frontclear
financial market development

# Annual Report
2022

# Contents


## Annual Report 1

Report from the Supervisory Board 2

Report from the Managing Board 4

Overview of the company and services 7

Corporate governance 11

Risk management 13

## Financial Statements 14

Consolidated Statement of Financial Position 15

Consolidated Statement of Comprehensive income 16

Consolidated Statement of Cash flows 17

Statement of Changes in Equity 18

Notes to the Consolidated Financial Statements 19

Company Only Statement of Financial Position 52

Company Only Statement of Comprehensive income 53

## Other Information 57

Statutory requirements for processing results (extract of Articles of Association) 58

Auditor's report of the independent accountant 59

# Report from the Supervisory Board

## We are delighted to present Frontier Clearing Corporation B.V.'s (hereafter "Frontclear" or the "Company") 2022 Annual Report.

Frontier and emerging market economies faced a near perfect storm in 2022 and are arguably experiencing the most difficult economic conditions since at least 2008. Whilst the Covid-19 pandemic is no longer a health emergency, the economic costs remain clearly visible in stressed government finances and over-indebtedness that is expected to result in slower growth for years to come. This, combined with sharply rising US dollar interest rates, imported inflation and the breakout of war in Europe have a number of emerging and frontier economies effectively locked out of international capital markets.

In these conditions, Frontclear's role in facilitating access for frontier market actors to global capital markets and their domestic markets remains paramount. Frontclear did not disappoint in 2022. Overall, the guarantee portfolio expanded by 33% year-on-year. The Company facilitated market access for local banks in Mongolia, Egypt, Ecuador, Azerbaijan, Benin, Togo, and Nigeria, and furthermore maintained exposures in other markets such as Ecuador, Jamaica, the Dominican Republic and Armenia. A key milestone in 2022 was the launch of Tradeclear in Uganda, the Company's first market-wide umbrella guarantee structure that will facilitate the development of a stable and more inclusive local interbank market. Frontclear successfully managed risk exposures to stressed markets, notably in Ghana.

Ultimately, Frontclear seeks to deliver system change by absorbing counterparty credit risk and providing technical assistance and expertise to develop local capital markets. Market wide structures such as Tradeclear, combined with effective deployment of technical assistance, is leading to real market development as confirmed by the Company's first Internal Impact Adequacy and Assessment Procedure (IMAAP). Frontclear furthermore established new technical assistance funding partnerships in 2022, notably with the United Nations Economic Commission for Africa (UNECA) and the IFC/World Bank group to fund Tradeclear feasibility programs and MMDF projects in various countries including Zambia, Tanzania, Costa Rica, Dominican Republic, Cambodia, and Madagascar. For more information, please see Frontclear 2022 Impact Report.

Strategically it has become clear that in current and expected future economic conditions Frontclear can play a critical role not just in its traditional frontier economy focus, but also in larger, more developed emerging markets. With Frontclear's traditional frontier markets expected to remain under significant strain in coming years, Frontclear is seeking to diversify its portfolio and mandate into larger, more established emerging markets. To facilitate the strategy, the Supervisory Board approved changes to the Company's Investment Guidelines in 2022. These changes allow for diversification away from government bonds and cash as eligible collateral and allow for larger limits in better rated countries. The changes have also widened the scope of eligible derivative types for 1st loss guarantee structures. On the back of these changes, Management was able to deliver on its impact targets in frontier markets and simultaneously begin to meaningfully diversify the portfolio from 10 to 27 countries in 2022. Moreover, new countries added were in the BB- to A- rating range and has thus led to material risk diversification in terms of country risk and revenue.

At the same time, increased revenue from transacting in more established markets will allow for the allocation of more resources on market development projects that can achieve system change and build the markets of tomorrow. With the risk-off environment expected to remain in the medium term and with many global banks retreating from both emerging and frontier markets, a core focus in 2023 is to expand Frontclear's principal counterparty structure to facilitate onshore-offshore transactions. The principal counterparty model not only provides market access for frontier market participants to global markets, but also provides an efficient means for offshore counterparties to access frontier markets and facilitates foreign investors' access to local currency and hedging instruments.

A second strategic focus will remain on the operationalization of Tradeclear and expansion of the platform to new countries. In this regard, Frontclear initiated feasibility studies in Tanzania, Zambia and El Salvador in 2022 and has a good pipeline of further projects. The digitization of financial markets offers new opportunities for emerging and frontier markets to leapfrog to new financial infrastructure technology that could overcome many of the traditional barriers to market development. Frontclear is a thought leader in its field and will look to remain at the forefront of technologies that can spearhead market development in frontier economies. Overall, the goal is to help facilitate the recovery and resilience of frontier economies to recover from the current economic conditions and return to growth with more resilient, modern and deep capital markets to absorb the shocks of tomorrow.

We are delighted to welcome the Swedish International Development Agency (SIDA) as a new investor in Frontclear. The USD 50 million investment on 20 December 2022, facilitated and arranged by FMO, has expanded total committed capital to Frontclear to USD 329 million. Frontclear will continue to raise capital in the coming years to further facilitate scale and growth and the acceleration in its delivery of its market development mandate.

In 2022 the Supervisory Board implemented its succession plan and welcomed Dr. Frank Czichowski and Mr. Rutger Schellens as new members to the Board effective 1 April 2023. We would like to thank Mr. Thomas Heinig for his tireless commitment to Frontclear as member of the Supervisory Board from 2015 to 2023.

Amsterdam, 31 May 2023,

The Supervisory Board of Frontier Clearing Corporation B.V.

Mr. Axel van Nederveen (Chairman)
Mr. Michael Bristow
Mr. Bokar Chérif
Dr. Frank Czichowski
Mr. Rutger Schellens

# Report from the Managing Board

## Financial results

In 2022, the guarantee portfolio resulted in a net guarantee income after fair value adjustments and guarantee expenses of USD 3,844 thousand, up 22.2% year-on-year. Other income, as measured on a fair value basis and which primarily consists of returns on liquidity investments, was USD (379) thousand as at 31 December 2022. This compares unfavourably to 2021 figures USD (173) thousand and results from the rapid rise in US Dollar interest rates throughout 2022.

Whilst guarantee revenue increased 22% year-on-year and operating expenses remained stable, Frontclear generated a net operating result of USD (1,273) thousand as measured on a fair value basis for the full year 2022. The net operating loss is driven by fair value losses on its short-term liquidity portfolio given the steep rise in USD interest rates in 2022. Frontclear invests circa USD 90 million liquidity portfolio in short duration (AA- or above rated) securities and money market funds and typically holds to maturity. Notwithstanding the fair value loss, the yield on the liquidity portfolio increased from ~0.37% at the beginning of the year to ~2.31% as maturing investments rolled, thereby driving a strong increase in interest revenue earned.

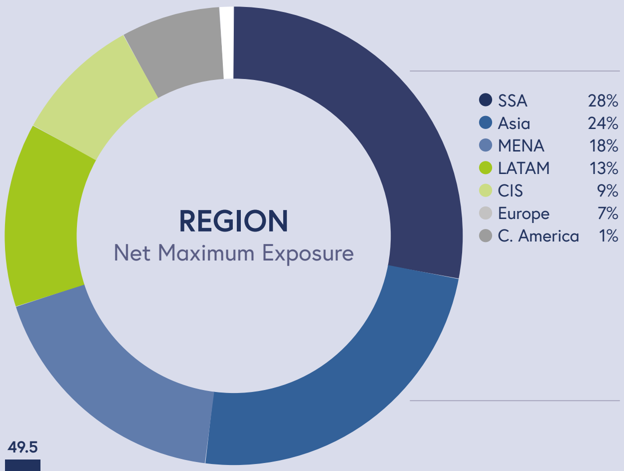
Whilst the fair value results take market conditions into account, results measured on an accrual basis provide an indication of whether income covers the Company's financing costs and operational expenses. Frontclear's operating income when measuring revenues on an accrual basis was just positive for the year at USD 182 thousand (see Note 34 for details).

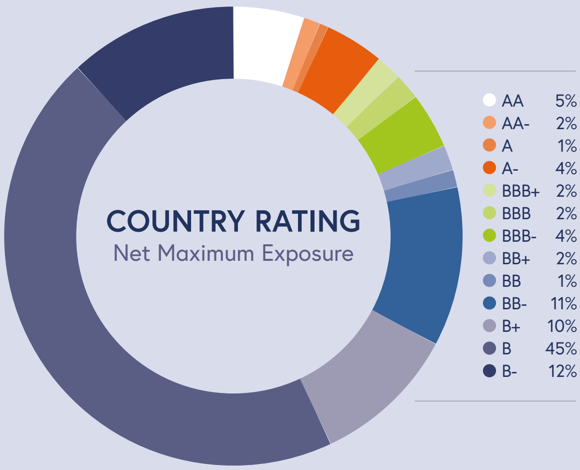
The company also generated strong positive operational cash flows in 2022, with cash flow from operations at USD 2,085 thousand and a total cash flow result (thus operating cash flow less financing activities) of USD 1,015 thousand for the full year 2022. Nonetheless, the value of the Junior Notes dropped to USD 87,064 thousand (2021: USD 88,307 thousand) as a result of the decline in fair value of the fixed income securities portfolio comprising a significant part of Available Cash. Similarly, the interest rate increase in USD caused the value of the Subordinated Notes to decline to USD 9,937 thousand (2021: USD 11,866 thousand), reflecting the long duration of the notes (see Note 10 for further details).

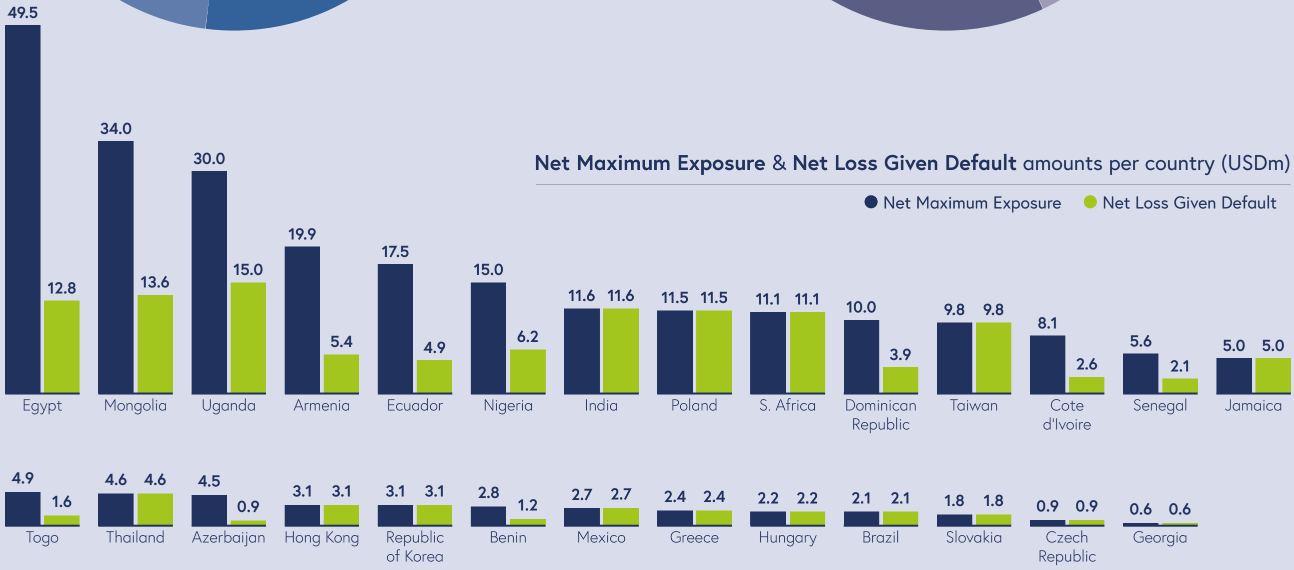
Finally, the company has applied for a zero corporate income tax rate in 2022. This has resulted in a write-off of the deferred tax asset of USD 2,039 thousand at 31 December 2021 (See Note 11 for details).

## Portfolio developments

The portfolio saw strong growth year-on-year, with the portfolio (Net Maximum Exposure) increasing 34% from USD 207 million to USD 278 million in 2022. Key to this growth was the execution of the Company's first portfolio guarantee, a single transaction with notional of USD 66.9 million covering the default risk of 31 obligors in 13 countries. The transaction has allowed Frontclear to better diversify its risk and revenue away from its traditional focus markets with minimal origination efforts. The charts below provide a summary of key portfolio metrics as of 31 December 2022.




## Building the markets of tomorrow

Beyond supporting access to markets for individual frontier market institutions with its bilateral and portfolio guarantee structures, Frontclear seeks to implement system level change with the goal of building tomorrow's financial markets. In this regard, the launch and ongoing operationalization of Tradeclear in Uganda in 2022 is a critical milestone for the Company. Tradeclear is a platform-based market wide umbrella guarantee facility, under which Frontclear guarantees the counterparty credit risk of all participating banks in the market. In Uganda, 17 of the 23 banks active in the market have signalled intention to join, with 10 banks live on the platform in early 2023. Together with regulatory reforms gazetted by the Ugandan government in May 2023, the Tradeclear platform is expected to lead to the development of a true domestic repo and swap interbank market. The development of such market wide solutions is resource intensive. In this regard, Frontclear is indebted to its technical assistance partners, notably to the United Nations Economic Commission for Africa (UNECA), Financial Sector Deepening Africa (FSDA) and the JoDEA fund of Cardano Development.

## Risk management developments

In the ICAAP performed during 2022, the company has strategically reviewed its key risk limits for counterparty credit exposure. The FCC Investment Guidelines have consequently been amended to allow for the build up of an equal amount of capital at risk in each country rather than an equal amount of loss given default, which will accommodate building larger exposures for countries and counterparties with a lower probability of default and diversify the portfolio away from a concentration in lower-rated countries. The company has also embarked on an external validation of its stochastic capital model, to build comfort and confidence with its stakeholders to increasingly rely on the results of this model rather than on deterministic limits for the size of the portfolio relative to available risk capital.

Despite the challenging external environment in 2022, the company has not incurred any losses in its guarantee portfolio. The self-liquidating nature of collateralized counterparty credit exposures proved valuable in reducing risk exposure to outstanding transactions in Ghana, where the depreciation of the Cedi and the increase in local yields for government securities effectively led to a full cash collateralization of the guaranteed exposures and ultimately to a voluntary early unwind of the transactions guaranteed by the company prior to the maturity date.

The company maintains a very limited appetite for market risk and keeps the duration of investment portfolio short, given the unfunded nature of its country and counterparty credit risk exposures and the potential need to liquidate the investment portfolio in case of a demand under guarantees issued. Despite this short duration of the portfolio, the steep increase in USD interest rates over 2022 has led to a fair value loss on the investment portfolio of USD 2.5 million (2021: loss of USD 1.6 million).

## Outlook

With the growth of the guarantee portfolio and expectation that USD rates will stabilize at current (or somewhat higher) levels for longer, Frontclear expects operating income and cash flow to continue to improve in 2023, also on a fair value basis. The growth and further diversification of the portfolio and the stabilization of financial results are important strategic drivers that will continue to support product and business development efforts. Capitalization and access to liquidity are adequate to underpin this growth for the time being. The complex and uncertain operating environment however requires a cautious approach to the selection of new risk exposures, something that management expects to remain valid throughout 2023.

Amsterdam, 31 May 2023,

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 catalyzing 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.

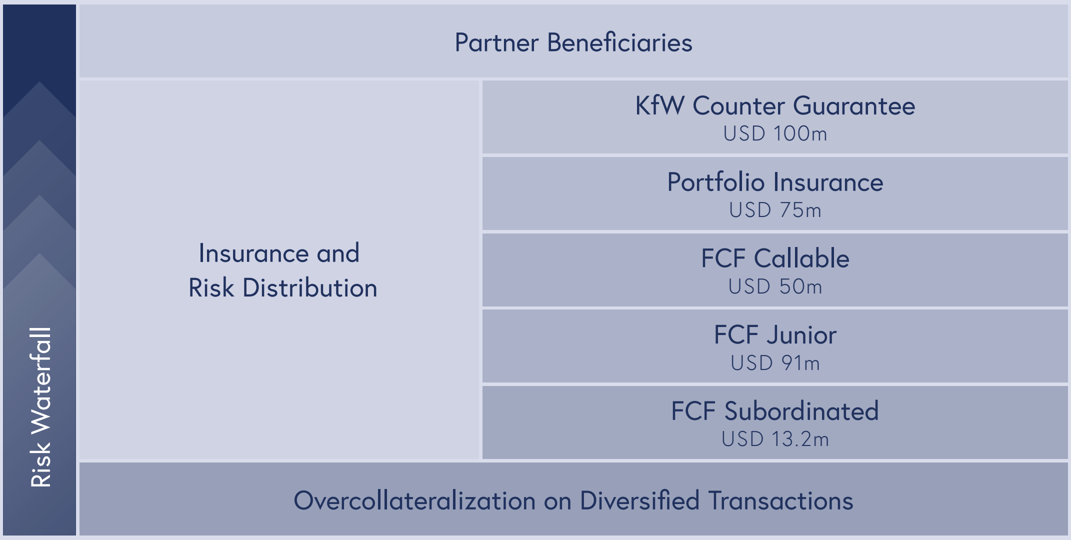
In cases where local financial institutions have difficulty finding a counterparty that is willing to face them in such transactions (e.g. due to operational constraints), FCC Securities B.V. ("FCC Securities") can act as a principal counterparty to the local institution and hedge its exposure with a 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 Frontclear Technical Assistance Program (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 2022 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 collateralized 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 minimize 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 utilizes non-payment insurance on a case-by-case basis to further manage its risk and capital positions.

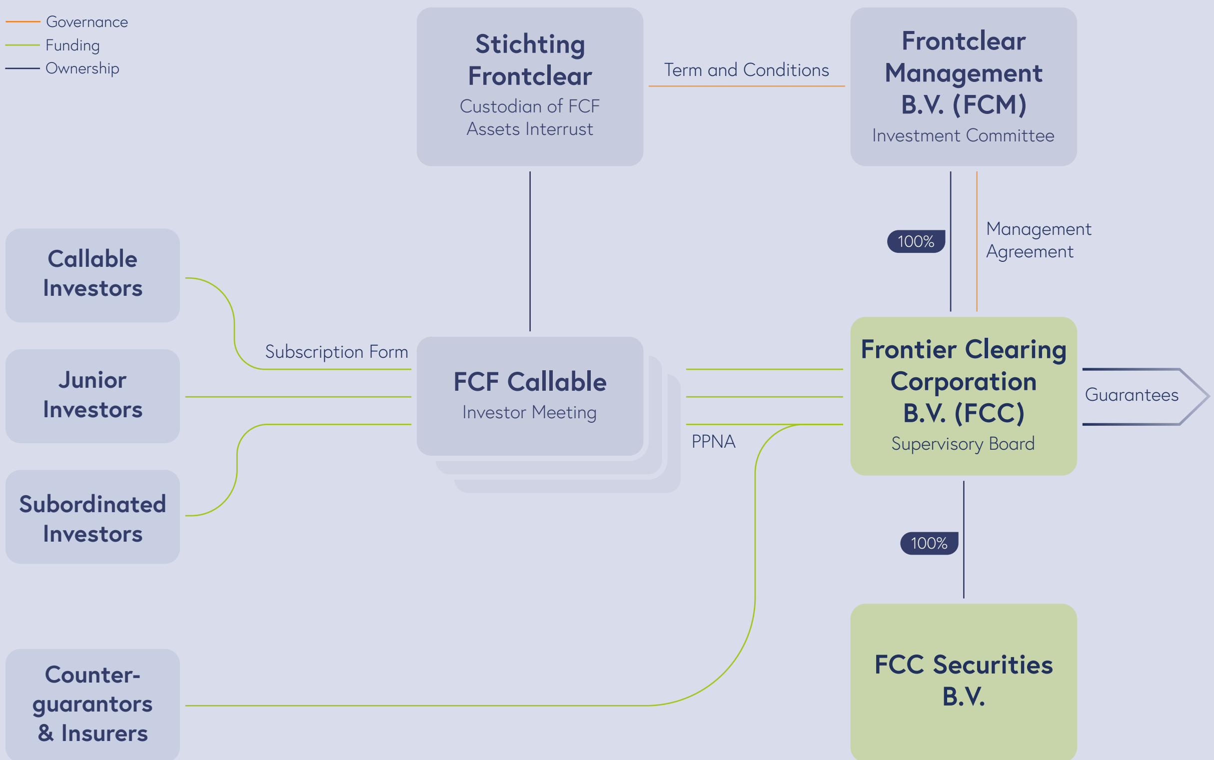
## Legal structure

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 2021 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.

- **Stichting Frontclear** – Stichting Frontclear is the custodian for the FCF and therefore the legal owner of the assets of the FCF.
- **Stichting Frontclear Technical Assistance Program (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).

  At 31 December 2022, Frontclear Management had 12 employees, 5 of which in commercial positions reporting to the CEO and 3 in risk management and compliance functions and 2 in technical assistance functions reporting to the CFRO. Staffing increased with 3 employees during 2022 and is expected to continue to grow with the size and complexity of the company's activities.
- **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 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: Subordinated Notes to FCF Subordinated, Junior Notes to FCF Junior and Callable Notes to FCF Callable. 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 pays out in case claims under guarantee obligations exceed the funds available to FCC, with a waiting period of 180 days. The policy is compliant with the conditions for unfunded capital protection stated in the Capital Requirement Regulation of the European Union.
- **Liquidity Facility** – FCC has entered into a revolving liquidity facility of USD 50 million (2021: USD 25 million), that can be drawn against claims issued under the Portfolio Insurance policy.
- **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's 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 co-optation, subject to approval by the Joint Investor Meeting by Investor Ordinary Consent.

  At 31 December 2022, 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.

  At 31 December 2022, 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 authorization of key documents, including but not limited to external reporting.

- **FCM Supervisory Board** – the Supervisory Board of FCM consists of:
  - Joost Zuidberg

  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.

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 submits AIFMD reports once a year to the regulator. As an exempted manager of alternative investment funds, the regulatory requirements applicable to FCM are limited.  FCM voluntary 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 and Charco & Dique, Dutch law firms specialized 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.

# Risk management

## Risk Appetite and risk management approach

The business objective of the Company is to build a portfolio of collateralized counterparty credit risk exposures in emerging markets and developing countries ("EMDC"), with the purpose of facilitating the development of more liquid and inclusive financial markets. The Company therefore focuses on taking country risk and counterparty credit risk in EMDC and has limited appetite for other risk categories, such as credit risk in the investment portfolio or market risk other than through materialized counterparty credit exposures, when the Company could be directly exposed to the risks related to the collateral instrument.

The main documents capturing the risk appetite and the approach to managing the key risk exposures of the Company are the FCC Investment Guidelines and the FCC Risk Charter:

- FCC Investment Guidelines – document detailing the key investment guidelines of the Company, stating the risk appetite, key risk controls and guidance for determining key exposure metrics and approving new countries and counterparties.
- FCC Risk Charter – document detailing the governance and key elements of the risk governance management framework and the approach to the identification, assessment, measurement, mitigation and reporting of key risk exposures. The FCC Risk Charter further details the economic capital framework for measuring risk and the adequacy of capital on portfolio level.

The FCC Investment Guidelines and FCC Risk Charter supersede all other risk policies and guidelines of the Company. Changes to these main documents are subject to the approval of the FCC Supervisory Board, with the exception of changes to the business objective and return target, which are subject to approval by the Joint Investor Meeting.

The Company evaluates its risk appetite and risk management approach annually and presents the results of the evaluation and any proposed changes to the FCC Investment Guidelines and FCC Risk Charter to the FCC Supervisory Board. For this evaluation, the Company follows the guidelines of The ICAAP Policy Rule for investment firms and investment institutions ("Beleidsregel ICAAP beleggingsondernemingen en beleggingsinstellingen Wft 2015") as issued by the Dutch central bank in accordance with the European Capital Requirement Directive IV.

For an overview of the key risk categories the Company is exposed to see Note 5.

## Operational risk management

The Company adheres to a continuous self-improvement cycle for operational risk management. The Company, as part of the Frontclear group of entities, maintains a risk control framework for managing operational risk and subjects itself to an annual operational audit process, resulting in an ISAE 3402 Type II report for Frontclear. The Company maintains an Incident Register for recording operational incidents that could inform changes to the risk control framework.

The risk control framework and Incident Register are captured in a governance, risk and compliance ("GRC") system, the allows for frequent review of all key operational risk categories and controls and the assessment of residual risk exposures.

# Financial Statements

# FINANCIAL STATEMENTS

## Consolidated Statement of Financial Position

(as at 31 December, before profit appropriation)

| (all amounts in thousands USD) | Notes | 2022 | 2021 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Deferred tax asset | 11 | - | 2,039 |
| **Total non-current assets** | | | 2,039 |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 26,017 | 35,234 |
| Financial instruments at FVTPL – Securities | 14 | 61,631 | 53,895 |
| Financial guarantee contracts at FVTPL | 12 | 65 | 143 |
| Financial instruments at FVTPL – Other | 13 | 1,615 | 1,257 |
| Prepaid guarantee expenses | | 67 | 206 |
| Other receivables | 17 | 338 | 201 |
| **Total current assets** | | 89,733 | 90,936 |
| **Total assets** | | **89,733** | **92,975** |
| **Equity** | | | |
| **Shareholders' equity** | | | |
| Issued share capital | 7 | - | - |
| General reserve | 8 | (9,807) | (8,874) |
| Undistributed result for the period | 9 | (140) | (933) |
| Total shareholders' equity | | (9,947) | (9,807) |
| **Liabilities** | | | |
| **Long-term liabilities** | | | |
| Junior Notes | 10 | 87,064 | 88,307 |
| Subordinated Notes | 10 | 9,937 | 11,866 |
| **Total long-term liabilities** | | 97,001 | 100,173 |
| **Short-term liabilities** | | | |
| Financial guarantee contracts at FVTPL | 12 | 498 | 810 |
| Financial instruments at FVTPL – Other | 13 | 1,435 | 1,142 |
| Accrued fees | 15 | 88 | 75 |
| Management fee payable | 16 | 94 | 25 |
| Other liabilities | 17 | 564 | 557 |
| Total short-term liabilities | | 2,679 | 2,609 |
| **Total equity & liabilities** | | **89,773** | **92,975** |

*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 | 2022 | 2021 |
|---|---|---|---|
| **Revenues** | | | |
| Realized fees on contracts at FVTPL | 20 | 4,127 | 4,391 |
| Change in fair value of contracts at FVTPL | 21 | 299 | (531) |
| Guarantee expenses | 22 | (582) | (717) |
| **Total revenues** | | **3,844** | **3,143** |
| **Finance costs** | | | |
| Subordinated Notes | 23 | (264) | (264) |
| Counter Guarantee Fee | 24 | (355) | (355) |
| Portfolio Insurance Fee | 25 | (306) | (301) |
| Liquidity Facility fee | 26 | (158) | (65) |
| **Total finance costs** | | **(1,083)** | **(985)** |
| **Other results** | | | |
| Interest income | 27 | 2,142 | 1,521 |
| Fair value changes in liquidity investments | 14 | (2,468) | (1,685) |
| FX results | | (28) | (9) |
| Other income | | (25) | - |
| **Total other results** | | **(379)** | **(173)** |
| **Total operating income** | | **2,382** | **1,985** |
| **Operating expenses** | | | |
| Management Fees | 28 | (2,765) | (2,511) |
| Performance Fees | 29 | (178) | (270) |
| Legal Fees | 30 | (148) | (263) |
| Third party service providers | 31 | (202) | (201) |
| Other operating expenses | 33 | (362) | (357) |
| **Total operating expenses** | | **(3,655)** | **(3,602)** |
| **Operating result** | | **(1,273)** | **(1,617)** |
| Deferred Performance fee and LTI | 34 | - | - |
| **Net result for the period before revaluation of PPN** | | **(1,273)** | **(1,617)** |
| Revaluation of Subordinated Notes | 10 | 1,929 | 694 |
| Revaluation of Junior Notes | 10 | 1,243 | 1,267 |
| **Net loss for the period before tax** | | **1,899** | **344** |
| Income tax | 11 | (2,039) | (1,277) |
| **Comprehensive loss for the period** | | **(140)** | **(933)** |
| *Comprehensive loss for the period attributable to the holder of the issued share of FCC* | 35 | *(140)* | *(933)* |

*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 | 2022 | 2021 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Guarantee fees received | 20 | 2,903 | 3,230 |
| Income received from financial instruments at FVTPL | | 1,224 | 1,161 |
| Guarantee expenses paid | | (513) | (908) |
| Interest received | | 2,075 | 1,522 |
| Management fees paid | 28 | (2,696) | (2,219) |
| Performance fee paid | | (214) | (487) |
| Other income and operational expenses | | (694) | (810) |
| Collateral received | | - | (2,140) |
| **Net cash flow used in operating activities** | | **2,085** | **(651)** |
| **Cash flow from investing activities** | | | |
| Financial instruments at FVTPL – Securities purchases | | (45,204) | (26,336) |
| Financial instruments at FVTPL – Securities sales and redemptions | | 35,000 | 32,600 |
| **Net cash flow used in investing activities** | | **(10,204)** | **6,264** |
| **Cash flow from financing activities** | | | |
| Subordinated Notes - FTAP Fee paid | 23 | (264) | (264) |
| Counter-guarantee fee paid | 24 | (355) | (354) |
| Portfolio insurance fee paid | 25 | (302) | (304) |
| Liquidity Facility fee paid | 26 | (149) | (57) |
| **Net cash flow generated from (used in) financing activities** | | **(1,070)** | **(979)** |
| **Net cash flow generated during (used in) the year** | | **(9,189)** | **4,634** |
| Cash and cash equivalents at beginning of the period | | 35,234 | 30,609 |
| Foreign currency translation of cash positions | | (28) | (9) |
| **Cash and cash equivalents at the end of the period** | | **26,017** | **35,234** |
| **Analysis of cash and cash equivalents** | | | |
| Cash at banks | | 6,017 | 15,234 |
| Money market funds | | 20,000 | 20,000 |
| **Total of cash and cash equivalents** | **6** | **26,017** | **35,234** |

*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 | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Equity at beginning of the period | (9,807) | (8,874) | 1 | 1 |
| Proceeds from shares issued | - | - | - | - |
| Net change from transactions with shareholders | - | - | - | - |
| Comprehensive loss for the period | (140) | (933) | | |
| **Equity at end of year** | **(9,947)** | **(9,807)** | **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"). 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 6 April 2023, the FCC Supervisory Board awarded the Manager with a Performance Fee being the sum of a Fixed Performance Fee Component of USD 284,474 and EUR 327,984 relating to the variable compensation of the staff of the Manager.

The amount of USD 284,474 has been added to the deferred Fixed Performance Fee Component, of which an amount of USD 0 has been recognized in 2022 for pay-out to the Manager (see Note 34 for further detail).

The amount of EUR 327,984 relating to the variable compensation of the staff of the Manager is recognized in 2023, after it has been determined by the Supervisory Board of FCC. The amount of Performance Fee recognized in 2022 related to the discretionary part of the 2021 Performance Fee only (see Note 29 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 2023.

## 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 Company and are consistent with those used in the previous year. All amounts have been rounded to the nearest thousand unless otherwise indicated.

### New and amended standards and interpretations

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

*Onerous Contracts - Costs of Fulfilling a Contract – Amendments to IAS 37*
An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. These amendments had no impact on the consolidated financial statements of the Company as there were no contracts within the scope of these amendments that arose during the period.

*Reference to the Conceptual Framework - Amendments to IFRS 3*
The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. In accordance with the transitional provisions, the Company applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). These amendments had no impact on the consolidated financial statements of the Company as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

*Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16*
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. In accordance with the transitional provisions, the Company applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

*IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter*
The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. These amendments had no impact on the consolidated financial statements of the Company as it is not a first-time adopter.

*IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the transitional provisions, the Company applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Company as there were no modifications of the Company's financial instruments during the period.

*41 Agriculture – Taxation in fair value measurements*
The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. These amendments had no impact on the consolidated financial statements of the Company as it did not have assets in scope of IAS 41 as at the reporting date.

**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 Company 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 assets and liabilities 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 no 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**
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.

See Note 11 for developments relating to the deferred tax asset in 2022.

**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.

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. The average duration of the portfolio of securities at 31 December 2022 is 0.76 years. The changes in fair value of these investments are disclosed in Note 14.

*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.

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.

The sensitivity to the value of the PPN to changes in interest rates is disclosed in Note 10.

*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.

The open currency positions of the company at 31 December 2022, incurred through bank balances in foreign currency and payables due only, are given below:

| (all amounts in thousands USD) | **Exposure 2022** | **Exposure 2021** |
|---|---|---|
| EUR | 331 | 109 |
| GHS | 8 | 142 |
| **Total** | **339** | **251** |

*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:

| *Scenario* | *Test* | *Requirement* |
|---|---|---|
| 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 |

The results of these stress tests at 31 December are given below:

| | **2022** | **2021** |
|---|---|---|
| Counterparty event | 2.6 | 2.2 |
| Market or legal risk event | 2.0 | 2.1 |
| Country event | 1.8 | 1.8 |

Next to running discretionary liquidity stress tests, the company runs a Monte Carlo simulation model (see *Capital model* for details) to determine the maximum amount with 99.75% certainty of liquidity needed in the run-down of the guarantee portfolio, anticipating simultaneous work-out scenarios for multiple calls guarantee contracts issued, where the company might have to prefund guarantee payments under insured exposures and potentially have to purchase the collateral portfolio from the guaranteed beneficiary. This amount is determined at 31 December 2022 at USD 75 million (2021: USD 120 million).

*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, 2022:

| (all amounts in thousands USD) | **Credit rating** | **Exposure 2022** | **Exposure 2021** |
|---|---|---|---|
| Money market funds | AAA | 20,000 | 20,000 |
| Fixed income investments | AA- and up | 61,631 | 53,895 |
| Cash positions Rabobank | A+ | 4,999 | 134 |
| Term deposits Rabobank | A+ | - | 5,800 |
| Cash positions CACEIS Bank, Netherlands Branch | AA- | 1,010 | 8,214 |
| Other Cash Positions – EMDC banks | Not rated | 8 | 1,086 |
| **Total** | | **87,648** | **89,129** |

*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 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 is set between 30% and 50%. The maximum exposure of a guaranteed transaction is equal to the notional value of the transaction for transactions with exchange of principal (deliverable transactions) and is based on a stochastic potential future exposure metric for transactions without exchange of principal (non-deliverable transactions).

The maximum aggregate guarantee exposure across countries and counterparties that FCC can enter into against its available capital is controlled by the economic capital framework. The economic capital framework is reviewed annually as part of the internal capital adequacy assessment procedure (ICAAP) and changes are subject to the approval of the FCC Supervisory Board.

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

| **2022**<br>(all amounts in thousands USD) | **Gross notional exposure** | **Hedged** | **Net notional exposure** | **Fair Value** |
|---|---|---|---|---|
| Armenia | 24,489 | - | 24,489 | (14) |
| Azerbaijan | 15,000 | - | 15,000 | 29 |
| Benin | 2,962 | - | 2,962 | (45) |
| Brazil | 2,100 | - | 2,100 | (3) |
| Cote d'Ivoire | 4,598 | - | 4,598 | (40) |
| Czech Republic | 900 | - | 900 | (1) |
| Dominican Republic | 20,000 | (10,000) | 10,000 | 1 |
| Ecuador | 17,500 | - | 17,500 | (46) |
| Egypt | 59,487 | (10,000) | 49,487 | (133) |
| Georgia | 5,000 | - | 5,000 | (29) |
| Greece | 2,378 | - | 2,378 | (2) |
| Hong Kong | 3,100 | - | 3,100 | (4) |
| Hungary | 2,214 | - | 2,214 | (1) |
| India | 11,600 | - | 11,600 | (16) |
| Jamaica | 5,000 | - | 5,000 | 64 |
| Mexico | 2,700 | - | 2,700 | (4) |
| Mongolia | 48,000 | (14,000) | 34,000 | 151 |
| Nigeria | 15,000 | - | 15,000 | (15) |
| Republic of Korea | 3,100 | - | 3,100 | (4) |
| Poland | 11,500 | - | 11,500 | (16) |
| Senegal | 5,705 | - | 5,705 | (64) |
| Slovakia | 1,800 | - | 1,800 | (2) |
| South Africa | 11,100 | - | 11,100 | (16) |
| Taiwan | 9,800 | - | 9,800 | (13) |
| Thailand | 4,600 | - | 4,600 | (6) |
| Togo | 7,620 | - | 7,620 | (24) |
| Uganda | 30,000 | - | 30,000 | - |
| **Total** | **327,252** | **(34,000)** | **293,252** | **(253)** |

**2021**

| (all amounts in thousands USD) | Gross notional exposure | Hedged | Net notional exposure | Fair Value |
|---|---|---|---|---|
| Armenia | 27,356 | - | 27,356 | (94) |
| Dominican Republic | 20,000 | (10,000) | 10,000 | 33 |
| Ecuador | 17,500 | - | 17,500 | 20 |
| Egypt | 60,000 | (10,000) | 50,000 | (486) |
| Georgia | 35,000 | - | 35,000 | (154) |
| Ghana | 60,000 | (25,000) | 35,000 | 57 |
| Jamaica | 5,000 | - | 5,000 | 88 |
| Mongolia | 23,000 | (6,100) | 16,900 | 56 |
| Nigeria | 15,000 | - | 15,000 | (68) |
| Turkey | 15,000 | - | 15,000 | (5) |
| **Total** | **277,856** | **(51,100)** | **226,756** | **(552)** |

FCC has obtained non-payment insurance to hedge USD 34 million (31 December 2021: USD 51.1 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 net guarantee follow from the capital model as described below.

*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.

FCC reserves 5% of available capital for market and operational risk.

*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.

*Fair value measurement*
The following table provides the fair value measurement of the Companies assets and liabilities measured at FVTPL.

**Assets at FVTPL**

| (all amounts in thousands USD) | **Quoted prices in active Markets (Level 1)** | **Significant unobservable Inputs (level 2)** | **Significant unobservable Inputs (level 3)** |
|---|---|---|---|
| Financial instruments at FVTPL – Securities | 61,631 | - | - |
| Financial guarantee contracts at FVTPL | - | - | 65 |
| Financial instruments at FVTPL – Other | - | - | 1,710 |
| **Total assets at FVPTL** | **61,631** | **-** | **1,775** |

**Liabilities at FVTPL**

| (all amounts in thousands USD) | **Quoted prices in active Markets (Level 1)** | **Significant unobservable Inputs (level 2)** | **Significant unobservable Inputs (level 3)** |
|---|---|---|---|
| Long-term liabilities – Junior Notes | - | - | 87,064 |
| Long-term liabilities – Subordinated Notes | - | - | 9,937 |
| Financial guarantee contracts at FVTPL | - | - | 498 |
| Financial instruments at FVTPL – Other | - | - | 1,530 |
| **Total liabilities at FVPTL** | **-** | **-** | **99,029** |

## 6. Cash and cash equivalents

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Money market fund – Blackrock ICS USD Liquidity | 10,000 | 10,000 |
| Money market fund – Blackrock ICS USD Treasury | 10,000 | 10,000 |
| Term deposits Rabobank | - | 5,800 |
| Cash positions Rabobank | 4,999 | 134 |
| Cash positions CACEIS Bank, Netherlands Branch | 1,010 | 8,214 |
| Other Cash Positions – EMDC banks | 8 | 1,086 |
| **Total cash and cash equivalents** | **26,017** | **35,234** |

No restrictions to the usage of cash and cash equivalents exist at year end. Interest income related to cash and cash equivalents amounted to USD 442 (2021: USD 12).

## 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) | 2022 | 2021 |
|---|---|---|
| Balance as at beginning of period | (8,874) | (8,695) |
| Distributed from undistributed result for the period | (933) | (179) |
| **Balance as at 31 December** | **(9,807)** | **(8,874)** |

## 9. Undistributed result for the period

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Balance as at beginning of period | (933) | (179) |
| Distributed to general reserve | 933 | 179 |
| Comprehensive income for the period | (140) | (933) |
| **Balance as at 31 December** | **(140)** | **(933)** |

*Minimum capital requirement*
FCC is not subject to any internal or external imposed minimum capital requirement.

## 10. Long-term liabilities

The long-term liabilities as at 31 December 2022 are detailed as follows:

| (all amounts in thousands USD) | Junior Notes | Callable Notes | Subordinated Notes | Total |
|---|---|---|---|---|
| **Total position at beginning of period** | **88,307** | **-** | **11,866** | **100,173** |
| Revaluation during the period | (1,243) | - | (1,929) | (3,172) |
| **Total position at 31 December 2022** | **87,064** | **-** | **9,937** | **(97,001)** |

The long-term liabilities at 31 December 2021 are detailed as follows:

| (all amounts in thousands USD) | Junior Notes | Callable Notes | Subordinated Notes | Total |
|---|---|---|---|---|
| **Total position at beginning of period** | **89,574** | **-** | **12,560** | **102,134** |
| Revaluation during the period | (1,267) | - | (694) | (1,961) |
| **Total position at 31 December 2021** | **88,307** | **-** | **11,866** | **100,173** |

***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.

FCC entered into the first Callable Commitment with FCC Callable effective on 23 December 2022 resulting in a Callable Commitment on 31 December 2022 of USD 50 million (2021: nil). At 31 December 2022, the Callable Commitment remained undrawn and no Callable Notes are recognized.

*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 (see Redemption value below for details) 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.

***Junior Notes***

*Status*
A net nominal value of USD 91 million has been issued to 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. 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 (see Redemption value below for details) 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 2021), Junior Funds (as per 31 December 2021 USD 91 million) and Subordinated Funds (as per 31 December 2021 USD 13.2 million) as interest on the Junior Notes. During the period, Available Cash has been less than the total amount of outstanding Junior Funds and Subordinated Funds and hence no interest has accrued or been paid on the Junior Notes.

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 2022 (2021: 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, subject to Available Cash (see Redemption value below for details).

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 on active markets. 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.

Level 3 discounted cashflow model
At 31 December 2022, FCC has valued 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 capital utilized by the portfolio of guarantees at financial year-end; |
| Portfolio growth rate | The annual growth rate of the capital utilized by the portfolio of guarantees issued by FCC, subject to the portfolio leverage limits, in the years following the next financial year-end; |
| Pricing | The expected average return earned on capital utilized by the guarantee portfolio over the projected horizon; |
| OPEX growth rate | The annual growth rate of the operational expenses of FCC relative to the capital utilized by the guarantee portfolio in the years following the next financial year-end. The growth of OPEX is limited as it increases only with the utilization of capital. |

These unobservable inputs have been amended in comparison to the valuation at 31 December 2021 to reflect the increasing heterogeneity of products in the portfolio projected, but essentially capture the same value drivers as at 31 December 2021. 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 last 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 2022 was equal to USD 3.9 million (2021: USD 3,8 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 Company 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 fair value of the PPN’s at 31 December 2022 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. The latter reflects the fact that investors have not moved to vote on liquidation and therefore must consider information elements not captured by the level 3 discounted cashflow model.

The table below provides an overview of valuations of the PPN. The final column in the table below value corresponding to the business case for FCC reflects the value of the PPN under a scenario including targeted but not yet committed capital contributions in the proxy valuation.

**2022**

| (all amounts in thousands USD) | **DCF Value Committed Capital** | **Redemption Value at 31 December** | **Fair Value at 31 December** | **Business Case Valuation** |
|---|---|---|---|---|
| Callable Notes | - | - | - | - |
| Junior Notes | 41,038 | 87,064 | 87,064 | 59,136 |
| Subordinated Notes | 9,937 | - | 9,937 | 9,937 |
| **Total** | **50,975** | **87,064** | **97,001** | **69,073** |

**2021**

| (all amounts in thousands USD) | **DCF Value Committed Capital** | **Redemption Value at 31 December** | **Fair Value at 31 December** | **Business Case Valuation** |
|---|---|---|---|---|
| Callable Notes | - | - | - | - |
| Junior Notes | 43,177 | 88,307 | 88,307 | 79,461 |
| Subordinated Notes | 11,866 | - | 11,866 | 11,866 |
| **Total** | **55,043** | **88,307** | **100,173** | **91,327** |

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 discounted cashflow model discounts the distributions to the Junior Notes using the last observed risk premium for the notes. A reported fair value less than the nominal value of the Junior Notes therefore reflects a decline in expected return for the notes. At 31 December 2022, the projected IRR for the Junior Notes over the remaining life of the notes if invested in at their redemption value stands at 5.42% (2021: 6.21%). This IRR calculation excludes the valuation of the option for investors to extend the life of the notes by another ten years.

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 2022 the Junior Notes are valued at USD 87.1 million (2021: USD 88.3 million) and the Subordinated Notes at USD 9.9 million (2021: USD 11.9 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 2022, 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. The table also provides the sensitivity of the Notes to a parallel shift in interest rates as observable input, affecting both the interest income projected over the remaining life via implied forward rates and the discount rates applied to future distributions.

**2022**

| | Uncertainty | Inputs | Reasonable possible change | Impact | Change in DCF value in USD 1,000 Junior Note | Subordinated Note |
|---|---|---|---|---|---|---|
| Portfolio growth rate | 3 | 25% | -15% | Non-Linear | (2,167) | - |
| | | | +10% | | (916) | - |
| Pricing (return on capital) | 4 | 7% | -1.0% | Linear | (8,143) | (655) |
| | | | +1.0% | | 8,751 | - |
| OPEX growth rate | 2 | 7% | -1.0%% | Linear | (4,686) | - |
| | | | +1.0% | | 4,828 | - |
| Interest rates | n/a | market | -100bps | Non-linear | (1,455) | 974 |
| | | | +100bps | | 1,267 | (871) |

The sensitivity of the Subordinated Notes is mostly limited to interest changes only as a long as the cashflow projections indicate that all principal and fixed coupon payments on the notes can be covered from Available Cash.

In 2021, the level 3 discounted cashflow model used the following unobservable inputs to generate cashflow projections:

| 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 sensitivities against these inputs are provided below:

**2021**

| | Uncertainty | Inputs | Reasonable possible change | Impact | Change in DCF value in USD 1,000 Junior Note | Subordinated Note |
|---|---|---|---|---|---|---|
| Portfolio growth rate | 3 | 25% | -15% | Linear | (2,441) | - |
| | | | +10% | | 371 | - |
| Leverage | 2 | 2.8 | -0.25 | Non-linear | (3,743) | - |
| Pricing | 4 | 1.9% | -0.3% | Linear | (4,902) | (4,355) |
| | | | +0.3% | | 8,161 | - |
| OPEX growth rate | 2 | 5% | +5% | Linear | (4,487) | - |
| OPEX ceiling | 3 | 175% | +25% | Non-linear | (1,272) | - |
| Interest rates | n/a | market | +10bps | Non-linear | 232 | (127) |
| | | | -10bps | | (233) | 129 |

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

In 2022, FCC has applied for a zero percent corporate income tax rate with the Dutch tax authority, on the ground of the company acting as the operating entity in which the Frontier Clearing Funds, investment entities under Dutch law, invest and the company being owned and managed by the fund manager of these investment entities. As a result, the company has derecognized the deferred tax asset at 31 December 2022 (2021: a deferred tax asset of USD 2,039 thousand).

## 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 2022:

| **2022**<br>(all amounts in thousands USD) | **Gross notional exposure** | **Hedged** | **Net notional exposure** | **Fair Value** |
|---|---|---|---|---|
| Dominican Republic | 20,000 | (10,000) | 10,000 | 1 |
| Jamaica | 5,000 | - | 5,000 | 64 |
| **Subtotal Assets** | **25,000** | **(10,000)** | **15,000** | **65** |
| Armenia | 24,489 | - | 24,489 | (14) |
| Benin | 2,962 | - | 2,962 | (45) |
| Brazil | 2,100 | - | 2,100 | (3) |
| Cote d'Ivoire | 4,598 | - | 4,598 | (40) |
| Czech Republic | 900 | - | 900 | (1) |
| Ecuador | 17,500 | - | 17,500 | (46) |
| Egypt | 59,487 | (10,000) | 49,487 | (133) |
| Greece | 2,378 | - | 2,378 | (2) |
| Hong Kong | 3,100 | - | 3,100 | (4) |
| Hungary | 2,214 | - | 2,214 | (1) |
| India | 11,600 | - | 11,600 | (16) |
| Mexico | 2,700 | - | 2,700 | (4) |
| Nigeria | 15,000 | - | 15,000 | (15) |
| Republic of Korea | 3,100 | - | 3,100 | (4) |
| Poland | 11,500 | - | 11,500 | (16) |
| Senegal | 5,705 | - | 5,705 | (64) |
| Slovakia | 1,800 | - | 1,800 | (2) |
| South Africa | 11,100 | - | 11,100 | (16) |
| Taiwan | 9,800 | - | 9,800 | (13) |
| Thailand | 4,600 | - | 4,600 | (6) |
| Togo | 7,620 | - | 7,620 | (24) |
| Uganda | 30,000 | - | 30,000 | - |
| **Subtotal Liabilities** | **234,252** | **(10,000)** | **224,252** | **(469)** |

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

| | | | | |
|---|---|---|---|---|
| Azerbaijan | 15,000 | - | 15,000 | 29 |
| Mongolia | 48,000 | 14,000 | 34,000 | 151 |
| **Subtotal Assets** | **63,000** | **14,000** | **59,000** | **180** |
| Georgia | 5,000 | - | 5,000 | (29) |
| **Subtotal Liabilities** | **5,000** | **-** | **5,000** | **(29)** |
| **Total** | **327,252** | **34,000** | **293,252** | **(253)** |

**2021**

| (all amounts in thousands USD) | Gross notional exposure | Hedged | Net notional exposure | Fair Value |
|---|---|---|---|---|
| Dominican Republic | 20,000 | (10,000) | 10,000 | 33 |
| Ecuador | 17,500 | - | 17,500 | 20 |
| Ghana | 30,000 | (15,000) | 15,000 | 2 |
| Jamaica | 5,000 | - | 5,000 | 88 |
| **Subtotal Assets** | **72,500** | **(25,000)** | **47,500** | **143** |
| Armenia | 22,356 | - | 22,356 | (97) |
| Egypt | 60,000 | (10,000) | 50,000 | (486) |
| Georgia | 35,000 | - | 35,000 | (154) |
| Nigeria | 15,000 | - | 15,000 | (68) |
| Turkey | 15,000 | - | 15,000 | (5) |
| **Subtotal Liabilities** | **147,356** | **(10,000)** | **137,356** | **(810)** |
| **Subtotal of financial guarantee contracts at FVTPL** | **219,856** | **(35,000)** | **184,856** | **(667)** |
| Issued to third parties and paid for by FCC Securities (see Note 13) | | | | |
| Armenia | 5,000 | - | 5,000 | 4 |
| Ghana | 30,000 | (10,000) | 20,000 | 55 |
| Mongolia | 23,000 | (6,100) | 16,900 | 56 |
| **Subtotal** | **58,000** | **(16,100)** | **41,900** | **115** |
| **Total** | **265,516** | **(51,100)** | **214,736** | **(552)** |

*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 on a transaction by transaction level for determining the fair value:

| *Description* | *Definition* |
|---|---|
| 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 for wrong-way risk exposures. |
| Interest rate differential | Change in the difference between interest rate for the domestic currency and the USD interest rate following the default of the obligor. Default assumption is 5% jump in the differential post-default of the obligor. |
| Recovery rate | The expected price obtained for converting collateral instruments to local currency cash following the default of the obligor. Recovery rates depend on the type, currency denomination and tenor of the securities and range from 35% for Eurobonds to 95% for short-dated local currency Treasury Bills. |
| 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. The default scaling factor is set between 67.5% and 75% reflecting the percentage of country events that would lead to a default of the obligor and varies according to the credit quality of the bank relative to the country risk. |

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. The sensitivity of the inputs is expressed in terms of a deviation of 10% up and down in the model parameters:

**2022**

| (all amounts in thousands USD) | **Uncertainty (1-5)** | **Change in FV +10%** | **Change in FV -10%** |
|---|---|---|---|
| FX jump factor | 4 | (190) | 190 |
| Interest rate differential | 4 | (26) | 26 |
| Recovery rate | 2 | 200 | (314) |
| Volatility of collateral | 3 | 9 | (9) |
| Correlation scaling factor | 4 | (78) | 78 |
| Probability of default | 2 | (78) | 78 |

**2021**

| (all amounts in thousands USD) | **Uncertainty (1-5)** | **Change in FV +10%** | **Change in FV -10%** |
|---|---|---|---|
| FX jump factor | 4 | (373) | 373 |
| Interest rate differential | 4 | (61) | 60 |
| Recovery rate | 2 | (382) | (411) |
| Volatility of collateral | 3 | 23 | (23) |
| Correlation scaling factor | 4 | (47) | 47 |
| Probability of default | 2 | (47) | 47 |

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) | **2022** | **2021** |
|---|---|---|
| Realized fee cashflows plus changes in guarantee fair value | 4,426 | 3,860 |
| Guarantee income on accrual basis | (4,476) | (4,214) |
| Accelerated (+) or postponed (-) income recognition | (50) | (354) |

*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.

*Tradeclear Uganda*
In June 2022, FCC booked its first umbrella guarantee product, covering the potential losses on eligible collateralized interbank transactions between eligible financial institutions in Uganda up to an amount of USD 30 million. The transaction is referred to as Tradeclear Uganda. At 31 December 2022, no exposures were outstanding under Tradeclear Uganda.

## 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 2022 (each line representing two contracts in total – one between FCC Securities and the obligor and one offsetting transaction between FCC Securities and the lender):

**2022**

| (all amounts in thousands USD) | **Type** | **Maturity** | **Notional exposure** | **Fair value** |
|---|---|---|---|---|
| Azerbaijan | CC-IRS | 05-07-2025 | 5,000 | 10 |
| Azerbaijan | CC-IRS | 26-10-2025 | 5,000 | 12 |
| Azerbaijan | CC-IRS | 22-11-2024 | 5,000 | 6 |
| Dominican Republic | Repo | 30-04-2023 | 20,000 | - |
| Georgia | CC-IRS | 22-12-2024 | 5,000 | - |
| Mongolia | Repo | 19-08-2023 | 23,000 | 76 |
| Mongolia | Repo | 05-12-2023 | 25,000 | 75 |
| **Total financial instruments at FVTPL** | | | **78,000** | **180** |

## 2021

| (all amounts in thousands USD) | Type | Maturity | Notional exposure | Fair value |
|---|---|---|---|---|
| Armenia | CC-IRS | 26-10-2022 | 5,000 | 4 |
| Dominican Republic | Repo | 29-04-2022 | 20,000 | - |
| Georgia | CC-IRS | 12-12-2022 | 30,000 | - |
| Georgia | CC-IRS | 22-12-2024 | 5,000 | - |
| Ghana | Repo | 04-10-2022 | 40,000 | - |
| Ghana | Repo | 05-12-2022 | 30,000 | 55 |
| Mongolia | Repo | 26-07-2021 | 23,000 | 56 |
| **Total financial instruments at FVPTL** | | | **153,000** | **115** |

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. The sensitivity of the inputs is expressed in terms of a deviation of 10% up and down in the input parameter:

**2022**

| (all amounts in USD) | Uncertainty (1-5) | Change in FV +10% | Change in FV -10% |
|---|---|---|---|
| FX jump factor | 4 | (9) | 9 |
| Interest rate differential | 4 | (16) | 16 |
| Recovery rate | 2 | 144 | (144) |
| Volatility of collateral | 3 | 1 | (1) |
| Correlation scaling factor | 4 | (12) | 12 |
| Probability of default | 2 | (12) | 12 |

**2021**

| (all amounts in USD) | Uncertainty (1-5) | Change in FV +10% | Change in FV -10% |
|---|---|---|---|
| FX jump factor | 4 | (60) | 90 |
| Interest rate differential | 4 | (36) | 65 |
| Recovery rate | 2 | 89 | (59) |
| Volatility of collateral | 3 | 25 | 5 |
| Correlation scaling factor | 4 | 1 | 29 |
| Probability of default | 2 | 1 | 29 |

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

(all amounts in thousands USD)

| **2022** | **Assets** | **Liabilities** |
|---|---|---|
| Opening balance | 1,257 | (1,142) |
| Unrealized gains and (losses) for the year 2022 | 358 | (293) |
| **Balance at 31 December 2022** | **1,615** | **(1,435)** |

| **2021** | **Assets** | **Liabilities** |
|---|---|---|
| Opening balance | 739 | (541) |
| Unrealized gains and (losses) for the year 2021 | 518 | (601) |
| **Balance at 31 December 2021** | **1,257** | **(1,142)** |

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 2022 is USD 0.3 million (2021: USD 1.3 million).

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

The carrying amounts based on level 1 valuations of financial assets at fair value through profit or loss at 31 December are as follows:

(all amounts in thousands USD)

| **Bonds 2022** | **Counterparty** | **Maturity date** | **Fair Value** |
|---|---|---|---|
| US459056LD78 | IBRD | 19-01-2023 | 5,182 |
| US748149AG65 | Province of Quebec | 13-02-2023 | 2,520 |
| US62630CAN11 | Kuntarahoitus | 07-03-2023 | 2,516 |
| XS1788579917 | Kuntarahoitus | 07-03-2023 | 4,026 |
| US682142AD66 | OFT | 14-04-2023 | 2,978 |
| XS2156607884 | BNG | 17-04-2023 | 1,981 |
| US125094AT90 | CDPQ | 17-04-2023 | 2,975 |
| XS2003710626 | NRW.Bank | 31-05-2023 | 5,418 |
| XS2265023601 | Kommuninvest I Sverige | 09-08-2023 | 4,869 |
| USC69798AF05 | OTFT | 29-09-2023 | 4,846 |
| US748148PD96 | Province of Quebec | 09-02-2024 | 5,258 |
| US50046PBR55 | Kommuinvest I Sverige | 19-06-2024 | 2,346 |
| XS2031976678 | L-Bank | 23-07-2024 | 4,841 |
| XS2035038731 | NRW.Bank | 31-07-2024 | 2,335 |
| USC69798AC73 | OTFT | 12-09-2024 | 9,540 |
| **Total** | | | **61,631** |

(all amounts in thousands USD)

| **Bonds 2021** | **Counterparty** | **Maturity date** | **Fair Value** |
|---|---|---|---|
| US045167DX85 | ADB | 16-02-2022 | 10,098 |
| US459058GU15 | IBRD | 01-07-2022 | 5,045 |
| US11070TAB44 | Province of British Columbia | 23-10-2022 | 5,082 |
| US459056LD78 | IBRD | 19-01-2023 | 5,545 |
| XS2156607884 | BNG | 17-04-2023 | 2,007 |
| US748148PD96 | Province of Quebec | 09-02-2024 | 5,779 |
| US50046PBR55 | Kommuinvest I Sverige | 19-06-2024 | 2,467 |
| XS2031976678 | L-Bank | 23-07-2024 | 5,177 |
| XS2035038731 | NRW.Bank | 31-07-2024 | 2,495 |
| USC69798AC73 | OTFT | 12-09-2024 | 10,200 |
| **Total** | | | **53,895** |

The movement of the securities is as follows:

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Opening balance | 53,895 | 61,844 |
| Purchases | 45,204 | 26,336 |
| Sales/maturities | (35,000) | (32,600) |
| Fair value changes on financial instruments at FVTPL | (2,468) | (1,685) |
| **Position as per 31 December** | **61,631** | **53,895** |

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) | 2022 | 2021 |
|---|---|---|
| Realized interest income | 1,700 | 1,509 |
| Change in fair value | (2,468) | (1,685) |
| **Result for the period** | **(768)** | **(176)** |
| Result at amortized cost | 637 | 320 |
| **Acceleration (+) or postponed (-) income recognition** | **(1,405)** | **(496)** |

### 15. Accrued fees

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Accrued Subordinated Notes fees | 67 | 67 |
| Accrued SG Liquidity Facility | 17 | 8 |
| Accrued Callable commitment fees | 4 | - |
| **Total Accrued fees** | **88** | **75** |

### 16. Management fee receivable / (payable)

At 31 December 2022, a final amount due to the Manager for costs incurred in excess of management fee charged by the Manager of EUR 88,142 (2021: management fee payable of EUR 82,510) has been recorded as an accrual.

### 17. Other receivables

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Interest receivable | 67 | - |
| Prepaid counter-guarantee fees | 176 | 176 |
| Guarantee and interest income due | 95 | 25 |
| **Total Accrued fees** | **338** | **201** |

All amounts due above have been settled after the reporting date.

### 18. Other liabilities

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Third party service provider fees payable | - | 1 |
| Accrued performance fees | 95 | 131 |
| Accrued Supervisory Board Fees | 53 | 40 |
| Accrued Portfolio Insurance Fees | 131 | 127 |
| Collateral balance and distributions due | 285 | 250 |
| Other liabilities | - | 8 |
| **Total other liabilities** | **564** | **557** |

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

*Deferred performance fee*
On 6 April 2024, the Supervisory Board of FCC has awarded the Manager with a Performance Fee being the sum of USD 284,474 (2021: USD 191,869) and EUR 327,984 (2021: EUR 194,451) in relation to its performance as Manager in 2022. The amount of USD 284,474 (2021: USD 191,869) is added to the deferred Fixed Performance Fee Component, resulting in a contingent liability of USD 1,839,254 (2021: USD 1,554,780).

In accordance with Note 34, a reservation of USD 0 (2021: USD 0) has been made in 2022 for payment of the Fixed Performance Fee Component. The remaining deferred Fixed Performance Fee Component is USD 1,839,254 (2021: USD 1,554,780).

### 20. Realized fees on contracts at FVTPL

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Realized fees on financial guarantee contracts at FVTPL | 2,903 | 3,230 |
| Realized fees of financial instruments at FVTPL | 1,224 | 1,161 |
| **Total realized and accrued fees** | **4,127** | **4,391** |

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

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Fair value of financial guarantee contracts at beginning of the period | (667) | 219 |
| Fair value of financial instruments at FVTPL at beginning of the period | 115 | (198) |
| Fair value of financial guarantee contracts at end of the period | (433) | (667) |
| Fair value of financial instruments at FVTPL at end of the period | 180 | 115 |
| **Total change in fair value** | **299** | **(531)** |

Please refer to Notes 12 and 13 for further detail.

## 22. Guarantee expenses

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Hedging costs | 582 | 717 |
| **Total guarantee expenses** | **582** | **717** |

The guarantee expenses exclusively relate to fees on insurance contracts.

## 23. Subordinated Notes - FTAP Fee

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

## 24. Counter Guarantee fee

The Counter Guarantee fee is a fee calculated based on the counter guarantee agreement between FCC and KfW. The agreement guarantees the financial obligations of FCC towards third parties under financial guarantee contracts, in case FCC is unable to meet such obligations. The guaranteed amount is the sum of the aggregate of the nominal amounts of the Profit Participating Notes and the portfolio insurance as per the Amended & Restated PPN Agreement up to a maximum of USD 100 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 2022 (2021: 0.35% and 0.50%) of the guaranteed amount. At 31 December 2022, the available guaranteed amount under the counter guarantee equals USD 100 million (2021: USD 100 million).

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Counter guarantee fee | 355 | 354 |
| **Total counter guarantee fee** | **355** | **354** |

## 25. Portfolio Insurance Fee

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Portfolio insurance fees | 306 | 301 |
| **Total portfolio insurance fee** | **306** | **301** |

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 2022 have been recognized in 2022.

## 26. Liquidity Facility Fee

The fees relating to the USD 50m liquidity facility over 2022 relate to the commitment fee payable of 0.40% per annum over the available amount. The facility was first entered into on 12 May 2021 for USD 25 million and was raised on 12 May 2022 to USD 50 million.

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Liquidity facility fees | 158 | 65 |
| **Total liquidity facility fee** | **158** | **65** |

## 27. Interest income

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Interest income on term deposits | 412 | 9 |
| Interest income on bank accounts | 30 | 3 |
| Realized income on securities | 1,700 | 1,509 |
| **Total interest income** | **2,142** | **1,521** |

The Company typically invests excess cash on the bank account in overnight deposits. The rates earned on the overnight deposits have followed the rise in USD interest rates over 2022.

## 28. 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 and covers all operational expenses of FCC as approved in the annual budget. For the year 2022, the management fee amounts to USD 2.8 million (2021: USD 2.5 million).

The management fee has been charged in equal monthly installments of EUR 211.000 (2021: EUR 208,667) in accordance with the budget approved by the Supervisory Board. A final amount due from the Manager for management fee charged in excess of costs incurred by the Manager of EUR 88.142 (2021: management fee payable of EUR 82,510) has been recorded as an accrual in FCC at year-end (see Note 16).

The management fee over 2022 covers commercial legal fees incurred by FCM of EUR 37,202 (2021: EUR 50,279). The audit fees paid by FCC are disclosed in Note 33. 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:

| | 2022 | 2021 |
|---|---|---|
| Salaries & Remuneration | 64% | 63% |
| Business Development, Travel & Sundry | 4% | 4% |
| Third Party Service Providers | 13% | 12% |
| Insurance Costs | 4% | 4% |
| Subscription & License Fees | 9% | 6% |
| Information Technology | 3% | 1% |
| Office Expense | 2% | 2% |
| Other | 0% | 8% |
| **Total management fee** | **100%** | **100%** |

## 29. Performance fee

| (all amounts in thousands USD) | 2022 | 2021 |
| --- | --- | --- |
| Performance fees | 178 | 270 |
| **Total Performance fee** | **178** | **270** |

On 6 April 2023, the Supervisory Board of FCC awarded FCM with a Performance Fee being the sum of USD 284,474 (2021: USD 191,869) and EUR 327,984 (2021: EUR 194,451) in relation to its performance as Manager in 2022. Of the amount of EUR 327,984 (2021: EUR 194,451) in relation to the variable compensation of the staff of the Manager, an amount of EUR 88,242 related to non-discretionary performance targets is recognized in 2022 (2021: EUR 115,230). The remaining amount related to discretionary portion of the 2022 Performance Fee will be recognized in 2023.

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 284,474 (2021: USD 203,756) is added to the deferred Fixed Performance Fee Component. At 31 December 2022, the deferred Fixed Performance Fee Component is USD 1,839,254 (2021: USD 1,554,780) (see Note 34 for further detail).

## 30. Legal fees

All legal fees for 2022 and 2021 relate to commercial activities of structuring financial contracts.

## 31. Third party service providers

| (all amounts in thousands USD) | 2022 | 2021 |
| --- | --- | --- |
| Back office services | 202 | 201 |
| **Total third party service providers** | **202** | **201** |

## 32. 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 (2021: USD 25,000) for the Chairman and USD 20,000 (2021: 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 2022 is disclosed under Notes 28, 29 and 34.

## 33. Other operating expenses

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Supervisory Board | 85 | 85 |
| Audit & Financial Reporting | 89 | 95 |
| Bank costs | 113 | 113 |
| Other expenses | 75 | 64 |
| **Total other operating expenses** | **362** | **357** |

## 34. Deferred Performance fee and LTI

On 6 April 2023, the Supervisory Board of FCC has awarded the Manager with a Performance Fee being the sum of USD 284,474 (2021: USD 191,869) and EUR 327,984 (2021: EUR 194,451) in relation to its performance as Manager in 2022. The amount of USD 284,474 (2021: USD 191,869) is added to the deferred Fixed Performance Fee Component, resulting in a contingent liability of USD 1,839,254 (2021: USD 1,554,780).

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) | 2022 | 2021 |
|---|---|---|
| Net operating income | (1,273) | (1,617) |
| Postponed income recognition guarantee revenue (Note 12) | 50 | 354 |
| Postponed income recognition instruments at FVTPL (Note 14) | 1,405 | 496 |
| **Income for Fixed Performance Fee Component and LTI payable** | **182** | **(767)** |

Based on the above, no deferred Fixed Performance Fee Component or LTI will be paid relating to the 2022 results. The remaining deferred Fixed Performance Fee Component at 31 December 2022 is USD 1,839,254 (2021: USD 1,554,780) and the deferred Long-Term Incentive fee is USD 557,508 (2021: USD 557,508).

## 35. Proposal appropriation of result

Based on the results over the year ended 31 December 2022, the Board of Directors proposes to deduct the result of USD 139,633 from the other reserves.

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

The company only financial statements are presented below, where notes refer 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 | 2022 | 2021 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Subsidiary FCC Securities B.V. | 45 | (181) | (156) |
| Intergroup receivable | 39 | 508 | 92 |
| Deferred tax asset | 11 | - | 2,039 |
| **Total non-current assets** | | 327 | 1,975 |
| **Current assets** | | | |
| Cash and cash equivalents | 40 | 25,405 | 35,048 |
| Financial guarantee contracts at FVTPL | 12 | 245 | 258 |
| Financial instruments at FVTPL – Securities | 14 | 61,631 | 53,895 |
| Prepaid guarantee expenses | | 67 | 206 |
| Other receivables | | 338 | 201 |
| **Total current assets** | | 87,686 | 89,608 |
| **Total assets** | | **88,013** | **91,583** |
| **Equity** | | | |
| **Shareholders' equity** | | | |
| Issued share capital | 7 | - | - |
| General reserve | 8 | (9,807) | (8,874) |
| Undistributed result for the period | 9 | (140) | (933) |
| Total shareholders' equity | | (9,947) | (9,807) |
| **Liabilities** | | | |
| **Long-term liabilities** | | | |
| Junior Notes | 10 | 87,064 | 88,307 |
| Subordinated Notes | 10 | 9,937 | 11,866 |
| **Total long term liabilities** | | 97,001 | 100,173 |
| **Short-term liabilities** | | | |
| Financial guarantee contracts at FVTPL | 12 | 498 | 810 |
| Accrued fees | 15 | 88 | 75 |
| Management fee payable | 16 | 94 | 25 |
| Other liabilities | 41 | 279 | 307 |
| Total short term liabilities | | 959 | 1,217 |
| **Total equity & liabilities** | | **88,013** | **91,583** |

## Company Only Statement of Comprehensive income

| (all amounts in thousands USD) | Notes | 2022 | 2021 |
|---|---|---|---|
| **Revenues** | | | |
| Realized fees on contracts at FVTPL | 20 | 4,127 | 4,391 |
| Change in fair value of financial guarantee contracts at FVTPL | 42 | 299 | (531) |
| Guarantee expenses | 22 | (582) | (717) |
| **Total revenues** | | **3,844** | **3,143** |
| **Finance costs** | | | |
| Subordinated Notes - FTAP Fee | 23 | (264) | (264) |
| Counter Guarantee Fee | 24 | (355) | (355) |
| SG Liquidity Facility Fee | 26 | (158) | (65) |
| Portfolio Insurance Fee | 25 | (306) | (301) |
| **Total finance costs** | | **(1,083)** | **(985)** |
| **Other results** | | | |
| Interest income | 43 | 2,132 | 1,521 |
| Fair value changes in liquidity investments | 14 | (2,491) | (1,685) |
| FX results | | - | (3) |
| Other income | | (20) | - |
| **Total other results** | | **(379)** | **(167)** |
| **Total operating income** | | **2,382** | **1,991** |
| **Operating expenses** | | | |
| Management Fees | 28 | (2,765) | (2,511) |
| Performance Fees | 29 | (178) | (270) |
| Legal Fees | 30 | (148) | (261) |
| Third party service providers | 31 | (202) | (201) |
| Other operating expenses | 44 | (337) | (316) |
| **Total operating expenses** | | **(3,630)** | **(3,559)** |
| **Operating result** | | **(1,248)** | **(1,568)** |
| Deferred Performance fee and LTI | 34 | - | - |
| **Net result for the period before revaluation** | | **(1,248)** | **(1,568)** |
| Revaluation of Subordinated Notes | 10 | 1,929 | 694 |
| Revaluation of Junior Notes | 10 | 1,243 | 1,267 |
| Net result FCC Securities B.V. | 45 | (25) | (49) |
| **Net loss for the period before tax** | | **1,899** | **344** |
| Income tax | 11 | (2,039) | (1,277) |
| **Comprehensive loss for the period** | | **(140)** | **(933)** |
| *Comprehensive loss for the period attributable to the holder of the issued share of FCC* | 35 | *(140)* | *(933)* |

## 37. 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 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"). 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.

## 38. 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.

## 39. Intercompany receivable

| all amounts in thousands USD) | **2022** | **2021** |
|---|---|---|
| Amounts due from FCC Securities B.V. | 508 | 95 |
| **Total intercompany receivable** | **508** | **95** |

The amounts due from FCC Securities B.V. relate to intercompany payments for the temporary accommodation of the settlement of obligations.

### 40. Cash and cash equivalents

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Money market funds | 20,000 | 20,000 |
| Term deposits Rabobank | - | 5,800 |
| Cash positions Rabobank | 4,487 | 1,454 |
| Cash positions CACEIS Bank, Netherlands Branch | 918 | 7,794 |
| **Total cash and cash equivalents** | **25,405** | **35,048** |

No restrictions to the usage of cash and cash equivalents exist at year end. Interest income related to cash and cash equivalents amounted to USD 431,049 (2021: USD 12,056).

### 41. Other liabilities

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Third party service provider fees payable | - | 1 |
| Accrued performance fees | 95 | 131 |
| Accrued Supervisory Board Fees | 53 | 40 |
| Accrued portfolio insurance fees | 131 | 127 |
| Other liabilities | - | 8 |
| **Total other liabilities** | **279** | **307** |

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

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Fair value of financial guarantee contracts at beginning of the period | (552) | 21 |
| Fair value of financial guarantee contracts at end of the period | (253) | (552) |
| **Total change in fair value** | **299** | **(531)** |

### 43. Interest income

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Interest income bank accounts | 431 | 12 |
| Interest income on fixed bonds | 1,701 | 1,509 |
| **Total interest income** | **2,132** | **1,521** |

## 44. Other operating expenses

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Supervisory Board | 85 | 85 |
| Audit & Financial Reporting | 89 | 95 |
| Bank costs | 75 | 56 |
| VAT costs | - | 3 |
| Credit rating fees | 63 | 60 |
| Subscriptions and license fees | 13 | 17 |
| Other expenses | 12 | - |
| **Total other operating expenses** | **337** | **316** |

## 45. Subsidiary FCC Securities B.V.

| (all amounts in thousands USD) | 2022 | 2021 |
|---|---|---|
| Opening balance | (156) | (107) |
| Net result for the year | (25) | (49) |
| **Total at year end** | **(181)** | **(156)** |

# 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 shareholder and supervisory board of Frontier Clearing Corporation B.V.

## Report on the audit of the financial statements 2022 included in the annual report

### Our opinion

We have audited the financial statements for the financial year ended 31 December 2022 of Frontier Clearing Corporation B.V. based in Amsterdam. The financial statements comprise the consolidated and company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Frontier Clearing Corporation B.V. as at 31 December 2022 and of its result and its cash flows for 2022 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- the accompanying company financial statements give a true and fair view of the financial position of Frontier Clearing Corporation B.V. as at 31 December 2022 and of its result for 2022 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022
- the following statements for 2022: the consolidated statements of comprehensive income, changes in equity and cash flows
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- The company only statement of financial position as at 31 December 2022
- The company only statement of comprehensive income for 2022
- the notes comprising a summary of the 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. (the company) 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.

# Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

## Our focus on fraud and non-compliance with laws and regulations

**Our responsibility**

Although we are not responsible for preventing fraud or non-compliance and we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. 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.

**Our audit response related to fraud risks**

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the company and its environment and the components of the system of internal control, including the risk assessment process and managing board's process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes.

We refer to section Risk Management of the report from the managing board for managing board's risk assessment.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and compliance report. We evaluated the design and the implementation of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risks related to management override of controls. For these risks we have performed procedures among others to evaluate key accounting estimates for management bias that may represent a risk of material misstatement due to fraud, in particular relating to important judgment areas and significant accounting estimates as disclosed in note 4 to the financial statements including the fair value for the Profit Participating Notes and the financial guarantee contracts. We have identified and addressed high-risk journal entries and evaluated the business rationale (or the lack thereof) of significant extraordinary transactions, including those with related parties.

Additionally, in order to respond to the identified risks of management override of controls relating specifically to the determination of the fair value of the financial guarantee contracts, we evaluated design effectives of controls relevant to valuation of the financial guarantee contracts. We designed and performed substantive audit procedures relating to the financial guarantee contracts responsive to the identified risks.

These risks did however not require significant auditor's attention during our audit.

We considered available information and made enquiries of relevant executives, directors, legal, compliance and the supervisory board.

**Our audit response related to risks of non-compliance with laws and regulations**
We performed appropriate audit procedures regarding compliance with the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. Furthermore, we assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the managing board and supervisory board, reading minutes, inspection of compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

### Our audit response related to going concern

As disclosed in section 'Going concern' in Note 4 to the financial statements, the financial statements have been prepared on a going concern basis. When preparing the financial statements, managing board made a specific assessment of the company's ability to continue as a going concern and to continue its operations for the foreseeable future.

We discussed and evaluated the specific assessment with managing board exercising professional judgment and maintaining professional skepticism.

We considered whether managing board's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all relevant events or conditions that may cast significant doubt on the company's ability to continue as a going concern.

Based on our procedures performed, we did not identify material uncertainties about 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.

## Report on other information included in the annual report

The annual report contains other information in addition to the financial statements and our auditor's report thereon.

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 for the management report and the other 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.

Managing board is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

## Description of responsibilities regarding the financial statements

### Responsibilities of managing board and the supervisory board for the financial statements

Managing board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, managing board is responsible for such internal control as managing board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, managing board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, managing board should prepare the financial statements using the going concern basis of accounting unless managing board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Managing board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The 'Information in support of our opinion' section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and Performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managing board
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Communication

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.

Amsterdam, 31 May 2023

Ernst & Young Accountants LLP

Signed by M. van Impelen

Frontclear
Mauritskade 63
1092 AD Amsterdam
The Netherlands

FRONTCLEAR.COM