

ANNUAL REPORT 2016



BAYPORT

**IMPROVING LIVES
THROUGH
CAPITAL MARKETS**

THE FUND

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THE ALCB FUND

MISSION

The African Local Currency Bond Fund (ALCB Fund) was established in 2012 by KfW on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) following the G20 Action Plan on the Development of Local Currency Bond Markets (LCBMs). The Fund's mission is to promote the development of African capital markets, supporting non-sovereign entities issue local currency bonds in sectors such as financial inclusion, affordable housing, health, education, renewable energy and agriculture.

The Fund aims to improve and diversify access to long-term funding in domestic capital markets for the benefit of Micro, Small and Medium-sized Enterprises (MSMEs). Long-term, the Fund promotes financial stability and economic growth through capital market development. To date, the ALCB Fund is the largest local-currency bond fund that targets MSMEs in Africa.

BACKGROUND

Functioning capital markets are vital for balanced economic growth, offering the private-sector a sustainable source of long-term domestic funding. They are also significant for the financing of priority sectors. Resilient and healthy capital markets can improve risk sharing and ensure the efficient allocation of capital, contributing to overall economic growth. Attracting investors is a challenge, exacerbated by Africa's recent growth slowdown. As US interest rates have begun to rise, investor interest in emerging frontier economies has cooled. Therefore, it is necessary to ensure local capital markets are robust and sustainable in the long-term such that they grow during market highs and are able to weather market lows.

Where domestic capital markets and local currency finance is not available, companies rely on hard currency finance. Private capital from local institutional investors remains invested in government securities rather than funding economic sectors. Foreign currency borrowing also creates FX, funding and systemic risks, which can negatively impact low income households and MSMEs disproportionately. There are various benefits for non-sovereign companies tapping local capital markets as a source of funding:

- Issuing a bond to local investors allows private-sector entities to develop long-term relationships with local investors. This approach is more flexible in the short-term and sustainable in the long-term, rather than relying on external borrowing from DFIs and foreign investors.
- Access to long-term, local currency funding allows issuers to reduce maturity, currency and interest rate risks, particularly for financial institutions. In the aggregate, this also reduces systemic risk for the financial-sector and wider economy.
- Bond programmes provide a recognisable and transparent investment instrument for allocating capital to the real economy for a consistent long-term return. Standardized documentation governs the rights, risks and returns for investors.

Capital markets also play an important macroeconomic role in channeling domestic savings into the private sector. Bonds provide local pension funds and asset managers with long-dated assets to match their liabilities. They also reduce investors' need to look abroad for long-dated investments, reducing their FX risk, as well as that of the borrowers.

The African Union and multiple African countries (e.g. Nigeria, Zambia, Rwanda, Uganda and Kenya) have prioritised capital markets as a part of their development agenda. This is in recognition of its potential to alleviate poverty and contribute to economic growth. However, the positive effects of capital markets can only be delivered with the appropriate enabling environment, where investors work with intermediaries to allocate capital to quality issuers in the bond market. Much of this enabling environment is driven by sound economic management and supportive laws and regulations to support market institutions.

Most of Africa's capital markets are still in a nascent state, with infrequent private issuances being generally reserved to large financial institutions. There is a lack of a "credit culture" in virtually all markets, in terms of investment process, credit ratings and risk-based pricing. First-time issuers are often not aware of the opportunity to raise funds in the bond market, or find transaction costs and disclosure requirements prohibitive compared to deal size. Intermediaries lack deal experience; documentation required to inform and protect investors is often deficient; and marketing to investors does not meet minimum standards. As a result, investors prioritise well known "names" and incumbents while avoiding credit analysis in unfamiliar sectors.

ALCB FUND'S ROLE

A key challenge for African bond markets is to increase deal-flow and transaction experience of issuers, investors and intermediaries. The ALCB Fund offers several interventions. To help bring new deals to market, the ALCB Fund acts as an anchor investor in first-time or innovative bond issuances by local

entities. The Fund also provides technical assistance to bond issuances, which may include reviewing bond documentation to improve standards; supporting public listings for market transparency; and encourage credit ratings to improve the appraisal standards of the market.

| BOTTLENECK | ISSUES | ALCB FUND RESPONSE |
|----------------|---|--|
| Issuers | <ul style="list-style-type: none"> • Many private companies are unfamiliar with capital markets and institutional investors • Perception that the process is expensive/ long and reporting requirements burdensome • Preference for offshore DFI funding in local or hard currency even if more cost effective options are available in the local market | <ul style="list-style-type: none"> • Engages issuers and advisers at an early-stage of the funding process, helping them to understand whether a bond issuance is the right path and the process involved • Links potential issuers to known market intermediaries • Provides Technical Assistance for preparation and to ease cost burden • Undertakes early due diligence and commits as anchor investor to crowd-in others • Prices to market (along-side local investors) and cannot be more than 30% of the bond program (or 50% in capital markets) |
| Intermediaries | <ul style="list-style-type: none"> • Experienced intermediaries, including investment banks, lawyers, brokers, traders and rating agencies, remains limited • Many have limited, if any, experience in overseeing a bond issuance • As a result, issuers might receive inadequate advice and issuances can be badly marketed, structured and priced | <ul style="list-style-type: none"> • Provides TA funds to support the hiring of service providers; in turn assuring quality of documentation and providing experience in structuring a bond program for the provider • Work closely with intermediaries to ensure bankable structures are developed |
| Investors | <ul style="list-style-type: none"> • Institutional investors require transparent and regulated securities to meet their obligations to policy holders • Besides government bonds, there are few local currency capital market securities available for investment • Lack of a "credit culture" where investors focus on household names, often large foreign banks | <ul style="list-style-type: none"> • Assists first-time issuers in coming to market, creating a new investment opportunity • Supporting the development of bankable structures that are palatable to local investors • Encouraging credit ratings to enhance the quality of credit assessment • FM's internal screening, diligence and investment process can provide confidence to local investors |

ALCB FUND ACTIONS

The Fund is an advocate for African local capital markets through:

- **Pipeline development:** Identifying potential issuers based on their capacity to raise financing
- **Advocacy:** Informing markets on the advantages of local currency issuances, including diversification of funding and reduced FX, maturity and interest rate mismatches
- **Anchor Investing:** Encouraging co-investment and carrying out an efficient investment approval process to assist issuers and their financial advisers throughout the bond marketing process
- **Due Diligence:** Performing rigorous due diligence, encouraging improved credit standards in the market
- **Technical Assistance:** Supporting roadshows, credit and social ratings, Client Protection Standards, regulatory filings and legal support
- **Transparency:** Supporting market transparency by setting high standards for the issuer's quality of information disclosure



Karl von Klitzing

Chairman of the Board of Directors,
ALCB Fund

Being the largest vehicle of its kind, the Fund maintains its position as a unique player in capital market development in Africa.

CHAIRMAN'S LETTER KARL VON KLITZING

2016 was a year marked by stark contrasts in African capital markets. Some experienced strengthening currencies and increased interest rates, while others saw falling growth levels. The year saw diverging scenarios between oil exporters and importers. Despite a challenging investment climate, and an overall low number of new issuances, the ALCB Fund successfully executed three bond investments.

Since inception, the Fund has helped to bring 17 issuances from 12 issuers across 7 countries to market. The Fund has successfully deployed USD 39.5 million across the African continent, triggering private sector co-investments of USD 374.74 million. Being the largest vehicle of its kind, the Fund maintains its position as a unique player in capital market development in Africa.

Only a few years ago Africa enjoyed economic growth rates above 7% per annum. A management consultancy coined "Lions on the Move", in anticipation of the Continent's growth potential. Over the past year, some "Lions" have stepped backwards whilst other

have comfortably moved forwards. The end of the commodities super cycle, combined with other external and internal shocks, has impacted the Continent.

The challenges of 2016 highlighted the importance of capital markets as a driver for economic growth, and why less reliance on external sources of funding is good. As the US-Federal Reserve raised interest rates for the first time after eight years in December 2016, it became evident again that local currency borrowing can be a greater source of sustainable and affordable funding. Awareness of the need for local currency borrowing to mitigate exposure to exchange rate risk has strongly increased across Africa and amongst the donor community.

The Fund again showed strong impact results, reducing FX exposure across the portfolio by approximately 32%. In 2016, the Fund attained a multiplier of 10.6. This means that for every 1 USD invested by the Fund in local bonds, USD 10.6 was invested by multiple co-investors, including pension funds, insurance companies, asset managers and other institutional investors. The number of ultimate beneficiaries grew by 3,600, where the Fund continues to impact women and borrowers in rural areas. Much of this positive



impact was enabled by the presence of the Technical Assistance Facility (TAF).

Since inception in 2015, the TAF has provided much needed financing and time to help issuers navigate complex regulatory requirements, obtain credit ratings and ensure that their lending practices are in line with globally recognised responsible lending principles. In 2016, the TAF supported six credit rating exercises, encouraged SMART certification for three entities and provided technical assistances for legal and accounting advisory services for two East African issuers.

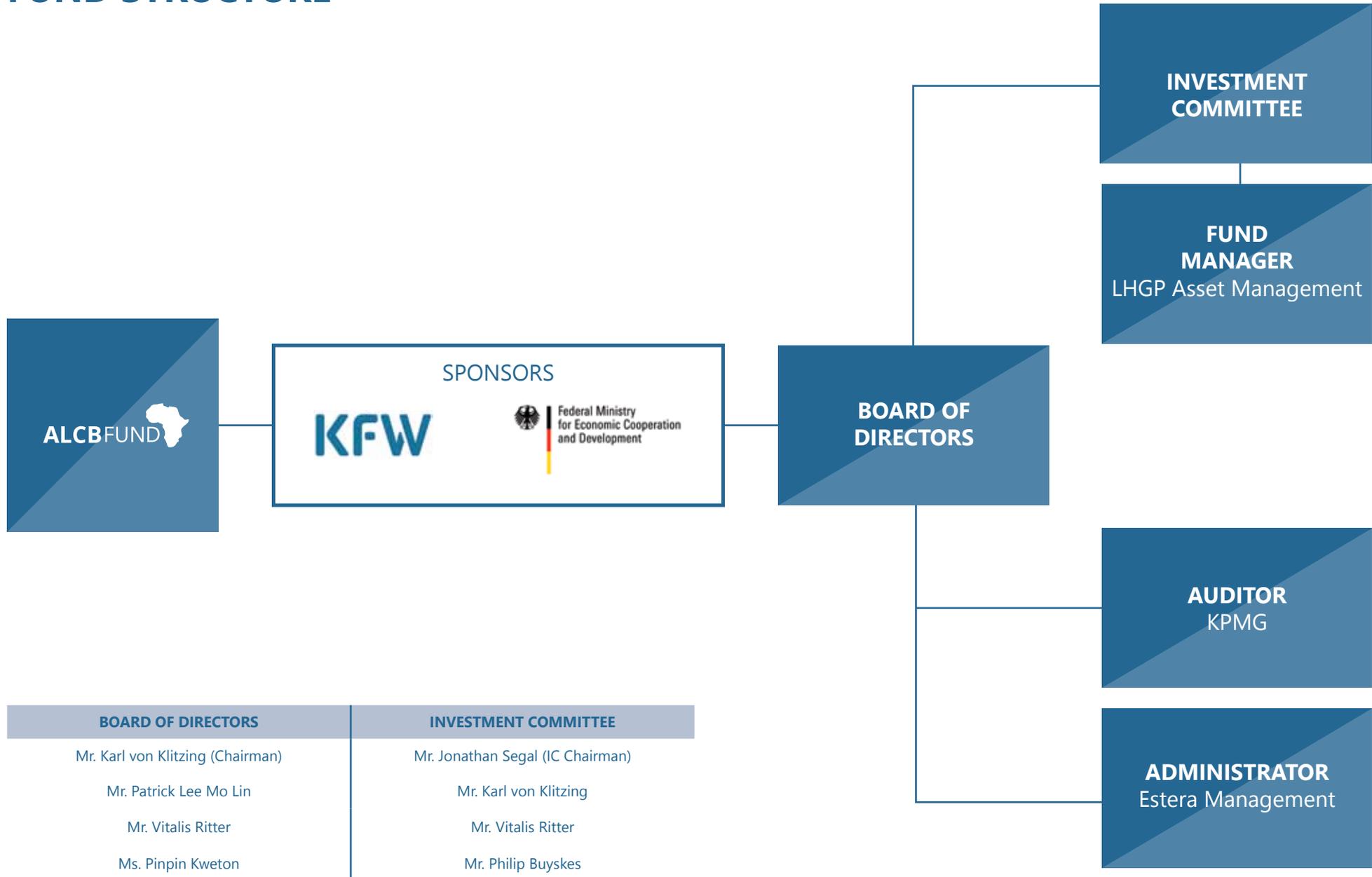
In 2016, LHGP Asset Management successfully completed its first full year as Manager of the ALCB Fund. LHGP Asset Management has further strengthened the Fund's presence in Africa by relocating its back-office operations from London to Nairobi. The Fund intends to have a local presence in West Africa for 2017, helping further penetration into local French and English speaking markets. During the reporting period, the Fund carried out additional investments in Ghana and Botswana and entered Senegal for the first time. The Fund also decided to increase its outreach by including South Africa as a part of its geographic mandate from 2017 onwards. This is mainly to support the nascent local green bonds market and other pioneering capital market activities.

On the funding side, the German Federal Ministry for Economic Cooperation and Development (BMZ) continued its support, increasing its investment by EUR 10 million in December 2016. Negotiations with additional private and public investors held throughout the year will finally come to fruition in 2017. The Fund expects to grow significantly in size. With additional funding, it expects to further deploy capital across the continent, specifically in markets that it has yet to have a presence in.

The Fund is very proud of its work to date in capital market development. 2017 looks to be an exciting year for the Fund as it expects to grow in terms of size, its geographic and sector outreach and overall impact.

On behalf of the Board, I would like to thank those that have shown their support for the Fund, the local currency bond issuers across Africa that have worked alongside the Fund to successfully raise capital, the German Federal Ministry for Economic Cooperation and Development (BMZ) as the initial and continued investor and provider of TAF funding, and the governance bodies and service providers for their guidance and commitment to the Fund. We look forward to a successful 2017.

FUND STRUCTURE



| BOARD OF DIRECTORS | INVESTMENT COMMITTEE |
|----------------------------------|----------------------------------|
| Mr. Karl von Klitzing (Chairman) | Mr. Jonathan Segal (IC Chairman) |
| Mr. Patrick Lee Mo Lin | Mr. Karl von Klitzing |
| Mr. Vitalis Ritter | Mr. Vitalis Ritter |
| Ms. Pinpin Kweton | Mr. Philip Buyskes |

SPONSORS & FUND MANAGER

SPONSORS

KfW & GERMANY'S FEDERAL MINISTRY FOR ECONOMIC COOPERATION AND DEVELOPMENT

The ALCB Fund was initiated by KfW Development Bank (www.kfw.de) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) in 2012.

KfW gives impetus to economic, social and ecological development worldwide. As a promotional bank under the ownership of the Federal Republic and the Länder (federal states), it offers support to encourage sustainable improvement in economic, social, ecological living and business conditions, among others in the areas of small and medium-sized enterprises, entrepreneurship, environmental protection, housing, infrastructure, education finance, project and export finance, and development cooperation.



FUND MANAGER

LHGP ASSET MANAGEMENT

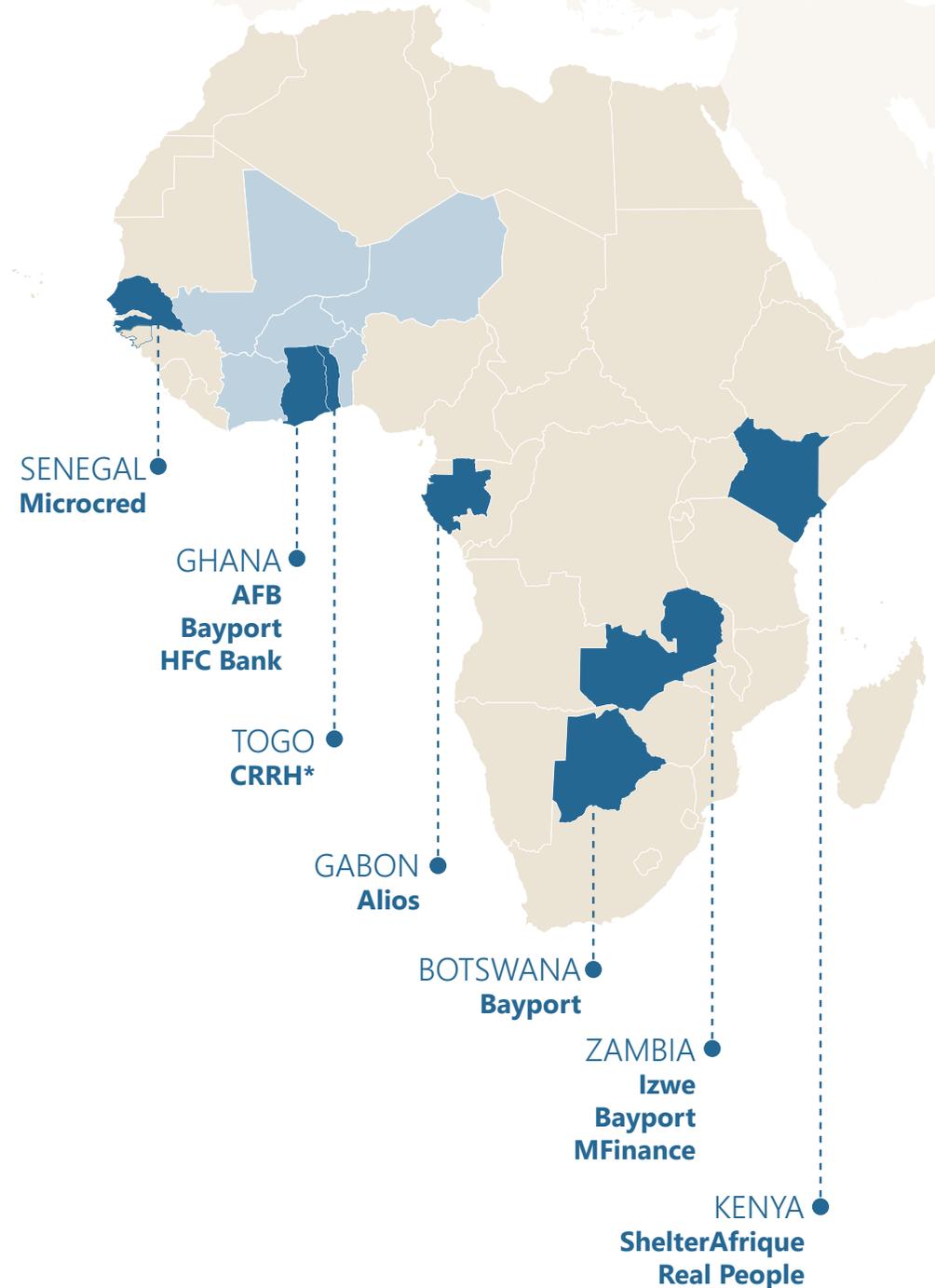
Lion's Head (www.lhgp.com) is an asset management and financial advisory firm based in London and Nairobi, bringing capital markets expertise to development finance initiatives in Africa and other frontier markets. Lion's Head's asset management activities are carried out by LHGP Asset Management, a fund manager regulated by the Financial Conduct Authority (FCA) of the UK. Across the group, Lion's Head's experience includes fund management, capital markets and financial advisory work across financial inclusion, renewable energy, agriculture and health sectors. In 2014 Lion's Head won the Financial Times / IFC Award for "Achievement in Transformational Finance".



INVESTMENTS

The ALCB Fund has been investing in Africa for four years, during which it has played a key role in bringing 17 issuances from 12 issuers to market in 7 countries. The Fund has deployed gross capital of USD 39.5 million since inception. In 2016, two investments matured while the Fund carried out three new investments with a total value of USD 7.93 million. All investments to date have been in the financial sector, including micro-lenders, MSME lenders, leasing companies and housing finance.

“Since inception, the Fund has successfully brought 17 issuances from 12 issuers to market across 7 countries.”



*CRRH investment is listed in Togo with impact across the entire UEMOA region

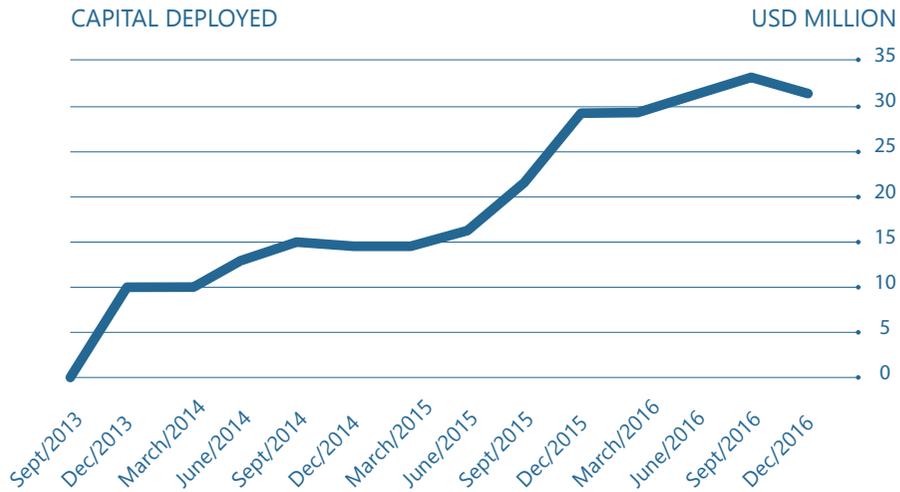
| COUNTRY | ISSUER | CURRENCY | INVESTMENT (USD Million) | OUTSTANDING (USD Million) | ISSUE DATE | MATURITY DATE | FIXED / FLOATING | SECTOR |
|----------|-------------------|----------|--------------------------|---------------------------|------------|---------------|------------------|---------------|
| Botswana | Bayport Botswana | BWP | 2.02 | 2.02 | 05/2015 | 05/2020 | Fixed | Micro-Lending |
| | | BWP | 2.84 | 2.84 | 12/2016 | 12/2023 | Fixed | Micro-Lending |
| Togo | CRRH | XOF | 3.15 | 2.04 | 10/2013 | 10/2023 | Fixed | Housing |
| Gabon | Alios | XAF | 2.05 | 1.46 | 08/2014 | 08/2021 | Fixed | Leasing |
| Ghana | AFB Ghana | GHS | 1.07 | 1.07 | 08/2015 | 08/2018 | Floating | Micro-Lending |
| | | GHS | 0.78 | 0.78 | 09/2015 | 09/2018 | Fixed | Micro-Lending |
| | Bayport Ghana | GHS | 2.09 | 2.09 | 12/2015 | 12/2018 | Fixed | Micro-Lending |
| | | GHS | 2.09 | 2.09 | 05/2016 | 05/2021 | Fixed | Micro-Lending |
| Kenya | Shelter Afrique | KES | 2.42 | 1.11 | 09/2013 | 09/2018 | Floating | Housing |
| | Real People Kenya | KES | 3.24 | 3.24 | 08/2015 | 08/2020 | Fixed | MSME Lending |
| Zambia | Bayport Zambia | ZMW | 3.22 | 3.22 | 04/2014 | 04/2018 | Floating | Micro-Lending |
| | IZWE | ZMW | 3.00 | 3.00 | 10/2015 | 10/2019 | Floating | Micro-Lending |
| | | ZMW | 2.17 | 2.17 | 10/2015 | 10/2020 | Fixed | MSME Lending |
| | M Finance | ZMW | 0.83 | 0.83 | 10/2015 | 10/2020 | Fixed | MSME Lending |
| Senegal | Microcred | XOF | 3.00 | 3.00 | 09/2016 | 09/2023 | Fixed | Micro-Lending |

COUNTRY DISTRIBUTION

USD MILLION

| | | |
|----------|-----|------|
| Zambia | 30% | 9.21 |
| Ghana | 19% | 6.03 |
| Botswana | 16% | 4.86 |
| Kenya | 14% | 4.35 |
| Senegal | 10% | 3.00 |
| Togo | 7% | 2.04 |
| Gabon | 5% | 1.46 |

PORTFOLIO GROWTH

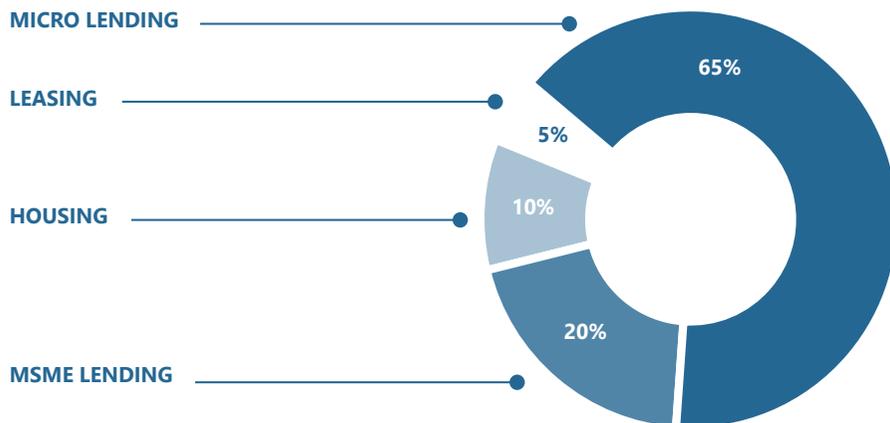


PORTFOLIO DATA

| AS AT 31 DEC 2016 | |
|------------------------|-------------|
| Portfolio Outstanding | 31.0 |
| Investable Cash | 12.9 |
| Number of Investments* | 15 |
| Companies | 12 |
| Countries | 7 |

*Total investments to date 17, 2 investments have matured.

PORTFOLIO DISTRIBUTION BY SECTOR (%)



INVESTEES

your future now

BAYPORT
FINANCIAL SERVICES

Bayport is a regional microfinance institution with operations across the continent. The Fund has made a total of six investments (current investments – 5) in the group totaling USD 15.7 million. The first investment in the group matured in November 2016. The Fund has invested in its Botswanan (2015 and 2016), Ghanaian (2015 and 2016) and Zambian (2015) subsidiaries. The Fund was the anchor investor in Bayport Ghana's bond issuance in 2015 - the largest corporate issuance ever in Ghana.

REAL PEOPLE™

Real People Kenya is a provider of MSME loans. In 2015 the company listed a KES 1.6 bn (USD 18 million) note programme on the Kenyan Stock Exchange, for which the Fund invested KES 300 million (USD 3.2 million).

afb

Africa First Bank Ghana is a provider of credit and insurance to lower income households. The ALCB Fund invested GHS 7 million (USD 1.8 million) in the company's local currency issuance of GHS 30 million (USD 7.5 million).

izwe
loans

IZWE Loans is a regional provider of financial services to unbanked workers. The Fund made an investment of ZMW 36.1 million (USD 3 million) in the Group's Zambian subsidiary.

MFinance
Modison Finance Company Limited

M Finance is a micro-lender specializing in the MSME segment in Zambia. In 2015 it initiated a ZMW 256 million medium term note programme for which the fund invested ZMW 36.1 million (USD 3 million).

ALIOS
FINANCE
GABON

Alios Finance is a pan-African financial institution engaged in corporate and consumer lending and operational leasing. In 2014 the Fund invest USD 2.05 million in its Gabonese subsidiary as part of its USD 13 million publicly listed note programme.

SHELTER AFRIQUE
Financing Affordable Housing for Africa

Shelter Afrique is a supranational financial institution created to exclusively support the development of the African real estate and housing sector. In 2014 the Fund invested USD 2.42 million in its KES note programme.

hfcbank
possible together

Housing Finance Company (HFC) Bank is a Ghanaian commercial bank with mortgage lending products catered to all household types. The Fund invested USD 2.1 million in the Bank's 2013 notes programme.

CRRH
CAISSE RÉGIONALE
DE REFINANCEMENT
HYPOTHÉCAIRE

CRRH-UEMOA is a regional housing finance refinancing facility involving over 35 commercial banks of the WAEMU. In 2013 the Fund invested USD 3.1 million in its note programme

microcred

MicroCred Sénégal, a member of Microcred Group, is a pro-poor financial institution committed to providing financial services and products to individuals and MSME entrepreneurs. In 2016 the Fund invested USD 3 million in its medium-term note.

ACTIVITY REPORT

MARKET OVERVIEW

In 2016, growth in the region remained slow while a number of countries, notably Nigeria and Ghana, grappled with severe macroeconomic pressures. These poor economic conditions, alongside political volatility in countries such as the Gambia and the Democratic Republic of Congo, led to multiple credit downgrades in the region with a third of Moody's nineteen rated countries revised downward and a further seven retaining a negative outlook.

The Fund believes that 2017 will continue to be a challenging year for the continent due to tightening liquidity on the back of recurrent fiscal deficits, particularly in commodity-reliant markets. However, it seems that the worst may be behind Africa as global commodity prices stabilise and governments take steps to consolidate their fiscal positions.

OUTLOOK

2017 is an exciting year for the ALCB Fund, having compiled a robust pipeline composed of institutions operating in a diverse range of sectors including off-grid renewable energy, health, education, microfinance, housing and agriculture. The Fund expects to see continued demand for local currency financing across these sectors, particularly in off-grid renewables as the sector continues to. We also see growing opportunities in the innovative financing space, with a few start-ups leveraging growing internet access on the continent to reach new, untapped consumer segments. As rates begin to rise, investors look on with interest to see the effect this might have on debt capital markets.

FUND PERFORMANCE

The ALCB Fund continued to make significant progress in 2016. In the first full-year of LHGP Asset Management as Fund Manager, the focus of the ALCB Fund was on strengthening its deal pipeline and fundraising. On the back of a strengthening dollar against most African currencies, there appears to be growing demand from local financial institutions and corporates to raise long-term funding in local capital markets. The Fund, through its Technical Assistance Facility, is currently working with over eleven entities to bring a new transaction to market.

The Fund's portfolio continues to perform in line with expectations and there have been no arrears to date. In 2016 the Fund invested USD 8 million in three issuances across three countries:

"In 2016 the Fund invested USD 8 million in three issuances across three countries."

- The ALCB Fund worked closely with Microcred Senegal to bring this transaction to market, advising the issuer on the process of developing a programme and providing a legal review of bond documentation. The Fund became an anchor in the first series of its MTN programme, investing USD 3 million. This marked not only the first successful issuance by MicroCred Group, but also the first issuance by a microfinance institution in the UEOMA/WAEMU region.
- The Fund made a further USD 2 million investment in Bayport Ghana following an investment in the company in 2015. The Fund decided to make a further investment as an anchor investor role in a 5-year series to extend the maturity of the issuer's debt profile and encouraging Ghana's largest pension fund to invest at a similar length. The investment was also testimony to the success of the Fund's previous investment, establishing Bayport Ghana as a regular issue in the market
- Given the success of the Fund's previous investments in Bayport Botswana, the Fund entered into a third investment of USD 3 million with a tenor of 7 years; extending the maturity profile of the Botswanan bond market.

ISSUER PROFILE

MICROCRED SENEGAL

In September 2016, Microcred Senegal carried out its first bond raise for FCFA 3.8 billion (EUR 5 million). This was the first issuance from a West African microfinance institution, as well as the first from a Microcred Group affiliate.

Microcred Senegal's shareholders chose to issue a local currency bond to: (a) improve access to long term funding at a competitive price, and (b) diversify its investor base away from conventional Development Financial Institutions (DFIs) and Microfinance Vehicles (MFVs) by tapping in to local institutional investors. Discussions with the ALCB Fund started early in the preparations for the bond issue; Microcred Senegal felt it was important to work with the Fund to provide local investors with increased confidence by having an anchor investor on board in advance.



"We are proud of the success of this issuance. It highlights investor confidence in the maturity of our innovative business model for financing MSMEs. With the funds raised, we are planning to accelerate our growth in the years to come and become a leader in microfinance in Senegal."

Ruben Dieudonné, Microcred Senegal and Microcred Africa CEO

"Having access to local funding sources was always an important milestone for Microcred Group. After this experience, we expect to continue issuing bonds on a regular basis in the coming years, and look forward to working with the ALCB Fund to support these new issuances."

Arnaud Ventura, Microcred Group President and Founder



"Carried out its first bond raise for FCFA 3.8 billion (EUR 5 million)."

CLIENT STORY



AFB SMART CASH - A BUSINESS IN GROUNDNUT PASTE GHANA

Adwoa Pokuaa lives in Nkawkaw, Ghana and has been a client of AFB Ghana for three years. Her first loan request was for GHS 3,000 in 2014 to buy a grinding machine to produce groundnut paste. Adwoa has been trading in groundnut for over fifteen years, selling groundnut in both a raw and paste form.

Prior to applying for the loan, Adwoa used to travel miles outside Nkawkaw to have the groundnut ground because there was no machine within the catchment of Nkawkaw. She aspired to own a grinding machine and acquire a larger piece of land to expand her retail business. Adwoa had already tried to access capital through multiple financial institutions, but was unable

to meet their restrictive requirements. Just when Adwoa began to consider selling the small land that she had, a friend introduced her to AFB Smart Cash Loans. Given Adwoa's previous experience with microfinance institutions (MFI), she was initially hesitant as had not yet come across an MFI that required collateral to provide credit.

During a visit to AFB Smart Cash branch, Adwoa was assessed and granted a GHS 3,000 loan. Within two weeks, Adwoa paid off her loan. Today, Adwoa owns four machines and is looking to expand the business into pepper grinding.

As a single parent, Adwoa is now able to generate revenues to afford school fees for her three daughters, with one attending training college and the other two entering their final year at university.

Smartcash is a thirty day product, which targets micro enterprises operating in Ghana's informal markets. These markets are usually run by women, who need working capital to buy produce from farmers and to fund their business. They typically have two or three market days a week, but trade six or seven days per week. AFB Ghana's loans allow the traders to buy larger quantities of stock in turn increase profits. The entrepreneurial nature of these women is reflected in the growth of their businesses. To date, AFB Ghana has over sixteen thousand customers.

In 2015 the ALCB Fund invested USD 1.8 million in AFB's USD 7.5million issuance.

DEVELOPMENT IMPACT

Impact is important for both the issuer and investors. The Fund's Impact Framework provides the basis for assessing whether and how it is meeting its objectives to:

- Contribute towards local capital market development
- Improve the financial capacity of local issuers
- Support investment in developmental sectors

Portfolio companies report financial and social information related to the above objectives on an annual basis; including portfolio, client, outreach and financial information. To accompany this Annual Report, the Fund is also publishing a full Social and Environmental (SE) Report, providing more information on the Fund's SE strategy and results.

The Funds' mandate includes encouraging co-investment, reducing maturity mismatches and reducing issuers' FX exposure. The Fund has successfully addressed all three:

- The Fund has successfully mobilised private sector co-investment as it works to contribute to local capital market development. The present co-investment multiplier is 10.6 to 1. Most co-investments come from domestic institutions (e.g. pension funds, insurance companies and asset managers)
- A significant contribution of the Fund is to reduce maturity mismatch, where the Fund encourages longer maturities than is the norm in most African markets
- The Fund has enabled issuers to significantly reduce their FX exposure and match their fixed and floating rate liabilities to assets

In total, investees of the Fund provide direct lending to over 456,533 people with an average loan size of USD 1,841. The most common use of proceeds by borrowers are education, housing and micro-enterprise working capital.

“For every USD 1 investment by the Fund, USD 10.6 was invested by third parties.”

| INVESTMENT MULTIPLIER | |
|---------------------------------|--------------------------|
| ALCB Fund Investment to date | USD 39.5 million |
| Private Sector Investment Drawn | USD 374.7 million |
| ALCB Fund Investment Multiplier | 10.6X |
| DIRECT SECTOR IMPACT | |
| Portfolio of ALCBF Investees | USD 1,292,069,000 |
| Number of Active Borrowers* | 456,533 |
| Average Loan Size* | 1,841 |
| Proportion Women* | 28% |
| Proportion Rural* | 26% |

*CRRH and Shelter Afrique not included since they provide wholesale finance. The 2013-15 figures for average loan size, % women and % rural areas have been adjusted from the 2015 Annual Report to correct an averaging error.

TECHNICAL ASSISTANCE FACILITY

The ALCB Fund’s Technical Assistance Facility (ALCBF TAF) became operational in 2015 and is managed by LHGP Asset Management. The ALCBF TAF is designed to provide supplementary resources to issuers to ensure bankable local currency deals come to market and appropriate incentives are in place for issuers, investors and intermediaries.

Assistance provided by the TAF is provided on a cost-sharing basis and can cover a range of areas relating to: structuring transactions in line with local market requirements and international best practices, marketing transactions to local institutional investors, and helping issuers obtain social and credit ratings. The Facility carried out multiple activities in 2016:

- The ALCB Fund is in the process of supporting six credit ratings for companies that are expected to issue notes. This included a Kenyan solar energy provider, Nigerian and Tanzanian based microfinance banks and a housing financing facility;
- Technical assistance has been provided for legal and accounting advisory services as well as documentation review for a Tanzanian Microfinance and a Kenyan based agriculture financing provider.
- The Facility was also very engaged in encouraging SMART Certification for three entities, including two Zambian and one Kenyan based microfinance institution. This will allow issuers to demonstrate to investors, regulators and donors that they treat clients in a transparent and responsible manner by meeting the criteria of the Client Protection Principles;

| INTERVENTION | COUNTRIES | AMOUNT (USD) |
|-----------------------------|--------------------------|--------------|
| Credit Rating | Kenya, Nigeria, Tanzania | 112,529 |
| SMART Certification | Zambia, Kenya | 28,942 |
| Legal / Transaction Support | Tanzania, Kenya | 135,654 |



FINANCIAL STATEMENTS

BALANCE SHEET

| ASSETS | 2016 USD | 2015 USD |
|---|-------------------|-------------------|
| NON-CURRENT ASSETS | | |
| Held to maturity investments | 28,436,480 | 21,550,779 |
| Derivative financial assets | - | 3,394,512 |
| Total non-current assets | 28,436,480 | 24,945,291 |
| CURRENT ASSETS | | |
| Held to maturity investments | 2,307,050 | 4,978,555 |
| Other receivables | 3,674,472 | 1,247,788 |
| Cash and cash equivalents | 12,871,311 | 7,091,244 |
| Total current assets | 18,852,833 | 13,317,587 |
| Total assets | 47,289,313 | 38,262,878 |
| EQUITY | | |
| Management shares | 1,280 | 1,280 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Other payables | 233,371 | 176,346 |
| Tax liability | 64,954 | 26,215 |
| Total current liabilities | 298,325 | 202,561 |
| Non-current liabilities | | |
| Derivative financial liability | 346,524 | - |
| Total non-current liabilities | 346,524 | - |
| Total liabilities (excluding net assets attributable to the holder of redeemable participating shares) and equity | 646,129 | 203,841 |
| Represented by: Net assets attributable to the holder of redeemable participating shares | 46,643,184 | 38,059,037 |

INCOME STATEMENT

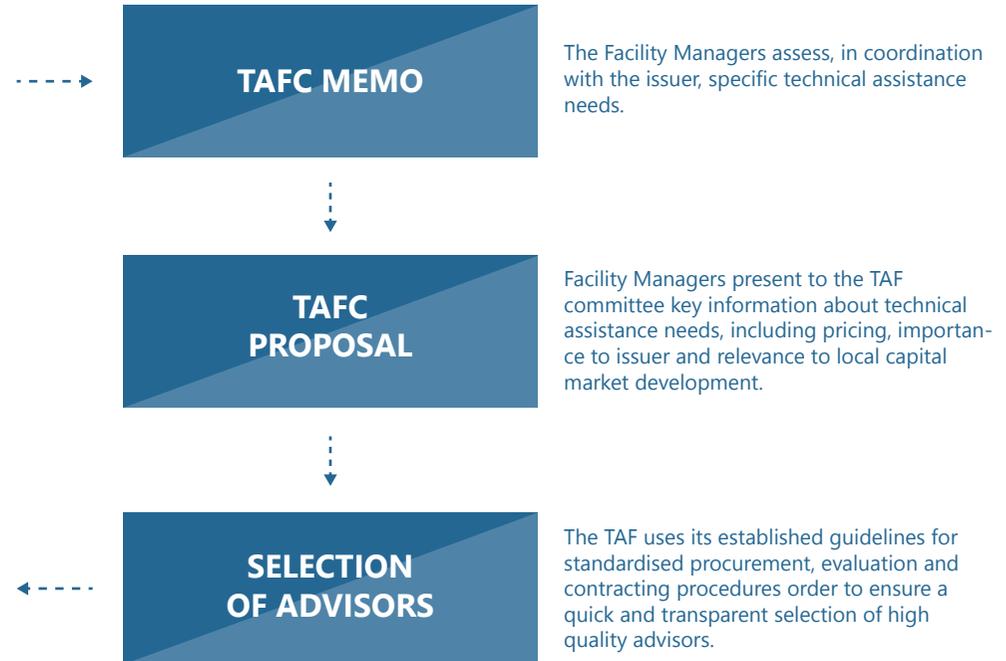
| INCOME | 2016 USD | 2015 USD |
|--|------------------|------------------|
| Interest income | 6,403,477 | 2,508,324 |
| Unrealised gain on fair value of derivative | - | 2,133,736 |
| Realised gain on exchange revaluation | - | 11,439 |
| Unwinding of swap | - | 168,284 |
| Sundry income | - | 265 |
| Unrealised gain on exchange revaluation | 540,217 | - |
| Total income | 6,943,694 | 4,822,048 |
| EXPENSES | | |
| Fund Expenses | 4,226,192 | 997,029 |
| Disbursements and other expenses | 12,765 | 2,901 |
| Unrealised loss on fair value of derivative | 3,741,036 | - |
| Realised loss on exchange revaluation | 21,710 | - |
| Unrealised loss on exchange revaluation | - | 2,696,693 |
| Total expenses | 8,001,704 | 3,696,623 |
| Decrease in net assets attributable to the holder of redeemable participating shares before taxation | (1,058,010) | 1,125,425 |
| Taxation | (498,526) | (149,112) |
| Decrease in net assets attributable to the holder of redeemable participating shares | (1,556,536) | 976,313 |

INVESTMENT AND TECHNICAL ASSISTANCE FACILITY PROCESS

INVESTMENT PROCESS:



ENGAGEMENT OF TA FACILITY:



THE FUND

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