

BBS BANK LIMITED

Interim Condensed Consolidated Financial Results for the Period Ended 30 June 2023

PERFORMANCE HIGHLIGHTS

	Jun 2023 (P'000)	Jun 2022 (P'000)	Change	Δ
Operating Income	64,795	56,492	8,303	▲
Net Fee And Commission Income	12,424	9,132	3,292	▲
Total expenses	(96,659)	(76,360)	(20,299)	▲
Loss for the Period	(29,782)	(19,868)	(9,914)	▲
Cost to Income Ratio	139.8%	132.0%	7.7%	▲

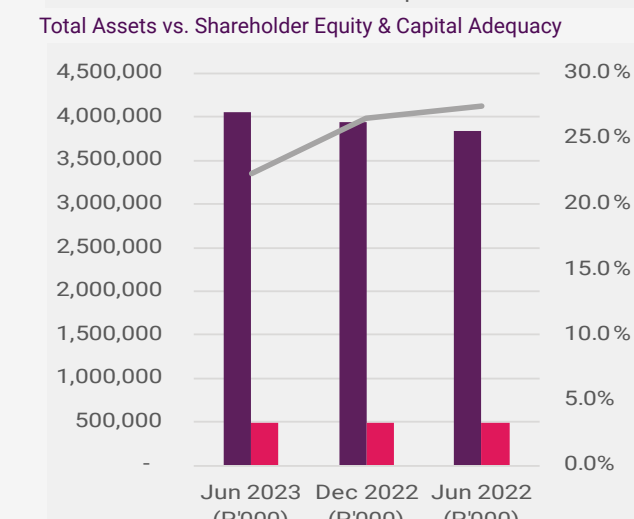
	Jun 2023 (P'000)	Dec 2022 (P'000)	Change	Δ
Loans & Advances to customers	3,281,502	3,241,793	39,709	▲
Investment with Banks	396,953	448,033	(51,080)	▼
Customer Deposits	3,024,742	2,717,746	306,996	▲
Total Equity	444,203	473,985	(29,782)	▼
Total Assets	4,059,231	3,936,518	122,713	▲

	Jun 2023	Dec 2022	Change	Δ
CAR against Regulatory- 12.5%	22.3%	26.6%	(4.2%)	▼
NPL as % of Gross Advances	8.2%	7.2%	1.0%	▲
Loans to Deposit Ratio	108.5%	117.2%	(8.7%)	▼
Liquid to Assets Ratio	16.3%	17.7%	(1.3%)	▼
Return on Equity	(13.0%)	(4.1%)	(8.8%)	▼

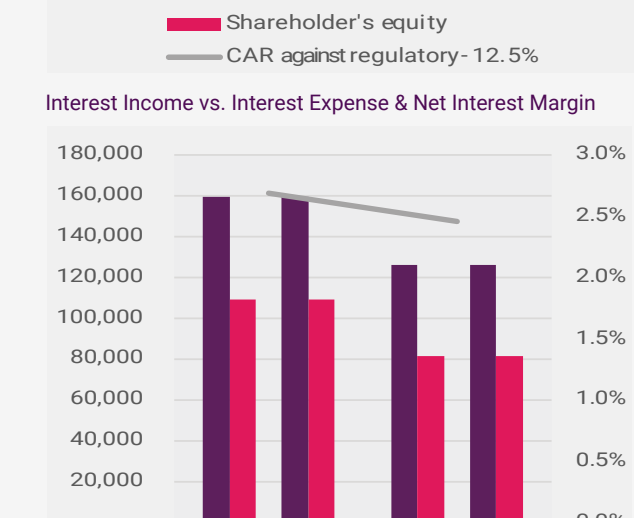
Loans vs. Deposits & Liquid Assets Ratio



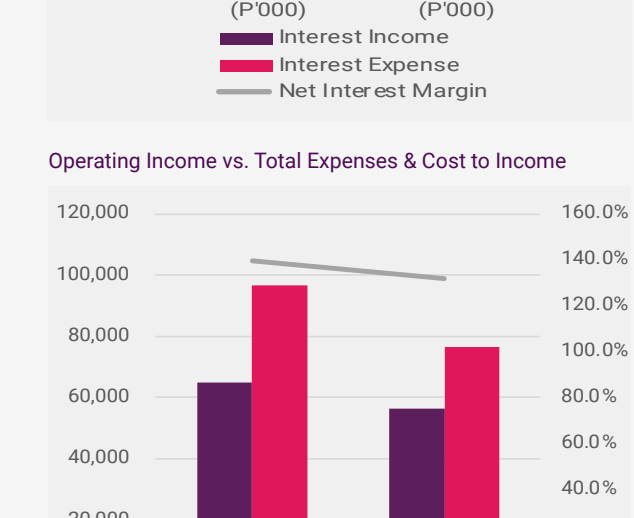
Loan to Deposit Ratio



Total Assets vs. Shareholder Equity & Capital Adequacy



Interest Income vs. Interest Expense & Net Interest Margin



Operating Income vs. Total Expenses & Cost to Income

The Directors of BBS Bank Limited and its subsidiary, BBS Insurance Agency Limited have released the reviewed financial results for the half year period ended 30 June 2023. Here are the key highlights:

Transformation journey

The Group embarked on a transformation journey after obtaining its banking license in October 2022. The key objectives of this transformation include:

- Implementing a comprehensive bank rollout program, including improving the Customer Value Proposition, establishing treasury operations and payment systems.
- Optimizing the IT infrastructure and security to modernize the technology backbone.
- Conducting a staff rationalization and acquiring the necessary skills to support the transformation.

All these, once fully implemented, will ensure that the Group will be poised to become an all-rounded financial services provider in Botswana.

Products and services

The Group has successfully implemented its digital banking platform, "Nomad". This platform offers customers an improved banking experience, allowing them to bank from anywhere and at any time. It is complemented by our VISA-enabled banking cards and automated teller machines, making banking services accessible to all customers.

In March 2023, the Group introduced an unsecured loan product called "Ipechetse personal loan." This product has received a positive response from customers. Its impact on the loan book is expected to become evident in the next financial year with a full year contribution to profit or loss as opposed to limited number of months in the current financial year. This move is seen as an important step in diversifying the Group's asset base.

Profitability

While the Group has not yet achieved profitability, the Board of Directors and Management are confident in the sustainability of the business and its potential growth. One of the key strategies for achieving profitability is to complete foundational banking capabilities in the medium term.

Future plans

BBS Bank has plans to continue expanding its suite of products and services in the second half of 2023. These initiatives aim to enhance the overall customer experience and align with the Group's strategic plan.

BBS Insurance Agency Limited

The subsidiary, BBS Insurance Agency Limited, was launched in June 2022 as part of the Group's diversification strategy and to create a one-stop shop for customers. It has proven to be a profitable subsidiary, underscoring the quality of the customer base and offerings. The performance of the subsidiary expresses confidence that the bank will also achieve positive financial performance in the near future. Overall, the announcement highlights the progress made in the Group's transformation journey and the commitment to achieving profitability and providing enhanced financial services to customers.

Financial results

The Group reported a loss of P30 million for the period ended 30 June 2023, compared to a loss of P20 million in the same period in the previous year. The factors contributing to this performance are:

- Transformational costs:** After obtaining the banking license in October 2022, there were necessary one-time transformational costs incurred. These costs included separation packages which amounted to P11 million and were part of the personnel costs.
- Subdued uptake of mortgage loans:** The Group experienced slow growth of the mortgage loans and advances book at the beginning of the year due to the need to repackage Customer Value Proposition and increase focus on the transformation initiatives. However, there has been an improvement compared to the previous period.
- Expected credit losses:** The Group reported an impairment charge amounting to P6,089 million for the period ended 30 June 2023, compared P1.766 million in the same period in the previous year. This is attributed to the loan book growth, new unsecured personal loans and an increase in stage 3 loans, reflecting the current economic hardships suffered by consumers and downsizing across various industries.
- Increase in interest expense:** The Group recorded an increase in interest expense due to market liquidity constraints. This increase in interest costs impacted Group's margins, as it had to pay more to borrow funds in the constrained market. Total deposits as at the reporting period stood at P3.02 billion compared to P2.7 billion as at 31 December 2022.
- Low fee and commission income:** Fee and commission income generated from the usage of digital banking platforms, the VISA-enabled BBS bank debit card, and the account maintenance charges remained low. The Group anticipates an improvement in activity levels with the introduction of transactional accounts in the latter part of the year.

Projects implementation: While there was steady progress in implementing key projects, some of these projects were behind schedule. Most of these projects are technically complex and time-consuming, and several products and services depend on their successful implementation. These challenges in the transformation journey affected the Group's performance regarding key strategic drivers.

Taxation: The Group was subjected to taxation for the first time at the reporting date due to fulfilling conditions that were part of the income tax exemption. As at the reporting date, the Group recognized P2.4 million arising from the net deferred tax position. The income tax losses will be utilized in line with the parameters prescribed by the Tax Authorities.

Investment with banks: Placements with other banks declined by 11% due to repayment of maturing deposits and the need to set aside funds to fulfill the Prudential Reserve Requirement effective March 2023.

Borrowings: These reduced by 23% due to maturities during the period. There were no new facilities during the period.

Unsecured loans and advances: Net unsecured loans and advances stood at P33.0 million as at the reporting period compared to P0.927 million as at the first month of rollout, 31 March 2023.

Despite the slow business growth during the period, the balance sheet size improved by 3%.

In summary, the financial performance of the Group for the period ended June 30, 2023, was influenced by various factors, including one-time transformational costs, credit risk due to economic hardships, increased interest expenses, and lack of banking capabilities as key transformation initiatives had not been completed as at the reporting period. The Group aims to improve its performance in the coming periods.

Appointment of Directors

Directors	Office	Designation	Date
Mrs. Pedzani Tafa	Managing Director	Executive	04 January 2023
Mrs. Sejo Lenong	Director	Non-Executive	13 June 2023
Mr. Lehuka I. Maseng	Director	Non-Executive	13 June 2023

Key liquidity ratios

The Group has maintained a healthy liquidity position with the Liquid Asset ratio of 16.33% (December 2022: 17.7%).

Capital Adequacy

Despite the negative performance recorded, the Group continues to maintain a robust capital position, with a capital adequacy ratio of 22.32% (December 2022: 26.56%) against the regulatory threshold of 12.5%. This ensures our ability to meet regulatory requirements while supporting our transformation ambitions.

Credit Risk

Stress testing for all its credit risk elements is being done. Estimates and conclusions by Management are continuously scrutinized based on historical events, credit risk environment, introduction of unsecured loans and current estimates of upcoming events.

Dividend

The Group is in the first year of its transformational journey. The turnaround strategy is intended, amongst others, to enable the Group to grow the return on investment and be able to declare dividends in due course.

Strategic Outlook

The execution of the corporate strategy continues. The transformation initiatives considered in the strategy will enable business growth, create shareholder value, and turn around the loss-making position of the Group.

Economic Outlook

According to the International Monetary Fund (IMF) report on Botswana, Gross Domestic Product (GDP) is expected to taper off and reach a level of 3.6% from the initial projections of 3.8%. This is in comparison to the 5.8% growth rate for 2022. GDP is expected to reach 4.0% growth in 2024.

In the first quarter of 2023, GDP growth figures show that the economy continues to expand at a healthy rate with annual rate of 5.4% as per data from Statistics Botswana. The growth will spread with both non-mining and mining growing by 6.0% and 5.0% respectively. In line with projections, growth is expected to decelerate for the remainder of 2023.

The Group will proceed with caution and adopt diligent prioritization of resources. The key strategic focus is on the transformational journey with a view to improve the returns of the Group.

Conclusion

We extend our gratitude to our loyal customers, dedicated employees, and supportive stakeholders for their trust and partnership. The Group remains steadfast in its mission to be Botswana's trusted financial partner.

How to purchase pre-paid electricity How to pay for DSTV How to buy airtime

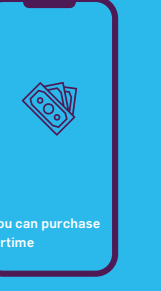
- Dial *190*123#
- On the main menu select Buy/Pay
- Then select prepaid electricity
- Then follow the prompts
- Token number will be sent to your mobile number



- Press *190*123#
- On the main menu select Buy/Pay
- Then select DSTV Payment
- Then follow the prompts
- You will receive a success confirmation screen



- Dial *190*103#
- On the main menu select Buy/Pay
- Then select airtime top-up
- Then enter the mobile number
- Enter the amount
- You will receive a success confirmation screen



Interim Condensed Consolidated Financial Results for the Period Ended 30 June 2023 Continued.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 30 June 2023	At 30 June 2022	At 31 December 2022
	(Reviewed) P'000	(Reviewed) P'000	(Audited) P'000
ASSETS			
Cash and cash equivalents	177,777	44,815	41,092
Investments with banks	396,953	451,904	448,033
Non-current assets held for sale	13,832	-	13,832
Current tax receivable	18	-	-
Other assets	28,611	29,301	29,828
Short-term loans and advances to customers	57,255	52,407	56,002
Unsecured loans and advances to customers	33,004	-	-
Properties-in-possession	32,747	35,958	36,831
Mortgage loans and advances to customers	3,193,764	3,109,091	3,185,791
Right-of-use assets	9,641	14,229	10,643
Intangible assets	28,431	14,739	18,651
Property and equipment	95,122	109,282	96,405
Deferred tax assets	2,462	-	-
Total assets	4,059,231	3,841,766	3,936,518
LIABILITIES AND EQUITY			
Liabilities			
Customers' savings and fixed deposit accounts	2,389,778	2,130,906	2,292,676
Paid up and subscription savings	454,963	430,254	425,070
Borrowings	429,531	641,234	589,193
Debtors	102,716	101,960	102,235
Lease liabilities	15,192	19,157	15,886
Other liabilities	39,919	42,721	36,098
Withholding tax	3,459	3,282	1,937
Current tax payable	-	-	38
Total liabilities	3,615,028	3,367,604	3,462,533
Shareholders' Equity			
Share capital - Ordinary shares	487,453	487,453	487,453
Retained loss	(43,250)	(126,728)	(13,468)
Statutory reserves	113,827	-	-
Total equity attributable to equity holders of the parent company	444,203	474,162	473,985
Total liabilities and equity	4,059,231	3,841,766	3,936,518

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the period ended 30 June 2023	6 months ended 30 June 2022	6 months ended 30 June 2022	12 months ended 31 December 2022
	(Reviewed) P'000	(Reviewed) P'000	(Reviewed) P'000	(Audited) P'000
Interest income	159,102	125,975	281,740	281,740
Interest expense	(109,249)	(81,309)	(185,218)	(185,218)
Net interest income	49,853	44,666	96,522	96,522
Fee and commission income	13,500	9,956	21,727	21,727
Fee and commission expense	(1,096)	(804)	(1,678)	(1,678)
Net fee and commission income	12,424	9,132	20,049	20,049
Revenue	62,277	53,798	116,571	116,571
Other operating income	2,022	2,624	5,410	5,410
Operating income	64,795	56,492	121,981	121,981
Expected credit losses and write down on non-financial assets	(6,089)	(1,766)	4,158	4,158
Personnel expenses	(50,657)	(27,725)	(79,601)	(79,601)
Depreciation and amortisation	(6,004)	(7,549)	(12,560)	(12,560)
Other operating expenses	(33,909)	(29,322)	(59,705)	(59,705)
Total expenses	(96,659)	(76,360)	(141,713)	(141,713)
Loss before taxation	(31,864)	(19,868)	(19,732)	(19,732)
Taxation	2,082	-	(313)	(313)
Loss for the period/year	(29,782)	(19,868)	(20,045)	(20,045)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period/year	(29,782)	(19,868)	(20,045)	(20,045)
EARNINGS PER SHARE				
Per share information				
Basic and diluted loss for the period/year	(6.11)	(4.08)	(4.11)	(4.11)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary shares P'000	Statutory reserve P'000	Retained loss P'000	Total equity P'000
Balance at 01 January 2022 - Audited	487,453	113,437	(106,860)	494,030
Total comprehensive income for the period				
Loss for the period	-	-	(19,868)	(19,868)
Balance at 30 June 2022 - Reviewed	487,453	113,437	(126,728)	474,162
Total comprehensive income for the period				
Loss for the period	-	-	(1,777)	(1,777)
Transfer from statutory reserve	(113,437)	113,437	-	-
Balance at 31 December 2022 - Audited	487,453	-	(13,468)	473,985
Total comprehensive income for the period - consolidated				
Loss for the period	-	-	(29,782)	(29,782)
Balance at 30 June 2023 - Reviewed	487,453	-	(43,250)	444,203

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the period ended 30 June 2023	6 months ended 30 June 2022	6 months ended 30 June 2022	12 months ended 31 December 2022
	(Reviewed) P'000	(Reviewed) P'000	(Reviewed) P'000	(Audited) P'000
Cashflows from operating activities				
Interest receipts	160,364	126,946	284,081	284,081
Commission receipts	14,299	9,936	18,821	18,821
Interest payments	(95,084)	(81,040)	(161,871)	(161,871)
Commission payments	(1,096)	(804)	(1,678)	(1,678)
Other operating income	2,518	2,694	5,410	5,410
Cash payments to employees and suppliers	(30,006)	(22,500)	(36,740)	(36,740)
Proceeds from sale of properties in possession	3,484	4,369	11,094	11,094
Income tax paid	(864)	-	(273)	(273)
Net cash generated from/(used in) operating activities before changes in working capital	903	(10,399)	8,856	8,856
Changes in:				
(Decrease)/increase in other assets	979	(3,139)	(4,327)	(4,327)
(Increase)/decrease in short-term loans and advances to customers	(1,599)	316	(3,069)	(3,069)
Increase in unsecured loans and advances to customers	(35,003)	-	-	-
(Increase)/decrease in Mortgage loans and advances to customers	(14,423)	18,914	(62,170)	(62,170)
Increase in customers' savings and fixed deposit accounts	280,115	46,019	196,078	196,078
Increase/(decrease) in paid up and subscription savings	9,956	3,692	(2,662)	(2,662)
Increase in other liabilities	3,026	10,249	6,528	6,528
Increase/(decrease) in withholding tax	2,991	(368)	(313)	(313)
Net cash flows generated from operating activities	247,979	65,283	138,911	138,911
Cashflows from Investing activities				
Purchase of property and equipment	(1,660)	(6,172)	(11,860)	(11,860)
Purchase of intangible assets	(4,431)	(1,211)	(5,981)	(5,981)</