

Chief Executive Officer's review

Uplifting operational performance in H2 and beyond

 Read an excerpt of a Q&A with our new CEO, Karin, on page 11



Operations returned to growth in the second half of 2023, with the operating environment improving in most markets compared to the first half of the year.

Introduction

We've seen a notable improvement in our operating performance in the second half of the year, despite operational challenges in Nigeria and Myanmar. Our profits were significantly impacted by currency devaluation and high inflation in some of our key countries, including the application of hyperinflation accounting to Ghana and Sierra Leone. The launch of microfinance banking and the implementation of the core banking system in Pakistan set the stage for a pivotal transition to enhance operational efficiency and broaden our products and services.

Business review 2023

The improvement in the operating environment in most of our markets saw demand for our loan products increase as clients experienced an upturn in business activity. Against the backdrop of the macroeconomic challenges faced in our operating markets due to the global impact of increased food, commodities, and energy prices, the high demand from clients contributed to the growth of our operations in most markets. Pakistan, the Philippines, Ghana, Tanzania and Kenya continued to grow their loan portfolios in local currency and each made significant contributions to the Group's profitability.

The number of branches remained broadly stable, which was the result of the Group's stated strategy to reduce its presence in India while at the same time increasing our branches in many other countries, particularly in the Philippines and our operations in East Africa. Client numbers across the Group increased as the operating environment improved in most of our markets. On a constant currency basis, Gross OLP for the Group grew to USD 433.6 million at the end of December 2023 from USD 367.5 million at the end of December 2022. The growth in Gross OLP was combined with improved portfolio quality in most markets with PAR>30 for the Group at 2.1% as of December 2023 compared to 5.9% in December 2022.

Progressing with banking licenses

On November 13 2023, ASA Pakistan achieved a significant milestone by securing approval for the 'Commencement of Microfinance Banking Business'. This achievement represents a pivotal moment in our organisational journey, symbolising not only regulatory recognition but also a significant step towards expanding our impact and reach in Pakistan.

The acquisition of the microfinance banking licence enables us to cater to a wider range of clients, facilitating greater financial inclusion and empowerment across diverse communities. By offering a comprehensive suite of financial products and services, including loans and savings mobilisation, we are better positioned to meet the evolving needs of our customers.

Moreover, the successful integration of our Core Banking System in February 2024 lays the essential groundwork for deposit mobilisation, strengthening our operational capacity and ensuring seamless service delivery. For deeper insights into the Core Banking System, please refer to page 19.

This milestone closely aligns with the 'Offer digital products and services' pillar of our Growth strategy.

Links to



Offer digital products and services

Chief Executive Officer's review continued

In India, the Group maintained its strategy to focus on the recovery of overdue loans and the growth of its off-book portfolio, which resulted in on-book Gross OLP shrinking by USD 16.2 million in FY 2023. However, overall Gross OLP in India increased by 2% as the off-book Gross OLP increased to USD 39.8 million as of 31 December 2023 from USD 22.6 million as of 31 December 2022. This was due to new Business Correspondence ('BC') partnerships which commenced in 2023. We expect that the on-book portfolio will also start to increase in 2024 which should translate into a positive effect on the future profitability of our operations in India.

In Nigeria, the operating environment became challenging in H1 2023 due to a number of factors: such as the national elections in February 2023, demonetisation and also the impact of high inflation experienced by the country following the removal of government fuel subsidies. This resulted in a reduction of OLP and clients, an increase in overdues, and higher operating expenses in H1 2023. This was compounded by significant devaluation of the Nigerian Naira (down 70% against USD as of 30 June 2023 compared to 31 December 2022) which resulted in reduced operational and financial results in USD terms for H1 2023. Notwithstanding the headwinds experienced during H1 2023, we saw an improvement of the operating environment in H2 2023, which was reflected in improved portfolio quality and profitability and increased collections and disbursements. The period also saw a decreased currency depreciation (down 18% against USD as of 31 December 2023 compared to 30 June 2023). As such we expect the operations to continue to gradually recover in 2024 and contribute positively to the Group.

In Ghana and Sierra Leone, the three-year cumulative inflation in 2023 exceeded 100%. As a result, hyperinflation accounting has been applied for the first time for these two countries at the Group level. The application of hyperinflation accounting resulted in a non-cash decrease of the Group's net profit of USD 5.4 million and an increase of total equity of USD 0.6 million for the year ended 31 December 2023.

Against the backdrop of continued high inflation and currency depreciation in many of our markets, we continue to expect operations to improve across

the Group in 2024. The Group is focused on right-sizing average loan sizes to clients in view of the inflationary environment in many operating countries, while improving branch productivity as clients continue to demand our loans, and our staff remain committed and focused on supporting clients in difficult operating circumstances.

Financial performance

As a result of the improved operating performance in H2 2023 compared to H1 2023, the Group realised a net profit of USD 8.8 million (after the USD 5.4 million impact of IAS 29) in FY 2023, which demonstrates the improvement in the operating performance in H2 2023 over the USD 3.7 million achieved in H1 2023. It should also be noted that hyperinflation accounting was not applied in the reported figures for H1 2023, as the impact of IAS 29 is only applied to the consolidated audited accounts at the year end 2023. I am pleased that the performance of most of our operating countries, particularly Pakistan, the Philippines, Ghana, Kenya, and Tanzania, was excellent in terms of portfolio quality, growth and profitability.

The Group maintains a diversified risk profile with operations across thirteen markets in Asia and Africa. As the impact of global market volatility, inflation and adverse FX movements varies substantially per country, the Company benefits from this diversification.

Expected credit losses

The Company reduced its reserves in the balance sheet for expected credit losses from USD 16.9 million as per end of 2022 to USD 8.3 million as per end of December 2023, for its OLP, including the off-book BC portfolio and interest receivables. The decrease primarily relates to write-off of the outstanding Covid-affected portfolio (USD 12.9 million in 2023 versus USD 10.8 million in 2022) and improved portfolio quality.

The USD 8.3 million ECL reserves as per 31 December 2023 mainly relate to overdue loans in India (28%), Myanmar (23%) and Nigeria (23%), with the remainder spread across the other countries as a percentage of each country's OLP or as an aggregate amount. Further details on the ECL calculation, including the selected assumptions, are provided in note 2.5.1 to the consolidated financial statements.

Digital strategy

The Group's digital strategy entails the implementation of our Core Banking System and our digital financial services platform ('DFS app'). Alongside the digitalisation of client procedures, the Group will seek to make further progress in enhancing employee processes. On 25 February 2024, we reached a major milestone, by migrating more than 600,000 clients in Pakistan from our incumbent loan system to the Temenos Transact Core Banking System. This migration enables ASA Pakistan to start taking deposits and grow their client base in a highly regulated environment. Also, it sets the stage for the rollout of the new Core Banking System to our other markets and provides a foundation for a broader, more sophisticated product offering in the near future.

The rollout of the Core Banking System combined with the implementation of the digital app in Ghana is planned for this year. The Supplier Market Place app is currently operating in Ghana, with more than 3,000 customers onboarded and placing their online orders. The service is expected to be expanded following the rollout of the digital loan and banking app.

Competitive environment

The competitive landscape remains unchanged across the Group. Our strongest competitors are in India, the Philippines, Nigeria, Tanzania, and Uganda. In most other markets, we face less competition from traditional microfinance institutions. Up until now, we have not been directly affected by competition from pure digital lenders.

Q&A with Karin

Q: What key areas of the business are important to maintain as the company moves forward?

A: Our primary focus is on expanding our operations to boost financial inclusion. We are driving forward our digital strategy and increasing our deposit-taking activities. This is contributing to the growth and resilience of our business.

Q: Are there any practices or developments you've introduced this year?

A: We've made some organisational changes to bring fresh perspectives to our management approach. We are focused on having the right people and culture in place to support the growth and sustainability of the business.

Q: What achievements make you proud to be part of ASA International?

A: Despite the challenges we face, our team is working tirelessly to deliver on our purpose to empower women and reduce poverty.

① See our website for Karin's full Q&A

Karin Kersten
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ASA International Group plc
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