HSBC

Video transcript

MSX discussion session on HSBC Bank Oman SAOG – 2022 Results

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[Text on screen] MSX discussion session on HSBC Bank Oman SAOG – 2022 Results

[Text on screen] Disclaimer in English and Arabic

[Melika] Good afternoon everybody and thank you for joining us for our presentation of the HBON 31st December 2022 financial statements.

I'm joined today by Muntadhar Al Lawati our CFO, Thomas de Montmarin who's our CRO and Rahma Al Busaidy who's our Company Secretary.

Muntadhar and Thomas will lead most of the presentation and then we will do our best to answer questions after that.

Just before we kick off, a couple of comments from me. As is always the case on this call, we will not be able to make any forward-looking statements. We will also not be able to comment on the ongoing merger process. Other than to the extent it's already in the public domain. So, it is unlikely that we will be able to take any questions on that topic.

So, I will hand over to Muntadhar who will kick us off and then he will hand over to Thomas.

[Text on screen] Slide - Key highlights

[Muntadhar] Thank you Mel. So, let's start with a high-level overview on our performance. I'm happy to say our PBT or profit before tax for the year 2022 stood at USD81 or just below USD 82 million, an increase of 42% Y-o-Y. On the back of higher revenue, lower costs and partially offset by a lower ECL release when compared to the prior year. We will go over the reasons or more details in the following slides.

From a balance sheet perspective both our loans and deposits reduced by just over [7%], which we will go over in more details in slide 8.

[Text on screen] Slide - Performance trend

This slide provides more detailed visualisation of our performance. As I mentioned in the prior slide the major drivers behind our PBT growth is the increase in the revenue and decrease in operating expenses. As you can see, our revenue grew by USD18 million and that was mainly from NII and NFI. Slightly from trading income and other income.

Our net interest income grew by USD13 million and that was mainly from higher interest income earned from our T-bills and Inter-bank placements. Mainly due to the higher interest rate environment. This partly offset by a higher increase on our interest expense on our deposits.

Our net income also increased by USD3.5 million Y-o-Y and that was mainly generated from fees on cards.

Trading income and other income increased by USD700k and USD900k, respectively. Mainly from higher FX swap and transactions and due to the recognition of some fees into the prepayment loans.

[Text on screen] Slide - Cost

On Cost, our cost reduced by USD7.7 million, as you can see. Mainly due to lower marketing cost of USD2.6 million and lower staff cost due to lower number of FTEs. As a result, our cost efficiency ratio reduced from just over 78.3% to 67.2%

[Text on screen] Slide - Expected Credit Loss (ECL)

On ECLs, I'll hand it over now to Thomas who will shed some more light on some insight on why and how our ECLs moved Y-o-Y.

[Thomas] Thank you Muntadhar and thank you Mel.

Good afternoon everyone.

The commentary for today's presentation is very much a continuation of what we discussed in the middle of last year when we presented our June figures and the risk drivers and credit drivers are much the same. At the risk of repeating myself a little bit, I'll take you through what has happened.

In December 2022 the total exposure at default, which equates to drawn amounts and undrawn commitments for retail and wholesale customers, totalled USD5.7 billion. This is versus USD5.8 billion at the beginning of the year. Whilst in August we had reported a slight increase in our loan book, in the second half of 2022 we witnessed a certain amount of deleveraging from some of our customers, particularly as rates continued to pick up through the second half of the year. Over the period, from year-to-date, we released an aggregate of USD18.2 million of expected credit loss provisions.

As reported in our mid-year discussion, there were a number of key drivers leading to the ECL release for 2022 full year. Mainly this was the external rating agencies' upgrade for the Oman sovereign to BB-, which reflected the strong fiscal commitments of the government and has allowed us to re-evaluate the default probabilities in our portfolio. This is also shown here as you can see the migration from stage 2 to stage 1 - so a good improvement in the portfolio.

The improvement of the macroeconomic environment for Oman and its impact on GDP growth expectations was largely driven by oil prices and the relatively contained impact of the war in Europe and of inflation as well.

Whilst in the second half of the year oil prices did come off slightly from their mid-year highs, they remained relatively high and so the impact on our forward economic guidance was quite low.

As I reported previously, the full removal of our COVID-19 related overlays, which we had taken in 2020 and 2021 conservatively in order to compensate for potential ECL model limitations, were fully removed last year; and that also contributed significantly to the releases that we're seeing.

Overall, during the course of 2022, the credit book both in retail and in wholesale has shown strong continued resilience, defaults in the portfolio were very largely contained. On the wholesale side, we saw an ECL coverage, which remained similar to the beginning of the year at 1.61%.

[Text on screen] Slide – Assets quality

From a non-performing loan perspective, we see a slight increase in the gross NPL percentage and that's attributed to the reduction in the size of our portfolio because overall actually we're seeing that the ECLs remain largely at the same level. I would also mention the overall coverage ratio for ECLs on our non-performing book remains very high. Largely aligned to market average. And the names that we have in default constitute a very small portion of our book, representing about 2% of our assets.

Muntadhar, I'll hand it back to you.

[Muntadhar] Thank you, Thomas.

[Text on screen] Slide – Balance sheet

Looking at the balance sheet, as I mentioned at the beginning of the presentation, our loans and deposits reduced just over 70%. Our loans reduced by USD260 million and the majority of the reduction came from GB, our Global Banking business. The major reason behind that is due to the prepayments that witnessed from the government and some government-related entities during the year. The reduction in our CMB loan book was mainly related to our working capital facilities, which was partly offset by an increase in our retail loan book.

From a deposit perspective, our deposits reduced by about USD350 million. That came mainly from our Global Banking business as well. Due to the withdrawals from a few clients, mainly from a combination of operational and non-operational deposits. Retail deposits also decreased on the back of higher spending post the pandemic and due to high interest rate environment. As a result, our Advances to deposits ratio remained at around 70%.

[Text on screen] Slide – Liquidity, funding and capital

So the next three slides will focus on some of the key ratios that we believe will interest you. The first one focuses on our liquidity, funding and capital. If I can draw your attention to the table in the top left-hand corner of the screen, you'll see our capital adequacy ratios stood at 24.3% continuing to increase Y-o-Y, which is significantly above the regulatory requirement of 12.25%.

Our liquidity coverage ratio and our net stable funding ratio, which focus on our liquidity and funding risks were also higher than the regulatory requirement. This positions HBON at a very strong position should a liquidity stress scenario unfold.

[Text on screen] Slide – Other key ratios (continued)

Other key ratios such as net interest margin, which has grown to 2.77% an increase of about 24 bps Y-o-Y. Return on average equity also improved and as I mentioned earlier our cost efficiency ratio decreased for the second year on.

[Text on screen] Slide – Other key ratios (continued)

And lastly come to our last slide. This shows our cash dividends payouts and our net book value. And as you can see, other than 2020 where HBON incurred a loss all the other years, HBON has distributed a payout of 60%, which is the highest payout ratio plus in line with the regulations.

That brings us to the end of our presentation and we're happy to take any questions.

[Melika] If there are no questions from those of you on the screen…

[Joice Mathew] This is Joice Mathew…

[Melika] Sorry, please go ahead.

[Joice Mathew] Thank you ladies and gentlemen for the presentation.

I respect your opening remark that you will not be taking any questions on the forward looking outlook of the bank but just wanted a confirmation on one of your previous announcements about the merger. In the merger you've mentioned that cut-off date for the book value calculation will be on 31st of March. Or the first quarter of 2023. So, just a confirmation on that. How does it stand as the same or is there any change from that?

[Melika] So at the moment, that is something that is subject to an ongoing discussion. I think what it said was that it was probably anticipated. So you know obviously that is something that we need to discuss with Sohar International. So It's subject to ongoing discussion and as and when there's a further update on that we'll obviously make a disclosure to the market. Sorry I can't be more helpful than that. Or if and when, sorry.

[Joice Mathew] Thank you.

[Melika] Any other questions?
Okay. Well, as I say. Thank you again for joining us. The session's being recorded and I understand it will be available through the MSX platform. Thank you very much for joining us today and have a good rest of the day.