>		<b>(5,184,007)</b>	<b>329,964</b>
Income tax	11	1,443,034	(351,036)
<b>Comprehensive loss for the period</b>		<b>(3,740,973)</b>	<b>(21,072)</b>
<i>Comprehensive loss for the period attributable to the holder of the issued share of FCC</i>	32	<i>(3,740,973)</i>	<i>(21,072)</i>

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	2019	2018
<b>Cash flow from operating activities</b>			
Guarantee fees received	19	2,010,618	1,136,442
Guarantee expenses paid		(957,739)	(726,100)
Income received from financial instruments at FVTPL		1,211,817	513,783
Interest received		1,123,179	731,992
Management fees paid	26	(2,764,555)	(2,184,668)
Other operational expenses paid		(1,073,486)	(1,027,827)
		<b>(450,166)</b>	<b>(1,556,378)</b>
<b>Cash flow from investing activities</b>			
Financial instruments at FVTPL – Securities purchases		(57,406,492)	-
Financial instruments at FVTPL – Securities sales		2,062,851	-
		<b>(55,343,641)</b>	-
<b>Cash flow from financing activities</b>			
Senior Notes –fees paid		(1,561,688)	(150,052)
Senior Notes received	10	10,500,000	10,500,000
Junior Notes received	10	33,500,000	-
Junior Notes paid	10	(559,316)	-
Subordinated Notes received	10	2,000,000	-
Subordinated Notes - FTAP Fee paid	23	(218,000)	(218,000)
Counter-guarantee fee paid	24	(757,232)	(441,577)
Subscription and license fees paid		(398)	-
		<b>42,903,366</b>	<b>9,690,371</b>
<b>Net cash flow generated from (used in) financing activities</b>		<b>42,903,366</b>	<b>9,690,371</b>
<b>Net cash flow generated during (used in) the year</b>		<b>(12,890,441)</b>	<b>8,133,993</b>
Cash and cash equivalents at beginning of the period		47,751,500	39,627,369
Foreign currency translation of cash positions		2,274	(9,862)
		<b>34,863,333</b>	<b>47,751,500</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>34,863,333</b>	<b>47,751,500</b>
<b>Analysis of cash and cash equivalents</b>			
Cash at banks		4,863,333	12,751,500
Money market funds		30,000,000	35,000,000
		<b>34,863,333</b>	<b>47,751,500</b>
<b>Total of cash and cash equivalents</b>	<b>6</b>	<b>34,863,333</b>	<b>47,751,500</b>

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

## Statement of Changes in Equity

(all amounts in USD)	Amounts		Number of shares	
	2019	2018	2019	2018
Equity at beginning of the period	(4,954,511)	(4,933,439)	1	1
Proceeds from shares issued	-	-	-	-
Net change from transactions with shareholders	-	-	-	-
Comprehensive loss for the period	(3,740,973)	(21,072)		
<b>Equity at end of year</b>	<b>(8,695,484)</b>	<b>(4,954,511)</b>	<b>1</b>	<b>1</b>

*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 wholly-owned subsidiary FCC Securities B.V. (“FCC Securities”) 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 is primarily funded by means of its Profit Participating Notes program, under which it issues Subordinated Notes, Junior Notes, Senior Notes and Callable Notes (together the “Profit Participating Notes” or “PPN”) to the Frontier Clearing Fund Subordinated, Frontier Clearing Fund Junior, Frontier Clearing Fund Senior and Frontier Clearing Fund Callable (together the “Funds”). FCM is also the fund manager (in this capacity the “Fund Manager”) of the Funds in accordance with their Terms and Conditions.

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

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.

### 2. Events after the reporting period

#### *Performance fee*

On 19 March 2020, the Supervisory Board of FCC awarded FCM with a Performance Fee being the sum of USD 367,748 and EUR 331,972. FCC has been invoiced by FCM for the amount of EUR 331,972 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 deterministic portion of the Performance Fee of EUR 200,642 has been recognized in 2019. The remainder of the Performance Fee has been subject to the discretionary assessment of the Supervisory Board of FCC after year-end and will be recognized in 2020.

#### *COVID-19*

The COVID-19 pandemic in 2020 has created increased uncertainty with regard to the portfolio development of FCC. COVID-19 has caused significant volatility in financial markets and has increased the financial risk FCC is exposed to under its guarantee portfolio. Disrupted markets make it less certain FCC will be able to maintain and grow its guarantee portfolio as intended. FCC might not be able to replace guarantee contracts maturing in 2020. The return on the portfolio of liquidity investments of FCC might be negatively affected by the significant reduction in USD interest rates and yields on high quality liquid assets. Despite the fact that a reasonable estimate of the potential financial impact cannot be determined, the outbreak of COVID-19 does not impact the company’s ability to operate as a going concern (Note 4).

The operations of Frontclear are not materially affected by the COVID-19 response measures.

### 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 29 May 2020.

#### 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*

There are no new standards, amendments to standards or interpretations that are effective for annual period beginning on 1 January that have a material effect on the financial statement of FCC.

*New standards, amendments and interpretations to existing standards which are relevant to FCC and not yet effective*

Amendments to IAS 1 and IAS 8 Definition of material - The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

FCC do not expect that the adoption of the amendments listed above will have a material impact on the financial statements of FCC in future periods.

##### **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 (Control). 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. 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 securities, money market funds and term deposits are at fair value through profit or loss.

FCC classifies its Subordinated, Junior, Senior and Callable Notes 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.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Fund’s business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

### *Initial 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 10.

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

### *Measurement*

Financial instruments are initially measured at fair value (transaction price). Transaction costs on financial instruments at fair value through profit or loss are expensed immediately. After initial recognition, financial instruments at fair value through profit or loss are measured at fair value, with changes in their fair value recognized as gains or losses in the statement of comprehensive income.

### *Fair value measurement principles*

For all financial instruments which are highly rated and liquid such as money market funds, fixed bond securities 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 10.

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. A further description of the valuation of the financial guarantee contracts is disclosed in Note 12.

*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.

**Insurance contracts taken**

Insurance contracts taken are classified as contingent assets and the premium payable for the contracts is accrued over the life of the contract. A reimbursement asset is recognized only in case the insured event has materialized. The reimbursement asset will in such case reflect the risk of non-payment by the insurance provider.

**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 on securities at fair value through profit or loss is recognized in the statement of comprehensive income within 'Interest income'.

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 are 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.

## **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 10 where the inputs are described including the impact of each variable for the determination of the fair value as well as the sensitivity towards each fair value.

#### *Judgement*

In the process of applying FCC's accounting policies, FCC has made the following judgement, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements. FCC determines the classification of positions in money market funds as disclosed in Note 6 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. As FCC does not have an obligation under the PPNs 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.

COVID-19 might affect the financial results of FCC in 2020, but not to the extent this would raise concern to the sustainability of operations. The Manager is not aware of any other 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 2019, 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 analysis.

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 2019, the net duration of the financial assets and liabilities of FCC stood at -8.1 years (2018: -5.1 years). See Note 6 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 obligors, 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 payment obligations associated with financial liabilities and off-balance sheet instruments at a reasonable cost.

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:

<i>Scenario</i>	<i>Test</i>	<i>Note</i>
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 obligor
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

*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 Capital Required Regulation. The credit limits are based on the lowest published credit rating by Standard & Poor's, Moody's or Fitch and internal assessments.

The following table shows the credit exposure for liquidity investment as at December 31, 2019:

(all amounts in USD)	<b>Credit rating</b>	<b>Exposure 2019</b>	<b>Exposure 2018</b>
Money market funds	AAA	30,000,000	35,000,000
Fixed income investments	AAA	55,330,657	-
Cash positions Rabobank	AA-	4,854,315	12,751,399
Cash positions Kas Bank NV	A+	6,879	-
Cash Positions Standard Chartered Bank Ghana	Not rated	1,702	101
Cash positions Khan Bank LLC	B	437	-
<b>Total</b>		<b>90,193,990</b>	<b>47,751,500</b>

FCC is exposed to credit risk under the financial guarantees it has issued to cover the counterparty credit risk on interbank transactions, where the obligor 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 obligor.

FCC assigns country limits and counterparty limits for obligors based on a fundamental analysis of the country and counterparty. The limit framework is based on two exposure metrics: the aggregate loss given default and on the aggregate maximum exposure under a worst-case scenario per country and counterparty. 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 obligor 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 2019 is set between 30% and 50%. The maximum exposure of a guaranteed transaction is equal to the notional value of the transaction for transactions with exchange of principal (deliverable transactions) and is based on a stochastic potential future exposure metric for transactions without exchange of principal (non-deliverable transactions).

The maximum aggregate guarantee exposure across countries and counterparties that FCC can enter into against its available capital is controlled by the economic capital framework. 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 following table shows the notional amounts of outstanding FCC guarantees per country:

**2019**

(all amounts in USD)	<b>Gross notional exposure</b>	<b>Hedged</b>	<b>Net notional exposure</b>	<b>Fair Value</b>
Armenia	14,908,378	-	14,908,378	(68,324)
Georgia	30,000,000	-	30,000,000	12,579
Egypt	40,000,000	(10,000,000)	30,000,000	62,347
Mongolia	50,000,000	(15,500,000)	34,500,000	85,019
Ghana	40,000,000	(25,000,000)	15,000,000	(133,456)
Nigeria	60,000,000	(25,000,000)	35,000,000	(173,533)
Costa Rica	2,000,000	-	2,000,000	6,901
Ecuador	20,000,000	(5,000,000)	15,000,000	(319,398)
<b>Total</b>	<b>256,908,378</b>	<b>(80,500,000)</b>	<b>176,408,378</b>	<b>(527,865)</b>

**2018**

(all amounts in USD)	<b>Gross notional exposure</b>	<b>Hedged</b>	<b>Net notional exposure</b>	<b>Fair Value</b>
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
<b>Total</b>	<b>176,548,687</b>	<b>(90,000,000)</b>	<b>86,548,687</b>	<b>(205,896)</b>

*Hedged exposure*

FCC has obtained non-payment insurance to hedge USD 80,500,000 (31 December 2018: USD 90,000,000) 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 requirement for credit and counterparty credit risk is based on loss distribution for the portfolio generated by a stochastic capital model. The stochastic capital model generates the loss distribution of the portfolio by simulating defaults in the portfolio in a Monte Carlo analysis and generating a loss per default by drawing FX and short-term interest rate movements from a distribution of such movements conditional on the default of a bank. The probabilities of default and correlation statistics for the exposure in the portfolio are taken from external credit rating agency models. The conditional distribution of FX and short-term interest rate movements are taken from a study commissioned by Frontclear on the topic in 2017 and are based on a distribution derived from the empirical observation of such movements after one week, one month and three months after 344 bank defaults in emerging markets since 1984. The Pillar I capital requirement is equal to the 99.75% percentile of the loss distribution plus an additional buffer of 20% to compensate for model risk.

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-.

*Maximum leverage*

By means of its risk charter, FCC has limited the ratio of net guarantee exposures over available cash to a maximum of 2.

## 6. Cash and cash equivalents

(all amounts in USD)

	<u>2019</u>	<u>2018</u>
Money market funds	30,000,000	35,000,000
USD cash account	4,853,428	12,742,960
EUR cash account	8,203	8,440
Other cash account	1,702	100
<b>Total cash and cash equivalents</b>	<b><u>34,863,333</u></b>	<b><u>47,751,500</u></b>

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 950,640 (2018: USD 761,464).

## 7. Issued share capital

The authorized and issued share capital consists of 1 ordinary share of € 1 and has been fully paid. FCM holds the share of FCC.

## 8. General reserve

(all amounts in USD)

	<u>2019</u>	<u>2018</u>
Balance as at beginning of period	(4,933,440)	192,344
Distributed from undistributed result for the period	(21,072)	(5,125,784)
<b>Balance as at 31 December</b>	<b><u>(4,954,512)</u></b>	<b><u>(4,933,440)</u></b>

## 9. Undistributed result for the period

(all amounts in USD)

	<u>2019</u>	<u>2018</u>
Balance as at beginning of period	(21,072)	(5,125,784)
Distributed to general reserve	21,072	5,125,784
Comprehensive income for the period	(3,740,973)	(21,072)
<b>Balance as at 31 December</b>	<b><u>(3,740,973)</u></b>	<b><u>(21,072)</u></b>

## Minimum capital requirement

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

## 10. Long-term liabilities

### *Second financial close on 2 December 2019*

In 2019, FCC and the Funds have agreed to amend the terms and conditions relating to the Profit Participating Notes. The resulting agreements are captured in the Amended & Restated PPN Agreement of 2 December 2019.

The USD 31,500,000 Senior Notes issued (31 December 2018: USD 21,000,000) have been repaid and the outstanding Senior Commitment of USD 43,500,000 (31 December 2018: USD 54,000,000) has been cancelled in exchange for an increase in Junior Notes of USD 65,000,000. The repayment of Senior Notes and payment for the increase in Junior Notes have been set-off through non-cash IOU movements in agreement with the investors in the Frontier Clearing Funds.

On 20 December 2019 an amount of USD 400,000 of Junior Notes has been redeemed at the price of USD 559,316.44. The nominal value of Junior Notes issued at 31 December 2019 consequently amounts to USD 91,000,000 (2018: USD 26,400,000). A further USD 2,300,000 of Subordinated Notes were issued at a price of USD 2,000,000, leading to an outstanding nominal value of Subordinated Notes at 31 December 2019 of USD 13,200,000 (2018: USD 10,900,000).

Provisions have been included in the Amended & Restated PPN Agreement for FCC to receive a Callable Commitment with the newly established Frontier Clearing Fund Callable and issue Callable Notes. No Callable Commitment or Callable Notes were outstanding at 31 December 2019. FCF Callable will report for the first time with an extended book year in 2020.

The tenor of all issued Notes is been fifteen years from 2 December 2019, with an option to extend to twenty-five year.

Finally, FCC entered into a Portfolio Insurance contract for USD 75,000,000 with Lloyd's Insurance Company S.A. Under the Portfolio Insurance contract, FCC can claim any losses exceeding the Available Cash, as restated from time to time, with a waiting period of 180 days. Further information on the Portfolio Insurance can be found in Note 21.

The long-term liabilities at 31 December 2019 are detailed as follows:

(all amounts in USD)	<b>Junior Notes</b>	<b>Senior Notes</b>	<b>Subordinated Notes</b>	<b>Total</b>
<b>Total position at beginning of period</b>	<b>26,400,000</b>	<b>10,500,000</b>	<b>8,279,260</b>	<b>45,179,260</b>
Notes issued during the period	-	10,500,000	-	10,500,000
Revaluation during the period	-	-	(2,587,937)	(2,587,937)
<b>Total position at 31 December 2018</b>	<b>26,400,000</b>	<b>21,000,000</b>	<b>5,691,323</b>	<b>53,091,323</b>
Notes issued during the period in cash	33,500,000	10,500,000	2,000,000	77,500,000
Notes issued during the period in kind	31,500,000	-	-	31,500,000
Notes redeemed during the period in cash	(559,316)	-	-	(32,059,316)
Notes redeemed during the period in kind	-	(31,500,000)	-	(31,500,000)
Revaluation during the period	(1,071,128)	-	3,596,226	2,525,098
<b>Total position at 31 December 2019</b>	<b>89,769,556</b>	<b>-</b>	<b>11,287,549</b>	<b>101,057,105</b>

### **Callable Notes**

#### *Status*

Frontier Clearing Fund Callable ("FCF Callable") was established on 29 November 2019. FCF Callable is party to the Amended & Restated PPN Agreement between FCC and each of the Frontier Clearing Funds. FCC agrees to issue to and FCF Callable agrees to purchase Callable Notes up to the level of commitments given to FCF Callable by its investors (the "Callable Commitment"). The Callable Commitment is unconditional and irrevocable. The Callable Commitment on 31 December 2019 is nil (2018: nil).

*Issuance, repayment and interest*

On the occurrence of a liquidity trigger event or if in the reasonable determination of FCC the financial position of FCC requires such, FCC will issue Callable Notes to FCF Callable, reducing the undrawn Callable Commitment.

FCC pays each quarter on the first business day of April, July, October and January of each calendar year a Commitment Fee over the undrawn Callable Commitment based on the level of the aggregate maximum exposure of FCC's guarantee portfolio divided by the amount of Available Cash and a Liquidity Fee over outstanding Callable Notes of three-months USD Libor or the replacement benchmark rate in case LIBOR ceases to exist.

Any outstanding Callable Notes shall be repaid in full on 2 December 2034. However, on 2 December 2029, the investors in FCF Callable have the option to postpone the redemption date of the Notes to 2 December 2044. Repayment of Callable Notes is subject to Available Cash and ranks senior to repayment of the Junior Notes and Subordinated Notes. The repayment of any PPN is further subject to FCC having concluded the orderly liquidation of its guarantee portfolio.

**Senior Notes**

*Status*

The outstanding amount of Senior Notes of USD 31,500,000 (31 December 2019: USD 21,000,000) has been redeemed by means of non-cash IOU movements and the outstanding Senior Commitment of USD 43,500,000 (31 December 2018: USD 54,000,000) has been cancelled on 2 December 2019. FCF Senior has withdrawn from the PPN Agreement and has been liquidated by the Manager.

*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.

**Junior Notes**

*Status*

A net nominal value of USD 91,000,000 has been issued to and fully settled by Frontier Clearing Fund Junior ("FCF Junior). Of the outstanding USD 91,000,000, an amount of USD 26,400,000 was issued on 15 April 2019 and USD 65,000,000 on 20 December 2019. All Junior Notes have been issued at par and are fully settled, partially through the movements of non-cash IOU. An amount of USD 400,000 has been redeemed on 20 December 2019 for a price of USD 559,316.44.

*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 Commitment Fees, Liquidity Fees and FTAP Fees (if applicable) and (ii) reduced by the total amount of any outstanding Callable Funds (nil as per 31 December 2019), Junior Funds (as per 31 December 2019 USD 91,000,000) and Subordinated Funds (as per 31 December 2019 USD 13,200,000) as interest on the Junior Notes. During the period, no interest has been paid.

The Junior Note shall be repaid in full on 2 December 2034. However, on 2 December 2029 FCF Junior has the option to postpone the redemption date of the Notes to 2 December 2044. Repayment of Junior Notes is subject to Available Cash and ranks junior to repayment of the Callable Notes, if any, and senior to repayment of the Subordinated Notes. The repayment of any PPN is further subject to FCC having concluded the orderly liquidation of its guarantee portfolio.

### **Subordinated Notes**

#### *Status*

The nominal value of Subordinated Notes issued to Frontier Clearing Fund Subordinated (“FCF Subordinated”) stands at USD 13,200,00 at 31 December 2019 (2018: USD 10,900,000). The first Subordinated Notes were issued on 15 April 2015 for an amount of USD 8,700,000 at par. On 29 December 2016, FCC issued an additional USD 2,200,000 in Subordinated Notes to FCF Subordinated at par. On 20 December 2019 an amount of USD 2,300,000 has been issued to FCF Subordinated at a price of USD 2,000,000. All issues 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 FTAP Fee of 2% per annum.

The Subordinated Notes shall be repaid in full on 2 December 2034. However, on 2 December 2029 FCF Subordinated has the option to postpone the redemption date of the Notes to 2 December 2044. The repayment of the Subordinated Notes is subject to Available Cash and ranks junior to the repayment of Senior Notes and Junior Notes. The repayment of any PPN is further subject to FCC having concluded the orderly liquidation of its guarantee portfolio.

#### **Fair value of Junior Notes and Subordinated Notes**

The Junior Notes and Subordinated 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 FCC 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 2019 is the value derived from the discounted cashflow model plus the amount by which the redemption value of the notes based on the PPN Agreement exceeds that value, if any.

#### Level 3 discounted cashflow model

FCC values the PPN with a level 3 discounted cashflow model, which models the cashflows to each of the PPN over the remaining life of the notes based on portfolio actuals and the following significant unobservable inputs:

Description	Definition
Portfolio baseline	The expected average portfolio over the period up to the next financial year-end;
Portfolio growth rate	The annual growth rate of the portfolio of guarantees issued by FCC, subject to the portfolio leverage, in the years following the next financial year-end;
Portfolio leverage	The portfolio leverage is the maximum factor of outstanding guarantee portfolio over risk capital allowed;
Pricing	The expected average guarantee fee percentage earned over the projected horizon;
OPEX growth rate	The annual growth rate of the operational expenses of FCC, subject to the OPEX ceiling, in the years following the next financial year-end;
OPEX ceiling	The maximum level of annual operational expenses anticipated over the projected horizon;

The unobservable input parameters for the proxy model are discussed with the FCC Supervisory Board as part of the business planning cycle towards the end of each calendar year. The Management Board reassesses the adequacy of the input parameters at the end of each calendar quarter, in light of portfolio actuals and the portfolio outlook.



The discounted cashflow value (“DCF value”) of each note is the present value of all its distributions and redemptions, discounted USD zero coupon rates extracted from observable interest rates for the remaining tenor of the notes plus the risk premium observed in the latest transaction of the notes. The discount rates hence reflect the return expectation of investors in the most advantageous market for FCC.

For the purpose of fair value measurement, the model does not take into account unknown guarantee payments nor any issuance of PPN beyond the level of confirmed commitments.

Redemption value

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

The level of Available Cash is equal to the fair value of cash and cash equivalents, minus a provision for amounts to be paid under legally binding obligations and expenses and minus the reasonable remuneration to the shareholder of FCC, defined in the Amended & Restated 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 2019 was equal to USD 3,461,406 (2018: USD 3,111,000).

The investors in the Frontier Clearing Funds have the right to liquidate the Frontier Clearing Funds and thereby triggering the repayment of the PPN 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:

**2019**

(all amounts in USD)	<b>DCF Value Committed Capital</b>	<b>Redemption Value at 31 December</b>	<b>Fair Value at 31 December</b>	<b>Business case valuation of PPN</b>
Callable Notes	-	-	-	-
Junior Notes	55,939,977	89,769,556	89,769,556	89,269,967
Subordinated Notes	11,287,549	-	11,287,549	11,287,549
<b>Total</b>	<b>67,227,526</b>	<b>89,769,556</b>	<b>101,057,105</b>	<b>100,557,516</b>

**2018**

(all amounts in USD)	<b>Fair value Proxy Value Committed Capital</b>	<b>Redemption Value at 31 December</b>	<b>Fair Value at 31 December</b>	<b>Business case Total PPN of USD 200 million</b>
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
<b>Total</b>	<b>35,030,727</b>	<b>48,357,762</b>	<b>53,091,323</b>	<b>58,370,253</b>

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 2019 the Junior Notes are valued at USD 89,769,556 (2018: USD 26,400,000) and the Subordinated Notes at USD 11,287,549 (2018: USD 5,691,323).

*Change in accounting estimate*

The fair value of the PPN's at 31 December 2018 is the value derived from a proxy model plus the amount by which the redemption value of the notes based on the PPN Agreement exceeds that value, if any. The proxy model is a future value model, in which all expected cashflows over the life of the company are projected towards the redemption date of the notes. The proxy value is then the present value of the allocation of available cash at the redemption date to each of the PPN, discounted by the swap rate for the redemption date plus a risk premium observed in the last transaction in the PPN. The table below provides the difference in FV at 31 December 2019 using the proxy model and the discounted cashflow model for each of the notes:

<b>2019</b>	<b>FV with DCF model at 31 December</b>	<b>FV with proxy model at 31 December</b>	<b>Delta</b>
(all amounts in USD)			
Junior Notes	89,769,556	89,769,556	-
Subordinated Notes	11,287,549	11,396,416	(108,867)
<b>Total</b>	<b>101,057,105</b>	<b>101,165,972</b>	<b>(108,867)</b>

*Sensitivity analysis*

The sensitivity analysis provides an overview of the uncertainty of each significant unobservable input and the impact on the PPN valuations of a reasonable change in levels applied. The uncertainty of each significant input refers to the measure of uncertainty that FCC faces in estimating each input (1 is less uncertain, 5 is most uncertain) over the projected horizon.

	Uncertainty	Inputs	Reasonable possible change	Impact	Change in DCF value in USD 1,000	
					Junior Note	Subordinated Note
Portfolio baseline	2	214mln	-15%	Linear	-	-
Portfolio growth rate	4	25%	-15%	Linear	(11,617)	-
			+10%		2,374	-
Leverage	2	3.0	-0.5	Non-linear	(8,834)	-
Pricing	4	1.9%	-0.3%	Linear	(10,610)	-
			+0.3%		10,704	-
OPEX growth rate	1	5%	+5%	Linear	(5,406)	-
OPEX ceiling	2	175%	+25%	Non-linear	(684)	-

2018	Change in proxy fair value in USD 1,000					
	Uncertainty	Inputs	Reasonable possible change	Senior Note	Junior Note	Subordinated Note
Risk Capital <sup>1</sup>	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)

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.

## 11. Tax position

(all amounts in USD)	2019	2018
Cumulative result prior to revaluation of PPN	(14,081,968)	(11,423,058)
Cumulative difference to depreciation of intangible fixed asset	13,734	68,672
Cumulative fiscal result over the period 2015 to 2019	(14,068,233)	(11,354,386)
Deemed recoverable	(14,068,233)	(11,354,386)
(A) Resulting deferred tax asset (19% rate)	3,052,087	2,327,649
<i>Temporary differences in carrying amounts</i>		
Revaluation of PPN	(1,612,451)	(5,208,677)
(B) Resulting deferred tax liability (19% rate)	(349,902)	(1,067,779)
<b>Total tax position (A+B, +asset, -/- liability)</b>	<b>2,702,905</b>	<b>1,259,870</b>

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 2019 is built up over annual fiscal results that can be carried forward as per the following table:

(all amounts in USD)	Carry forward to	2019	2018
Fiscal result 2015	2024	(3,800,402)	(3,800,402)
Fiscal result 2016	2025	(2,689,692)	(2,689,692)
Fiscal result 2017	2026	(2,574,273)	(2,574,273)
Fiscal result 2018	2027	(2,290,019)	(2,290,019)
Fiscal result 2019	2028	(2,713,847)	-
Cumulative fiscal result over the period 2015 to 2019		(14,068,233)	(11,354,386)

<sup>1</sup> Weighted average maturity - years

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 21.7% (2018 20,5%) applicable as of 2021 for corporate income exceeding the threshold of EUR 200k.

*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 2019 of USD 2,702,905 (2018: a deferred tax asset of USD1,259,870).

## 12. Financial guarantee contracts at FVTPL

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 2019:

### 2019

(all amounts in USD)	<b>Gross notional exposure</b>	<b>Hedged</b>	<b>Net notional exposure</b>	<b>Fair Value</b>
Georgia	30,000,000	-	30,000,000	12,579
Egypt	40,000,000	(10,000,000)	30,000,000	62,347
<b>Subtotal of financial guarantee contracts at FVTPL (assets)</b>	<b>70,000,000</b>	<b>(10,000,000)</b>	<b>60,000,000</b>	<b>74,926</b>
Armenia	14,908,378	-	14,908,378	(68,324)
Ghana	40,000,000	(25,000,000)	15,000,000	(133,456)
Nigeria	60,000,000	(25,000,000)	35,000,000	(173,533)
Ecuador	20,000,000	(5,000,000)	15,000,000	(319,398)
<b>Subtotal of financial guarantee contracts at FVTPL (liabilities)</b>	<b>134,908,378</b>	<b>(55,000,000)</b>	<b>79,908,378</b>	<b>(694,711)</b>
Issued to third parties and paid for by FCC Securities (see Note 13)				
Mongolia	50,000,000	(15,500,000)	34,500,000	85,019
Costa Rica	2,000,000	-	2,000,000	6,901
	<b>52,000,000</b>	<b>(15,500,000)</b>	<b>36,500,000</b>	<b>91,920</b>
<b>Total</b>	<b>256,908,378</b>	<b>(80,500,000)</b>	<b>176,408,378</b>	<b>(527,865)</b>

**2018**

(all amounts in USD)	<b>Gross notional exposure</b>	<b>Hedged</b>	<b>Net notional exposure</b>	<b>Fair Value</b>
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
<b>Subtotal</b>	<b>176,548,687</b>	<b>(90,000,000)</b>	<b>86,548,687</b>	<b>(205,896)</b>
Of which issued to third parties for exposure on FCC Securities (see Note 13)	(99,917,492)			(69,983)
<b>Total</b>	<b>76,631,195</b>			<b>(275,879)</b>

*Issued Guarantees - Fair value information*

The fair value of an issued guarantee is equal to the present value of all premium payments due under the contract minus the credit value adjustment, i.e. the sum of expected costs associated with the guarantee contract in terms of expected credit losses and capital costs. The credit value adjustment of issued guarantees is set equal to the price received for each guarantee at inception – fair value of a contract is equal to zero 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 obligor 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 is likely to affect the market parameters driving the exposure at default and loss given default, e.g. by triggering a currency crisis.

Given the bespoke nature of the guarantees, their credit value adjustment cannot be determined by market prices or observable inputs only. The credit value adjustment at any consequent measurement date after inception is therefore determined using non-observable inputs (level 3 model).

Level 3 model

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 obligor, 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 determined as the expected loss given default times the probability of default, i.e. the probability of a simultaneous occurrence of a country event and default of the obligor. The expected loss given default for a guarantee is the given by the loss of converting collateral instruments to local currency cash and the conversion of local currency cash to USD. The 95% percentile of the distribution of short-term interest rates and FX conditional on bank defaults are used to determine the (stressed) loss given default for the country and counterparty exposure metrics, but the 50% percentiles for the expected loss given default. 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 probability of default is derived from observable spread of CDS contracts or USD denominated government securities of the country of the obligor bank. The resulting probability of default of the country is multiplied with a correlation scaling factor. 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 loss given default minus the expected credit loss - as the best proxy to marginal economic capital requirement of the exposure – times a transfer price weighted average cost of capital. The transfer price cost of capital is set to 5%, under the assumption that development finance institutions are the most advantageous market to transfer any guarantee exposures to and the average cost of capital for development finance institutions is about 5%.

The adjustment factor is determined at inception of the financial guarantee to calibrate the credit value adjustment to the present value of all premium cashflows of the guarantee and is linearly amortized of the life of the guarantee contract.

Unobservable inputs

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

<i>Description</i>	<i>Definition</i>
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.
Volatility of collateral value	The volatility of the value of the collateral provided at inception of the trade, leading to an assumption on variation margin paid during the trade. The default volatility used is 8% reflecting both exchange and interest rate movements.
Collateral instrument price	The expected price obtained for converting collateral instruments to local currency cash following the default of the obligor;
FX conversion rate	The expected exchange rate for conversion of local currency cash to USD following the default of the obligor;
Transfer price WACC	Set to 5%;
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

In case FCC has obtained risk mitigation for guarantees issued, the credit value adjustment reflects the expected credit loss over the gross exposure under the guarantee to FCC and the capital costs associated with the net guarantee exposure.

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 10).

In 2018, the expected credit loss was calculated not using the expected recovery rate for collateral instruments and the expected exchange rate for currency conversion, but stressed recovery rates and stressed exchange rates. The expected credit loss was calculated over net rather than gross guarantee exposures. Finally, the cost of capital was calculated using the weighted average cost of capital of FCC rather than a transfer price. The impacts of these changes on the fair value of guarantee contracts are stated in the table below.

(all amounts in USD)	<b>2019</b>
Marginal impact of changes to expected credit loss	(37,677)
Marginal impact of change to cost of capital	254,141
Combined impact of changes to credit value adjustment	<u>216,464</u>

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 a deviation of 10% up and down in the model parameters:

**2019**

(all amounts in USD)	Uncertainty (1-5)	Contribution (1-5)	Change in FV +10%	Change in FV -10%
FX jump factor	4	5	(8,917)	8,917
Recovery rate	2	2	382,869	(385,295)
Volatility of collateral	3	1	15,621	(15,621)
Correlation scaling factor	4	2	(70,256)	70,256
Probability of default	2	5	(70,256)	70,256

**2018**

(all amounts in USD)	Uncertainty (1-5)	Contribution (1-5)	Change in FV +10%	Change in FV -10%
FX jump factor	4	5	(130,347)	130,347
Recovery rate	2	2	138,976	(139,692)
Volatility of collateral	3	1	12,579	(12,579)
Correlation scaling factor	4	2	(39,866)	39,866
Probability of default	2	5	(39,866)	39,866

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 receive a financial guarantee from FCC and the EMDC-based counterparty. 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.

**13. Financial instruments at fair value through profit or loss - Other**

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 2019 (each line representing two contracts in total – one between FCC Securities and the obligor and one offsetting transaction between FCC Securities and the lender):

### 2019

(all amounts in USD)	Type	Maturity	Notional exposure	Fair value
Mongolia	CC-IRS	21-06-2021	50,000,000	85,019
Nigeria	CC-IRS	27-08-2020	15,000,000	-
Ghana	Repo	16-12-2020	40,000,000	-
Costa Rica	NDF	28-10-2020	2,000,000	6,901
Georgia	NDF	12-12-2022	30,486,288	-
<b>Total financial instruments</b>			<b>117,486,288</b>	<b>91,920</b>

### 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	-
<b>Total financial instruments</b>			<b>99,917,492</b>	<b>69,983</b>

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 a deviation of 10% up and down in the input parameter:

### 2019

(all amounts in USD)	Uncertainty (1-5)	Contribution (1-5)	Change in FV +10%	Change in FV -10%
FX jump factor	4	5	-	-
Recovery rate	2	2	-	-
Volatility of collateral	3	1	-	-
Correlation scaling factor	4	2	(241)	241
Probability of default	2	5	(241)	241



**2018**

(all amounts in USD)	<b>Uncertainty (1-5)</b>	<b>Contribution (1-5)</b>	<b>Change in FV +10%</b>	<b>Change in FV -10%</b>
FX jump factor	4	5	(12,910)	12,910
Recovery rate	2	2	15,778	(15,778)
Volatility of collateral	3	1	-	-
Correlation scaling factor	4	2	(11,197)	11,197
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:

**2019**

	<b>Assets</b>	<b>Liabilities</b>
Opening balance	349,079	(279,095)
Unrealized gains and (losses) for the year 2019	527,197	(505,261)
<b>Balance at 31 December 2019</b>	<b>876,276</b>	<b>(784,356)</b>

**2018**

	<b>Assets</b>	<b>Liabilities</b>
Opening balance	-	-
Unrealized gains and (losses) for the year 2018	349,079	(279,095)
<b>Balance at 31 December 2018</b>	<b>349,079</b>	<b>(279,095)</b>

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 2019 is USD 0 (2018: USD 0).

**14. Financial instruments at fair value through profit or loss - Securities**

The carrying amounts of financial assets at fair value through profit or loss at 31 December are as follows:

(all amounts in USD)

<b>Bonds 2019</b>	<b>Counterparty</b>	<b>Maturity date</b>	<b>Fair Value</b>
US29874QDC50 - EBRD 05-05-20	EBRD	05-05-2020	3,505,073
US045167DZ34	ADB	05-05-2020	5,007,247
AV2019071900030	IFC	30-03-2020	2,794,097
AV2019080700142	AfDB	26-07-2021	1,597,413
AV2019080800266	Kommunalbanken AS	17-04-2020	1,006,751
AV2019080800267	Kommunalbanken AS	17-04-2020	1,006,751
AV2019100900060	BNG	14-12-2020	2,007,914
AV2019100900064	FMO	20-01-2020	1,000,657
AV2019100800288	NIB	29-09-2020	2,002,431
US459058GU15	IBRD	01-07-2020	5,096,196
US9128283S79	US Treasuries	31-01-2020	10,087,019
US912828MP29	US Treasuries	15-02-2020	10,157,473
US912828V319	US Treasuries	15-01-2020	10,061,635
<b>Total</b>			<b>55,330,657</b>

The movement of the securities is as follows:

(all amounts in USD)	<u>2019</u>	<u>2018</u>
Opening balance	-	-
Purchases	57,406,492	-
Sales	(2,062,851)	-
Fair value changes on financial instruments at FVTPL	(12,984)	-
<b>Position as per 31 December</b>	<b><u>55,330,657</u></b>	<b><u>-</u></b>

#### 15. Accrued fees

(all amounts in USD)	<u>2019</u>	<u>2018</u>
Accrued Senior Notes fees	-	291,934
Accrued Subordinated Notes fees	56,460	54,948
<b>Total Accrued fees</b>	<b><u>56,460</u></b>	<b><u>346,882</u></b>

#### 16. Management fee payable

(all amounts in USD)	<u>2019</u>	<u>2018</u>
Management fee payable	48,747	285,510
<b>Total management fee payable</b>	<b><u>48,747</u></b>	<b><u>285,510</u></b>

#### 17. Other liabilities

(all amounts in USD)	<u>2019</u>	<u>2018</u>
Third party service provider fees payable	28,071	7,335
Accrued performance fees	225,289	149,872
Other liabilities	169,170	331,779
<b>Total other liabilities</b>	<b><u>422,530</u></b>	<b><u>488,986</u></b>

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

##### *Deferred performance fee*

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.

On 21 March 2020, the Supervisory Board of FCC awarded FCM with a Performance Fee for its performance during 2019. The amount of USD 367,748 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 1,354,150 (2018: USD 986,402).

### 19. Realized fees on contracts at FVTPL

(all amounts in USD)	<u>2019</u>	<u>2018</u>
Realized fees on financial guarantee contracts at FVTPL	2,010,618	1,136,442
Realized fees of financial instruments at FVTPL	1,211,817	513,783
Amortisation of deferred guarantee revenue	-	569,173
<b>Total realized and accrued fees</b>	<b><u>3,222,435</u></b>	<b><u>2,219,398</u></b>

### 20. Changes in fair value on contracts at FVTPL

(all amounts in USD)	<u>2019</u>	<u>2018</u>
Fair value of financial guarantee contracts at beginning of the period	275,879	223,610
Fair value of financial instruments at beginning of the period	(69,984)	-
Rounding differences	-	11
Fair value of financial guarantee contracts at end of the period	(619,785)	(275,879)
Fair value of financial instruments at FVTPL at end of the period	91,920	69,984
<b>Total change in fair value</b>	<b><u>(321,970)</u></b>	<b><u>17,726</u></b>

#### *Change in accounting estimate*

In 2019, changes were made to the calculation of the fair value of guarantee contracts (see Note 12 for further detail). The impact of these changes to the changes in fair value on contracts at FVTPL are provided below:

(all amounts in USD)	<u>2019</u>
Marginal impact of changes to expected credit loss	(37,677)
Marginal impact of change to cost of capital	254,141
Combined impact of changes to credit value adjustment	<u>216,464</u>

### 21. Guarantee expenses

(all amounts in USD)	<u>2019</u>	<u>2018</u>
Hedging costs	1,040,627	606,472
<b>Total guarantee expenses</b>	<b><u>1,040,627</u></b>	<b><u>606,472</u></b>

The guarantee expenses exclusively relate to fees on insurance contracts.

### 22. Senior Notes - Standby Fee

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 2019: nil) reduced by the Effectuated Senior Commitment (as per 31 December 2019: USD nil). The fees are paid to FCF Senior. All Senior Notes and Senior Commitments have been redeemed and cancelled on 2 December 2019.

### 23. Subordinated Notes - FTAP Fee

The Subordinated Notes FTAP Fee 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 Profit Participating Notes and the portfolio insurance as per the Amended & Restated PPN Agreement up to a maximum of USD 100,000,000. On 2 December 2019, the duration of the KfW Counter Guarantee has been extended from 31 December 2021 to 31 December 2023 and the pricing has been amended in favor of FCC.

Depending on FCC's credit rating a counter-guarantee fee is charged between 0.35 % and 0.50% as of 1 January 2020 (2018: 0.90% and 1.15%) of the guaranteed amount. At 31 December 2019, the guaranteed amount under the counter guarantee equals USD 100,000,000 (2018: USD 47,800,000).

#### 25. Interest income

(all amounts in USD)

	<u>2019</u>	<u>2018</u>
Interest income on bank accounts	950,640	761,464
Interest income on securities	146,096	-
<b>Total interest income</b>	<b><u>1,096,736</u></b>	<b><u>761,464</u></b>

#### 26. Management fee

FCM is the manager of FCC. The fee for the management of FCC is based on the FCC Management Agreement between FCC and FCM. For the year 2019, the management fee amounts to USD 2,527,792 (2018: USD 2,170,500).

The management fee has been charged in equal monthly installments of EUR 201,492 in accordance with the budget approved by the Supervisory Board. The monthly installment for December 2019 has not been invoiced to FCC and a final amount due of EUR 43,414 has been recorded as an accrual in FCC at year-end (see Note 16). The total management fee over 2019 thus amounts EUR 2,259,817 (2018: EUR 1,848,339).

The management fee over 2019 covers commercial legal fees incurred by FCM of EUR 251,323 (2018: EUR 34,563) and audit fees related to FCC of EUR nil (2018: EUR nil). The legal fees include the costs related to the second financial close.

The following table provides a break-down of the management fee per cost category in percentages:

	<u>2019</u>	<u>2018</u>
Salaries & Remuneration	52%	56%
Business Development, Travel & Sundry	14%	16%
Third Party Service Providers	14%	6%
Insurance Costs	5%	6%
Subscription & License Fees	7%	5%
Information Technology	2%	1%
Office Expenses	5%	6%
Other	0%	3%
<b>Total management fee</b>	<b><u>100%</u></b>	<b><u>100%</u></b>

## 27. Performance fee

(all amounts in USD)	<b>2019</b>	<b>2018</b>
Performance fee	422,365	300,830
<b>Total Performance fee</b>	<b>422,365</b>	<b>300,830</b>

On 21 March 2020, the Supervisory Board of FCC has awarded FCM with a Performance Fee being the sum of USD 367,748 and EUR 331,972. in relation to its performance as Manager in 2019. FCM has invoiced FCC for the amount of EUR 331,972 in 2020.

The amount of USD 367,748 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 2019 and 2018 relates to commercial activities of structuring financial contracts.

## 29. Third party service providers

(all amounts in USD)	<b>2019</b>	<b>2018</b>
Back office services	112,685	147,231
Quantifi PMS – license fee	(45,747)	30,582
<b>Total third party service providers</b>	<b>66,938</b>	<b>177,813</b>

## 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 charter, 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 and implement FCC's mandate.

*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 2019 is disclosed under Note 26. An accrual relating to the Performance Fee for 2019 of EUR 200,642 has been recognized in 2019. The remainder of the 2019 Performance Fee will be recognized in 2020.

**31. Other operating expenses**

(all amounts in USD)

	<b>2019</b>	<b>2018</b>
Supervisory Board	85,000	75,093
Audit & Financial Reporting	108,602	79,406
Bank costs	76,814	8,269
VAT costs	69,457	174
Other travel & hotel expenses	-	493
<b>Total other operating expenses</b>	<b>339,873</b>	<b>163,435</b>

**32. Proposal appropriation of result**

Based on the results over the year ended 31 December 2019, the Board of Directors proposes to deduct the result of USD 3,740,973 from the other reserves.

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

The company only financial statements are presented below, where 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	2019	2018
<b>Assets</b>			
<b>Non-current assets</b>			
Subsidiary FCC Securities B.V.	41	(20,348)	(4,367)
Intergroup receivable		36,757	5,097
Deferred tax asset	11	2,702,905	1,259,870
<b>Total non-current assets</b>		<b>2,719,314</b>	<b>1,260,600</b>
<b>Current assets</b>			
Cash and cash equivalents	36	34,853,070	47,666,670
Financial guarantee contracts at FVTPL	12	166,847	69,983
Financial instruments at FVTPL - Securities	14	55,330,657	-
Prepaid guarantee expenses		140,404	258,292
Other receivables		379,924	194,423
<b>Total current assets</b>		<b>90,870,902</b>	<b>48,189,368</b>
<b>Total assets</b>		<b>93,590,216</b>	<b>49,449,968</b>
<b>Equity</b>			
<b>Shareholders' equity</b>			
Issued share capital	7	1	1
General reserve	8	(4,950,144)	(4,933,440)
Undistributed result for the period	9	(3,740,973)	(21,072)
<b>Total shareholders' equity</b>		<b>(8,691,116)</b>	<b>(4,954,511)</b>
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Senior Notes	10	-	21,000,000
Junior Notes	10	89,769,556	26,400,000
Subordinated Notes	10	11,287,549	5,691,323
<b>Total long term liabilities</b>		<b>101,057,105</b>	<b>53,091,323</b>
<b>Short-term liabilities</b>			
Financial guarantee contracts at FVTPL	12	694,711	275,879
Accrued fees	15	56,460	346,882
Management fee payable	16	48,747	285,510
Other liabilities	37	424,309	404,885
<b>Total short term liabilities</b>		<b>1,224,227</b>	<b>1,313,156</b>
<b>Total equity &amp; liabilities</b>		<b>93,590,216</b>	<b>49,449,968</b>

## Company Only Statement of Comprehensive income

(all amounts in USD)	Notes	2019	2018
		2019	2018
<b>Revenues</b>			
Realized fees on contracts at FVTPL	19	3,222,435	2,219,398
Change in fair value of financial guarantee contracts at FVTPL	38	(321,970)	17,726
Guarantee expenses	21	(1,040,627)	(606,472)
		1,859,838	1,630,652
<b>Finance costs</b>			
Senior Notes - Standby Fee	22	(213,021)	(295,890)
Subordinated Notes - FTAP Fee	23	(219,512)	(218,000)
Senior Notes - Commitment Fee	10	(45,308)	(45,812)
Senior Notes - Liquidity Fee	10	(1,011,425)	(532,659)
Counter Guarantee Fee	24	(580,288)	(442,615)
		(2,069,554)	(1,534,976)
<b>Other results</b>			
Interest income	39	1,083,838	760,545
FX results and fair value changes in term deposits		(10,460)	(9,771)
Other income		15,068	-
		1,088,446	750,774
<b>Total operating income</b>		<b>878,730</b>	<b>846,450</b>
<b>Operating expenses</b>			
Management Fees	26	(2,527,792)	(2,170,500)
Performance Fees	27	(422,365)	(300,830)
Legal Fees	28	(193,185)	(269,782)
Third party service providers	29	(66,938)	(177,813)
Depreciation		-	(22,891)
Other operating expenses	40	(307,010)	(158,239)
		(3,517,290)	(3,100,055)
<b>Total operating expenses</b>		<b>(3,517,290)</b>	<b>(3,100,055)</b>
<b>Operating result</b>		<b>(2,638,560)</b>	<b>(2,253,605)</b>
Revaluation of Subordinated Notes	10	(3,596,226)	2,587,937
Revaluation of Junior Notes	10	1,071,128	-
Net result FCC Securities B.V.	41	(20,349)	(4,368)
		(5,184,007)	329,964
<b>Net loss for the period before tax</b>		<b>(5,184,007)</b>	<b>329,964</b>
Income tax	11	1,443,034	(351,036)
		(3,740,973)	(21,072)
<b>Comprehensive loss for the period</b>		<b>(3,740,973)</b>	<b>(21,072)</b>
<i>Comprehensive loss for the period attributable to the holder of the issued share of FCC</i>	32	<i>(3,740,973)</i>	<i>(21,072)</i>



### 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 is primarily funded by means of its Profit Participating Notes program, under which it issues Subordinated Notes, Junior Notes, Senior Notes and Callable Notes (together the “Profit Participating Notes” or “PPN”) to the Frontier Clearing Fund Subordinated, Frontier Clearing Fund Junior, Frontier Clearing Fund Senior and Frontier Clearing Fund Callable (together the “Funds”). FCC is also the fund manager (in this capacity the “Fund Manager”) of the Funds in accordance with their Terms and Conditions.

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

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.

### 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)

	<b>2019</b>	<b>2018</b>
Money market funds	30,000,000	35,000,000
USD cash account	4,845,929	12,657,912
EUR cash account	7,141	8,758
<b>Total cash and cash equivalents</b>	<b>34,853,070</b>	<b>47,666,670</b>

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 937,742 (2018: USD 760,545).

**37. Other liabilities**

(all amounts in USD)	<b>2019</b>	<b>2018</b>
Third party service provider fees payable	28,071	7,335
Accrued performance fees	225,289	149,872
Other liabilities	170,949	247,678
<b>Total other liabilities</b>	<b>424,309</b>	<b>404,885</b>

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

(all amounts in USD)	<b>2019</b>	<b>2018</b>
Fair value of financial guarantee contracts at beginning of the period	205,895	223,610
Rounding differences	-	11
Fair value of financial guarantee contracts at end of the period	(527,864)	(205,895)
<b>Total change in fair value</b>	<b>(321,969)</b>	<b>17,726</b>

**39. Interest income**

(all amounts in USD)	<b>2019</b>	<b>2018</b>
Interest income bank accounts	937,742	760,645
Interest income on fixed bonds	146,096	-
<b>Total interest income</b>	<b>1,083,838</b>	<b>760,645</b>

**40. Other operating expenses**

(all amounts in USD)	<b>2019</b>	<b>2018</b>
Supervisory Board	85,000	75,093
Audit & Financial Reporting	108,601	79,406
Bank costs	43,952	3,247
VAT costs	69,457	-
Other travel & hotel expenses	-	493
<b>Total other operating expenses</b>	<b>307,010</b>	<b>158,239</b>

**41. Subsidiary FCC Securities B.V.**

(all amounts in USD)	<b>2019</b>	<b>2018</b>
<b>Opening balance</b>	(4,367)	1
Distributed from undistributed result for the period	4,368	-
Net result for the year	(20,349)	(4,368)
<b>Total at year end</b>	<b>(20,348)</b>	<b>(4,367)</b>

## **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.

## **Independent 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 financial statements 2019 included in the annual report**

#### *Our opinion*

We have audited the financial statements 2019 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 2019, and of its result and its cash flows for 2019 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 statements of financial position as at 31 December 2019
- the following statements for 2019:
- 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 Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

#### *Emphasis of matter relating to Corona developments*

The developments surrounding the Corona (Covid-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a going concern. The financial statements and our auditor's report thereon reflect the conditions at the time of preparation. The situation changes on a daily basis giving rise to inherent uncertainty. The impact of these developments on Frontier Clearing Corporation B.V. is disclosed in the report from the management board page 7 and the disclosure about events after the reporting period on the page 12. We draw attention to this disclosure.

Our opinion is not modified in respect of this matter.

### **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.

Management is responsible for the preparation of the other information, including the management report of Frontier Clearing Corporation B.V. in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by 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*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management 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, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management 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 investment entity's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluding on the appropriateness of management'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; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The Hague, 29 May 2020

Ernst & Young Accountants LLP

Signed by R.J. Bleijs RA