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SPEAKERS

Bader Alsalloom	Chief Executive Officer
Ramzy Darwish	Chief Strategy & Finance Officer
Zuhair Mardam	Chief Treasury & Investments Officer
Yasminah Abbas	Head of Investor Relations

Aybek Islamov: Good afternoon. Good morning, everyone. On behalf of HSBC, I'm very glad to welcome you on Banque Saudi Fransi Fourth Quarter 2024 Earnings Call.

With no further ado, I'd like to hand over the call to Ms. Yasminah Abbas. Yasminah, over to you, please.

Yasminah Abbas: Good afternoon, ladies and gentlemen, and welcome to BSF's Q4 2024 earnings call. I'd like to thank you, Aybek, and the HSBC team for hosting us today.

Speaking first is BSF CEO, Mr. Bader AlSalloom, and he'll go over the earnings summary for the quarter, as well as an overview of the strategy execution. He is then followed by CFO, Ramzy Darwish for a more detailed walkthrough of the financial performance. And then we will open the platform for Q&A.

With that, I'll hand over to Bader.

Bader AlSalloom: Thank you, Yasminah. Good afternoon, everyone, and welcome to our earnings call. I'm pleased to present our fourth quarter and full year 2024 results today. This year, we built strong growth momentum despite a challenging operating environment. Our performance was driven by solid balance sheet expansion, disciplined risk management, and strategic investments in growth areas.

We delivered 8% net income growth, supported by higher non-interest income and lower risk costs, while carefully managing funding pressures and operating costs. We also remain focused on executing our long-term strategy, particularly in technology and digital transformation. Our omnichannel digital platform is now live, enhancing customer engagement, while our core banking system upgrade is progressing as planned. In addition, the rebranding initiative has

already strengthened our market positioning and contributed to increased customer acquisition and engagement.

Now let me walk you through our key financial highlights for the year end 2024. We delivered strong and well-balanced loan growth of 14% year-on-year, with both commercial and consumer lending contributing. On the investment side, our portfolio expanded by 24% year-on-year, allowing us to optimize interest rate risk and yield opportunities. Deposits grew by 7% year-on- year, with both interest-bearing and non-interest-bearing categories increasing.

Turning to profitability, operating income rose by 4% year-on-year, with a 19% increase in non- interest income, while net interest income showed a modest 1% increase, reflecting margin compression in a high-rate environment. Net income grew 8% year-on-year to SAR4.54 billion, supported by lower impairment charges, but particularly offset by higher operating expenses.

Asset quality remained resilient with NPLs improving by 12 basis points over the past year to 0.93%. At the same time, our NPL coverage remained high at 181.7%, reflecting strong risk management and our commitment to maintaining a robust and resilient balance sheet.

The cost of risk improved to 58 basis points, a 38-basis point decline year-on-year, driven by lower impairments in the commercial portfolio. Our capital position remained strong with a Tier 1 ratio of 18.8% and a CAR of 19.7%, supported by retained earnings generation and issuance of additional Tier 1 sukuk. Liquidity remains healthy with an LCR of 162% and an NSFR of 114%, well above regulatory requirements.

Now let's move to our strategic execution. We made consistent progress in our strategic initiatives throughout the year. By the end of 2024, we had achieved 79% completion, up from 75% last quarter and 62% at the end of 2023. Wholesale banking achieved 88% completion, improving from 76% in 2023. Here we progressed in government client segmentation, which accelerated customer acquisition in this segment.

We also expanded our financial institutions reach globally and introduced new trade finance, liquidity and cash management products, further strengthening our market position. Personal banking progressed to 75% completion, a significant improvement from 40% in 2023. Key milestones included the launch of our new digital banking app, finalization of our branch network strategy and roadmap and strengthening our cross-sell framework with JB.

Private banking successfully delivered on its strategic priorities, achieving full completion in the third quarter of this year, up from 84% in 2023. Key developments included the launch of tailored family products, expanded collaboration with JB products and the introduction of an advisory program for relationship managers, reinforcing our leadership in this segment.

We have recently kicked off a refresh to our private banking strategy, which should feed into our new bank-wide strategy. JB achieved 88% completion, up from 83% in 2023. It maintained the leading position in auto lease, growing its market share to more than 34%, ranking first among non-bank financial institutions in both portfolio size and new sales. The successful implementation of a hybrid digital journey for auto lease and personal finance, improved customer experience and accelerated sales.

JB also made progress in optimizing mobile app services enhancing its credit card proposition and improving the cross-sell framework with BSF. Another key milestone was the modernization of core systems, strengthening operational efficiency and scalability.

Last but not least, BSF Capital progressed to 55% completion by year-end, compared to 42% in 2023. The business focused on expanding partnerships and collaboration initiatives and strengthening its position in investment and wealth management. It also launched a multi-asset model portfolio, broadening investment solutions for clients. The introduction of our robo- advisory services has enhanced digital wealth offerings, while the real estate fund pipeline continues to progress, expanding opportunities and alternative investments.

Now let's move to our technology infrastructure upgrade on the next slide. We are making strong progress across our key IT and technology initiatives. The integrated corporate portal is advancing well, with user training completed, testing underway, and a data migration in progress. Phase 1 is scheduled to go live in Q2 2025.

The omni-channel platform has begun customer migration, and recent enhancements have improved functionalities. The official public release is underway, and I'll give you some more details on the next slide. The core banking system upgrade remains on track. In 2024, we successfully implemented release two, the largest and most significant phase of the upgrade. We are now working on release three, retail deposit user testing is completed, and corporate loan specification are finalized.

Retail deposit deployments are set for Q1 2025 and corporate loan design phase is on track for Q3 2025, with full implementation in Q1 2026. These upgrades will enhance operational efficiency, scalability, and digital banking capabilities. Speaking of our omni-channel platform, we are excited to announce the successful launch of our new digital app, which provides seamless banking experience for our customers. The app is designed for easy navigation, offering effortless access with a simple interface.

Key features include streamlined payments, light and fast performance, and access to multiple products in one place. Additionally, the app enhances the employee experience with an upgraded backend, improving operational efficiency and service quality. This launch represents a significant milestone in our omni-channel strategy and overall digital transformation, and we remain committed to expanding its capabilities with more features coming in 2025. Public launch, which includes a marketing campaign, is scheduled for this quarter, Q1, 2025.

And finally, I would like to share with you a significant strategic development. We have officially kicked off the BSF 2030 Strategy Exercise, a critical initiative to future-proofing the bank's market position and guiding us through the next phase of growth. In the medium term, our focus will be on repositioning the core businesses within traditional banking with a primary focus on ROE improvement.

At the same time, we will explore and uncapitalize on future proof business potential, expanding our reach and unlocking new areas of value creation even beyond traditional banking boundaries. This is our chance to redefine our business free from legacy constraints. Our goal is clear. Close performance gaps where needed while building on our strength to capture new opportunities in niche products, services, and customer segments.

Directionally, some of the key areas we will be focusing on include retail banking, where we will be focusing on expanding our franchise, enhancing our offering for affluent customers, and developing a best class banking and financial services app. We will also reimagine our branch network to better serve evolving customer needs.

In corporate banking, we will continue to advance digitalization, expand our MSME platform and services, and explore originated to distribute models. Within private banking, we are assessing opportunities to grow in alternative investments, wealth tech, and offshore wealth management through strategic partnerships.

Additionally, we aim to redefine our fintech collaborations capabilities. We're still in the early stages of formulating this strategy and expect to complete this exercise before the end of this year. We will, of course, update you in detail at that time. In summary, we have made strong progress across our key initiatives, including business execution, technology advancements, rebranding, and commencing work on our new five year strategy cycle. Our commitment to innovation, operational excellence, and customer focus will continue driving sustainable growth for the bank.

I will now hand over to our CFO, Ramzy Darwish, to take you through our financial performance before we open the floor for questions. Over to you, Ramzy.

Ramzy Darwish: Thank you, Bader. Hello, everyone. And thank you for joining today's call. I'm pleased to have the opportunity to walk you through our financial results for the fourth quarter as well as the full year for 2024. There is a lot to discuss, and I'm looking forward to taking you through the details.

Reflecting on the year, I'm proud to share that we delivered a solid and resilient performance. Despite operating in an environment marked by margin compression, higher funding costs, as well as strategic investments. These results highlight our ability to navigate changing environments while focusing on long term value creation.

Our net income growth of 8% was underpinned by strong asset expansion, robust fee and other income generation, in addition to disciplined risk management. While we had to contend with one-off expenses and a developing cost environment, our focus on execution ensured we stayed on track.

Let's start by discussing our balance sheet on Slide 11 and then we'll move through the other key areas of performance. So with reference to the balance sheet, our foundation remains strong.

Total assets reached SAR292.8 billion, reflecting a 15% year-on-year increase. This growth was

supported by a combination of strong lending activity as well as carefully managed investment growth.

Loans and advances increased 14% year-on-year, with contributions coming from both the commercial and consumer portfolios. The balanced nature of this growth reinforces our strategic focus on diversification. On the investment side, we achieved a 24% year-on-year increase. This was driven by higher yields and proactive management of interest rate risk.

Turning to liabilities, deposits remain our primary funding source, growing by 7% year-on-year. Both interest-bearing and non-interest-bearing deposits contributed to this growth, despite some outflows of transitory deposits we had highlighted previously in the third quarter earning call.

Moreover, given the tighter liquidity environment, we actively adjusted our funding profile, leveraging both interbank activity as well as longer-term and more diversified bonds and sukuk to optimize our cost of funds.

Finally, our capital position remains robust. Total equity increased by 13% year-on-year, supported by retained earnings generation and the issuance of SAR3 billion additional Tier 1 sukuk. We're continuously exploring ways to enhance our capital efficiency and future plans for the Tier 1 program, in addition to Tier 2, remain a focus to strengthen the balance sheet and set ourselves up for continued growth.

On the next slide, loan growth has been a key driver of our performance in 2024. Loan growth remained strong at 14% year-on-year, with sequential growth in the fourth quarter of 2%, as highlighted in the top right chart, somewhat slower than earlier in the year, as we intentionally became more selective, along with elevated corporate repayments, which typically occur toward the year-end. Capital lending, shown in the bottom left chart, grew 13% year-on-year, with demand strongest in the commerce, utilities, and contracting sectors, where we continue to see a strong opportunity set.

Consumer lending, on the bottom right chart, increased 16% during the year. This was primarily driven as shown by mortgages and supported by auto financing from JB and personal loans. For personal loans specifically, this grew in both the unsecured segments offered by JB as well as on the secured loans with the bank.

On the next slide, the deposit base grew 7% year-on-year. So, it's driven by what is shared in the bottom right chart, a 9% or SAR8 billion increase in interest bearing deposits and a 6% or SAR5 billion increase in non-interest-bearing deposits. Despite again, some outflows of transitory deposits in the fourth quarter. Our deposit mix remains relatively stable with non-interest-bearing deposits accounting for 46.5% of total deposits at the year end.

On the next slide, we cover the main items on the income statement. Net income grew 35% compared to the same quarter in 2023 and for the full year was up 8% to SAR4.544 billion. This as shown in the bottom right chart was supported by a 26% decline in impairment charges and higher non-interest income. While costs did rise, this was aligned with our investment strategy and long-term growth priorities. On the table to the left, you will note operating income rose 17% versus the same quarter last year and was up 4% for the full year. Driven by a 19% increase in non- interest income, while net interest income edged up by 1%.

On the next slide for net interest income, we witnessed an increase of slightly more than 1% as asset growth helped counteract the margin compression. This reflects the resilience of our core lending and funding strategies. In terms of attribution, the chart on the top right highlights the positive impact of over SAR3 billion on loans and investments and cash were offset to a great extent by the rising cost on customer deposits and due to banks.

Moreover, the charts on the bottom charts highlight the positive impact witnessed in the fourth quarter where interest expenses declined by 5% compared with a marginal decline of only 1% in interest income. Again, reflecting the faster repricing profile we see between liabilities and assets.

On the next slide, we delve into the net interest margin, NIM stood at 305 basis points for the full year 2024, reflecting a higher funding cost environment and competitive pricing dynamics.

Encouragingly, though, on a quarterly basis, NIM improved sequentially by 4 basis points to 302 basis points, as funding costs adjusted faster than asset yields, resulting in stabilization of the year-to-date net interest margin.

On the next slide, as mentioned in previous quarters, we significantly reduced our sensitivity to interest rate changes. We estimate that the impact of 100 basis points rate change on NIM would remain at only 3 basis points, underscoring our improved insulation from rate volatility.

At the same time, the notional amount of cash flow hedges is declining year-on-year as we have increased the fixed rate investments, creating a more natural hedge to manage interest rate risk. When taking into account the right-hand two charts together, we see the less than one year on the balance sheet gap of roughly $30 billion, $35 billion, is almost completely balanced with the cash flow hedges of $31.2 billion in Q4, emphasizing again the limited rate sensitivity.

On the next slide, non-interest income rose 19% year-on-year, driven by higher trading income, further supported by a 6% growth in banking fees and exchange income, along with investment- related income. Two-thirds of the growth in trading income came from a one-off gain on the sale of an investment identified and sold in 2024, offset against other trading activities. The net effect after relevant costs amounted to SAR107 million.

Fee and commission income benefited notably from increased activity in brokerage and asset management, which saw a 28% year-on-year increase, as well as trade finance recording 11% growth.

On the next slide, with regards to operating expenses, expenses rose 13% year-on-year. This was driven primarily by general and administrative expenses, reflecting investments in technology upgrades and rebranding, as well as higher personnel costs. Fourth quarter expenses included non-recurring exceptional items of SAR117 million, with 60% related to a discontinued investment loss, 25% to prior period operational items and 15% to staff-related items, including severance payments.

As a result, the cost-to-income ratio at 35.3% by year-end. However, adjusted for non-recurring expenses and income, it would have stood at 34.5% and more in line with the third quarter and our guidance. On the next few slides, we take a deeper dive into the risk picture, starting with impairments. The impairment charge was stable over the first three quarters of the year, with an increase in the fourth quarter driven by the transition of one corporate account to Stage 3.

Despite this, the cost of risk was 58 basis points for the year, down 38 basis points year-on-year, primarily due to lower commercial impairments. We continue to see an overall healthy loan origination profile and no macro or sector-specific risk worth noting at the current time or the future horizon.

On the next slide, the stage migration mentioned earlier resulted in a slight increase in the NPL ratio in the fourth quarter to 93 basis points, as can be seen in the top right chart. However, also in the chart you will note there was a 12-basis points improvement over the course of the year, again demonstrating the bank's strong overall asset quality.

The NPL coverage stood at 181.7%, highlighting the bank's prudent provisioning approach. Coverage for Stage 3 loans declined slightly to 63.3% due to the transition of this single corporate account, while improving Stage 2 coverage at the same time to 10.6%.

Lastly, I also wanted to highlight that we updated our ECL macroeconomic model in the fourth quarter to incorporate the latest data on key economic variables such as oil sector GDP, debt to GDP and interest rates. The process was seamless with no additional ECL impact.

On the next slide, with reference to liquidity, liquidity continues to remain healthy with an LCR of 162% and a net stable funding ratio of 114%, well above regulatory thresholds. These were lower over the course of the year as we continue to optimize liquidity requirements and manage balance sheet growth more dynamically. Moreover, the regulatory loan to deposit ratio stood at a comfortable 83.6%, while the headline ratio increased to 110% and reasonably close to where the sector average was at the end of the year.

On the next slide, the bank maintains a solid capital position with a Tier 1 ratio of 18.8% and a capital adequacy ratio of 19.7%. Total capital increased driven by net income and the issuance of additional Tier 1 Sukuk, which was partially offset by dividends. Also, worth noting in December, we completed a capital increase of SAR12.9 billion by issuing bonus shares at a ratio of approximately 1.07 shares for every existing share held. This was funded through the

capitalization of SAR5 billion from the statutory reserve and SAR7.9 billion from retained earnings. The bank also recommended distributing cash dividends of SAR0.50 per share for the second half of 2024.

On the next slide, full year 2024 performance reflected strong loan growth and stable asset quality. Though profitability was impacted by cost pressures and margin compression. While some metrics aligned with the expectations, others were influenced by market dynamics, strategic investments and non-recurring items. Let's go through these figures in detail. On loans and advances, we delivered strong loan growth of 13.8% year-on-year, broadly in line with our mid-teens guidance.

For NIM, this came in at 305 basis points within the guided range. This reflects the higher funding costs, which compressed margins earlier in the year. However, net interest margins started to improve sequentially in the fourth quarter as funding costs adjusted, supporting future margin trends. Cost of risk stood at 58 basis points, comfortably within the guidance range. The cost-to- income ratio increased to 35.3% above the 34% guidance. This was driven by investments in technology and rebranding again, as well as non-recurring expenses in the fourth quarter.

Excluding one-off items, the adjusted ratio would have been 34.5% and more in line with guidance.

On return on equity, this came in at 10.4%, slightly below the 11% guidance. This was due to higher operating expenses, which weighed on profitability, in addition to the issuance of additional equity via Tier 1 during the third quarter of 2024. For the CET1 ratio, this was slightly below guidance, despite improving over the last quarter. Higher operating expenses, again, expenses again impacted profitability, limiting internal capital generation and preventing a stronger CET1 improvement.

Lastly, on the next slide for the full year 2025 guidance, we remain committed to delivering sustainable growth while maintaining disciplined cost and risk management. Loan growth is expected to be in the low teens, driven by continued momentum in commercial lending, which is projected to grow more or less in line with the market, while consumer lending and JB are expected to outpace.

Net interest margin is expected to range between 305 basis points and 315 basis points, reflecting anticipated volume growth in non-interest-bearing deposits and lending. The declining rate environment may weigh on asset yields, but lower funding costs and cash flow hedges should provide an offset.

Cost of risk is projected at 50 to 60 basis points, remaining stable to slightly improved from last year at higher balance sheet levels, supported by a resilient credit environment. Cost-to-income ratio is expected to be less than 33%, reflecting more cost discipline, particularly in staff-related expenses. At the same time, other G&A costs will incorporate investments in marketing, locations, and business volume expansion to support our growth objectives.

Return on equity is expected to be above 11%, so between 11% and 12%, supported by higher net interest income, increased fee generation, and disciplined operating and risk cost containment. CET1 ratio is projected to be over 15%, improving through retained earnings while balancing growth-related capital consumption. Overall, our 2025 guidance reflects a balanced approach, focused on profitable growth, margin resilience, cost control, and maintaining strong asset quality.

To summarize, 2024 has been another record year with continued resilience and progress. We've balanced transformation, carrying higher costs and margin pressures, with disciplined execution

and strategic investments. These results reflect not just where we are, but where we're headed, as we continue to strengthen our core business while preparing for future growth.

As we look forward towards 2025, our focus will remain on sustainable loan growth, disciplined cost management, and delivering value to our stakeholders. We look forward to your questions, and thank you for your time today. Thank you.

Aybek Islamov: Yeah, thank you for your detailed presentation, very informative as usual. So, before we kick off the Q&A session, I think I'll start with a couple of questions from my end. Well, firstly, I think funding is the key question that has been asked on every conference call. Given the situation with the funding markets in the Saudi banking sector, how much room does BSF, your bank specifically, how much room do you see on funding cost optimization from the interbank, from the foreign markets, from the foreign funding?

That's my first question.

I think related to that, what kind of -- when you talk about the long growth outlook, can you comment on the demand for loans by currency? Are you still seeing mostly Saudi Riyal lending or are you seeing clients who are now taking more dollar lending in the sector, right? And does it indicate that you may go into more dollar funding if dollar lending demand is picking up?

And I think secondly, we've seen quite a few mergers in the sector in the past, and I think if we kind of extrapolate the Brent prices where we are currently versus the fiscal breakeven inside Arabia, right, do you think that the sector remains kind of in a good condition to see more consolidation, more mergers?

Yeah, that's all from my end. And after this, we're going to open up to the Q&A session. Thank you.

Zuhair Mardam: Thank you, Aybek. This is Zuhair. So, I'll probably take the first question with regards to funding. So as part of our strategic initiative to diversify sources of funding through wholesale markets, interbank remains one of the pillars to look for in terms of optimization. So, this would reflect our approach and funding cost optimization in a tightening market environment.

Now given the competitive pressure we have seen in end of 2024 on deposit pricing, we leverage the interbank market as a cost-effective and flexible funding source. This would allow us to continue our asset growth while maintaining our net interest margin discipline in line with our board risk appetite and purely for optimization purposes. I'll pass it on to Ramzy for the next question.

Ramzy Darwish: Sure, I'll take the second question, which was regarding the growth and mainly the currency of the growth. We continue to have most of our growth dominated by Saudi riyal. We do see some dollar demand, especially in the project finance space and social finance. However, the overall majority continues to be in riyan and the demand in riyal.

Bader AlSalloom: And Aybek, for the third question, can you just repeat that? We're talking M&A in the Saudi economy as a whole or within banks specifically?

Aybek Islamov: Yes, within banks, your views on further potential consolidation, given that the funding markets have remained tight, probably will remain tight given where the print prices are. And I think demand for asset growth, obviously, what are your thoughts? Is there room for more consolidation in the sector, or no? I mean, your professional opinion.

Bader AlSalloom: I mean, I don't think it would be driven by the liquidity side of it, in terms of deposits. Typically, I think banks would be looking at some sort of synergy, maybe economies of scale, but on the liquidity capture, I think all banks would still have to continue to abide by the regulatory ratios and liquidity thresholds and the risk appetite, and it would apply to a merged bank similar to two separate banks.

I don't see it being a main driver that banks would be considering for liquidity purposes.

Aybek Islamov: Thank you very much. Very helpful. We'll now move on to our Q&A session. So, given the audience, let's restrict the number of questions to two. So, I'll announce the name, and please unmute yourself and proceed with your questions. So, the first question comes from the line of Rahul Bajaj. Rahul, please announce yourself.

Rahul Bajaj: Thanks for taking my question. This is Rahul Bajaj from Citi. I have two questions, mainly. So, the NIM exit rate for 2024 was 3.02%, and your guidance for 2025 3.05% to 3.15% points to roughly 12, 13 -- up to 12-13 basis points of NIM expansion, in the best case. Anyway, in the worst case, it's pointing to kind of about 3 to 4 basis points of NIM expansion in 2025. Just wanted to understand what you think will be the building blocks for this expansion in NIM versus 2024 exit rate. Is your guidance baking in any rate cut for 2025, or you are assuming rates stay where they are?

And you mentioned that non-interest-bearing deposit growth will be a key factor in the commentary. I mean, how easy is it to get the non-interest-bearing deposits I mean compare to a more kind of -- when you're competing with banks which are more kind of in the retail business. So, that's my first question, the building blocks for NIMs.

The second one is on cost. So, 13% Y-on-Y increase in cost last year. You're guiding to low CAR for 2025 but, I mean, will there -- are you expecting at this stage one-offs which could be part of your guidance or there could be one-off costs which will come on top of this guidance? Because we've been expecting a turnaround of sorts in the cost for the last six-12 months. I haven't really seen that. So, when do we expect that kind of inflection in cost, if I could say so, in terms of cost flow? Thank you.

Zuhair M. Mardam: Thank you for your question. So, I'll probably take the first question with regards to the NIM blocks or the attribution of NIM. So as the CFO had mentioned earlier, we do have limited sensitivity to interest rate movement. We're guiding the market as of a static balance sheet of 3 basis points per 100 basis point move or a shock in interest rates. And that is actually a positive. Sensitivity should interest rate go down.

On the other hand, as well, we continue to grow our current account base which is a positive for our net interest margins. Just to highlight as well, as we go by, we do have several investments maturity that were booked at lower yields. These would be replaced in a higher yield environment. That would also be a positive NIM contribution despite in today, two cuts in 2025. That's really -- that's as well as the basically a flat interest rate sensitivity that is NIM positive going forward.

Ramzy Darwish: And I would add to that, Rahul, thank you for the questions. As the Treasure head mentioned, it's based on a static balance sheet. But when we're looking at the guidance, we're building it off the budget which includes obviously rate cuts which would be fairly neutralized given the position of the bank currently. But it also builds on balance sheet growth both on the asset and liability side. So, there would have to be some growth in NCBDs similar to what we've seen this year to maintain at least the CASA ratio at a reasonable level that would support this NIM expansion.

The other item I'd highlight maybe on the competition side also, I think the cost of funds increasing in particular what we saw over the course of the last year would start to drive higher spreads in terms of corporate lending, potentially even up into the retail space. That remains to be seen. But I would venture to say that there has to be some spread adjustment on the lending side on the corporate space. So these together with what the Treasure head mentioned, build in the NIM expansion that we're guiding towards.

For the second question on cost to income, I think for this year specifically, it was really coming from two angles, but the major element is the fact that the revenue was impacted towards the end of last year, Q4 2023 and fed all the way through 2024. So, the cost-to-income ratio adjusted quite quickly in that fourth quarter, and we've been coming off of that peak, but in terms of the one-off expenses, this did impact the cost-to-income ratio. If we look at it without these one-off expenses, it would have been a 9% growth year-on-year.

A lot of investment has been made already in the marketing and rebrand side. So, we do want to optimize. We still want to continue to spend and invest where it needs to be done, but this is going to be an element that we are going to manage for in 2025.

Rahul Bajaj: Thank you.

Aybek Islamov: Thank you, Rahul. Our next question comes from the line of Naresh Bilandani. Naresh, please announce yourself and go ahead.

Naresh Bilandani: Hi, thanks, Aybek. Can you hear me?

Aybek Islamov: Yes.

Naresh Bilandani: Thank you very much. It's Naresh Bilandani from Jefferies. Thank you so much for the call. Three questions, please, and I promise to keep this short. One, could you please highlight what is the source of interbank funding in the system in Q4? We've seen most of the large banks in the system increase their mix of interbank funding. I'm assuming this should be coming from summer, but we haven't seen a breakdown. So keen to get some insight from you. And what structure is this funding taking if it is coming from summer? That's one.

The second is, equally so, if the Fed should stay put, and my apologies if I missed your interest rate assumptions baked into your budgeting this year, but should the Fed stay put this year due to inflationary pressures, can you please offer some thoughts on how we should see your NIM guidance change compared to what you set in your base case?

And my third and the final question is, given the uncertainty in the rates outlook, it would be extremely helpful if you can please offer what does your guidance imply in terms of NII growth and OpEx growth rather than the NIM and the cost to income ratio metrics? Thank you very much.

Zuhair M. Mardam: Thanks, Naresh, for the questions and welcome back to the market. So with regards to the source of interbank, it's actually a mix of both interbank borrowing from global markets through repo, a secured and unsecured activity. Unsecured activities, as well as pledging our HQLAs and borrowing from SAMA in the repo market and open market operations. These are the main sources, and they came at favorable pricing compared to what we have seen on the deposit side, specifically during the year-end closing of balance sheets.

On the second question, we did anticipate during the budget exercise three cuts during 2025. We know that the market is currently pricing in two cuts. Should this change, that will have obviously an impact on net interest margins. However, just to highlight that the NIM guidance is done through a static balance sheet and not an active one. We have seen an expansion recently due to the fact that liabilities would price faster than assets, and that would obviously have some sort of an impact to NIM.

However, I think we're quite close to neutrality, and this would be a function on the evolution of current accounts and what kind of margins we pass on the asset prices, as well as the reinvestments on the credit that we invest in. So, there are several movers to that, but I wouldn't expect a large deviation unless you have a major change in volume activities. I'll pass it on to Ramzy.

Ramzy Darwish: Yes. So, on your third question, I would echo Zuhair in welcoming me back. In terms of the net interest income, we're looking at low teens in terms of growth, and on the OpEx side, mid-single digits growth. So, positive jaws focus, but I would highlight at least on the net interest income side that this is built on forecast for balance sheet growth.

So, there would be constituents of lending and deposit growth there, and part of that would be from the NCBD balances. But it also takes into account the forecast interest rates, which we would align with the treasury on in terms of where they would expect that to be. And typically, this is

coming from the market. I know there has been more volatility driven there, but again, I would highlight in terms of rate cuts, stability, or increase, the fact that the bank has positioned for more of a neutral position. It should not be a major driver in change on the net interest income. It'll be more driven by the balances we see on the balance sheet.

Naresh Bilandani: All right. Thank you very much.

Ramzy Darwish: Thank you.

Aybek Islamov: Yes. We'll move on to our next question. It's from Olga Veselova. Olga, please announce yourself.

Olga Veselova: Thank you. Olga Veselova, Bank of America. Several questions. One is on the strategy. You mentioned that you have approved 2030 strategy. Could you disclose probably any long-term targets? And also in the strategy, you mentioned that you will close the ROE gaps versus the sector. Where exactly do you see the gaps and what's the opportunity to close them? So that's question number one.

And question number two is again on net interest margin outlook. I understand that the part of your guidance or difference with consensus is repricing of investments. So, can you maybe help us to understand how sizable are they as a percentage of total investment book, this investments which you want to replace? And would the replacement happen in any particular quarter maybe? And maybe you can even quantify the impact of this factor on margin. And finally, again, on the margin, when you were explaining expected margin expansion, you mentioned that you believe spreads in lending can go up. Can you please elaborate on that? Thank you.

Ramzy Darwish: Sure. So, I'll take maybe the first and the last question there on strategy, Olga. This is something the CEO highlighted as being kicked off. So, we are starting this process earlier than we typically would, but we'd be going throughout the entire year. So, it's really going to be closed, done and dusted by the end of the year. And we would provide this externally probably by the first quarter of next year. So, in terms of the strategy, long-term targets, these are being developed as we speak. So, nothing that we can really share because it's not even complete yet.

On the spread side, I would venture to say, I think even from our perspective, for other banks or the sector as a whole, I think when we look at the deposits cost over the last year, specifically in the last quarter, this has increased cost of funding to a certain extent. And eventually banks will have to pass on this cost to the eventual borrowers. It does take some time for this to feed through. We've seen this in the past and I think we'll see it again come up unless we see really an influx of liquidity into the system. So, it's based on an assumption that we would expect to see.

And for the question on the net interest margin, I'll pass it to Zuhair.

Zuhair M. Mardam: Yeah, thanks. Thank you, Ramzy. So, I'm not sure if it's public how much exactly I can share on the share on the investment outstanding, but the way I would look at it is between cash flow hedges

and below one year -- any fixed rate exposure below one year would be repriced at a significantly higher interest rate environment, especially that we have seen recently a drop in short-term rates that would basically have a steeper curve environment.

Olga Veselova: Okay. Can you maybe disclose how much of total investment book do you plan to replace without giving yield or impact on margin?

Ramzy Darwish: How much do we want to replace? Sorry, I didn't get that. How much do you want to replace?

Olga Veselova: Yes. Exactly, so you mentioned that part of the reasons for margin expansion should be a replacement of a part of investment book by investments at a high yield. So, is this significant portion of existing investment portfolio?

Ramzy Darwish: Yeah, so the replacement of, I would say I'll just -- I'll ask you to think about it in a different way. If you think of the average duration of the book, which we have communicated in the past, is a bit slightly more than four years, and you do have a similar split across every year, that would give you some sort of a feel on how much is being replaced. In addition, we do expect an expansion in our investment book, obviously, in line with the balance sheet growth, mainly coming through HQLA, whether it's local debt or international HQLAs, that would also be at current rates environment in a steeper curve environment. So, that would answer.

Zuhair M. Mardam: And I would add to this, Olga, in the financial statements, under note 35, you'll have the liquidity profile of the assets and the liabilities. There you'll see we have roughly SAR5 billion maturing within the next year. So, you can make that assumption SAR5 billion out of a little over 15%, so just under 10%.

Olga Veselova: Perfect. Thank you very much.

Aybek Islamov: Thank you. Our next question comes from the line of Shabbir Malik. Shabbir, please announce yourself.

Shabbir Malik: Hi. Can you hear me now?

Aybek Islamov: Yes, loud and clear.

Shabbir Malik: Hi. Thank you. This is Shabbir Malik from EFG Hermes. I have a question regarding your loan growth outlook for next year. You mentioned that you expect corporate growth to be broadly in line with the market, but you're expecting retail to be a bit better than last year. So, I just want to maybe see or hear your thoughts about what is helping you drive above-market growth in retail for 2025.

And if you can also maybe give some insight into the funding strategy for next year. So, do you expect all of this loan growth to be funded primarily by deposits or do you expect to see further increase in other sources of liabilities that's going to help you with this growth? And in your expense items that you've mentioned this quarter -- in fourth quarter, you said there were certain charges related to investments that are no longer taking place. If you can maybe comment on that and maybe quantify the one-off, that would be pretty helpful as well. Those two questions, please. Thank you.

Zuhair M. Mardam: Thank you for the question. I'll take the first question regarding loan growth outlook. As mentioned, our outlook is for low-teens growth, more on the retail than the corporate, mainly due to a lower base on the retail side. Given the traction that we have seen on the consumer lending area, and even including JB, we do see that there's more of an upside given our lower base in the retail space.

Bader AlSalloom: With regards to the funding strategy, as we've communicated in the past that we do have several programs in place, whether through EMTN, sukuk programs, as well as being active in the loan borrowing market. These are all on the agenda for this year. I mean, the idea is that we would tap the market at least once in a public format in terms of securities, and we'll continue engaging with the investor community on that side to attract liquidity.

We have done several public issuances as well as a syndicated loan in Asia, whereby we had sourced some pool of liquidity into the bank, and we'll continue engaging with that on that front. Apart from that, interbank remains another access to liquidity for optimization purposes, but the main goal would always be franchise growth through customer deposits.

Ramzy Darwish: And I'll take the -- sorry, do you have a follow-up?

Shabbir Malik: No, no, just wanted to --The cost question, please, the one about the investments.

Yes, so I'll take the final question on the investment. So, the total amount that we had was SAR117 million of non-recurring expenses. About 60% of that was for the discontinued investment. This was essentially investments in technology that were previously capitalized and also shared amongst the group. And the impact was taken via both the depreciation line and the OpEx as it became no longer viable. So, it was not used post-investment. And this is the reason we took this loss through both lines. But it was mainly, it was a technology investment.

Got it. And maybe one more question on liquidity, given that it looks like the liquidity was quite tight going into the year-end. Has there been any changes to that since the beginning of 2025? Has there been any improvement on that front?

Bader AlSalloom: So, the behavior that we've seen end of year is natural. We always see that end-of-year pressures. I would say that 2024 was a bit different, given that we have seen elevated levels on, let's say, much more significant credit compared to deposits across the system, which had obviously been quite highlighted by the community. But we have seen some relief beginning of the year. But the fact is that today the banking sector is continuing to witness a faster credit growth than deposits, which basically incentivize commercial banks to source funding through other pockets. We, at BSF, we continue to, as I mentioned earlier, to have all these programs in place. And we do have several other initiatives that we have not tapped yet.

Shabbir Malik: Thank you so much. Thanks for the responses.

Aybek Islamov: Yes. Thank you, Shabbir. Well, I guess we have two minutes left for this call. And we do have a few more questions on the line. I think do we have room for one question to ask?

Bader AlSalloom: Yes, please. And I think also to highlight that we can take questions after the call through the investor relations team, we'd be happy to respond.

Aybek Islamov: Absolutely. Yes. So, let's move on to the next question then. And that's going to be the last question for today. So, the next question comes from the line of Murad Ansari. Murad, please announce yourself.

Murad Ansari: Yes. Thank you. Thanks for the presentation. So, I'll try to keep it quick. Just some credit costs regarding the 50 basis points to 60 basis points, which is relatively flat versus last year, given how aggressively cleaned up book a couple of years ago. How much scope do you see for these credit costs to go down from these levels that you're guiding to on a 50 basis points to 60 basis point? And secondly, on loan growth, regarding to low teens, I think the first half was really strong. We've seen that growth fade into the year end. You've talked about repayments. How significant were those in terms of impacting your loan growth numbers?

And just on loan growth for next year, low teens, do you think there's potential for positive surprises? I mean, given that, I think the corporate demands remain strong. We've seen some of your corporate-focused peers grow mid to high teens. So just your thoughts on how -- is this guidance is a bit conservative? Thank you.

Zuhair M. Mardam: Thank you, Murad. I'll start off with the first question on credit costs. So, we've highlighted this before for corporate banks, we would expect that the cost of risk be in this range, around 60 basis points through the cycle. And given the cleanup we've had in previous years, we expect to maybe go slightly less than that in the short term, let's say. But when we look at the standards, the regulations, there are automatic provisions that have to be taken when lending. So, we would

assume this is roughly around 35 basis points to 40 basis points without any problem loans without any transition.

And the only way really to dip below that would be to really get additional recoveries on previously written off loans. And there, we want to make sure that we're not budgeting for it and guiding for it. They do come in on a case-by-case basis, on an ad hoc basis as well. And it does take time typically to go through the legal system. So, for next year, we would expect more of the same, but the larger balance sheet size would drive this lower cost of risk. But we don't have expectations to go significantly below that unless it's aided by recoveries.

Ramzy Darwish: Sure. And I'll take the second question regarding loan growth. Now, loan growth in 2024, especially for the second half of the year, we did become selective in our loan growth with a shift in our focus to profitability and yield, while of course at the same time maintaining our asset quality. For 2025, it'll be a continuation of that approach of growing selectively with a focus on profitability and yield rather than growth and at the same time, of course, maintaining the asset quality.

On the second half of the question, which is regarding 2025 loan growth guidance, and if it was -

- if we're expecting any surprises or if it was too conservative, we believe that given the current liquidity situation, we don't see any positive surprises unless, of course, that eases up towards the second half of the year. So lower teens is, yes, conservative, but at the same time, it's mainly driven by the current liquidity situation.

Murad Ansari: Thanks so much.

Aybek Islamov: Well, thank you very much. I'd like to thank the management team for the very useful insights, as always. We are on top of the hour. And yeah, ready to close the call. I'd like to pass back to management for any final remarks. Thank you.

Bader AlSalloom: Well, thank you very much. Thank you for joining us today and for your continued engagement. We're pleased with the growth momentum, the progress made in our strategic initiatives, and of course, the opportunities ahead. We appreciate your time and ongoing support and look forward to the next earnings call. Thank you very much.

Yasminah Abbas: Thank you, Aybek.

Zuhair M. Mardam: Thank you, Aybek.

Aybek Islamov: Yeah, yes. Thank you, everyone. So probably we're going to receive more questions after this call. But yeah, I think that's business as usual. So, thank you, everyone.

Yasminah Abbas: Thank you, everyone. Thank you so much.