



Annual Report

2020

Contents

ANNUAL REPORT	02
Report from the Supervisory Board	02
Report from the Managing Board	03
Overview of the company and services	07
Corporate governance	11
FINANCIAL STATEMENTS	13
Consolidated Statement of Financial Position	14
Consolidated Statement of Comprehensive income	15
Consolidated Statement of Cash flows	16
Statement of Changes in Equity	17
Notes to the Consolidated Financial Statements	18
Company Only Statement of Financial Position	48
Company Only Statement of Comprehensive income	49
OTHER INFORMATION	52
Statutory requirements for processing results (extract of Articles of Association)	53
Auditor's report of the independent accountant	54

Report from the Supervisory Board

We are delighted to present Frontier Clearing Corporation B.V.'s (hereafter "Frontclear" or the "Company") 2020 Annual Report.

The COVID-19 pandemic that emerged in 2020 once again underlines the value of establishing more stable and inclusive money markets in emerging markets and developing countries ("EMDC"). Central banks have been at the forefront in the economic fight against the pandemic and moved forcefully to stabilise markets and establish a conducive environment for recovery. With many EMDCs lacking the fiscal space to power economic recovery, the effectiveness of monetary policy and the ability of the banking system to support economic growth is more important than ever.

Frontclear combines risk bearing capacity, technical assistance and networks to achieve system level change and lay the groundwork for the development of inclusive and stable money markets in EMDC. Frontclear is uniquely focused on the development of the secured segment of the money market, 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 EMDCs which hinders the allocation of liquidity and capital, impairs monetary policy transmission and limits the depth and liquidity of domestic bond and derivative markets. The COVID-19 pandemic has left no doubt that countries with sophisticated monetary markets are better positioned to react to economic crises and minimize the impact to the real economy.

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.

Having achieved operational break-even in 2020, Frontclear is well positioned to continue its mission of playing a decisive role in stabilising money markets going forward.

The Supervisory Board wishes to thank the Management Board, staff, and the Company's operational partners for their solid contribution in 2020.

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

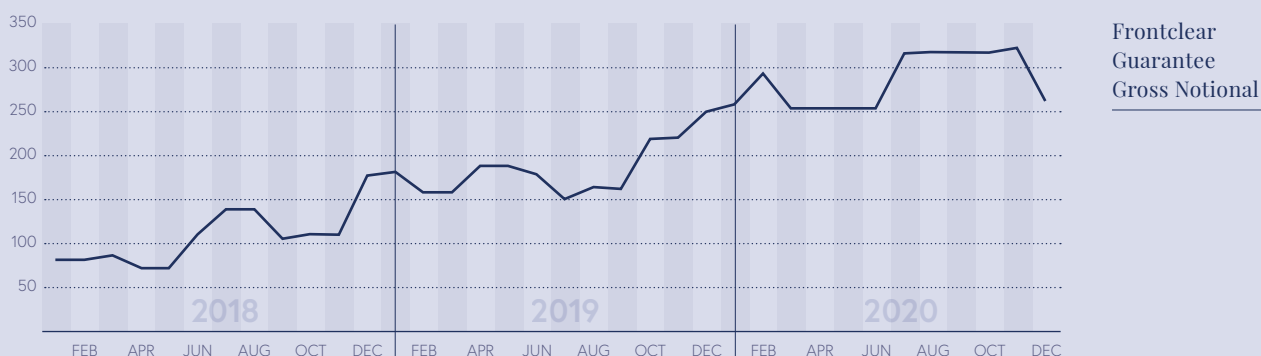
Frontclear Management B.V. is the statutory director of Frontier Clearing Corporation B.V. (hereinafter "FCC" or the "Company" and together with the Frontier Clearing Funds and other related entities also referred to as "Frontclear") and pursuant to the FCC Management Agreement acts as the manager of 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 2020.

The COVID-19 pandemic affected every country on the globe and has tested the resilience of public finance and bank balance sheets in all EMDCs. The crisis emphasises the value of liquid and inclusive money markets that can price and distribute liquidity and risk adequately and thereby facilitate optimal funding conditions for governments, households and companies. The Frontclear publication titled "Towards recovery and resilience in frontier financial markets" highlights the relevance of developing money markets in the drive to recover economically from the Covid.

Despite the increased risks in our countries of operations, Frontclear stepped-up and remained committed to supporting emerging market financial institutions gain or retain access to money markets. The Company issued a record volume of guarantees in the months following the crisis and stepped-up efforts to promote the development of money markets to local regulators and international agencies alike.

Financial results

After reaching a peak of USD 328m in November 2020, the gross guarantee portfolio stood at USD 266m at 31 December 2020, up from USD 257m at the end of 2019. The decrease of the portfolio in December 2020 was due to a maturing contract renewed in 2021 only. The use of risk mitigation on the portfolio decreased to USD 50m at 31 December 2020 from USD 80m in 2019, mainly resulting from the application of a more risk-sensitive limit framework, but also due to a reduced risk appetite for emerging market exposures in the insurance sector. The average rate of return on the net guarantee portfolio increased to 1.93% at 31 December 2020, from 1.64% at the end of 2019.



Gross income from the guarantee portfolio increased to USD 5.1m in 2020 from USD 2.9m in 2019. After adjusting for guarantee expenses related to cost of risk mitigation in the portfolio, net guarantee income more than doubled to USD 4.1m in 2020 from USD 1.9m in 2019. Despite the significant increase in liquid assets resulting from the second close, income from liquidity investments did not materially increase due to the significant decline in USD interest rates early in 2020. As such, other income, which includes investment income, decreased slightly to USD 1.0m from USD 1.1m in 2019.

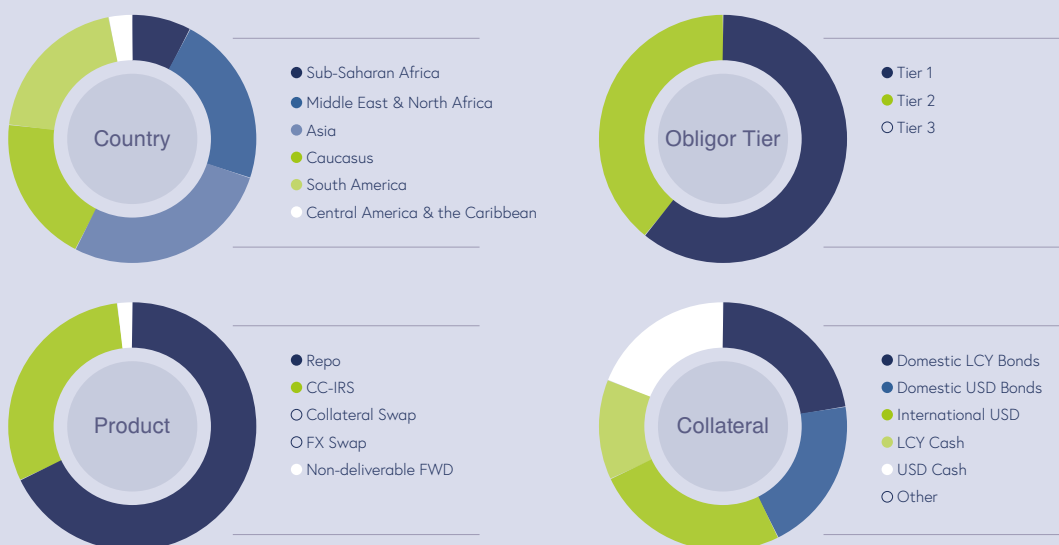
Following the second financial close at 2 December 2019, the financing costs of FCC more than halved to USD 1.0m in 2020 from USD 2.1m in 2019. The increase in portfolio revenue and the decrease in financing costs resulted in a significant increase in total operating income to USD 4.2m in 2020, from USD 0.9m in 2019. With operating expenses down to USD 3.1m in 2020 from USD 3.6m in 2019, mainly due to the impact of not travelling for the larger part of 2020, the operational result improved to USD 0.8m in 2020 from a negative USD 2.7m in 2019.

The financial results above are based on FVTPL income recognition. Both the income from the guarantee portfolio and the income from liquidity investments are influenced by movements in market rates. Guarantee income fluctuates with changes in expected loss on guarantees issued, resulting from changes in risk-neutral probabilities of default as indicated by changes in observed credit spreads. An increase in expected loss will delay the recognition of guarantee income and a decrease in credit spreads will accelerate income recognition. Similarly, a movement in bond yields will affect the value of existing liquidity investments and hence investment income.

Credit spreads increased substantially in April 2020 in response to the perceived increased risk resulting from the COVID-19 pandemic, but largely reversed to lower levels during the remainder of 2020. USD interest rates and bond yields of high-quality liquid assets have declined significantly in 2020, boosting the fair value income on FCC's investments. Adjusting income recognition for the resulting timing effects, operating income (thus as measured on an accrual basis) exceeded operating expenses by USD 0.5m in 2020 versus a negative USD 2.7m in 2019 (see Notes 12 and 14 for further detail).

In 2020, Frontclear issued 10 contracts with a value of USD 152m and an average term of 1.12 years. A further USD 90m in 3 outstanding contracts with discretionary termination features were not terminated on the optional dates in 2020, bringing the total amount of guarantees extended in 2020 to USD 242m (2019: USD 262m). Since inception, Frontclear has issued 36 guarantee contracts for a total of USD 633m and an average term of 1.43 years, facilitating USD 1,048m (2019: USD 775m) of funding transactions representing USD 1,606m (2019: USD 985m) of annualised funding arrangements to EMDC-based financial institutions.

The following graphs provide a break-down of the portfolio as at 31 December 2020 and the cumulative production since inception in terms of region, tier (based on expert judgement of the Manager), product type and collateral type:



Portfolio as at 31 December 2020

COVID-19

The COVID-19 pandemic has affected Frontclear in terms of the risk profile of the countries of operations and in the way we conduct our business.

In terms of risk profile, many emerging markets have been affected by the outbreak and not all have had equal fiscal space to counter the adverse effects of the pandemic on economic activity. Fiscal balances have deteriorated in many markets and debt sustainability has surfaced again as a theme in the global investor arena. Most notable in this context is the Debt Service Suspension Initiative initiated by the World Bank and the IMF, promoting the temporary suspension of debt service to allow emerging markets to reallocate their resources to fight the pandemic.

Banks have also played a role in mitigating the economic impact on the real economy, with many emerging market regulators allowing banks to suspend debt service obligations of their clients and restructure loan obligations, without qualifying the clients involved as non-performing. Whilst these policy responses were undoubtedly critical, the extent to which restructured loans will end up as non-performing loans and the pressure that that will bring to the capital adequacy of banks and consequently their appetite to extend new credit to the private sector remains to be seen.

Amidst these uncertainties, the Management Board together with the Investment Committee and FCC Supervisory Board reassessed the risk appetite of the Company in April 2020. Based on this risk appetite statement, the Company continued to build the portfolio through 2020.


In terms of business operations, the Company has benefited from the lean philosophy behind its operations and the guiding principle that systems and data need to be accessible from anywhere in the world. The Company did not experience any effective impact on productivity or effectiveness of its operations, notwithstanding that all staff have worked from home since March 2020.

With the ability to travel curtailed, Frontclear has stepped up by reaching out to our partners and counterparties using online technologies. Whilst turning back to normality will certainly involve travel again, some of the benefits of using online technology will permanently affect the way we operate. One good example of promoting the value of money market development and disseminating the results achieved by Frontclear is the start of a series of webinars together with ICMA, highlighting the recent developments in selected local money markets.

Another example of moving operations online has been the development of the Frontclear Academy, a dedicated Frontclear online training portal for Emerging Market and Developing Country ("EMDC") based market participants with courses relevant to money market activities. Finally, Frontclear also launched its Money Market Diagnostic Framework ("MMDF") Portal. The portal disseminates the results from completed assessments, which provides local regulators with very detailed analysis of their local money market and provides valuable recommendations as to the further development of the market. The MMDF Portal also aims to provide a peer-to-peer exchange platform and facilitate meaningful technical assistance discussions between local regulators and the international donor community. Together with EBRD and OG Research, the MMDF has been deployed in 13 markets by the end of 2020.



For further reading on the technical assistance activities of Frontclear, please refer to the **2020 Impact report**.

Scan or click to read 

Please note that the 2020 Impact Report is not audited and therefore not covered by the Independent auditor's report as included on page 54.

Outlook

COVID-19 will continue to impact on the risk profile of Frontclear transactions, but so far, the risk counterparties that Frontclear has taken exposure on have continued to perform well. There are no signs of imminent credit losses in the portfolio, despite the increased volatility of emerging market credits and the pressure on country credit ratings and the asset quality of banks. Frontclear will continue to build the portfolio, recognising though that the needs and ability of EMDC banks to transact might be impacted by the further development of their asset quality and capital adequacy ratios. The low USD interest rates will negatively impact the return on the portfolio of liquidity investments in 2021.

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 2020, without which the achievements in 2020 would not have been possible.

Amsterdam, 31 May 2021.

The Managing Board of Frontclear Management B.V.

Mr. Philip Buyskes, Chief Executive Officer

Mr. Erik van Dijk, Chief Risk & Finance Officer

Overview of the company and services

Mandate

Frontclear focuses on catalysing more stable and inclusive money markets in emerging and developing countries ("EMDC"). Money markets are crucial to the pricing and distribution of short-term liquidity and risk between professional market parties, the effective transmission of monetary policy, the development of benchmark rates that can stimulate the development of derivative products and the deepening of the government securities markets, leading to a benchmark curve for other financial products and reducing the cost of funds for governments, households and corporates. Whereas global policy attention for the development of money markets has increased in recent years, Frontclear remains a unique party combining the provision of technical assistance with deployment of risk capital to facilitate actual transactions for EMDC based market participants.

Instruments

Frontclear facilitates access to money markets for local financial institutions in EMDC through 1) the provision of credit guarantees to cover a transacting institution's counterparty credit risk and 2) financial support to local financial market infrastructure and capacity building programs, through the Frontclear Technical Assistance Program ("FTAP").

The key transaction structure is to offer a financial guarantee to enhance transactions in EMDC markets. The guarantee may cover one or both counterparties to the trade. FCC requires the exchange of collateral between guaranteed parties as a condition for its credit support, accommodating the use of local currency cash and domestic government securities to serve as collateral. The guarantee is called upon default if the collateral is insufficient to cover the beneficiary bank's claim or cannot be liquidated and proceeds repatriated timeously. As such, the guarantee covers counterparty credit risk as well as general country risk (legal, market and liquidity).

FCC offers guarantees on both cross-border and domestic money market transactions. Guarantees can cover bilateral transactions between two counterparties or cover a portfolio of transactions among multiple counterparties. FCC can provide guarantees to various financial infrastructure players such as central clearing counterparties, central banks and central security depositaries.

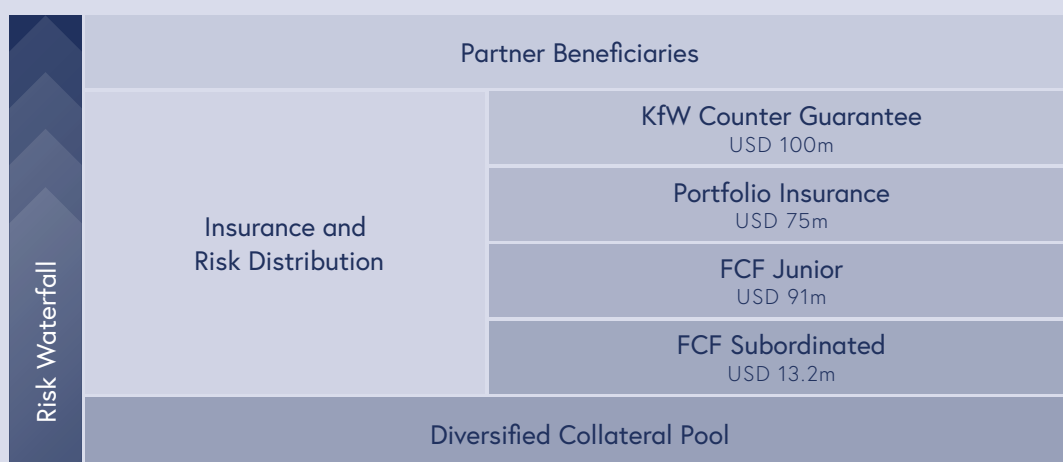
In cases where local financial institutions have difficulty finding a counterparty that is willing to face them in such transactions (e.g. due to operational constraints), FCC Securities B.V. ("FCC Securities") can act as a principal counterparty to the local institution and hedge its exposure with a beneficiary bank, which receives an FCC guarantee in support of the hedge transaction. FCC Securities has no other purpose than to facilitate such transaction-specific structuring.

Next to offering guarantees to facilitate transactions, Frontclear provides technical assistance through the Frontclear Technical Assistance Program administered by Stichting FTAP. Under the program, Frontclear offers training, supports legal & regulatory reforms to facilitate legal enforceability of market standard documentation for repo and derivative transactions and supports the development of local market infrastructure. Finally, FTAP commissions research related to money market development topics.

The combination of facilitating transactions through the provision of risk capital and assisting local regulators and market participants with technical assistance projects, provides for a very powerful combination of activities to promote the development of local money markets. For further reading on the impact strategy and developments results of Frontclear, please refer to the [2020 Frontclear Impact Report](#).

Capital structure

Frontclear has a unique blended capital structure that underpins its credit strength, combining funding from governments, development finance institutions and the private sector. The diagram below illustrates the capital structure and risk protection afforded to Frontclear's partner beneficiaries:



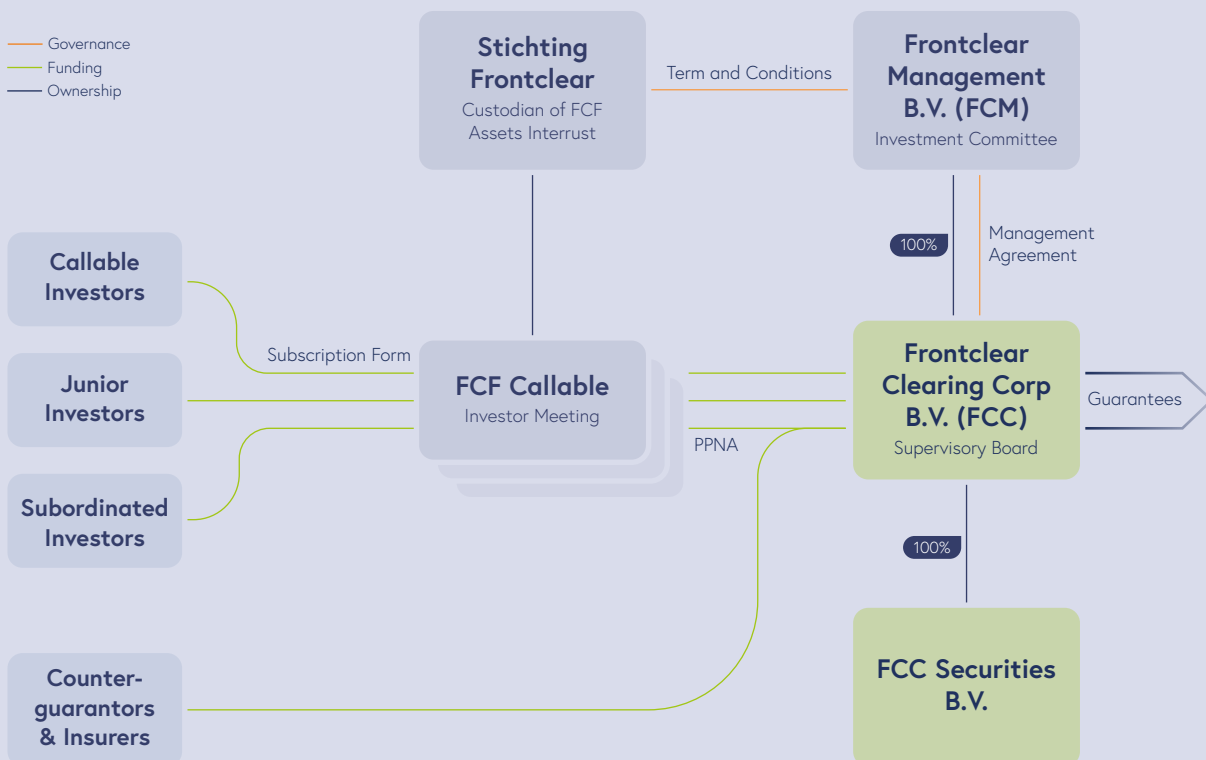
Frontclear only guarantees collateralised transactions. Collateral exchanged in the guaranteed transactions typically involves cash or government securities which are liquidated upon default of the EMDC-based transaction counterparty to minimise losses. Frontclear's core capital is funded through the issuance of profit participating notes to FCF Subordinated, FCF Junior and FCF Callable. In addition, Frontclear maintains an excess of loss portfolio insurance policy of USD 75 million and a USD 100m counter-guarantee facility from KfW. Finally, Frontclear utilises non-payment insurance on a case-by-case basis to further manage its risk and capital positions.

Legal structure

Frontclear is the collective term for a structure of companies and vehicles illustrated in the diagram below:

- **Frontier Clearing Corporation B.V. ("FCC")** – FCC is the operating company of Frontclear and hence the entity issuing guarantees and making investments to achieve the mission of Frontclear.
- **FCC Securities B.V. ("FCC Securities")** - In 2017, FCC established a 100%-owned subsidiary FCC Securities B.V. to support specific transaction structures.
- **Frontier Clearing Funds ("FCF")** – the FCF are funds for joint account through which Frontclear raises funds from investors. At 31 December 2020 there are three separate funds - FCF Subordinated, FCF Junior and FCF Callable - each investing in a separate class of notes - Subordinated Notes, Junior Notes and Callable Notes, respectively - issued by FCC. Through the FCF, Frontclear is funded by European governments and development finance institutions. At 31 December 2020, FCF Callable has no subscriptions yet and has extended its first book year to 31 December 2021.

- **Stichting Frontclear** – Stichting Frontclear is the custodian for the FCF and therefore the legal owner of the assets of the FCF.
- **Stichting FTAP** – effective 1 January 2020, Stichting FTAP is the program custodian for FTAP, administering all donor contributions and program allocations and expenses. Prior, Stichting Frontclear acted as the program custodian of FTAP.
- **Frontclear Management B.V. ("FCM")** – FCM is the Fund Manager for the FCF in accordance with the amended Terms & Conditions of the FCF adopted on 2 December 2019. FCM is registered as an exempted fund manager of Alternative Investment Funds ("AIF"). In addition, FCM is the single shareholder and statutory director of FCC and the statutory director of FCC Securities. FCM manages FCC and FCC Securities pursuant to the terms of the FCC Management Agreement and FTAP in accordance with the Amended & Restated FTAP Agreement. FCM is 100% owned by Cardano Development B.V. which in turn is 100% owned by Stichting Cardano Development, an institution for the benefit of general interest ("ANBI", tax exemption status under Dutch law).
- **KfW** – FCC has entered into an agreement with KfW to counter-guarantee the obligations of FCC towards beneficiaries of guarantees issued by FCC.
- FCC maintains portfolio insurance and transactions specific insurance to further complement its capital structure and credit strength.



Legal agreements

The following key agreements define the structure of Frontclear captured above (amended and restated agreements dated at the second financial close of 2 December 2019):

- **Terms & Conditions of the FCF** – the Terms & Conditions define the rights and obligations of the investors, the Fund Manager (FCM) and the Custodian (Stichting Frontclear). The Terms & Conditions also specify the appointment of and the rights and obligations of the FCC Supervisory Board and the Investment Committee.
- **Subscription Agreements** – Investors have committed to the Terms & Conditions of the FCF adopted by the Fund Manager and the Custodian by means of Subscription Agreements.
- **Amended & Restated PPN Agreement** – the PPN Agreement is entered into by FCC and the FCF and determines the issuance of three classes of Profit Participating Notes from FCC to the FCF. The PPN Agreement captures the FCC Investment Guidelines and the FCC Risk Charter, defining the risk appetite and risk management approach for FCC. The PPN Agreement specifies approvals required from the FCC Supervisory Board for the execution of certain rights under the PPN Agreement.
- **Portfolio Insurance** – the Excess of Loss Portfolio Insurance Policy has been entered into by FCC on 2 December 2019 for an initial period of 5 years. The policy covers payment of valid guarantee obligations in the event FCC is unable to make timely payment. The policy is compliant with the conditions for unfunded capital protection stated in the Capital Requirement Regulation of the European Union.
- **Amended & Restated KfW Counter-Guarantee** – the KfW Counter-Guarantee agreement entered into by FCC and KfW is a contract for the benefit of third parties under German law, counter-guaranteeing the obligations of FCC towards eligible third parties under guarantees issued. The agreement defines under which conditions third parties are eligible to benefit from the counter-guarantee and certain consent rights of KfW on amendments to the documentation of Frontclear.
- **Amended & Restated FCC Management Agreement** – entered into by FCM and FCC, the FCC Management Agreement prescribes the terms pursuant to which FCM manages FCC, additional rights and obligations of the FCC Supervisory Board and the Investment Committee and the remuneration of FCM for managing FCC. The management of FCC Securities is deemed covered by the FCC Management Agreement.
- **Amended & Restated FTAP Agreement** – some of the investors of FCF Subordinated have committed to donate the distributions of FCF Subordinated to the FTAP. The FTAP Agreement specifies the conditions under which FTAP is operated by FCM and Stichting FTAP and specifies amongst others the appointment of and rights and obligations of the Donor Committee.
- **Grant Agreements** – FTAP has received additional commitments from FSDA, ABSA and Cardano Development (together the "Donors"), which are documented with separate Grant Agreements. The Grant Agreements gives rise to additional obligations for the management of FTAP vis-à-vis the Donors.

Corporate governance

In its corporate governance, Frontclear aims to balance sufficient countervailing power by committees appointed directly and indirectly by stakeholders (investors or donors) and arms-length management of FCC and FTAP operations. Investors in the FCF retain key rights that may be exercised in the Joint Investor Meeting, whilst FCC's Supervisory Board supervises the Manager's management of FCC and FCC's general course of affairs and provides advice to the Fund Manager. Where required, the rights and obligations of governing bodies have been supplemented by internal regulations and charters providing transparency to how these bodies operate. Where applicable, these have been specified below.

The following bodies exercise control in the governance of Frontclear:

- **Joint Investor Meeting** – the Joint Investor Meeting is the meeting of the investors in all FCFs combined. The Joint Investor Meeting has rights specified in the Terms & Conditions of the FCF and can decide with Investor Ordinary Consent and with Investor Special Consent in matters relating to the FCF. The Joint Investor Meeting cannot instruct FCM but FCM has contractually committed to adhere to certain decisions of the JIM with regard to the management of FCC, specifically with regard to the appointment of FCC Supervisory Board members.
- **FCC Supervisory Board** – the members of the FCC Supervisory Board are appointed by cooptation, subject to approval by the Joint Investor Meeting by Investor Ordinary Consent. The Supervisory Board consists of the following members:
 - Axel van Nederveen, Chairman;
 - Mike Bristow;
 - Bokar Chérif; and
 - Thomas Heinig.

The rights and obligations of the FCC Supervisory Boards, beyond the legally induced, are derived from the Terms & Conditions of the FCF, the FCC Management Agreement and the PPN Agreement.

- **Investment Committee** – the Investment Committee is a body of FCM and is responsible for setting country and counterparty limits as well as approving changes to risk policies (other than the FCC Investment Guidelines and FCC Risk Charter). Investment Committee members are appointed by and operate under the instructions of the Investment Committee Charter approved by the FCC Supervisory Board. The Investment Committee consists of the following members:
 - Joost van den Akker, Chairman;
 - Louis Sabatino;
 - Ricardo Velazquez;
 - Philip Buyskes (non-voting) and;
 - Erik van Dijk (non-voting).
- **Donor Committee** – the Donor Committee governs the allocation of technical assistance funding and the progress and impact reporting of approved interventions. The appointment of members to the Donor Committee is captured in the FTAP Agreement. The Donor Committee consists of the following members:
 - Evans Osano, Chairman;
 - Alice Chapple; and
 - Fleur Henderson.

- **FCM Management Board** – the Management Board of FCM consists of:
 - Philip Buyskes, CEO and Chairman; and
 - Erik van Dijk, CFRO.

Both can independently represent FCM (and with FCM being the statutory director of FCC and FCC Securities therefore also FCC and FCC Securities, respectively). Restrictions to this right, decision making and avoiding and resolving potential conflict of interest have been addressed by the MB Regulation, approved and adopted by the FCM Supervisory Board. The Management Board has further adopted a resolution regarding the approval and authorisation of key documents, including but not limited to external reporting.

- **FCM Supervisory Board** – the Supervisory Board of FCM consists of:
 - Joost Zuidberg, Chairman; and
 - Walter Gontarek.

The authority, rights and obligations of the FCM Supervisory Board are limited to the management of FCM only and do not extend towards FCC or the FCF.

- **Mextrust B.V.** – Mextrust B.V., an operating company of Intertrust (Netherlands) B.V., is appointed as the Managing Director of Stichting Frontclear and Stichting FTAP.

Besides these governing bodies, the risk appetite and risk management approach of FCC are strictly governed by the FCC Investment Guidelines (risk appetite statement) and the FCC Risk Charter (risk management approach). All risk documentation and risk approvals must adhere to the FCC Investment Guidelines and the FCC Risk Charter. Amendments to the FCC Investment Guidelines and the FCC Risk Charter are subject to the approval of the FCC Supervisory Board.

Compliance standards

FCM is registered as an exempted manager with the Dutch Authority Financial Markets ("AFM") and reports once a year to the Dutch Central Bank ("DNB"). As an exempted manager of alternative investment funds, the regulatory requirements applicable to FCM are limited. FCM voluntarily adheres to the best practice induced by the Alternative Investment Fund Management Directive ("AIFMD") where such can be achieved against reasonable cost and effort.

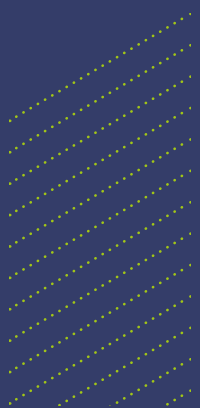
FCM has adopted a Code of Conduct, applicable to all employees, Supervisory Board members and committee members of FCM or FCC and where relevant extended by contract to material service providers to Frontclear. The Code of Conduct captures the required conflict of interest guidelines of the AIFMD commensurate to the size of Frontclear.

FCM has contracted Finnius, a Dutch law firm specialised in financial regulation, to assist the compliance function with safeguarding regulatory compliance. FCM has contracted Jones Day Amsterdam for all other FCF related legal matters.

Once a year, the FCM Management Board provides the FCC Supervisory Board with a regulatory compliance assessment and informs the Board on other compliance issues.



Financial Statements



FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

(as at 31 December, before profit appropriation)

(all amounts in thousands USD)	Notes	2020	2019
Assets			
Non-current assets			
Deferred tax asset	11	3,315	2,703
Total non-current assets		3,315	2,703
Current assets			
Cash and cash equivalents	6	30,609	34,863
Financial instruments at FVTPL - Securities	14	61,844	55,331
Financial guarantee contracts at FVTPL	12	88	75
Financial instruments at FVTPL - Other	13	739	876
Prepaid guarantee expenses		40	140
Management fee receivable	16	267	-
Other receivables		178	381
Total current assets		93,765	91,666
Total assets		97,080	94,369
Equity			
Shareholders' equity			
Issued share capital	7	-	-
General reserve	8	(8,695)	(4,954)
Undistributed result for the period	9	(179)	(3,741)
Total shareholders' equity		(8,874)	(8,695)
Liabilities			
Long-term liabilities			
Junior Notes	10	89,574	89,770
Subordinated Notes	10	12,560	11,287
Callable Notes	10	-	-
Total long term liabilities		102,134	101,057
Short-term liabilities			
Financial guarantee contracts at FVTPL	12	307	695
Financial instruments at FVTPL - Other	13	541	784
Accrued fees	15	67	56
Management fee payable	16	-	49
Deferred Performance fee and LTI	35	487	-
Other liabilities	17	2,418	423
Total short term liabilities		3,820	2,007
Total equity & liabilities		97,080	94,369

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

Consolidated Statement of Comprehensive income

(all amounts in thousands USD)	Notes	2020	2019
Revenues			
Realized fees on contracts at FVTPL	19	4,404	3,223
Change in fair value of contracts at FVTPL	20	507	(322)
Guarantee expenses	21	(984)	(1,041)
Total revenues		3,927	1,860
Finance costs			
Subordinated Notes - FTAP Fee	22	(265)	(220)
Senior Notes - Standby Fee	23	-	(213)
Senior Notes - Commitment Fee	24	-	(45)
Senior Notes - Liquidity Fee	25	-	(1,012)
Counter Guarantee Fee	26	(356)	(580)
Portfolio Insurance Fee	27	(306)	-
Total finance costs		(927)	(2,070)
Other results			
Interest income	28	2,047	1,097
Fair value changes in liquidity investments	14	(988)	(13)
FX results		7	2
Other income		4	15
Total other results		1,070	1,101
Total operating income		4,070	891
Operating expenses			
Management Fees	29	(2,346)	(2,528)
Performance Fees	30	(260)	(422)
Legal Fees	31	(201)	(193)
Third party service providers	32	(115)	(67)
Other operating expenses	34	(375)	(340)
Total operating expenses		(3,297)	(3,550)
Operating result		773	(2,659)
Deferred Performance fee and LTI	35	(487)	-
Net result for the period before revaluation of PPN		286	(2,659)
Revaluation of Subordinated Notes	10	(1,273)	(3,596)
Revaluation of Junior Notes	10	196	1,071
Net loss for the period before tax		(791)	(5,184)
Income tax	11	612	1,443
Comprehensive loss for the period		(179)	(3,741)
<i>Comprehensive loss for the period attributable to the holder of the issued share of FCC</i>	36	<i>(179)</i>	<i>(3,741)</i>

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

Consolidated Statement of Cash flows

(all amounts in thousands USD)	Notes	2020	2019
Cash flow from operating activities			
Guarantee fees received	19	3,244	2,011
Income received from financial instruments at FVTPL		1,160	1,212
Guarantee expenses paid		(724)	(958)
Interest received		2,089	1,123
Management fees paid	29	(2,662)	(2,765)
Other operational expenses		(1,222)	(1,074)
Collateral received		2,140	-
Net cash flow used in operating activities		4,025	(451)
Cash flow from investing activities			
Financial instruments at FVTPL – Securities purchases		(78,722)	(57,407)
Financial instruments at FVTPL – Securities sales and redemptions		71,221	2,063
Net cash flow used in investing activities		(7,501)	(55,344)
Cash flow from financing activities			
Senior Notes – fees paid		-	(1,562)
Senior Notes received	10	-	10,500
Junior Notes received	10	-	33,500
Junior Notes paid	10	-	(559)
Subordinated Notes received	10	-	2,000
Subordinated Notes - FTAP Fee paid	22	(254)	(218)
Counter-guarantee fee paid	26	(356)	(757)
Portfolio insurance fee paid		(176)	-
Net cash flow generated from (used in) financing activities		(786)	42,904
Net cash flow generated during (used in) the year		(4,262)	(12,891)
Cash and cash equivalents at beginning of the period		34,863	47,752
Foreign currency translation of cash positions		8	2
Cash and cash equivalents at the end of the period		30,609	34,863
Analysis of cash and cash equivalents			
Cash at banks		10,609	4,863
Money market funds		20,000	30,000
Total of cash and cash equivalents	6	30,609	34,863

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

Statement of Changes in Equity

(all amounts in thousands USD)	Amounts		Number of shares	
	2020	2019	2020	2019
Equity at beginning of the period	(8,695)	(4,954)	1	1
Proceeds from shares issued	-	-	-	-
Net change from transactions with shareholders	-	-	-	-
Comprehensive loss for the period	(179)	(3,741)		
Equity at end of year	(8,874)	(8,695)	1	1

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

Notes to the Consolidated Financial Statements

1. General information

Frontier Clearing Corporation B.V. (“the Company”) and together with its 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 and Callable Notes (together the “Profit Participating Notes” or “PPN”) to the Frontier Clearing Fund Subordinated, Frontier Clearing Fund Junior and Frontier Clearing Fund Callable (together the “Funds”). Senior Notes issued to Frontier Clearing Fund Senior have been repaid and commitments to Frontier Clearing Fund Senior have been cancelled on 2 December 2019. FCM is 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

On 3 March 2021, the FCC Supervisory Board awarded the Manager with a Performance Fee being the sum of a Fixed Performance Fee Component of USD 203,756 and EUR 210,983 relating to the variable compensation of the staff of the Manager.

The amount of USD 203,756 has been added to the deferred Fixed Performance Fee Component, of which an amount of USD 194,995 has been recognized in 2020 for pay-out to the Manager (see Note 35 for further detail).

The amount of EUR 210,983 relating to the variable compensation of the staff of the Manager is recognized in 2021, after it has been determined by the Supervisory Board of FCC. The amount of Performance Fee recognized in 2020 related to the discretionary part of the 2019 Performance Fee only (see Note 30 for further detail).

On 20 April 2021, the Joint Investor Meeting approved an amendment to Schedules 1 and 2 of the FCC Management Agreement, relating to the amount of deferred performance fee and long-term incentive fees payable in any given year.

On 28 May 2021, the FCC Supervisory Board awarded the Manager with a Long-Term incentive fee of USD 850,000, based on FCC achieving a positive operational result in accordance with the amended FCC Management Agreement over 2020. An accrual of USD 292,492 has been recognized in 2020 for pay-out to the Manager (see Note 35 for further detail).

3. Statement of compliance

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

The consolidated financial statements were authorized for issue by the Managing Board on 31 May 2021.

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.

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

Adoption of new standards and amendments to existing standards

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.

The adoption of the amendments listed above do not have a material impact on the financial statements of the Fund.

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

There are no new standards, amendments to standards or interpretations which are relevant to the Fund and not yet effective.

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 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 Company’s business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, 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

Investments in liquid securities are valued against available market prices (Level 1). For all other financial instruments which are highly rated and liquid such as money market funds or deposits for which reference prices are available in an active market, the fair value is determined based on market standard cash flow methodologies and are further referred to as Level 2 financial instruments.

The fair value of the Profit Participating Notes is set equal to the exit value of the assets. The exit value is the higher of the redemption value based on the level of Available Cash in accordance with the PPN Agreement and the value determined by a discounted cash flow model. A further description of the valuation of the PPN is disclosed in Note 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 and investing 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. The performance fee has two components, of which one is due on determination and one is deferred to be paid out of positive operating income. The performance is recognized in the year that it has been awarded.

Long-term incentive fees are determined in accordance with defined performance targets in the FCC Management Agreement and are approved by the FCC Supervisory Board.

The recognition and payment of the deferred performance fee component and the long-term incentive fees is conditional on the Company achieving a positive operational result during a financial year. In determining the positive operational result, accelerated income due to movements in market rates is deferred and decelerated income due to movements in market rates is vested.

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 continue to affect the financial results of FCC in 2021, but not to the extent this would raise concern to the sustainability of operations. The largest impact of COVID-19 on the performance of FCC is through the deterioration of economic circumstances in almost all countries in the world, leading to increased risk for FCC exposures and lower return on liquidity investments caused by the decline in USD interest rates. The increased risk for FCC exposures has not yet led to a strong indication for losses to be incurred in the guarantee portfolio. FCC still operates within its risk appetite and the above consequences of COVID-19 do not materially threaten the going concern of the company.

The Manager is not aware of any other material uncertainties that may lead to significant doubt about 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 operational risks are an inevitable consequence of being in business.

FCC aims to achieve an appropriate balance between risk 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 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 2020, 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 and floating rate basis. The Subordinated and Junior Notes are fixed whilst any drawn Callable Notes are floating. 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 2020, the net duration of the financial assets and liabilities of FCC stood at -6.8 years (2019: -8.1 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.

The Company is exposed to exchange rate risk through incurring expenses in currencies other than the reporting currency. This currency risk is not actively managed, other than through budget controls.

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 commitments 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>Requirement</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, 2020:

(all amounts in thousands USD)	Credit rating	Exposure 2020	Exposure 2019
Money market funds	AAAm	20,000	30,000
Fixed income investments	>AA-	61,844	55,331
Cash positions Rabobank	A+	1,199	4,853
Term deposits Rabobank	A+	9,400	-
Cash positions CACEIS Bank, Netherlands Branch	A+	8	8
Cash Positions Standard Chartered Bank Ghana	Not rated	2	2
Total		92,453	90,194

Counterparty credit risk

FCC is exposed to credit risk under the financial guarantees it has issued to cover the counterparty credit risk on 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 limit purposes at 31 December 2020 is set between 30% and 50% (2019: 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 changes are subject to the approval of the FCC Supervisory Board.

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

2020

(all amounts in thousands USD)	Gross notional exposure	Hedged	Net notional exposure	Fair Value
Armenia	16,306	-	16,306	(59)
Azerbaijan	5,000	-	5,000	(2)
Ecuador	53,210	(17,280)	35,930	(92)
Egypt	60,000	(10,000)	50,000	(155)
Georgia	30,000	-	30,000	12
Jamaica	8,000	-	8,000	18
Mongolia	73,000	(23,500)	49,500	198
Nigeria	20,000	-	20,000	59
Total	265,516	(50,780)	214,736	(21)

2019

(all amounts in thousands USD)	Gross notional exposure	Hedged	Net notional exposure	Fair Value
Armenia	14,908	-	14,908	(68)
Costa Rica	2,000	-	2,000	7
Ecuador	20,000	(5,000)	15,000	(320)
Egypt	40,000	(10,000)	30,000	62
Georgia	30,000	-	30,000	13
Ghana	40,000	(25,000)	15,000	(133)
Mongolia	50,000	(15,500)	34,500	85
Nigeria	60,000	(25,000)	35,000	(174)
Total	256,908	(80,500)	176,408	(528)

FCC has obtained non-payment insurance to hedge USD 50,8 million (31 December 2019: USD 80,5 million) of its gross notional exposure. Insurance is obtained to bring the net exposure of contracts within the country or counterparty limits. 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 model

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 a 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. The distribution is based on 344 recorded 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 by 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 total capital (being the sum of notes issued under the PPN, FCF Callable Commitments and portfolio insurance) to a maximum of 2.

Operational and compliance risk

The Manager maintains an operational risk management framework based on detection, prevention and reporting of potential and materialized operational risk events. This framework includes but is not limited to semi-annually risk control self-assessments, incident reporting and operational and financial audit feedback informing an internal risk control framework. The risk control framework forms the basis of quarterly internal control reporting and an annual external operational audit on the management of Frontclear. The Manager furthermore conducts quarterly compliance meetings including the consultation of an external legal advisor to manage issues relating to regulatory compliance.

6. Cash and cash equivalents

(all amounts in thousands USD)	2020	2019
Money market fund – Blackrock ICS USD Liquidity	10,000	15,000
Money market fund – Blackrock ICS USD Treasury	10,000	15,000
Term deposits Rabobank	9,400	-
Cash positions Rabobank	1,199	4,853
Cash positions CACEIS Bank, Netherlands Branch	8	8
Cash Positions Standard Chartered Bank Ghana	2	2
Total cash and cash equivalents	30,609	34,863

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 164 (2019: USD 951).

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 thousands USD)	2020	2019
Balance as at beginning of period	(4,954)	(4,933)
Distributed from undistributed result for the period	(3,741)	(21)
Balance as at 31 December	(8,695)	(4,954)

9. Undistributed result for the period

(all amounts in thousands USD)	2020	2019
Balance as at beginning of period	(3,741)	(21)
Distributed to general reserve	3,741	21
Comprehensive income for the period	(179)	(3,741)
Balance as at 31 December	(179)	(3,741)

Minimum capital requirement

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

10. Long-term liabilities

The long-term liabilities as at 31 December 2020 are detailed as follows:

(all amounts in thousands USD)	Junior Notes	Callable Notes	Subordinated Notes	Total
Total position at beginning of period	89,770	-	11,287	101,057
Notes issued during the period in kind	-	-	-	-
Notes redeemed during the period in kind	-	-	-	-
Revaluation during the period	(196)	-	1,273	1,077
Total position at 31 December 2020	89,574	-	12,560	102,134

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

(all amounts in thousands USD)	Junior Notes	Senior Notes	Subordinated Notes	Total
Total position at beginning of period	26,400	21,000	5,691	53,091
Notes issued during the period in cash	33,500	10,500	2,000	46,000
Notes issued during the period in kind	31,500	-	-	31,500
Notes redeemed during the period in cash	(559)	-	-	(559)
Notes redeemed during the period in kind	-	(31,500)	-	(31,500)
Revaluation during the period	(1,071)	-	3,596	2,526
Total position at 31 December 2019	89,770	-	11,287	101,057

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 2020 is nil (2019: 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 31,5 million has been redeemed by means of non-cash IOU movements and the outstanding Senior Commitment of USD 43,5 million has been cancelled on 2 December 2019. FCC Senior has withdrawn from the PPN Agreement and has been liquidated by the Manager.

Junior Notes*Status*

A net nominal value of USD 91 million has been issued to and fully settled by Frontier Clearing Fund Junior ("FCF Junior). Of the outstanding USD 91 million, an amount of USD 26,4 million was issued on 15 April 2019 and USD 65 million 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.

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 2020), Junior Funds (as per 31 December 2020 USD 91 million) and Subordinated Funds (as per 31 December 2020 USD 13,2 million) 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 13,2 million at 31 December 2020 (2019: USD 13,2 million). The first Subordinated Notes were issued on 15 April 2015 for an amount of USD 8,7 million at par. On 29 December 2016, FCC issued an additional USD 2,2 million in Subordinated Notes to FCF Subordinated at par. On 20 December 2019 an amount of USD 2,3 million has been issued to FCF Subordinated at a price of USD 2 million. 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 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 mandate. 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 2020 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 limits, in the years following the next financial year-end;
Portfolio leverage	The portfolio leverage is the maximum ratio 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 projected 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 2020 was equal to USD 3.5 million (2019: USD 3,5 million).

The investors in the Frontier Clearing Funds have the right to liquidate the Frontier Clearing Funds and thereby trigger the early 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 USD 200 million of Callable Notes issued to FCC Callable before 2024 in the proxy valuation. This value corresponds to the business case for FCC:

2020

(all amounts in thousands USD)	DCF Value Committed Capital	Value at 31 December	Value at 31 December	Total PPN of USD 200 million
Callable Notes	-	-	-	-
Junior Notes	53,043	89,574	89,574	104,850
Subordinated Notes	12,560	-	12,560	12,560
Total	65,604	89,574	102,135	117,410

2019

(all amounts in thousands USD)	DCF Value Committed Capital	Redemption Value at 31 December	Fair Value at 31 December	Business case valuation of PPN
Callable Notes	-	-	-	-
Junior Notes	55,940	89,770	89,770	89,270
Subordinated Notes	11,287	-	11,287	11,287
Total	67,227	89,770	101,057	100,557

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 2020 the Junior Notes are valued at USD 89.6 million (2019: USD 89.8 million) and the Subordinated Notes at USD 12.6 million (2019: USD 11.3 million).

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. At 31 December 2020, none of the reasonable changes in unobservable inputs leads to a reduction in payment of interest and principal on the Subordinated Notes, leaving the notes exposed to changes in USD interest rates only.

	Uncertainty	Inputs	Reasonable possible change	Impact	Change in DCF value in USD 1,000	
					Junior Note	Subordinated Note
Portfolio baseline	2	273mln	-15%	Linear	-	-
Portfolio growth rate	3	25%	-15%	Linear	(2,152)	-
			+10%		442	-
Leverage	2	2.8	-0.25	Non-linear	(5,889)	-
Pricing	4	1.9%	-0.3%	Linear	(9,579)	-
			+0.3%		9,590	-
OPEX growth rate	2	5%	+5%	Linear	(6,074)	-
OPEX ceiling	3	175%	+25%	Non-linear	(149)	-

	Uncertainty	Inputs	Reasonable possible change	Impact	Change in proxy fair 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)	-

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 thousands USD)	2020	2019
Cumulative result prior to revaluation of PPN	(13,796)	(14,082)
Cumulative difference to depreciation of intangible fixed asset	-	14
Cumulative fiscal result over the period 2015 to 2020	(13,796)	(14,068)
Deemed recoverable	(13,796)	(14,068)
(A) Resulting deferred tax asset (25,0% rate)	3,449	3,053
<i>Temporary differences in carrying amounts</i>		
Revaluation of PPN	(535)	(1,613)
(B) Resulting deferred tax liability (25,0% rate)	(134)	(350)
Total tax position (A+B, +asset, -/- liability)	3,315	2,703

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 assets over 5 years rather than 3 years for tax purposes.

The cumulative fiscal result over the period 2015 to 2020 is built up over annual fiscal results that can be carried forward as per the following table:

(all amounts in thousands USD)	Carry forward to	2020	2019
Fiscal result 2015	2024	(3,828)	(3,800)
Fiscal result 2016	2025	(2,726)	(2,690)
Fiscal result 2017	2026	(2,611)	(2,574)
Fiscal result 2018	2027	(2,258)	(2,290)
Fiscal result 2019	2028	(2,659)	(2,714)
Fiscal result 2020	2029	286	-
Cumulative fiscal result over the period 2015 to 2020		(13,796)	(14,068)

Based on the cashflow projections described in Note10, 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 25,0% (2019 21,7%) applicable as of 2021 for corporate income exceeding the threshold of EUR 200,000.

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, resulting in a net deferred tax asset at 31 December 2020 of USD 3,3 million (2019: a deferred tax asset of USD 2,7 million).

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 contains financial guarantee contracts for which FCC receives a remuneration from a third party.

The following FCC guarantees were outstanding at 31 December 2020:

2020

(all amounts in thousands USD)	Gross notional exposure	Hedged	Net notional exposure	Fair Value
Armenia	16,306	-	16,306	(59)
Azerbaijan	5,000	-	5,000	(2)
Ecuador	53,210	(17,280)	35,930	(92)
Egypt	60,000	(10,000)	50,000	(155)
Georgia	30,000	-	30,000	12
Jamaica	8,000	-	8,000	18
Nigeria	20,000	-	20,000	59
Subtotal of financial guarantee contracts at FVTPL	192,516	(27,280)	165,236	(219)

Issued to third parties and paid for by FCC Securities (see Note 13)

Mongolia	73,000	(23,500)	49,500	198
Subtotal	73,000	(23,500)	49,500	198
Total	265,516	(50,780)	214,736	(21)

2019

(all amounts in thousands USD)	Gross notional exposure	Hedged	Net notional exposure	Fair Value
Armenia	14,908	-	14,908	(68)
Ecuador	20,000	(5,000)	15,000	(320)
Egypt	40,000	(10,000)	30,000	62
Georgia	30,000	-	30,000	13
Ghana	40,000	(25,000)	15,000	(133)
Nigeria	60,000	(25,000)	35,000	(174)
Subtotal of financial guarantee contracts at FVTPL	204,908	(65,000)	139,908	(620)

Issued to third parties and paid for by FCC Securities (see Note 13)

Mongolia	50,000	(15,500)	34,500	85
Costa Rica	2,000	-	2,000	7
Subtotal	52,000	(15,500)	36,500	92
Total	256,908	(80,500)	176,408	(528)

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. The price that would be required on any measurement date is determined in accordance with the Level 3 valuation model described below. Changes in fair value are recorded in the Statement of Comprehensive Income.

FCC guarantees 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 of the counterparty 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 credit loss given default for a guarantee is 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, and 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>
FX jump factor	The expected exchange rate for conversion of local currency cash to USD following the default of the obligor. Set between 30% to 50% by decision of the Investment Committee;
Recovery rate	The expected price obtained for converting collateral instruments to local currency cash following the default of the obligor.
Volatility of collateral	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.
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.

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:

2020

(all amounts in thousands USD)	Uncertainty (1-5)	Contribution (1-5)	Change in FV +10%	Change in FV -10%
FX jump factor	4	5	(0)	0
Recovery rate	2	2	(80)	99
Volatility of collateral	3	1	(4)	4
Correlation scaling factor	4	2	(27)	27
Probability of default	2	5	(27)	27

2019

(all amounts in thousands USD)	Uncertainty (1-5)	Contribution (1-5)	Change in FV +10%	Change in FV -10%
FX jump factor	4	5	(9)	9
Recovery rate	2	2	383	(385)
Volatility of collateral	3	1	16	(16)
Correlation scaling factor	4	2	(70)	70
Probability of default	2	5	(70)	70

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

Comparison of fair value with accrual value of guarantee contracts

The fair value of guarantee contracts moves predominantly as a result of a change in expected credit loss. An increase in expected credit loss postpones the recognition of guarantee revenue and a decrease of the expected credit loss accelerates the recognition of guarantee revenue, in comparison to a linear recognition of guarantee fee income over the life of the guarantee. The extent to which income has been accelerated or decelerated provides meaningful information with regards to the change in perceived risk under a contract and the revenue potential of existing contracts during their remaining tenor.

The following table compares the guarantee revenue from realized fees and changes in fair value against the income that would have been recognized on an accrual basis:

(all amounts in thousands USD)	2020	2019
Realized fee cashflows plus changes in guarantee fair value	4,911	2,900
Guarantee income on accrual basis	4,899	2,902
Accelerated (+) or postponed (-) income recognition	12	(2)

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 (the Guarantee CVA) model described in the Note 12.

The residual net DVA equal to the above DVA minus the Guarantee CVA, 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 Guarantee CVA 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 then applicable Guarantee CVA 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 2020 (each line representing two contracts in total – one between FCC Securities and the obligor and one offsetting transaction between FCC Securities and the lender):

2020

(all amounts in thousands USD)	Type	Maturity	Notional exposure	Fair value
Azerbaijan	NDF	15-01-2021	5,000	-
Georgia	NDF	12-12-2022	30,000	-
Mongolia	Repo	26-07-2021	23,000	139
Mongolia	CC-IRS	21-06-2021	50,000	59
Total financial instruments			108,000	198

2019

(all amounts in thousands USD)	Type	Maturity	Notional exposure	Fair value
Mongolia	CC-IRS	21-06-2021	50,000	85
Nigeria	CC-IRS	27-08-2020	15,000	-
Ghana	Repo	16-12-2020	40,000	-
Costa Rica	NDF	28-10-2020	2,000	7
Georgia	NDF	12-12-2022	30,000	-
Total financial instruments			137,000	92

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:

2020

(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	26	(26)
Volatility of collateral	3	1	1	(1)
Correlation scaling factor	4	2	(5)	5
Probability of default	2	5	(5)	5

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

Recognition

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

(all amounts in thousands USD)

2020	Assets	Liabilities
Opening balance	876	(784)
Unrealized gains and (losses) for the year 2020	(137)	243
Balance at 31 December 2020	739	(541)
2019	Assets	Liabilities
Opening balance	349	(279)
Unrealized gains and (losses) for the year 2019	527	(505)
Balance at 31 December 2019	876	(784)

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 2020 is USD 2,1 million (2019: 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 thousands USD)

Bonds 2020	Counterparty	Maturity date	Fair Value
US459058GU15	IBRD	01-07-2020	5,147
FR0013323755	AFD	22-03-2021	5,135
US4581X0DB14	IADB	19-04-2021	5,064
XS1061386642	BNG	28-04-2021	1,012
E2020101600123	KfW	12-04-2021	5,064
US459058GH04	IBRD	23-07-2021	5,133
AV2019080700142	AfDB	26-07-2021	1,619
E2020091500134	AfDB	23-09-2021	5,114
E2020060200130	EIB	15-12-2021	5,136
E2020060300221	ADB	16-02-2022	10,282
E2020033100221/US11070TAB44	British Columbia	23-10-2022	5,181
E2020033100220/US459056LD78	IBRD	19-01-2023	5,930
E2020102100160	BNG	17-04-2023	2,027
Total			61,844

(all amounts in thousands USD)

Bonds 2019	Counterparty	Maturity date	Fair Value
US9128283S79	US Treasuries	31-01-2020	10,087
US912828V319	US Treasuries	15-01-2020	10,062
US912828MP29	US Treasuries	15-02-2020	10,158
AV2019071900030	IFC	30-03-2020	2,794
AV2019080800266	Kommunalbanken AS	17-04-2020	1,007
AV2019080800267	Kommunalbanken AS	17-04-2020	1,007
US29874QDC50 - EBRD 05-05-20	EBRD	05-05-2020	3,505
US045167DZ34	ADB	05-05-2020	5,007
US459058GU15	IBRD	01-07-2020	5,096
AV2019100800288	NIB	29-09-2020	2,002
AV2019100900060	BNG	14-12-2020	2,008
AV2019100900064	FMO	20-01-2020	1,001
AV2019080700142	AfDB	26-07-2021	1,597
Total			55,331

The movement of the securities is as follows:

(all amounts in thousands USD)

	2020	2019
Opening balance	55,331	-
Purchases	78,722	57,407
Sales	(71,221)	(2,063)
Fair value changes on financial instruments at FVTPL	(988)	(13)
Position as per 31 December	61,844	55,331

Recognition at FVTPL accelerates the recognition of income or postpones the recognition of income relative to a revenue recognition based on amortized cost depending on the movement of the clean price of the instruments.

(all amounts in thousands USD)	2020	2019
Realized interest income	1,883	146
Change in fair value	(988)	(13)
Result for the period	895	133
Result at amortized cost	621	157
Acceleration (+) or postponed (-) income recognition	274	(34)

15. Accrued fees

(all amounts in thousands USD)	2020	2019
Accrued Subordinated Notes fees	67	56
Total Accrued fees	67	56

16. Management fee receivable / (payable)

At 31 December 2020, a final amount due from the Manager for management fee charged in excess of costs incurred by the Manager of EUR 218,746 (2019: management fee payable of EUR 43,414) has been recorded as an accrual.

17. Other liabilities

(all amounts in thousands USD)	2020	2019
Third party service provider fees payable	1	28
Accrued performance fees	116	225
Accrued Supervisory Board Fees	10	-
Accrued Portfolio Insurance Fees	130	-
Collateral received	2,140	-
Other liabilities	21	170
Total other liabilities	2,418	423

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

Deferred performance fee

On 3 March 2021, the Supervisory Board of FCC awarded FCM with a Fixed Performance Fee Component for its performance during 2020 of USD 203,756. The total of Fixed Performance Fee Component awarded since the inception of FCC is therefore USD 1,557,906 (2019: USD 1,354,150).

In accordance with Note 35, a reservation of USD 194,995 has been made in 2020 for payment of the Fixed Performance Fee Component. The remaining deferred Fixed Performance Fee Component is USD 1,362,911 (2019: USD 1,364,150).

19. Realized fees on contracts at FVTPL

(all amounts in thousands USD)	2020	2019
Realized fees on financial guarantee contracts at FVTPL	3,244	2,011
Realized fees of financial instruments at FVTPL	1,160	1,212
Total realized and accrued fees	4,404	3,223

20. Changes in fair value on contracts at FVTPL

(all amounts in thousands USD)	2020	2019
Fair value of financial guarantee contracts at beginning of the period	620	276
Fair value of financial instruments at FVTPL at beginning of the period	(92)	(70)
Fair value of financial guarantee contracts at end of the period	(219)	(620)
Fair value of financial instruments at FVTPL at end of the period	198	92
Total change in fair value	507	(322)

Please refer to Notes 0 and 13 for further detail.

21. Guarantee expenses

(all amounts in thousands USD)	2020	2019
Hedging costs	984	1,041
Total guarantee expenses	984	1,041

The guarantee expenses exclusively relate to fees on insurance contracts.

22. 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.

23. Senior Notes – Standby Fee

(all amounts in thousands USD)	2020	2019
Senior Notes - Standby Fee	-	(213)
Senior Notes - Commitment Fee	-	(45)
Senior Notes - Liquidity Fee	-	(1,012)
Total	-	1,270

All Senior Notes and Senior Commitments have been redeemed and cancelled on 2 December 2019.

24. Senior Notes – Commitment Fee

(all amounts in thousands USD)	2020	2019
Senior Notes – Commitment Fee	-	45
Total	-	45

All Senior Notes and Senior Commitments have been redeemed and cancelled on 2 December 2019. Therefore there are no fees calculated during 2020.

25. Senior Notes – Liquidity Fee

(all amounts in thousands USD)	2020	2019
Senior Notes – Liquidity Fee	-	1,011
Total	-	1,011

All Senior Notes and Senior Commitments have been redeemed and cancelled on 2 December 2019. Therefore there are no fees calculated during 2020.

26. 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 million. 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 (implied) credit rating a counter-guarantee fee is charged between 0.35% and 0.50% as of 1 January 2020 (2019: 0.35% and 0.50%) of the guaranteed amount. At 31 December 2020, the available guaranteed amount under the counter guarantee equals USD 100 million (2019: USD 100 million).

27. Portfolio Insurance Fee

(all amounts in thousands USD)	2020	2019
Portfolio insurance fees	306	-
Total interest income	306	-

The Portfolio insurance fees are determined monthly based on the ratio of the outstanding portfolio and Available Cash, with a minimum of 0.40% per annum. The Portfolio Insurance policy is effective from 2 December 2019, the fees relating to the period until 31 December 2021 have been recognized in 2021.

28. Interest income

(all amounts in thousands USD)	2020	2019
Interest income on bank accounts	164	951
Interest income on securities	1,883	146
Total interest income	2,047	1,097

29. 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 2020, the management fee amounts to USD 2,3 million (2019: USD 2,5 million).

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 2020 has not been invoiced to FCC. A final amount due from the Manager for management fee charged in excess of costs incurred by the Manager of EUR 218,746 (2019: management fee payable of EUR 43,414) has been recorded as an accrual in FCC at year-end (see Note 16).

The management fee over 2020 covers commercial legal fees incurred by FCM of EUR 102,837 (2019: EUR 251,323). The audit fees paid by FCC are disclosed in Note 34. 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:

	2020	2019
Salaries & Remuneration	63%	52%
Business Development, Travel & Sundry	6%	14%
Third Party Service Providers	11%	14%
Insurance Costs	5%	5%
Subscription & License Fees	9%	7%
Information Technology	2%	2%
Office Expense	4%	5%
Other	0%	0%
Total management fee	100%	100%

30. Performance fee

(all amounts in thousands USD)	2020	2019
Performance fee 2018	-	197
Performance fee 2019	143	225
Performance fee 2020	117	-
Total Performance fee	260	422

On 3 March 2021, the Supervisory Board of FCC awarded FCM with a Performance Fee being the sum of USD 203,756 (2019: USD 367,748) and EUR 210,983 (2019: EUR 331,972) in relation to its performance as Manager in 2020. Of the amount of EUR 210,983 in relation to the variable compensation of the staff of the Manager, an amount of USD 116,095 related to non-discretionary performance targets is recognized in 2020 (2019: USD 143,483). The remaining amount related to discretionary portion of the 2020 Performance Fee will be recognized in 2021.

In accordance with clause 5 of Schedule 2 of the FCC Management Agreement, the Fixed Performance Fee Component fee is payable conditional on FCC achieving a positive operational result. The FCC Management Agreement defines a positive operational result as the lower of the reported net operating income and the result of FCC with some revenue components adjusted to reflect linear recognition of income over the life of the transaction, with the difference between the two carried forward to the next financial year. The amount of USD 203,756 is added to the deferred Fixed Performance Fee Component. At 31 December 2020, the deferred Fixed Performance Fee Component is USD 1,362,911 (2019: USD 1,354,150) (see Note 35 for further detail).

31. Legal fees

All legal fees for 2020 and 2019 relates to commercial activities of structuring financial contracts.

32. Third party service providers

(all amounts in thousands USD)

	2020	2019
Back office services	115	113
Quantifi PMS – license fee	-	(46)
Total third party service providers	115	67

33. 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.

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 Performance Fees and Long-Term Incentive Fees as remuneration for its services. The fees awarded to FCM in 2020 is disclosed under note 29, 30 and 35.

34. Other operating expenses

(all amounts in thousands USD)	2020	2019
Supervisory Board	85	85
Audit & Financial Reporting	99	109
Bank costs	147	77
Other expenses	44	69
Total other operating expenses	375	340

35. Deferred Performance fee and LTI

On 3 March 2021, the Supervisory Board of FCC has awarded the Manager with a Performance Fee being the sum of USD 203,756 and EUR 210,983 in relation to its performance as Manager in 2020. The amount of USD 203,756 is added to the deferred Fixed Performance Fee Component, resulting in a contingent liability of USD 1,557,906 (2019: USD 1,354,150).

In accordance with Schedule 1 of the FCC Management Agreement, the FCC Supervisory Board has awarded the Manager with a Long-Term Incentive fee of USD 850,000 for breaking even in 2020.

In accordance with clause 5 of Schedule 2 of the FCC Management Agreement, the Fixed Performance Fee Component and Long-Term Incentive fee are payable conditional on FCC achieving a positive operational result. The FCC Management Agreement defines a positive operational result as the lower of the reported net operating income and the result of FCC with some revenue components adjusted to reflect linear recognition of income over the life of the transaction, with the difference between the two carried forward to the next financial year.

(all amounts in thousands USD)	2020	2019
Net operating income	773	(2,659)
Accelerated income recognition guarantee revenue (Note 12)	(12)	2
Accelerated income recognition instruments at FVTPL (Note 14)	(274)	34
Total Performance fee and LTI payable	487	-

The difference between the Net operating income of USD 773,178 and the recognized accrual of USD 487,486 is carried forward to 2021.

The breakdown over Fixed Performance Fee Component and Long-Term Incentive is given below.

(all amounts in thousands USD)	2020	2019
Fixed Performance Fee Component	195	-
Long-Term Incentive	292	-
Total Performance fee and LTI payable	487	-

The remaining deferred Fixed Performance Fee Component at 31 December 2020 is USD 1,362,911 (2019: USD 1,354,150) and the deferred Long-Term Incentive fee is USD 557,508 (2019: nil).

36. Proposal appropriation of result

Based on the results over the year ended 31 December 2020, the Board of Directors proposes to deduct the result of USD 179,497 from the other reserves.

37. 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 thousands USD)	Notes	2020	2019
Assets			
Non-current assets			
Subsidiary FCC Securities B.V.	45	(107)	(24)
Intergroup receivable		89	37
Deferred tax asset	11	3,315	2,703
Total non-current assets		3,297	2,716
Current assets			
Cash and cash equivalents	40	28,480	34,853
Financial guarantee contracts at FVTPL	12	286	167
Financial instruments at FVTPL - Securities	14	61,844	55,331
Prepaid guarantee expenses		40	140
Management fee receivable	16	267	-
Other receivables		178	380
Total current assets		91,095	90,871
Total assets		94,392	93,587
Equity			
Shareholders' equity			
Issued share capital	7	-	-
General reserve	8	(8,695)	(4,954)
Undistributed result for the period	9	(179)	(3,741)
Total shareholders' equity		(8,874)	(8,695)
Liabilities			
Long-term liabilities			
Callable Notes	10	-	-
Junior Notes	10	89,574	89,770
Subordinated Notes	10	12,560	11,287
Total long term liabilities		102,134	101,057
Short-term liabilities			
Financial guarantee contracts at FVTPL	12	307	695
Accrued fees	15	67	56
Management fee payable	16	-	49
Deferred Performance fee and LTI	35	487	-
Other liabilities	41	271	425
Total short term liabilities		1,132	1,225
Total equity & liabilities		94,392	93,591

Company Only Statement of Comprehensive income

(all amounts in thousands USD)	Notes	2020	2019
Revenues			
Realized fees on contracts at FVTPL	19	4,404	3,223
Change in fair value of financial guarantee contracts at FVTPL	42	507	(322)
Guarantee expenses	21	(984)	(1,041)
Total revenues		3,927	1,860
Finance costs			
Subordinated Notes - FTAP Fee	22	(265)	(220)
Senior Notes - Standby Fee	23	-	(213)
Senior Notes - Commitment Fee	24	-	(45)
Senior Notes - Liquidity Fee	25	-	(1,012)
Counter Guarantee Fee	26	(356)	(580)
Portfolio Insurance Fee	27	(306)	-
Total finance costs		(927)	(2,070)
Other results			
Interest income	43	2,046	1,084
Fair value changes in liquidity investments	14	(988)	(13)
FX results		16	3
Other income		4	15
Total other results		1,078	1,089
Total operating income		4,078	879
Operating expenses			
Management Fees	29	(2,346)	(2,528)
Performance Fees	30	(260)	(422)
Legal Fees	31	(201)	(193)
Third party service providers	32	(115)	(67)
Other operating expenses	44	(300)	(308)
Total operating expenses		(3,194)	(3,518)
Operating result		856	(2,639)
Deferred Performance fee and LTI	35	(487)	-
Net result for the period before revaluation		369	(2,639)
Revaluation of Subordinated Notes	10	(1,273)	(3,596)
Revaluation of Junior Notes	10	196	1,071
Net result FCC Securities B.V.	45	(83)	(20)
Net loss for the period before tax		(791)	(5,184)
Income tax	11	612	1,443
Comprehensive loss for the period		(179)	(3,741)
<i>Comprehensive loss for the period attributable to the holder of the issued share of FCC</i>	36	<i>(179)</i>	<i>(3,741)</i>

38. 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”). 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.

39. 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.

40. Cash and cash equivalents

(all amounts in thousands USD)

	2020	2019
Money market funds	20,000	30,000
Term deposits Rabobank	9,400	-
Cash positions Rabobank	(926)	4,846
Cash positions CACEIS Bank, Netherlands Branch	6	7
Total cash and cash equivalents	28,480	34,853

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 163,098 (2019: USD 937,742).

41. Other liabilities

(all amounts in thousands USD)	2020	2019
Third party service provider fees payable	1	28
Accrued performance fees	116	225
Accrued Supervisory Board Fees	10	-
Accrued portfolio insurance fees	130	-
Other liabilities	14	172
Total other liabilities	271	425

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

(all amounts in thousands USD)	2020	2019
Fair value of financial guarantee contracts at beginning of the period	528	206
Fair value of financial guarantee contracts at end of the period	(21)	(528)
Total change in fair value	507	(322)

43. Interest income

(all amounts in thousands USD)	2020	2019
Interest income bank accounts	163	938
Interest income on fixed bonds	1,883	146
Total interest income	2,046	1,084

44. Other operating expenses

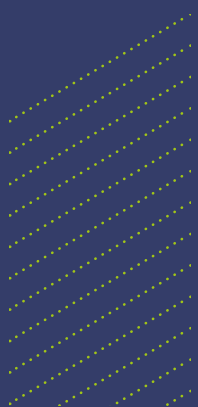
(all amounts in thousands USD)	2020	2019
Supervisory Board	85	85
Audit & Financial Reporting	99	110
Bank costs	44	44
VAT costs	-	69
Credit rating fees	44	-
Subscriptions and license fees	28	-
Total other operating expenses	300	308

45. Subsidiary FCC Securities B.V.

(all amounts in thousands USD)	2020	2019
Opening balance	(24)	(4)
Net result for the year	(83)	(20)
Total at year end	(107)	(24)



Other Information



OTHER INFORMATION

Statutory requirements for processing results (extract of Articles of Association)

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 2020 included in the annual report

Our opinion

We have audited the financial statements 2020 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 2020, and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and company only statements of financial position as at 31 December 2020
- The following statements for 2020:
 - 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.

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, 31 May 2021

Ernst & Young Accountants LLP

Signed by R.J. Bleijs RA



Frontclear

Mauritskade 63
1092 AD Amsterdam
The Netherlands

FRONTCLEAR.COM

