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+++ presentation

Operator^ Good day, ladies and gentlemen, and welcome to ASA International 2024 Interim Results. (Operator Instructions) I would like to remind all participants that this call is being recorded.

I will now hand over to Jonathan Berger, Head of Investor Relations, to open the presentation. Please go ahead.

Jonathan Berger^ Good afternoon, and thank you for joining ASA International's 2024 Interim Results webcast. As you no doubt have already seen, we released our results first thing this morning, UK time.

I'm joined here on the call by our CEO, Karin Kersten; and CFO, Tanwir Rahman; and also here is Chief Accountant, Mischa Assink. Karin and Tanwir will run through this results presentation, and afterwards, as the operator said, we will be happy to take any questions you may have.

Before we begin, let me draw your attention to the disclaimer that's right at the end of the presentation. Please be advised, if you continue to listen to the presentation, you are bound by this disclaimer. Also, please note the interim results in this presentation are unaudited.

With the formalities out of the way, I would like to hand over to Karin for her opening remarks.

Karin Kersten^ Thank you, Jonathan. Good afternoon, or good evening or good morning if you are in other time zones. Welcome to this presentation of the interim results for 2024 of ASA International. I'm here in the room with Tanwir, our CFO, to present. And also, we'd like to wish a warm welcome to our new Head of Investor Relations, Jonathan Berger.

As a brief introduction, ASA International is one of the largest international microfinance institutions, and we provide socially responsible financial services to low-income, primarily female entrepreneurs in Asia and Africa.

Our vision is just and financially inclusive societies. And our purpose is to reduce poverty and especially to enable female empowerment. That's why the majority of our clients is female. Our mission is we want to do this by enhancing socioeconomic progress. By giving a loan, the financial position of our female entrepreneurs increases and by that, also their social position.

Our values are professionalism, integrity as a financial institution, and teamwork. And the teamwork is not only referring to teamwork amongst our colleagues, but also our clients have typical roles in the teamwork as client leader or client treasurer in our typical client groups.

Let's have a look at our footprint. And this sheet shows how we are spread across the regions. So the central offices are located in Dhaka, Bangladesh and the Netherlands, Amsterdam. And we are operating in 13 countries. And this diversification helps our risk profile. If there is an emerging market with some setbacks, then we can offset that by results in other markets.

Our branches are around 2,000, and we deliver the value with nearly 13,500 employees to nearly 2,500,000 clients. Our outstanding loan portfolio in dollars is $385 million And our PAR30, a key metric in microfinance portfolio at risk, which indicates which percentage of the clients are more overdue in a payment of more than 30 days, is 2.3%.

Before going into the highlights of the first half year, we would like to give an overview of the improvements in the longer run. If you look to last year, our '23 financial performance was dissatisfying over the whole year. Then we indicated that the second half was far better. We see that pattern now continuing in the first half of '24.

If you look to liquidity, it has improved. If you look to profitability, it has improved and more than tripled. If you look to our asset volume, we have crossed the $500 million asset volume since before COVID. If you look to the PAR levels as a risk indicator, we are at levels between 2% and 2.5%, which is at pre-COVID levels. So all in all, the short story on our results is that we continue the positive trend of the second half of '23 into the first half of '24.

Let's have a look at the different key elements in there. So the first key note on the results is sustained improvement. So we do see sustained improvement on financial performance and on the healthy business performance.

The number of branches has grown to 2,091. The largest growth took place in Pakistan. If you look to another footprint metric, the number of clients has grown to 2.4 million. And especially in East Africa, the contribution to the growth of number of clients is there in East Africa, plus 22% in number of clients.

If you look to the gross OLP, you see steep growth, plus 14%. And mind that this is in dollars because the local currencies devaluate in a lot of geographies. And so that has grown by plus 14% if you look on a year-on-year basis.

The profit before tax shows a healthy growth, as well as the net profit, which more than tripled from $3.7 million in the first half of '23 to $13.5 million in the first half of '24. And notice that in the first half year figure for '23, the hyperinflation accounting effect was not in because it was not known at that moment, and that in the $13.5 million, that effect already is in.

The PAR30 went down, if you look on a year-on-year basis, with 1.5 percentage point. So overall, we do see a healthy improvement on both business and financial performance indicators.

Well, back to that well-diversified portfolio, but now in terms of numbers, you can see that we are well spread across the regions. And if you look to the countries with the largest portfolio in dollar, they're also well spread. So our four largest countries, they derive from each from one of the four regions. In South Asia, it is Pakistan. In West Africa, it's Ghana. In Southeast Asia, it's Philippines. And in East Africa, it's Tanzania.

If you look to the year-to-date change in constant currency, so that doesn't take into account devaluation or revaluation of the currency, then I would like to highlight that the region of East Africa is showing the strongest growth in terms of OLP, plus 13% for the region. And within that region, Kenya is showing the highest growth with 27% growth in the OLP in their constant currency in a year-to-date change.

Well, let me hand over to Tanwir to dive more into the financial performance over the first half of '24.

Tanwir Rahman^ Thank you, Karin. On this slide, we show how key financial KPIs have moved or have done, all moving in the right direction. If we look at the net profit, net profit has gone up to $13.5 million, despite having to take a $3.5 million hit on hyperinflation. So compared to half year 2023, that's a stellar 267% increase. Cost-to-income ratio, we see a drop from 77% to 62%. It is a function of income that helped that number to go down.

On the balance sheet, total assets, as Karin mentioned, we hit $500 million and above. Equity, we did surpass the effect of conservation reserve, and from $76.6 million, we are up at $81.1 million. Return on average assets at 5.5%. This has move to pre-COVID levels.

On the next slide, we witnessed positive yield and NIM trends. So subsidiaries with higher yields increased their disbursements. So we see an increase in the gross yield to 42.1%. There has been upward adjustments in the interest rates, specifically in Pakistan, Kenya, India, and Sri Lanka that also helped. Cost of funds remained broadly stable, and accordingly, the NIM increased to 33.3%.

So on this slide, it's a reflection of the NIM that we saw on the other slide. In the net interest income line, we see an increase to $75.1 million from $65 million from half year 2023. That's a 24% increase, and can be attributable to the increased service fees on the off book and also the loan assignment agreement that we concluded in Myanmar.

Effective tax rate, down from 73% to 52%, including the withholding tax component, and several items can be attributable to that. One is the fact that we cannot take the deferred tax asset treatment in India, and some of the transfer pricing arrangements in some of our big countries, Ghana, Nigeria, Pakistan, and India are still pending. And that all adds to that higher rate.

Next slide. Operating expenses trend. Here, there is a 4% increase. If compared with half year last year, we see a 4% hike. But please keep in mind that includes the hyperinflation hit of $3.5 million that I mentioned, and that wasn't there same period last year. Cost to income, as I mentioned earlier, went down from 77% to 62%.

A little bit on the funding side. Total funding mix increased to $443.4 million as of June 2024. We raised around $100 million plus of fresh debt. Local deposit went down a little bit, but mainly due to the currency depreciation in Ghana and Nigeria. Right now, actually as of June 2024, cash at bank and hand stood at $95.3 million, of which $28.9 million is restricted. And the remaining $66.4 is unrestricted and for operational work. We did have certain breaches at the half year. It amounted to $37.4 million. But subsequently, we've received waivers in the tune of $12.2 million.

The next slide, a little bit on hyperinflation accounting. IAS 29, financial reporting in hyperinflationary economies. Basically, three-year inflation exceeding 100%, '22 to '24. And as mentioned, Ghana, Nigeria, Sierre Leone falls on the back. And Nigeria and Pakistan, which are on the watchlist, is trending at 96% and 81%.

The balance sheet and P&L are adjusted to reflect the current purchasing power. But please keep in mind, these are non-cash adjustments. So on the right-hand side, we show some aspects of net monetary position. So basically, the more non-monetary assets that you have in the balance sheet, like land and machinery, usually you get a better treatment. For us, it's more on the monetary assets, basically the OLP, and that's more prevailing in our calculation. So there has been a positive impact on equity this period, $254,000. And on the P&L side, we took a hit for $3.5 million.

Over to you, Karin.

Karin Kersten^ Thank you. Well, the question might be, how are we driving performance? And we presented this slide earlier, that we are focusing on vision and strategy, strong governance and structure, measuring, and a role model approach.

On the vision and strategy, it's just to say that our vision and strategy remained unchanged and that we are in full execution of the strategy, whereby we're not only intending to grow and grow financial inclusion number of clients and our businesses, but also focus on our route to digitization and digitalization. That going to an offering which is in a digital form, and also offering more products and services, including digital loans, payments, and savings. So that's our vision and strategy, and it's about the execution of that.

In governance and structure, we have a clear organogram. Ultimately, single responsibilities at the central team ties to the local teams, and we are focusing there on strengthening and further professionalizing our local management committees with strong ties and support to our head offices.

On the measurement side, we are making very clearly known what our targets are from a group level, but also a commitment by the local entities, especially in terms of the number of clients, the net profit in dollar, and some other key metrics on OLP per client, PAR, and the cost-to-income ratio. We measure and challenge that via our so-called quarterly business performance challenge meetings.

And then on to the role model approach, we are into recruitment of new leaders locally who have more banking or mobile financial services experience and really seasoned in leadership and knowledge in banking and digital. And we have announced in our press release that we have new leaders in Uganda and Rwanda started, and to be starting very soon in Nigeria. And those are local leaders.

If you look to our progress so far in the first half of the year and also the second half of 2024, what our priorities are is increasing our financial inclusion. So we mentioned that our OLP has grew very strongly to $385 million. Our number of clients is on the growth now to 2.4 million. And also our OLP per client increased. I would like to mention there Ghana as a good performer, where their OLP per client went up with 22%. If you look to the voluntary savings to OLP, that remains stable, although we do have less ability for savings gathering in Kenya because of regulatory reasons, but it remains stable.

If you look to the second half, we want to further drive this operational growth in our markets in a diversified manner. We want to further grow OLP, where Kenya was at the front in the last half year. And in terms of number of clients, we also want to continue growing. And there, if you look to the first half, Myanmar and Kenya were at the front. Also, enhancing average gross OLP per client, especially in markets where there is a high inflation, also where we have loyal clients going from the first to the multiple cycles of loan, where their businesses grow and they have larger old people clients.

Then the second layer is on our digital channel and digitized internal processes. There in Pakistan, our core banking system implementation and migration has been completed. And that has migrated 600,000 clients out of the current 2.4 million. If you look to the progress, we are working on for the remainder of this year is preparations in Ghana and Tanzania for our core banking system rollout. And this also will help and improve efficiency of our loan officers and network to increase borrowers per loan officer once this is implemented.

And the third layer is about digital products and services. We do have a supplier marketplace app launched in Ghana. And there, we saw healthy growth in a number of users from 3,000 to 7,000 in the first half year. And we are working on obtaining licenses in

Tanzania and Kenya and are in dialogue locally with the regulators. We would like to go for deposit taking from clients in Pakistan after the state bank has approved. So we have the license, but we need on-site inspections and readiness to start collecting the deposits. And we are preparing for launching at the digital financial services app And that will enable handing out loans digitally, but also payments and savings.

For the core banking system, as said, has been implemented successfully. We want to commend our deposit taking there. In Ghana and Tanzania, we're working on the rollout. That's scheduled for 2025, and mind that that's another 500,000 clients if you look at both countries. On the right-hand side of the sheet, you just see an example of a screenshot of how this digital app will look like and how we can go from branches to branches, group meetings. Plus, as an add-on, it doesn't replace our financial services app by which means clients can obtain their loan but also pay back their installments if the proper licenses are there.

Yeah, key highlights and outlook. So the strong operational performance, which was shown in the second half of '23, has continued in '24. And we delivered growth in operational performance, but also in financial performance. The OLP has increased, if you look to year on year, plus 15%. The profitability grew from $3.7 million to $13.5 million in the first half of this year. The quality of the portfolio has been maintained at 2.3% for the PAR, so the growth has been high-quality growth. Our funding has increased. You could also see Tanwir indicated that our margins have grown, so although the cost of fund goes up little, the margins are growing steeper. Our asset mark has surpassed the mark of $500 million. The last time we had that was before COVID.

And if you look to the outlook, so for the remainder of 2024, we remain positive. And the improvement we see in the business performance, we are expecting for the second half of 2024 as well. We do see high demand for loans from clients, and so we do expect to exceed the current market consensus by analysts, which was amounted to $16.0 million in net profit for 2024, so we do expect to exceed that.

Yes, inflation and hyperinflation accounting will continue to affect the financial performance. It's already included in our financials for the first half year for Ghana and Sierra Leone. Nigeria and Pakistan are on the watchlist on the current expectations of the outlook on the three-year consecutive inflation. They will not hit that definition, but it is to be seen what the developments are. And our Board will continue to monitor the resumption of dividend policy, so we'll look at the full year '24 results along with our capital allocation framework and look to see if we can resume dividend payments.

That's in a nutshell our key highlights and outlook. And so the floor is open. I hand back to Jonathan if there are any questions.

Jonathan Berger^ Operator, do you want to see if there are any questions from the conference lines?

+++ q-and-a

Operator^ Certainly. (Operator Instructions) Ben Maher, KBW.

Ben Maher^ The outlook for the rest of this year appears positive, as you say. I don't know if it's too early to provide a bit of color for next year, but what jobs are you most positive on, moving into 2025?

My second question is on the hyperinflationary accounting. I understand that Nigeria and Pakistan are on your watchlist, but are you able to provide any guidance on the possible impact if they hit the definition of hyperinflationary accounting?

And then my final question is just on India. I noticed that there was a significant increase in past-due loans. I was just wondering if there was a specific driver of this. Thank you.

Tanwir Rahman^ Yeah, I'll take the hyperinflation one, and Karin, you can take the India one. So basically, for half year 2024, Ghana and Sierra Leone is in there, so we took a hit of $3.5 million, so as per the calculation and estimate, an equal amount will go into for the next half of the year. And Nigeria and Pakistan, as we mentioned, we are watching those, but the exact number will be drawn as at December 31, 2024. But we do continue to accrue those in our estimates.

Karin Kersten^ Thanks, Tanwir. That's on hyperinflation accounting. Then, yeah, for 2025, we would like to continue our strong growth on both operational and financial performance, driven by a demand from clients for loans. If you look to our strong contributors, it's Pakistan, Philippines, Ghana, Kenya, and Tanzania. And those are strong countries in terms of quality of the portfolio, but also in terms of number of clients and the contribution to the performance.

If you look region-wise, then East Africa is very promising. We do see quite a lower impact if you look to West Africa in terms of FX, stable market circumstances, good smartphone penetration, healthy client growth. And so we see East Africa as a strong contributor to the growth.

Regarding your question on India, what is good to note is that three years ago, India was our tallest tree, so our largest country in terms of OLP. Today, our OLP is $385 million, and our own on-book portfolio, so not the business correspondence portfolio funded by others, our own on-book portfolio is $2.9 million out of $385 million. So India has become very small, and in that sense, immaterial to the performance in terms of PAR of the whole group.

Jonathan Berger^  Do we have another question from the conference call lines?

Operator^  (Operator Instructions) And there are no further questions on the conference line. I will now hand over to Jonathan and Mischa to address written questions submitted via the webcast page.

Jonathan Berger^  Thank you. I think one that came through for Tanwir, what is the broad cost outlook for the second half of 2024?

Tanwir Rahman^  The outlook for cost would be stable. No big change expected there.

Jonathan Berger^  Okay. And then another question that's come through would be, since you've mentioned East Africa as a strong region for ASA, maybe looking forward to the medium term, what are the initiatives to drive further growth there?

Karin Kersten^  Yeah. If you look at how we were driving performance, we indicated that we want to execute the future direction and strategy. Especially in East Africa, if you look to the implementation of the core banking system, after Ghana, we had to go to Tanzania, but then also to Kenya, and thereby onboarding 500,000 clients to our core banking system. And we also would like to offer digital financial services there and then be able to have a more efficient operation, but also a more enhanced client offering and handing out more products and services there.

What we need for that is also partly new leadership in terms of a capability to work that new direction, whereby we have recruited a new CEO in Uganda and Rwanda, as indicated. And it also will give us some focus on acquiring the right licenses in order to be able to go into payments and savings. So we want to work on offering more products and services, on digital, on new leadership, and we see East Africa as a healthy growth region.

Jonathan Berger^  Thank you. And a linked question is around new digital products. Does that increase the risk profile at all for the group?

Karin Kersten^  Yeah, that's a good question. And it depends on, like, is it digital only? Or do we stick to the core of the ASA model, by which our proven credit methodology is that we are working in a very close facility of our clients and work with a client group model. And our loan officers are very close to the clients in terms of client selection and due diligence, but also in collecting the normal installments, overdue installments.

And to our view and vision, this digital channel is an enrichment on top of the current face-to-face channel. And so in that sense, we do not foresee a higher risk profile by adding digital. Moreover, it will also ease in the way that clients, which are at a distance, can pay their loan installments in a very easy, accessible way.

Jonathan Berger^  Okay, and that concludes our written questions submitted over online. So we'd like to thank everybody for participating in today's webcast and we look forward to being in touch soon. Thank you.

Karin Kersten^  Thank you very much for all parties listening in and interest in our company. Thank you very much. Wishing you a nice day.

Tanwir Rahman^  Thank you.