Risk management continued

Principal risks

The Group faced challenging financial conditions in some operating subsidiaries, particularly affecting liquidity, exchange rate, inflation and growth risks.

The Group has updated its risk taxonomy and added new risks in 2023. The risks added were inflation, concentration, tax compliance, business contingency, anti-money laundering ('AML') and data privacy and protection risk. The heat map shows all the risks in the risk framework and the principal risks section provides more detail on these risks. Compared to last year, credit risk, climate risk, IT business continuity risk and system access control risk have decreased, while growth risk has increased.

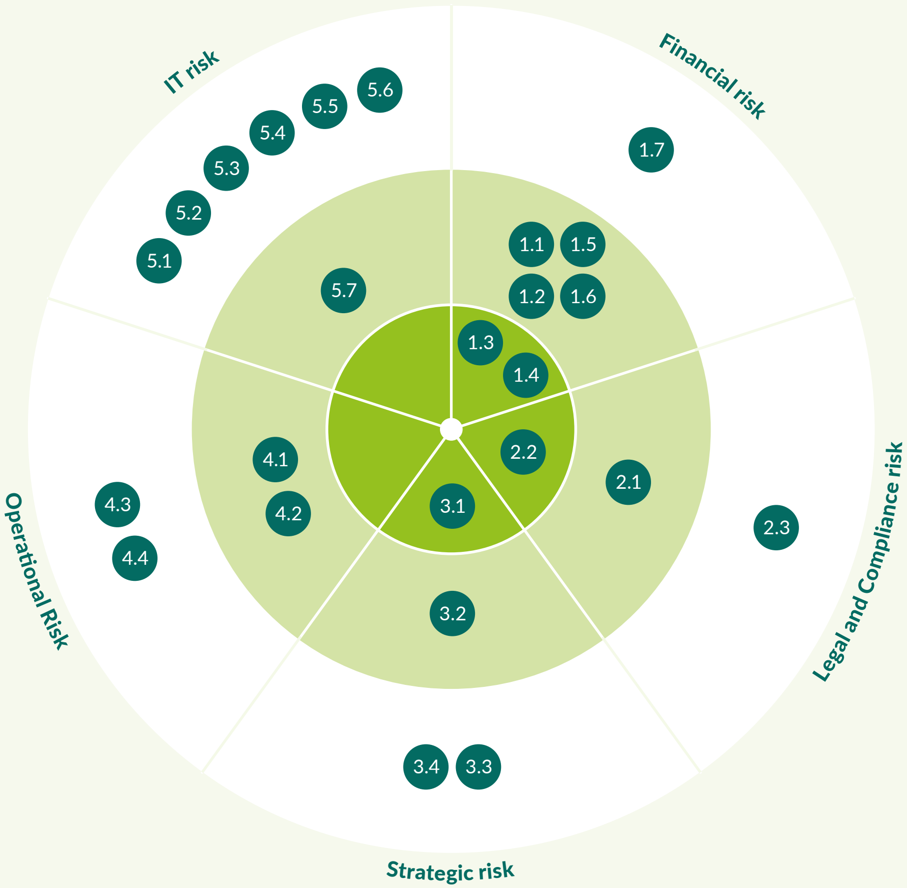
Risk level

Low
When the risk is within the tolerance level of the organisation and may cause insignificant impact on achieving the goals and objectives, or may have minor impact from a financial, legal, regulatory and reputational standpoint.

Medium
When the risk is at the borderline of the tolerance level of the organisation and may cause moderate impact on achieving the goals and objectives, or may have moderate impact from a financial, legal, regulatory and reputational standpoint.

High
When the risk crosses the tolerance level of the organisation and may cause significant impact on achieving the goals and objectives, or may have a major impact from a financial, legal, regulatory and reputational standpoint.

Risk map



1. Financial risk

1.1 Credit risk
1.2 Liquidity risk
1.3 Exchange rate risk
1.4 Inflation risk
1.5 Interest rate risk
1.6 Concentration risk
1.7 Tax compliance risk

2. Legal & Compliance risk

2.1 Regulation
2.2 Product transparency
2.3 Anti-money laundering risk

3. Strategic risk

3.1 Growth risk
3.2 Competition risk
3.3 Reputation risk
3.4 Climate risk

4. Operational risk

4.1 Human resource risk
4.2 Fraud & Integrity risk
4.3 Business contingency
4.4 Health & Safety risk

5. IT risk

5.1 Business continuity
5.2 System vulnerability
5.3 Data privacy & protection
5.4 IT support
5.5 System access control
5.6 IT fraud
5.7 Data migration

Risk management continued
Principal risks continued

Level of change key

Risk decreasing — Risk remains stable — Risk increasing

Risk	Risk grade and level of change	Change in 2023	How we mitigate our risks/next steps
1. Financial risk			
1.1 Credit risk The risk that the Company will incur a loss because its clients or counterparties fail to discharge its contractual obligations. **Objective** The Company aims to ensure that the portfolio at risk is kept at a minimum percentage at all times.	Med Risk increasing	• The Group's portfolio at risk has reduced compared to the previous year. However, PAR is still high in India, Myanmar, Nigeria, Sierra Leone and Rwanda. • Pakistan, Ghana, Kenya and Tanzania reached high portfolio quality with PAR>30 days less than 1%.	• Although PAR > 30 remains a risk due to external factors, the Group is confident it can reduce it based on past experience. • Due to the economic challenges, including increased energy and food prices, the Company will remain prudent in its disbursements, carefully monitoring debt levels of clients. • The Company strictly follows the ASA Model's operating procedures, including setting risk limits per borrower, taking security deposits where possible, preventing over-borrowing and excessive geographic concentration. • The Group continuously monitors portfolio changes and takes immediate action. • Country-specific efforts to increase collections and reduce PAR are taken.
1.2 Liquidity risk The Company's operations may be impacted if it is unable to meet its payment obligations when it falls due under normal and stress circumstances. **Objective** To manage liquidity risks and avoid loss of business, missed opportunities for growth, or legal or reputational consequences.	Med Risk decreasing	• The Group has maintained its liquidity position during the year and successfully met the liquid asset regulatory requirements in-country jurisdictions. Meeting the funding requirements in some of the Asian countries, including India, Sri Lanka and Myanmar, proved difficult due to specific country circumstances. • Exchange losses during the year affected the Group dividends received from operating subsidiaries. However, the Group continued to raise a substantial amount of debt funding both at the country and holding level during the year. Funding costs across the Group stabilised in 2023 compared to 2022 as benchmark rate increases in some markets were tempered by improved pricing on funding from local sources. • The Group has a strong funding pipeline of USD 171 million.	• Although economic uncertainty may impact funding markets, the Company is diversified across thirteen countries with good access to a wide range of funding sources at both local and holding levels. • The Company is approaching new potential funders to broaden partnerships across markets. • The Company maintains solid relationships with its debt providers, who continued to show strong interest in funding its operations at both local and holding level. • The Company remains vigilant towards the deterioration of its loan portfolio that may lead to liquidity concerns. • The Asset Liability Committee ('ALCO') Committee regularly reviews the cash and liquidity position of the Group.
1.3 Exchange rate risk The Company may suffer a financial loss arising from adverse movements in foreign exchange rates. **Objective** To manage currency risks and minimise loss due to foreign currency exposure.	High Risk increasing	• The local currencies of some of the countries saw increased vulnerability against the USD. During the year, local currencies have sharply depreciated against the USD, mainly in Ghana, Nigeria, Pakistan, Sri Lanka, Myanmar and Sierra Leone. • Depreciation of currencies reduced the reported Outstanding Loan Portfolio ('OLP') and Gross OLP/Client figures in USD. • Overall, the currency movements resulted in an increase of the FX translation reserve losses.	• The Group has existing hedge relationships and manages its currency risk through natural hedging, i.e. by matching the relevant microfinance subsidiary's local currency assets with local currency liabilities, and by obtaining funding denominated in local currency. • For USD funding to the subsidiaries, the Company continues to ensure that close to 100% of its currency exposure is hedged. The Group's equity positions are unhedged. • The currency movements of the Company's operating currencies against the USD remain unpredictable. • The ALCO regularly reviews exchange rate risk.

Level of change key

Risk decreasing — Risk remains stable — Risk increasing

Risk management continued
Principal risks continued

Risk	Risk grade and level of change	Change in 2023	How we mitigate our risks/next steps
1. Financial risk continued			
1.4 Inflation rate risk The Company's profitability or operational cost may be impacted by the rise in inflation rates. **Objective** To limit the impact by controlling expenditure and adjusting the loan size.	High Risk increasing	• There is high inflation rate in some of the countries including Pakistan, Myanmar, Nigeria, Ghana, Sierra Leone and Zambia • This situation is reducing the purchasing power of our target clients as well as employees and adversely impacting their day-to-day lives. • High inflation is increasing the overall cost of the company. • Ghana and Sierra Leone saw inflation surpassing 100% over three years, prompting the adoption of hyperinflation accounting in the Group's financial statements, leading to non-cash adjustments. Pakistan may follow suit in 2024, with Ghana, Sierra Leone, and Nigeria being monitored.	• The loan size is reviewed on a regular interval and increased if needed. • Salary of employees are reviewed periodically and increment is given. • Non-essential costs are avoided to control cost.
1.5 Interest rate risk The Company's profitability or results of operations may be impacted by fluctuations in interest rates. **Objective** To limit the impact of interest rate movements and exposure to financial counterparties.	Med Risk increasing	• Borrowing costs are increasing globally. They are expected to rise further, considering economic downturn. The Cost of borrowing for the Group has gone up. • As a result, there is increased hedging cost in some markets.	• The Company continuously negotiates with its lenders and interacts with regulators. • The interest rate caps in India and Sri Lanka were removed and the Company increased its rates in these markets. • The Company's strategy in evaluating and managing its interest rate risk is to conduct a cost of funds analysis and to monitor interest rates in those countries where there is a limit on the amount of interest it may charge. • The ALCO regularly reviews interest rate risk.
1.6 Concentration risk High concentration of portfolio in a specific geographic area may amplify the impact of adverse economic events. **Objective** To ensure that the portfolio of the Group is well diversified.	Med Risk increasing	• A high percentage of the total OLP is concentrated in 4 countries; Pakistan, Philippines, Ghana and Tanzania. • Earnings Before Tax ('EBT') concentration is highest for Pakistan and Ghana. Management is focusing on growing the business in other countries to reduce the EBT concentration level in Pakistan and Ghana.	• Portfolio of the Group is diversified across 13 countries. • Country portfolio is diversified across various regions and sectors/industries. • Group has introduced a concentration risk policy which will monitor the concentration risk and help to improve the diversification percentage. • The ALCO regularly reviews concentration risks.
1.7 Tax compliance risk The Group may face adverse consequences due to failure to adhere to tax laws and regulations. **Objective** To ensure compliance to applicable tax regulations at all times.	Low Risk remains stable	• The Group prioritises compliance and proactively ensures compliance to tax related matters at all times.	• The Group stays updated on tax regulations, and maintains detailed records to minimize the risk of non-compliance and potential penalties. • The Group has engaged external tax consultants to seek advice on critical matters.

Level of change key

Risk decreasing — Risk remains stable — Risk increasing

Risk management continued
Principal risks continued

Risk	Risk grade and level of change	Change in 2023	How we mitigate our risks/next steps
2. Legal & Compliance risk			
2.1 Regulation The Company may suffer losses or fail to optimise profitable growth due to regulatory changes or through political activism. **Objective** The Company aims to ensure that effective arrangements are in place to comply with legal and regulatory obligations at all times.	Med Risk increasing	• ASA Pakistan received a microfinance banking licence from the State Bank of Pakistan, which comes with increased compliance requirements. • Kenya has applied for Digital Credit Provider ('DCP') licence. The Central Bank has accepted the application and requested additional information. • In Nigeria and Rwanda, a PAR 30 days' breach was reported against the regulatory limit of 5%.	• Pakistan will proactively continue to ensure compliance with the Central Bank. • Kenya is closely following up with the authorities regarding approval of the DCP licence. • In Nigeria and Rwanda, recovery efforts have been increased in the branches with high PAR. • Tanzania is expected to apply for a deposit-taking licence in 2024.
2.2 Product transparency This risk refers to negative public opinion for not ensuring product transparency. **Objective** To ensure that loan officers and branch managers always take necessary steps to ensure transparency regarding products and services.	Low Risk remains stable	• There have not been any significant changes in this area. However, in some countries there is increased scrutiny by regulators and markets on the transparency of services provided.	• Our service is offered in a client-friendly and transparent manner. The Company adopted the SMART principles, which are a common standard in the industry. • The Company strives to meet the highest standard in terms of Client Protection Principles and business transparency. • Client feedback is collected on a regular basis to improve client interaction.
2.3 Anti-money laundering risk Threat arising from inadequate measures to prevent and address anti-money laundering ('AML'). **Objective** To ensure that anti money laundering procedures are well established.	Low Risk remains stable	• Risk is inherently low due to the nature of small loans. • Money laundering-related incidents are very rare.	• AML policy is in place and AML officers are appointed at the entity level. • A rigorous Know Your Customer ('KYC') procedure is established. • Suspicious transactions reporting procedure is in place.

Risk management continued
Principal risks continued

Level of change key

Risk decreasing | Risk remains stable | Risk increasing

Risk	Risk grade and level of change	Change in 2023	How we mitigate our risks/next steps
3. Strategic risk			
3.1 Growth risk All risks and challenges associated with the Company's operational expansion. **Objective** The Company aims to meet its business expansion plan in a controlled manner.	High Risk remains stable	• ASA India reduced its portfolio in line with principal decision and to comply with prudential regulations, limiting the disbursement of fresh loans. • The political situation in Myanmar and associated governmental measures curbed business. • In Sri Lanka, growth was stalled due to political and economic instability. • Heightened security challenges due to religious/ethnic clashes in Eastern and North Western Nigeria. • Ghana & Sierra Leone met the criteria for hyperinflation accounting in 2023, Pakistan & Nigeria may meet the criteria in the coming year.	• The strategy in India continues to focus on shrinking OLP, recovering overdue loans, and controlling costs. • New loans are not being disbursed in the high-risk zone of Myanmar. Six branches in this zone have been closed. • The Company closely monitors the political developments in Myanmar and Sri Lanka. Economic and political stability is returning in Sri Lanka. • New branches in Nigeria are selected with strict adherence to the expansion plan, to avoid security concerns. • All pandemic-related restrictions have been lifted.
3.2 Competition risk The Company may suffer losses or fail to optimise profitable growth by not responding well to the competitive environment or failing to ensure its proposition meets customer needs. **Objective** The Company aims to ensure it understands competitive threats and continues to focus on the needs of its clients.	Med Risk remains stable	• Competition has remained stable or decreased in some markets, possibly due to the impact of the Covid pandemic on the MFI sector. Some competitors faced bankruptcies during the pandemic. Digital lenders and services remain active in African countries, creating competition on the digital frontier. • The Company's portfolio reduction strategy in India has resulted in the loss of clients to competitors.	• The Company emphasises the importance of building and sustaining robust client relationships and customises its products and services to cater to clients' needs. • The Company continuously monitors client satisfaction. • In anticipation of a future with increasingly cashless transactions, the Company is developing a digital financial services platform, which over time also will include a range of digital financial services.
3.3 Reputation risk The Company may suffer financial or reputational damage due to possible misconception of the quality of its services. **Objective** The Company aims to be fully aligned with the long-term interests of its clients.	Low Risk remains stable	• The Company has not faced significant reputational issues. • The Company strengthened its relationships with clients and communities by investing in community projects in operating countries.	• The Company's clearly defined corporate values and ethical standards are communicated throughout the organisation, its customer base and other stakeholders. • The Company's impact is measured via the Client Economic Yield survey ('CEY'). Read more about impact on page 13 and in the ESG report on page 48 • The Company maintains close relationships with clients and the broader communities in which it operates. • The Company is highly supportive of the establishment of local credit bureaus.

Risk management continued
Principal risks continued

Level of change key

Risk decreasing — Risk remains stable — Risk increasing

Risk	Risk grade and level of change	Change in 2023	How we mitigate our risks/next steps
3. Strategic risk continued			
3.4 Climate risk The risk related to potential negative impact of climate change on the organisation. **Objective** The Company aims to have a strong commitment towards environmental sustainability, lowering emissions' and have procedures in place to respond to risks associated with climate change.	Low Risk decreasing	• The Company is committed to environmental sustainability and aims to reduce its adverse impact on the environment. It monitors its carbon emissions and is in the process of implementing initiatives across all its subsidiaries to reduce its overall GHG emissions. • Severe natural calamities, including flooding, storms and droughts, were observed in Myanmar, the Philippines, Kenya, Rwanda and Uganda during the year, impacting branch operations. However, the financial impact of climate change and natural calamities was not material in 2023.	• The Country Heads have taken proactive measures to address climate issues, including appointing a dedicated climate officer, establishing a governance structure, setting SMART targets for reducing carbon emissions, and developing an action plan. • Initiatives taken during the year included tree plantation, installation of solar panels, purchase of electric motorbikes and use of LED lights' among others. Read more in the Taskforce for Climate-related Financial Disclosures ('TCFD') statement on pages 58 to 63 • The Company remains in close contact with clients during natural calamities and supports them with relief efforts. Read more about how the Company supports clients during calamities on page 55
4. Operational risk			
4.1 Human resource risk The Company's strategy may be impacted by not having sufficient skilled people or being unable to retain key people and not treating them in accordance with the Company's values and ethical standards. **Objective** The Company aims to have sufficient personnel to ensure meeting its growth objectives.	Med Risk remains stable	• Staff drop-out reduced during the pandemic, and retention rates were strong across the Group. However, annual staff retention rates in the Philippines and Myanmar were lower compared to other countries. • It was observed that there was a shortage of skilled workers predominantly in Myanmar, Sri Lanka and Sierra Leone. • The Company continued to hire additional IT staff to support the rollout of its digital strategy. • There were no incidents of employee strikes or disruption in any of the subsidiaries during the year.	• The Company ensures that remuneration is competitive and carries out regular reviews besides annual increments. • The Company continuously monitors performance which allows career growth for high-performing employees. • Staff can file any complaints or misconduct experienced at a Grievance Mitigation Committee ('GMC').

Risk management continued
Principal risks continued

Level of change key

Risk decreasing — Risk remains stable — Risk increasing

Risk	Risk grade and level of change	Change in 2023	How we mitigate our risks/next steps
4. Operational risk continued			
4.2 Fraud & Integrity risk The risk of incidents of fraud and misappropriation by staff or client. **Objective** The Company aims to have procedure in place to prevent and detect fraud & misappropriation events carried out by staff or clients.	Med Risk increasing	• As at December 2023, the overdue balance is high in some of the countries which increases the risk exposure. • Absence of biometrics in IT platform increases the exposure to fraud and misappropriation. • Due to the deteriorating law and order situation in Myanmar, robbery incidents have increased. • The escalation of living expenses due to inflation may lead to higher levels of attempted fraud.	• Regular visits by the Fraud and Misappropriation Unit ('FMPU') and Internal Audit team take place to identify and prevent fraud. • FMPU members conduct an awareness programme at branches to discourage fraud and misappropriation. • FMPU members recommend appropriate disciplinary measures for the perpetrators in accordance with entity policy, take necessary actions to recover the misappropriated amount, and pursue legal action, if necessary.
4.3 Business contingency risk Potential adverse effects on operations resulting from unexpected events or disruptions. **Objective** The Company aims to ensure that there is adequate business contingency planning for smooth running of operations.	Low Risk decreasing	• Business contingency risk is generally low as the Group has a redundant server and data recovery site at all entities. AMBS is real time and can be accessed remotely. • In the Philippines, natural calamities often disrupt branch operations. However, the calamity is seasonal and branches remain prepared for it. See the climate risk.	• As per current practice, remote working will be enabled in case head office becomes inaccessible due to a catastrophic incident. • We have secure Disaster Recovery ('DR') sites either on premise or on cloud at all the entities. • If a branch becomes inaccessible due to a disaster, activities can be conducted from the nearest safe branch.
4.4 Health & Safety risk Potential harm or injury to employees arising from workplace conditions or activities. **Objective** The Company aims to ensure a safe and secure work environment for its staff.	Low Risk increasing	• On 11 January 2023, Uganda declared that the Ebola disease outbreak caused by the Sudan ebolavirus was over. • On 5 May 2023, the head of the UN World Health Organization (WHO) declared an end to COVID as a public health emergency. • There were 178 accidents, resulting in five fatalities, across all the subsidiaries this year. Incidents related to motorcycle accidents were most common.	• The Company ensures valid licences, safety equipment and road safety awareness among employees to mitigate the risk exposure of road accidents. • Operating countries with increased incident rates will strengthen their vigilance on health and safety to minimize fatalities and accidents and will reiterate this during staff trainings. • Movement restrictions are applicable to employees in areas that are very prone to robbery incidents.

Level of change key

Risk decreasing — Risk remains stable — Risk increasing

Risk management continued
Principal risks continued

Risk	Risk grade and level of change	Change in 2023	How we mitigate our risks/next steps
5. IT risk			
5.1 Business continuity The risk of system unavailability. **Objective** The aim of the Company is to ensure that systems are available within a reasonable time.	Low Risk remains stable	• All countries have Disaster Recovery ('DR') sites, either on premise or on cloud.	• Yearly DR drills ensure smooth functioning of the process.
5.2 System vulnerability This risk is associated with the vulnerability to different types of cyber-attacks. **Objective** The Company aims to ensure that the IT stack is protected against vulnerabilities.	Low Risk remains stable	• Yearly third-party Vulnerability Assessment and Penetration Testing is done. • There is deployment of endpoint detection and response, regular patch management, and use of an intrusion prevention system in the firewall.	• Quarterly review of all firewall configurations and Vulnerability Assessment by the internal team.
5.3 Data privacy & protection Risk arising from unauthorised access to sensitive information. **Objective** The Company aims to ensure data security and confidentiality at all times.	Low Risk remains stable	• Risk is low as the customer data and other sensitive data are well protected and accessible to only authorised personnel. • Increased scrutiny by regulators on data protection.	• Only authorised individuals are allowed to get access to sensitive data. • System data is protected by password. • Employee training includes the importance of customer data privacy. • Active directory is regularly reviewed.
5.4 IT support This risk refers to speed and quality of resolving IT issues with operational impact. **Objective** The Company aims to have procedures and resources in place to address and resolve IT support issues.	Low Risk remains stable	• There may be delays in IT support sometimes due to the nature and complexity of problems. • Sourcing and retaining experienced IT Staff in Dhaka and across countries remains challenging.	• Blocking issues are resolved in the same or next working day. Other issues are resolved in a longer time. Some exception may happen depending on the complexity of the problem.

Level of change key

Risk decreasing — Risk remains stable — Risk increasing

Risk management continued
Principal risks continued

Risk	Risk grade and level of change	Change in 2023	How we mitigate our risks/next steps
5. IT risk continued			
5.5 System access control This risk is associated with misuse of system access. **Objective** The Company aims to have strong password management system in place to prevent any misuse of access.	Low Risk remains stable	• Implementation of two factor authentication ('2FA') in AMBS has reduced password sharing incidents. For login into the system, OTP is sent via email for enhanced password security.	• 2FA is has been rolled out across all markets. • Standard password policies are implemented in the system and software. Password policy is reviewed periodically and improved as appropriate. • Awareness programs are in place for not sharing password and other security concerns.
5.6 IT fraud This risk refers to the threat of fraud due to control gaps in IT systems and processes. **Objective** The Company aims to ensure that discrepancies between system and procedures are identified and mitigated to prevent IT Fraud.	Low Risk remains stable	• So far, IT fraud incidents were not reported in the year 2023. • Digital financial services may create scope for digital fraud in the future.	• Incidents of digital fraud may happen in future. All relevant teams will remain vigilant to prevent and escalate such cases. • Maker checker system is active in AMBS. • Audit trail feature is active in AMBS.
5.7 Data migration This risk refers to the possible loss of data during data migration. **Objective** The Company aims to ensure that adequate measures and back-ups are in place to prevent possible data loss in data migration projects.	Med Risk increasing	• All subsidiaries will migrate over time from AMBS to a Core Banking System ('CBS'). Pakistan and Ghana are migrating first. • In India, migration has been completed from AMBS to Craft Silicon. • Tanzania and Kenya are expected to be next in line for CBS implementation.	• The Group is using a industry leading migration tool. • The Group has acquired a highly skilled implementation and migration vendor and has employed in-house migration experts. • Migration runbook includes multiple validations of migrated data by business teams and sign-off by responsible Head of Departments