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SPEAKERS

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Yasminah Abbas	Head of Investor Relations

Asmar Shams: Good afternoon, everyone. On behalf of BSF Capital, I'm very glad to welcome you on BSF First Quarter 2025 Earnings Call. 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 Q1 2025 earnings call. I'd like to thank you, Asmar, and the BSF Capital 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 Alsalloom.

Bader AlSalloom: Thank you, Yasminah. Good afternoon, everyone, and thank you for joining us today to review our performance for the first quarter of 2025. Our strategy and strong execution have enabled us to deliver solid quarterly results with balanced growth across our portfolio. We prioritize profitable growth and enhance both interest and non-interest income streams.

While the global environment remains uncertain with ongoing discussions around tariffs and potential impacts, we haven't seen any significant effect on our business so far. However, we remain cautious and continue to monitor the situation closely. Let's proceed to summarize our key financial achievements for this quarter.

Over the past year, we have seen a notable 13% year-on-year increase in loans and advances, both commercial and consumer lending segments contributed to this performance, with consumer loans showing an impressive 16% increase and commercial loans growing by 12%. On the investment front, our portfolio grew by 15% year-on-year, effectively managing interest rate risk and seizing yield opportunities. Our deposit base expanded by 9% year-on-year driven primarily by a 15% increase in interest-bearing deposits along with a modest 2% growth in non-interest-bearing deposits.

Operating income rose by 13% driven by a 10% increase in interest income and a 26% rise in non-interest income. We faced some margin pressure with the net interest margins declining by 12 basis points year-on-year, although we observed an improvement quarter over quarter. Ultimately these factors combined led to a strong 16% increase in net income year-on-year. Asset quality metrics improved year-on-year with our NPL ratio decreasing by 9 basis points to 0.84% and cost of risk improving 9 basis points to 51 basis points. Additionally, the NPL coverage ratio improved by more than 40 percentage points reaching almost 199%.

Our capital adequacy remains strong with our Tier 1 ratio inching up to 19.2%. On the liquidity front, our liquidity coverage ratio increased slightly, now standing at 168% and comfortably meeting regulatory requirements. Our non-interest-bearing deposit ratio currently stands at 44.5% reflecting a slight decline of 3.1 percentage points year-on-year. Now I'll take you through updates on our strategic progress. As you know, last quarter we shared that we had begun working on our 2030 strategy, which will be developed over the course of the -- of 2025. At the same time, we're finalizing the execution of our previous strategic refocus this year.

Today, I'll briefly update you on our progress. By the end of first quarter of 2025, we achieved 85% overall progress, improving from 79% at the end of 2024. Wholesale banking reached 91% progress, up from 88% at year end. We grew government accounts and deposits, we also activated key strategic agreements with government and private sector clients to support lending and strategic collaboration.

In addition, we expanded our financial institutions' reach globally and launched new products in trade, finance, supply chain services to strengthen our market position. Personal banking reached 78% improving from 75% in Q4. We continue enhancing our digital app features, kicked off the implementation phase of our branch transformation program, and gained strong momentum in the affluent segment.

In Q1, we achieved a record in credit card sales, the highest in BSF's history. Our partnership with the Saudi Pro League also helped boost our brand visibility and client engagement. In business banking, we are observing strong early traction following the shift to a more relationship-driven model with a newly formed team reactivating existing MSME clients and targeting new opportunities.

Private banking successfully achieved its strategic goals back in 2024, reaching 100% progress. Building on this momentum, we launched a three-year program focused on broadening our product suite and accelerating sales growth. This positions us well to reinforce our market leadership in this important segment.

JB continued to perform strongly reaching 90% progress, up from 87% at year end. The business optimized its mobile app services, modernized core systems, and strengthened cross-sell momentum with BSF. Last but not least, BSF Capital also advanced reaching 70% progress, up from 55% at the end of 2024.

We are progressing well with new partnership initiatives including expanded collaboration with private and wholesale banking. We launched distribution of the Global Horizon advisory model powered by BlackRock, enhancing our wealth and investment offerings. Additionally, we are seeing strong momentum in real estate funds through active collaboration with our wholesale banking team.

Now, let's move on to our technology infrastructure updates. Our integrated corporate portal is advancing well. Phase 1, which is focused on trade services is scheduled to launch in the second quarter of 2025, while phase 2 covering trade loans and trade AI capabilities is scheduled for early 2026. On the retail side, we officially fully launched our new retail digital app BSF mobile in the first quarter of 2025. Further future releases are planned throughout the year to enhance customer experience and drive deeper engagement.

Our core banking system upgrade is progressing on track. Development of retail deposits is planned for the second quarter of 2025, while corporate loans is scheduled for the first quarter of 2026. Looking ahead, our main strategic priorities for 2025 are; first, to continue the technology infrastructure modernization; second, focus on cost optimization to enhance efficiency; third, drive a fee income boost; fourth, execute the branch network transformation to elevate client experience and branch performance and last but not least, develop and finalize our BSF 2030 strategy, setting a new direction for the future.

With that now, I'll hand it over to Ramzy to take you through our financial performance in more detail before we open up the floor for Q&A. Over to you, Ramzy.

Ramzy Darwish: Thank you, Bader. Good day, everyone, and thank you for joining us. It's a pleasure to welcome you to our first quarter 2025 earnings call. I'm excited to have the opportunity to walk you through our financial performance for the quarter and share some important updates on the progress we've made.

I'm pleased to report that we've had a promising start to the year, with net income growing by 16% year-over-year. This solid performance really reflects the strength and resilience of our diversified revenue streams, coupled with the disciplined cost management efforts we've been implementing across the organization.

We have much to cover today, so let's dive in, beginning with an overview of the balance sheet on Slide 9. Starting with the balance sheet, I'm happy to share that our total assets increased by 3% year-to-date during the first quarter of 2025, crossing the SAR300 billion mark for the first time.

This growth was primarily fueled by a 2% increase in loans and advances underpinned by strong activity across both our commercial and consumer lending businesses. Turning to our investment portfolio, we saw an expansion of 2% year-to-date, reflecting a diversified approach to asset allocation, balancing between liquidity, yield, and interest rate risk considerations in line with our investment policy.

On the liability side, customer deposits rose by 3% year-to-date, with much of the momentum coming from higher contributions in interest-bearing deposits, a testament to the competition, but also the growing customer confidence in our deposit products and interest rate offerings. In the debt markets, we maintained strong funding activity this quarter. We were successful in increasing our debt securities and term loans by 31% supported by the issuance of $750 million Sukuk on the London Stock Exchange, several private placement bonds in addition to a SAR1.5 billion bilateral term loan facility.

These actions have not only broadened our funding base but also strengthened our maturity profile, ensuring we are well-positioned to support sustainable long-term growth. Moving to loans and advances on Slide 10, we achieved loan growth of 2% year-to-date, driven largely by a healthy 2% rise in commercial lending and a 5% increase in consumer lending.

Throughout the quarter, we remained prudent and selective in our approach to commercial lending with a continued focus on prioritizing profitability, risk-adjusted returns, and liquidity optimization. From a sectoral perspective, we saw outpaced growth in the commerce sector which attributed to over 75% of the growth in the commercial book during the quarter.

The 5% growth in consumer lending was especially encouraging with momentum primarily coming from mortgages and personal loans, each growing by 5% respectively. On the next slide, customer deposits rose by 3% year-to-date. This was underpinned by stronger inflows towards the end of the quarter, particularly in corporate interest-bearing deposits.

At the same time, we observed a decline in non-interest-bearing deposits by 1% primarily due to a reduction in corporate NIBDs. This was partially offset by an encouraging pickup in retail deposit flows, reflecting early signs of the positive impact from our ongoing digital transformation and the rollout of the omnichannel app, which has enhanced convenience and engagement with our retail customers.

As a result of these shifts, the share of non-interest-bearing deposits reduced to 44.5% by quarter end. While this represents a slight change in the composition of our deposit base, it has also introduced a new dynamic for average balances, one we are actively monitoring to optimize our funding mix going forward.

On the next slide, with reference to net income, our income for the quarter grew by 16% year-over-year, was driven by higher operating income even in the face of targeted operational expenses. The strong sequential growth of 20% achieved was also supported by lower impairment charges. Compared to the fourth quarter of last year, reflecting our disciplined risk management practices. Operating income rose by 13% year-over-year, benefiting from a 10% increase in net interest income and a 26% increase in non-interest income.

This combination underscores the breadth of our revenue streams and the resilience of our earning power. Over the next few slides, we will deep dive into the main constituents of each major line item, starting with net interest income, which rose by 10% year-over-year, mainly attributable to asset growth across key portfolios. The top right chart highlights the asset side contributing SAR268 million across loans, investments, cash and interbank while the liability side attracted SAR175 million across due to banks and customer deposits providing for a net positive contribution from on balance sheet items of SAR93 million, with an additional positive delta contribution from cash flow hedges of SAR107 million to reach 200 million positive delta year-on-year.

On a quarterly basis, interest income demonstrated a 1% increase while interest expenses showed a modest decline of 2% contributing to a healthy net interest income progression over the quarter. This was aided by 8% year-to-date growth in average interest-earning assets versus 6% year-to-date growth in average interest-earning liabilities. On the next slide, net interest margin saw a decline year over year by 12 basis points to 3.08%, primarily due to a shift in our funding mix towards cost-bearing liabilities.

It is worth noting that the cash flow hedging impact contributed to enhancing the interest rate and NIM stability by 21 basis points when viewed in the year-on-year context. Again, this is part and parcel of our interest rate management strategy to manage interest rate risk earning volatility. When looking sequentially on top of the improvement in the fourth quarter of 2024, we recorded a further improvement of 6 basis points in NIM. This improvement was driven by a more rapid decline in funding costs relative to yield compression on the asset side, essentially reflecting the delayed benefits of rate cuts that took place in the fourth quarter of 2024. This sequential uplift gives us added confidence in our ability to stabilize and gradually rebuild margins despite market pressures. Turning to slide 15 on rate sensitivity, based on our latest estimates, as of the end of the first quarter, our interest rate sensitivity remains very limited.

We estimate that 100 basis point change in interest rates would now have an impact of only 2 basis points on our NIM, highlighting our well-balanced, resilient balance sheet structure even as interest rate environments continue to evolve. As the balance sheet position has been aided by greater fixed rate composition via retail lending and investments, the hedge required has subsided and therefore witnessing a 16% reduction year-on-year to reach a notional amount of SAR30.4 billion.

We continue to monitor interest rate risks dynamically and aim to mitigate earning volatility via the various tools available, including cash flow hedges if and when warranted. Now, looking at non-interest income on slide 16, non-interest income surged by 26% year-over-year. This was largely fueled by capital gains on investments and higher foreign exchange and trading income during the period.

Although these are transactional in nature, we believe there is a decent amount that would be sustainable, especially if balance sheet growth and market volatility continue. Fee and commission income was up 6%. This was supported by a 44% increase in brokerage and asset management business along with a 28% growth in trade finance.

This growth trajectory was somewhat tempered by lower card fees and other fees, which were impacted by higher sales fees and a positive reversal taken in the first quarter of 2024. Nonetheless, the overall momentum in non-interest income reflects our success in broadening and diversifying our revenue base beyond traditional banking and lending products.

Moving to operating expenses on Slide 17, there was a 12% year-over-year increase in operating expenses, mainly driven by higher general and administrative costs as we continue to invest in technology, infrastructure, and talent to support our future growth. On a sequential basis, expenses actually saw a 11% decline largely due to the normalization following the elevated fourth quarter expenses we had flagged on our previous earnings call, where one-off items temporarily impacted the cost base. As a result, we are pleased to see our cost-to-income ratio improve to 32.8%, positioning us well as we move further into 2025 with an eye on maintaining efficiency gains.

Turning to impairment charges on Slide 18, the impairment charge returned to normalized levels in line with what we saw in the prior year. We recorded a 21% decline compared to the high charge taken in the fourth quarter of 2024, which had been influenced by an isolated and specific case.

Additionally, our cost of risk improved by 9 basis points year-over-year to 51 basis points, reflecting better credit performance and improved underwriting in both our consumer and commercial lending portfolios. This improvement underscores the strength of our risk management framework and the quality of our loan book.

Moving on to asset quality, on slide 19, our NPL ratio improved to 84 basis points down from the elevated levels seen in the fourth quarter of 2024. This improvement was largely driven by positive migration trends across both consumer as well as commercial loan portfolios.

Meanwhile, the NPL coverage increased to 198.5%, reflecting our ongoing commitment to prudent provisioning practices and ensuring we maintain strong coverage ratios to protect against potential future credit losses. Now let's move to an important pillar of our balance sheet, liquidity, which is highlighted on slide 20.

Our liquidity position remains robust, supported by an LCR of 168% and an NSFR of 120%, both comfortably above regulatory requirements. The loan-to-deposit ratio improved slightly to 81% while the headline loan-to-deposit ratio remained steady at around 110%.

We continue to maintain a disciplined approach to managing our funding profile, emphasizing diversification and longer tenure funding, which we believe are critical foundations for supporting our future growth ambitions. Turning to capital on slide 21, our capital position strengthened during the first quarter largely due to strong internal capital generation from retained earnings generation. We ended the quarter with a capital adequacy ratio of 20.1% and a Tier 1 ratio of 19.2%, both of which underline the strength of our balance sheet and our ongoing commitment to maintaining conservative capital buffers. It is worth noting as a reminder to shareholders, the final dividend for the year of 2024 will be distributed during the second quarter in line with our announced payout plans. Meanwhile, risk-weighted assets increased modestly by 1%, reflecting prudent balance sheet expansion aligned with our strategic objectives.

Simultaneously, capital grew by 4%, ensuring that our regulatory ratios improved despite asset growth. Our capital position gives us significant strategic flexibility, allowing us to comfortably absorb growth while maintaining strong buffers. Shifting now to the full year 2025 guidance on slide 22, our performance -- our financial performance for the first quarter was largely in line with expectations, providing a solid foundation for the rest of the year.

As such, we are referring our previously communicated guidance across all major financial metrics. To recap the key elements, we continue to anticipate loan growth in the low teens reflecting a careful and selective expansion strategy. We remain focused on profitable lending opportunities with an emphasis on relationships that offer attractive risk-adjusted returns across the various product lines. Net interest margin currently sits comfortably within our targeted range of 3.05% to 3.15%, given the evolving and fluid rate environment, we are closely monitoring both sides of the balance sheet, and we intend to maintain this positioning throughout the remainder of the year.

On asset quality, our cost of risk is now trending towards the lower end of our forecasted 50 basis points to 60 basis points range, reflecting our ongoing conservative stance in credit risk management. We don't see any sector-specific risks in the immediate term and continue to monitor the economic situation with vigilance going hand-in-hand with our selective growth position.

In terms of operational efficiency, we have made progress reducing our cost-to-income ratio below the 33% benchmark. This was driven by operating income growth, but we remain committed in maintaining and improving upon this level through disciplined spend and operating leverage as revenue grows. In terms of profitability, ROE has shown improvement, and we are on track to deliver returns within our targeted forecast range of 11% to 12%, supported by enhancements in topline growth, margin resilience, and cost discipline. Lastly, we're pleased to report that our CET1 ratio remains well above the 15% threshold, providing strong resilience and flexibility as we move through the year.

In closing, the first quarter of 2025 has been a solid, encouraging start to the year. We've demonstrated strong operating momentum with healthy growth across both topline revenue as well as bottom line earnings even as we navigated a dynamic macroeconomic environment, We continue to deliver on the key pillars of our diversified revenue growth, disciplined risk management, operational efficiency, and maintaining a strong and resilient balance sheet. Looking ahead, we remain laser-focused on executing with discipline, staying close to our clients and responding dynamically to changing market conditions, in addition to ensuring that we continue to create value for all of our stakeholders.

On behalf of the entire leadership team, I want to thank you all and once again for your continued interest, support, and partnership. We are very excited about the opportunities that lie ahead, and we look forward to sharing more progress with you in the quarters to come. We are now happy to take your questions.

Asmar Shams: Thank you, management, for the presentation. Participants, we will now open the floor for questions. We would also request the participants to ask a maximum of three questions after which they can get back in the queue for further queries. So, we'll take the first question from the line of Naresh Narendra. Naresh, you're unmuted. Please go ahead.

Naresh Bilandani: Hello, can you hear me?

Bader AlSalloom: Yes, we can hear you, Naresh.

Naresh Bilandani: Excellent. Thank you so much for the presentation. It's Naresh Bilandani from Jefferies. Three questions indeed. The first one is on the net interest margin. It seems to have fared relatively well in this quarter, especially compared to some of your peers. Now, you explained the margin dynamics quite well in the presentation. I'm just keen to understand from a qualitative perspective what factors have been driving this outperformance, especially in this quarter compared to that of some of your peers. I'm inclined to think this is probably because your franchise has shown a much more measured growth. Naturally, you have a benefit of the hedges which is starting to flow through. Is my thought process in the right direction or would you attribute some other factors compared to the competition which have been helping your top line? And has this outperformance or at least good performance continued through into the second quarter? That's my first question.

My second question is on capital, and I'm just keen to understand how much further room do you have to reduce your RWA density. Would you be able to offer any guidance? I mean we've observed a lot of volatility in the market recently in the second quarter. Is there any chance that we could see some onerous movement, any material onerous movement in the capital going into the second quarter from higher CVA charges or higher market risk? Are these moves likely to be material at all? That would be my second question.

And my third and the final question is on the cards business. I think the net income, what I can see in the fees and commission income breakdown, and sorry we skipped the slide quickly, I think that if my observation was right, that still continues to be negative. Would you please be able to explain the underlying drivers of what is still creating a pressure on this line if I observe that right. Thank you so much.

Bader AlSalloom: Yes, thank you, Naresh, for the questions. Maybe I'll start with the net interest margin. So, I wanted to try and show the contributors there in terms of what drove the performance there in the first quarter. We had started to see this already in the fourth quarter, and I think you nailed it really in terms of the qualitative factors, partly being more selective. And this was something that we had kicked off in the second half of last year putting profitability ahead of growth in terms of where we want to reach. The cash flow hedge again contributed positively when we look at it in the year-on-year context.

And I think more specifically, when we look at cost of funding versus the fourth quarter, where there was, I think in the sector some challenges on the cost, we did see that materially be eliminated in the first quarter. I think the combination of all of these together really is what drove the net interest margin. From our initial readings. I'd say going to the second quarter, we don't expect major changes in our strategy on this front.

And one of the areas that we want to continue to guide for on this net interest margin is meeting the targeted guidance that we provided. 3.05 to 3.15 On the capital side, when we look at RWA density, I think there will be really little room for change or improvement. Especially when we look at the focus for the bank is more or less on the corporate side, and even if there is additional growth on the retail side, it's still relatively smaller in comparison to the base that we have on wholesale and corporate banking. So, there I don't see the density for particular lending products changing, especially given the mix that we currently have. For CVA I think we have been taking these over the course of the last few years and it's really to make sure that we have built up the requirement according to Basel on this side of it.

I'd say it's difficult to say whether this will change materially but I think the first time is usually where it's most painful where we had faced this in 2023 but since then I don't think we'll see material changes going forward. For market risk this will typically be led by the risk appetite, and I can tell you there hasn't been any significant change from our perspective.

Maybe for the credit card, just to highlight, you are right in terms of the net fees, they are negative. It is something we see also across most of the banking sector. The element that we do not include here is on the net interest income, which obviously will generate significant yield for the balances that remain. But you're correct, it's negative for the overall fees.

Asmar Shams: Thank you, management. The next question would be from the line of Mohammad Ahmed. Mohammad, your line is unmuted. Please go ahead.

Mohammed Ahmed: Am I audible?

Bader AlSalloom: Yes.

Mohammed Ahmed: So, my question is related to the mortgage's appetite. The recent monthly run rate for mortgages on an industry-wide basis released by SAMA was I think around SAR9.1 billion, which suggests strong appetite in mortgages. In your view, how much is the credit demand in mortgages, especially considering that the target for 2035, recall correctly was around 70%. So how much needs to be disbursed additionally to achieve this target? And secondly, what is currently the rate being offered for mortgages versus SAIBOR?

Bader AlSalloom: Can you just clarify; you're asking for mortgage appetite for BSF or for the sector?

Mohammed Ahmed: Both for both sectors as well as -- your opinion for the sector as well as BSF.

Bader Alsalloom: Maybe not so clear, but maybe I can start with the sector. I think recently we also saw some KPIs being released and how much has been achieved on sector growth for mortgages, especially targeting home ownership. I'd say given the demand that we see still and the Vision 2030 initiatives, there's still quite a bit in terms of mortgage demand out there. I think the supply has been the challenge that we've been dealing with. But even with that, a lot of developments over the course of the last two, three years should be coming online in addition to the recent news specific to Riyadh.

From our perspective, given that this offers a fixed rate exposure that also helps us in managing long term interest rate risk and is profitable not only in gross yield terms but also in terms of the return on equity, it is an area that we would continue wanting to focus on as one of the major products. In terms of the yield that typically this would be at, it's closer to 6%. And I would say for the sector, you usually see this driven by the real estate development fund, but I think that should maybe cover the mortgage question.

Asmar Shams: Thank you, management. We'll take the next question from the line of Olga Vaselova. Olga, your line is unmuted. Please go ahead.

Olga Veselova: Hedging Strategy. From what I recollect, you started to predominantly use natural hedging last year. Can you update us on what are you doing now this year? Did you return to a bit more active use of interest rate swaps versus the end of last year? And if not, then what helps you to deliver such a low sensitivity of margin to the policy rate? So that's my first question.

The second question is media were recently discussing some real estate reforms in Saudi Arabia. If I can ask you, what are your thoughts on them? Is this a material upside for mortgage issuance or is this a downside for credit quality in the real estate corporate sector?

My third question is on loan growth guidance. For the full year, you maintain your guidance of teens despite delivering 2.4% in the first quarter. What makes you comfortable that you will accelerate credit issuance in the next three quarters? Thank you.

Zuhair M. Mardam: Thanks, Olga. This is Zuhair Mardam. I'll take the first question. So, as you're well aware, we mitigate our interest rate risk exposure through a combination of on and off-balance sheet instruments, including the cash flow hedge. So, the cash flow hedge outstanding is driven by the evolution of other balance sheet instruments, namely from retail bank -- retail lending as well as investments. Given where we are in the cycle, we have been quite neutral to interest rate volatility as the CFO had mentioned earlier, and we continue to maintain that position as of today.

The notional amount of the cash flow hedge declined by 16% year-on-year, mainly due to the fact that we have increased our investments in HQLA or the issuances coming from government securities as they've been offering a more favorable rate than entering into those hedging.

This had resulted in a natural hedge to mitigate that interest rate risk and maintain our neutrality to interest rate volatility. So, as of Q1, we are -- we stood around SAR30.5 billion, and that is basically within our strategic view of increasing fixed-rate assets as opposed to hedging. NII remains quite limited, and we continue with that stance going forward. I'll pass on the next question.

Bader Alsalloom: Sure, I'll take the next question. Hi Olga, this is Bader. If I understood your question correctly, you were asking about the real estate market, more specifically to the corporate world when it comes to developers, and that is the area that we are obviously more exposed to when compared to mortgages.

We are still expecting more developments to come out from the recent announcement a few weeks ago, and given the nature of course of the real estate market, we do expect this to take a while for it to show maybe in the next two years or so. However, what we do expect, at least from the development or more specifically to real estate funds, we do expect that it will lead to potentially a boost in development activity, especially in Riyadh, and to maybe a lesser extent across the kingdom.

Within the asset management world or within these real estate funds, we do expect a compression in overall development returns to more normalized levels, increased competition within the asset management industry, specifically on fees, along with projects that have more of a high visibility or high return and we do expect an increase in demand for landowners making in kind contributions to these funds given their ability to offer quick competitive and flexible debt financing will become crucial to take a leading position for fund manager especially given the white land taxes that are expected to be imposed on landowners. Again, we expect that this will happen gradually over the next two years, given the nature of the real estate market and more specifically again to real estate funds.

Ramzy Darwish: And I'll say for the third question, Olga, on loan growth you are correct. I think when you look at the annualization of the first quarter, it would bring it just close to the double digits, but still probably less than that. We also I think are watching this carefully noting that there are approvals and some of them public like what was announced recently on the Diriyah project for SAR6 billion loan that hasn't been fully drawn, that there is still opportunity for the loan growth to expand. But at the same time, we want to be cautious and selective. So, we are looking at this compared to what we're able to do on the deposit side.

This would be the one out of the guidance ratios that we've included that there is potential for change. But again, I think it's too early in the first quarter to decide whether we do change this. So, for the time being we want to stick to it. We want to see how loan growth progresses, especially as we continue to see demand and potentially in the second quarter, we would revise this.

Asmar Shams: Thank you, management. The next question would be from the line of Karim Salhab. Karim, you are unmuted. Please go ahead.

Karim Salhab: I wanted to ask about the mortgages as well. Just curious on if there are any sort of like demographic concentrations. Who do you see taking out these loans at BSF and maybe sector-wide, if you do have any comments on these potentially also on the tenors, durations of these loans, again many things maybe stand out in terms of positioning or how long people are borrowing for?

Second thing is on the reduction in non-interest-bearing deposits as a share. Curious to know what potential dynamics are at play here and if it maybe has anything to do with the PIF or SAMA injection from 2020 if that's playing a role at all.

And lastly just if on the planned US dollar AT1 issuance that's coming up, are we to expect that the Saudi riyal one is going to be called? And if that's the case then maybe what are the motivations behind the dollar issuance versus the local currency? Thank you.

Bader Alsalloom: So maybe I'll take the first one in terms of mortgages on demographic, I think we can speak to just BSF at this standpoint but really following the target segments that we have so more focused on affluent and I think this is an off-plan mortgage and in terms of tenor nothing different compared to what we see in the market. So, this will be typically 25-year amortizing, so an average life closer to 10, 12 years. For the second on NIBDs.

Ramzy Darwish: So, on NIBDs I would say, yes, we have seen on spot basis a reduction in the CASA ratio. However, quarterly volatility does not necessarily indicate a trend. On average, we continue to see a relatively healthy NIBD between the 45% to 48% level in 2025. So, I think this is a snapshot, and I think from -- in terms of profitability, I mean it's better to look at average which is obviously not during the reporting period.

As for the AT1 issuance, so we have announced today an AT1 in dollars as part of diversifying our investor base whether through currency or through maturity profile. We have printed a local issuance late last year. The reason why we have tapped the market in non-Saudi riyal is engaging with the investor community, typically based on reverse inquiry and we've never printed any non-local currency capital instrument in the past hence we have announced this issuance.

We have not decided finally or let's say there is an intention to call the AT1 end of the year. However, this would be subject on to regulatory requirements and approaching the regulator on the back of that. The reason behind the issuance is purely partly to replace the upcoming SAR5 billion and the reason why we have split the issuances into two late last year and this year is for diversification of maturity profile.

Asmar Shams: Thank you. The next question would be from the line of Nitesh. Nitesh, you're unmuted. Please go ahead.

Mushin: My first question is basically now on the treasury business NII. So, we've seen that it has gone up so much in the first quarter. Is there a one-off in that number? Is there anything else? Or is this the result of positive impact of interest rate swaps kicking in? So, any clarity on that will be very helpful.

And my second question is, historically, if you look at the BSF's loan book, particularly the contracting book, it has been impacted negatively during the periods of sharp oil price correction. So, do you think this cycle could be different and why? And also do you think the cost of risk for the bank can remain in the 50 basis points to 60 basis points range in the medium term? Thank you so much.

Zuhair M. Mardam: I'll take the treasury profitability. With regards to treasury NII, I think this is a function of internal funding between treasury, corporate, and retail banking. And I wouldn't really measure year-on-year change, it's purely based on STP policies that we have internally. I'll pass it on to the CFO.

Ramzy Darwish: On the next question, in terms of contracting, we've highlighted this previously as well in terms of the change in concentration over the course of many, many years. At peak, contracting at one point reached 25% of our corporate loan book, currently ranged between 10% to 12%. And I think there have been a lot of lessons learned over these many events that have happened. And it's not specific, I would say to BSF, it's been the contracting sector overall.

But when we look at the opportunity set, this is one of the main areas that we think there will be continued demand driven by the giga projects and Vision 2030 related initiatives. So, we're not shying away from it, but we definitely want to be cautious and selective as we approach this more closely. When it comes to cost of risk, we don't foresee anything, at least in the immediate term. Over the last 10 years, there's been quite a shift in terms of how oil revenue filters through the banks.

Now, I think more prudent with the Ministry of Finance, the PIF, the NDF, so we would also expect that there's some cushioning and a buffer that would be provided through the different government organizations, whether it be through what's already been announced, for example, last year, reprioritization or additional borrowing, we would think the third would be when it starts to really get through to the economic sectors.

So long as it's not sustainably below a certain threshold that would be negative for the sector, we don't foresee any major impact on our cost of risk. We do highlight in our annual report the analysis that we do for oil price sensitivity and there for every 5% drop in oil, it would translate to roughly SAR43 million in additional ECL. This would be about 2% increase over our current ECL levels. So, relatively measured, so long as this is not sustainably below let's say the $70 a barrel.

Asmar Shams: The next question would be from the line of Nauman Khan. Nauman, please go ahead.

Nauman Khan: Can you hear me?

Asmar Shams: Yes, you're audible.

Nauman Khan: Thank you. I think congratulations on the excellent set of results. Just a couple of questions on the guidance part. One of the factors I wanted to ask is that you are looking for -- based on your first quarter NIMs, you're looking at similar NIMs over the next three quarters as well like 3.07 to 3.15. So, I just wanted to ask what are the rationales behind it? How much interest rates cuts or interest rate changes are you factoring that in?

The other thing again is do you still consider there is some level of pricing pressures on the cost of funds side as well, given that I think a lot of banks did a Tier 1 issue in Q4 but the Q1 result seems to suggest that their cost of funds have not actually come down. Do you think that the pressure is still there? So that's the two initial questions that I have.

Ramzy Darwish: So, regards to NIM, we've been guiding the market with a slight improvement in 2025. This is mainly driven by the fact that we are insensitive to interest rate volatility due to our neutrality to interest rates on balance sheet items. That includes expansion in retail, increase of investment risk duration -- interest rate risk duration as well as cash flow hedges.

So, we remain quite insensitive. Our Delta NII is at SAR67 million per 100 basis point shock or translating to 2 basis points in net interest margin. As for the -- as for other mitigants, when it comes to a cutting rate cycle, we do expect interest rate to or the Fed to cut interest rates in the second half of the year. I think the market is pricing in around three cuts -- just above three cuts in 2025. We feel comfortable given the fact that we are fixed on interest rate exposure, confident to maintain a CASA ratio stable around the 45 -- minimum 45% level as well as improved margins on the corporate lending side.

Your next question on cost of funding, I'd say market conditions is basically the main driver behind cost of funding. In addition to the evolution of CASA ratio, we do apply multiple strategies within BASF on cost of funding. Just maybe to give some highlight is that our wholesale funding sometimes comes at a favorable rate compared to an incremental increase in time deposits that banks continue to compete on.

So, we're -- I mean that would be really depending on your CASA base, but cost of funding on a standalone basis is expected to drop along with interest rate cuts.

Nauman Khan: Thank you very much on that. Just one final question on the loan growth guidance as well, it seems from the Q&A sessions, I think you are guiding more towards or you're tilting more towards retail that will be growing the loan book rather than the corporate. Is that assumption correct or I think it's just that the Q &A has been more towards mortgages, and that is something that led me to believe that.

Bader Alsalloom: So, I'll take this question. When it comes to our loan growth, it may seem that we're tilting more to retail but that's just because of the nature of that business, especially given our selective approach to lending to corporate clients specifically. Hence why maybe you see the growth on the corporate book is 2% compared to the retail book of 5% and also the size of our corporate book compared to our retail or personal banking book. Corporate book currently standard stands at about 81% to 82% of our loan book while the range of that balance is personal banking, which covers both retail and private banking, obviously coming from a lower base.

Asmar Shams: Thank you, management. We'll take the next question from the line of Abek Islamov. You're unmuted. Please go ahead. He has lowered his hand. We'll take the next question from the line of Rahul Rajan. You're unmuted, Rahul, please go ahead.

Rahul Rajan: Yes, perfect. So, three questions from my end. Firstly, is on the Project Finance if you can let us know what's the exposure of the total loans, the stock of total loans on Project Finance as well as incremental loans from Project Finance. That's number one.

Number two is on the previous call you mentioned, one of the levers towards maintaining the NIMs is also you were looking to increase the spreads in corporate lending, that actually materialized in Q1 and if so, by how much? What was the reaction by the competitors? Or is that one of the reasons why corporate loan growth has been slower? And how do you see this going forward? So, this is number two.

And number three is a bit more technical, on the investment, I think this quarter you have recognized gains. But when I was just looking at the financial statements, the fair value through OCI gains sitting in the OCI is still pretty sizable, and only some part of it has been recognized in the P&L. So, what drives this decision of booking those gains? And I also see that in the investment book, the proportion between amortized cost or OCI hasn't really changed as much. But it's more like -- it seems as though you have sold and then repurchased. Correct me if I'm wrong. So, what drives this decision of booking gains and how do you see that going forward? Thank you so much.

Bader Alsalloom: When it comes to Project Finance currently attributes to 20% of our corporate loan book.

Rahul Rajan: Sorry, the total.

Bader Alsalloom: The total loan book I'm sorry.

Ramzy Darwish: And on the NIM repricing for spreads, we've been highlighting externally since the second half of last year. We have had success in terms of repricing. I think it does take some time for this to kick in, in terms of impact on the margin.

But it is not one of the reasons I think we have seen slower loan growth. I think we want to make sure that we are booking profitable business and this can include funded and unfunded business, and if it doesn't meet certain criteria or thresholds, we wanted to make sure that we draw a clearer line in terms of what goes into the book going forward.

So, there's still opportunities and on the existing loans, we are seeing repricing capacity and capability. But it should not be immediate. It should take a few quarters to start to show.

Bader Alsalloom: And if I may add, as we mentioned before, we kicked this off the second half of last year, we're now focusing rather than chasing volume, we are focusing on sustainable growth that preserves margin and asset quality. With that being said, overall revenue growth will be supported by diversification where we're going to be looking or focusing more on fee income from other revenue streams such as trade, treasury, and cash management services, of course, alongside selective lending to maintain the health of our asset book or loan book.

Ramzy Darwish: May just add also on the on the NIMS side, we've also witnessed maturities in Q1 of investments booked several years ago. These would be naturally rebooked at higher yields, which is positive for NIM. As for your question regards to the investment book, we have seen significant volatility in Q1 in the yield curve and dollar rates mainly. So, I mean these decisions are taken based on opportunistic on where we are in the cycle and at the relative valuations to where we have bought these investments initially.

So, we did find some opportunities at one point of time to realize some capital gains. And we've seen -- we've also rebooked several longer end investments coming at also favorable rates that had been mitigated in terms of notion and that will remain something that we will continue to look at in the coming quarters. Generally speaking, as interest rates continue -- as interest rates goes down, that would generate a natural OCI positive impact and that is something that we review in Alco on regular basis on what kind of decision we would need to take when it comes to realizing gains.

Asmar Shams: Thank you, management. We'll take the next question from the line of Murad Ansari. Please go ahead. You're unmuted. Okay, he has left the queue. We'll take the next question. Okay, so we have a couple of questions in the chat box, if you would allow me. I'll go through them.

So, the first question is from Shreyab. Due to high LDR levels, do you expect a lower loan growth in the coming future and do you foresee a decline in the savings account?

Bader Alsalloom: Okay, so with regards to LDR again, I think we have covered this but I'll reemphasize that our regulatory loan-to-deposit ratio which includes alternative funding stood at around 91 -- sorry 81% as of 31st of March which is comfortably below SAMA guideline of 90%. The bank has been active in alternative funding since 2022 which is not included in the simple loan-to-deposit ratio.

So that 10% gap above the 100% you're probably referring to is coming off alternative funding namely wholesale funding whether through issuances, private placements, syndicate, and loan financing through our investor community.

Asmar Shams: Thank you. So here we'll conclude the call. We've run out of time, so I'll now hand back to the management for any closing remarks. Any pending queries, please feel free to reach out directly to BSF IR. Management, back to you. Thank you.

Bader Alsalloom: Thank you all for your insightful questions and engaging discussion. We appreciate your continuous support and confidence in our journey. Thank you again for joining us today, and we look forward to our next update.