



NetRoadshow Event Transcript

Transcript Only - BSF Q1-26 Earnings Call

Elena Sanchez (Operator)

Good afternoon, everyone. My name is Elena Sanchez from EFG Hermes, and I would like to welcome you all to Banque Saudi Fransi's Q1 2026 earnings call. I would like to hand over the call now to Ms. Yasminah Abbas, Head of Group Commercial Delivery and Investor Relations. Yasminah, please go ahead.

Yasminah Abbas (Moderator)

Good afternoon, ladies and gentlemen, and welcome to BSF's Q1 2026 earnings call. Thank you, Elena and the EFG team for hosting us today. Speaking first is BSF CEO, Bader AlSalloom, who will go over the earnings summary for the quarter as well as a refresh BSF 2030 strategy. He is then followed by CSFO, Ramzy Darwish, for a more detailed walk-through of financial performance. With us today is also CTIO, Zuhair Mardam, who will participate in the Q&A session. Without further ado, I'll hand over the mic to Bader.

Bader AlSalloom (Chief Executive Officer)

Thank you, Yasminah. Good afternoon, everyone, and welcome to BSF's First Quarter 2026 earnings. Now before turning to our results, let me briefly address the regional backdrop. We continue to monitor the developments closely. We are entering this environment from a position of strength, stable margins, strong capital, no forced funding and liquidity needs, which gives us flexibility to navigate volatility rather than react to it.

At this stage, our operations remain unaffected, customer activity is stable, and our business remains firmly anchored in the domestic Saudi market. We have reviewed the portfolio carefully and believe we are well positioned to navigate the current environment, while remaining mindful that the situation is still evolving. More broadly, the resilience of the Saudi economy continues to be supportive for business growth.. With that said, I am pleased to report that Q1 2026 was a solid quarter for BSF.

Starting with the balance sheet, total loans grew 6% YoY driven by growth across both commercial and consumer portfolios. On the commercial side, we continue to prioritize value and returns over volume, but saw good opportunities during the quarter which drove solid growth. Consumer growth was led by mortgages, with auto loans also contributing.

Our investment book expanded 16% year-over-year as we continue to seize high yielding opportunities and manage interest rate risk.

On the funding front, customer deposits rose 5% YoY, with IBD's growing faster than NIBDs. However, on a sequential basis, our funding mix improved following the growth of non-interest-bearing deposits in Q1.

Turning to the income statement, the quarter showed resilience across the key lines. Our margin held up well at 3.02%, declining modestly year-on-year as rates came down, but recovered sequentially despite a further decline in SAIBOR. Net income grew 3% year-on-year, supported by top-line growth and lower impairments.

Now, moving on to asset quality, the portfolio remains in good shape. The NPL ratio moved up modestly to 1.01%, which we view as a normalization within our risk appetite and consistent with portfolio growth. Coverage remains at a comfortable level. Cost of risk improved to 48 basis points, supported by overall portfolio growth.

On capital and liquidity, we remain well-positioned across all metrics and have adequate headroom to absorb the countercyclical buffer increase coming into effect from May.

Now moving on to our strategy. Let me now give you a brief refresh on Strategy 2030, which we unveiled in last February. Our ambition is to become a better, stronger and faster bank. In concrete terms, that means growing our market share of net income to 8% to 10%. This will be achieved by delivering an ROE above 15% by 2030. Operationally, we intend to achieve more than 75% straight-through processing by 2030. This is being driven by PRISM, our transformation initiative targeting more than 180 processes for modernization. With 35 processes already in active delivery, PRISM is expected to release between FTEs over 2026 and 2027, freeing up capacity and laying the groundwork for scalable, efficient growth.

Now, there are 2 underlying themes driving our strategy. First, strengthening what we already have; and second, building what we will need in the future. As a fundamental enabler to achieve this, we are making our existing businesses more productive. In wholesale banking, this means expanding global transaction solutions, broadening our reach into institutional clients. In personal banking, we are expanding our product range and stepping up client coverage. We are differentiating our retail and affluent propositions by revamping our channels to deepen client engagement. We also have launched pilot branches while optimizing processes and upgrading our technology infrastructure as part of our new branch network transformation. In treasury, we are driving more active balance sheet management. Through BSF Capital, we are accelerating our wealth management proposition, upgrading our brokerage platform. Across the group, we are embedding a cross-sell discipline that is more systematic and incentive driven. Now preparing for the future is about the businesses and capabilities we are building.

For Business banking, we are establishing a dedicated business line within retail anchored on a liability-led approach. And our J-B platform is digital-first with an embedded finance model, which has already started contributing to consumer loan growth and will be a more meaningful driver in the future.

Now looking at our 2026 priorities. For 2026, we have clearly identified 4 priorities.

-First, institutionalizing fee income and cross-sell across segments.

-Second, establishing Business Banking on a liability-led, deposit-first model, building the foundations before expanding into lending and broader offerings.

-Third, strengthening corporate and institutional coverage by expanding into government and financial institutional clients.

-And fourth driving deposit growth through new-to-bank customer acquisition while preserving our CASA mix.

Each of these directly connects to the 2030 targets, and each has clear ownership and milestones internally.

On AI, we have started moving from exploration to deployment, with use cases live across anti-fraud model and credit card propensity model. This demonstrates our progress in executing the broader AI transformation agenda. We have also initiated several major digital transformation programs in key areas of the bank, including ERP, treasury and open banking to further modernize our technology and operating platform. As part of our 2026 digital agenda, we are also planning to launch the Business Banking digital platform, further enhance the CBS and ICP platforms, and continue improving BSF Mobile.

Ramzy will now take you through the detailed financial performance for the quarter. Over to you, Ramzy.

Ramzy Darwish (Chief Strategy & Finance Officer)

Thank you, Bader. Good day, everyone. We really appreciate you joining us today. As we wrapped up the first quarter of 2026, the economic situation remains fluid as we continue to navigate shifting economic conditions. Nevertheless, we are staying disciplined on execution and pushing forward with the strategy delivery with a concentration on step-by-step impact and value realization. We kicked off on many aspects of the strategy with many initiatives in

progress and 2 specifically already creating marginal value, which we endeavor to expand on as others have longer lead times.

In terms of overall expectations, we are more or less on target for the quarter with only fees behind the expectations partly driven by seasonality, regulation changes and to some extent, the most recent conflict. However, we have offset this through other non-interest income in the immediate term, capturing increased volatility opportunities, while at the same time, putting in place the necessary platform to reignite fee and commission income for the long term.

With that being said, let me now take you through the financial results in more detail and provide an update on the progress we've made, starting off with our balance sheet on Slide 8. Total assets reached SAR 325 billion, up 5% year-to-date, mainly from 3% higher lending volumes, interbank placements, and an expanded investment book. We have been deliberately growing our fixed-rate investment portfolio to continue hedging the group's overall interest rate risk position while locking in higher yields as the interest rate environment moderates.

Total liabilities grew by 6% year-to-date from interbank funding and customer deposits. The increase in interbank balances reflects active cash flow management and to maintain ongoing relationships with counterparty banks. Debt securities and term loans declined slightly year-to-date. We had some maturities during the quarter with no major issuances. Looking ahead, we continue to plan to at least issue one senior debt this year, subject to market conditions and timing. Total equity was up 2% year-to-date, supported entirely by retained earnings, partially offset by a negative movement in other reserves.

We will be going through the details for both loans and deposits in the upcoming slides for more context. Starting with loans, where loan volumes were up 3% year-to-date and 6% year-over-year. For the quarter, this was led by the commercial portfolio with a modest uptick in consumer lending. Commercial lending posted a strong growth of 4% for the quarter as competitive intensity eased and we saw a good pickup in March. I would note that some of these loans are short-term working capital facilities. So, excluding that element, underlying growth rate would have been somewhat lower.

Nevertheless, momentum remains broad-based. From a sectoral perspective, commerce led the way with 9% growth for the quarter, followed by services and further aided by growth in manufacturing and agriculture, while utilities saw a 6% decline. On the broader question of geopolitical impact, as Bader outlined, our direct exposure to conflict affected dynamics remain limited. We do expect some softness in tourism-related lending in the near term, but we are not seeing a material shift in borrower behavior or credit quality across the book. Fundamentally,

our objectives and risk appetite haven't changed, and we remain constructive on the Kingdom's long-term growth story.

On the consumer side, we had a strong growth year-on-year at 15% with some slower momentum in the quarter, but still delivering 2% growth year-to-date. Mortgages specifically continued to drive volume growth, up 3% year-to-date, while continuing to offer attractive profitability. Auto loans also saw healthy demand, growing at 3% as delivered by our subsidiary, JD. Personal loans saw a modest growth of SAR 100 million as growth was offset to a great extent by normal principal amortization as well as refinancing. Lastly, for cards, specifically, we had SAR 100 million less in balances or 6% lower, while noting the significant growth of 30% year-on-year. This was driven by seasonality and some slower spending due to the recent geopolitical events.

Next, on the other side of the balance sheet, we have customer deposits, which grew 2% year-to-date, driven entirely by non-interest-bearing balances, of which some were transitory in nature. This brought our NIBD ratio to 43.9% or 1.4 percentage points improvement versus the previous quarter. This is a direct result of targeted efforts across all segments to acquire the right kind of deposits and preserve our funding mix. On a year-on-year basis, customer deposits grew by 5% with interest-bearing deposits growth at 6% and non-interest-bearing deposits at 3%.

We're committed to maintaining relative stability in the NIBD ratio going forward. The launch of business banking has opened new deposit gathering opportunities, while the focus on new-to-bank customers across all businesses is expected to drive deposit growth going forward. When it comes to system liquidity overall, this has continued to ease during the quarter, especially in light of more moderate loan growth, which supports the broader funding environment.

Moving on from the balance sheet. We next want to highlight the profitability on the next slide, starting with the high-level picture for profitability. Net income rose 3% year-over-year, supported by 5% higher net interest income and lower impairments. On a sequential basis, we grew 10% quarter-over-quarter, benefiting from both 3% higher operating income and 4% lower operating expenses. We will unpack the detail of the major line items over the next few slides, but I just wanted to highlight that although operating expense growth of 6% outpaced operating income growth of 3%, this is within our expectations for the first quarter, and the target for the following quarters on expenses is more moderate, whereas we expect growth on operating income to pick up to generate positive jaws and drive overall cost to income within guidance.

We will reiterate this on the guidance slide as we continue to maintain a below 33% direction. At the same time, we also want to continue to remain dynamic in nature, adjusting OpEx as needed to both maintain balance and connect to a greater degree with the outcomes in operating income. Furthermore, although return on equity moderated by 33 basis points year-on-year to 12.02%, this was due to higher average equity balances. This is 163 basis points quarter-on-quarter and 15 basis points up on the 2025 full year return on equity. This is supported by improved underlying profitability.

We remain steadfast on our long-term ambition and target to improve overall return on equity while noting the target for this year remains for a range between 12% and 13%. Now, we will go through the detailed line items, starting on the next slide with net interest income, which rose by 5% year-over-year, driven by 7% growth in average interest-earning assets, while margins declined by 7 basis points. The components of this growth are shown in the waterfall chart on the top right, where higher net interest income from loans, investments due to banks and customer deposits were partially offset by higher funding costs on debt securities from increased volumes as we look to diversify funding avenues.

On the bottom 2 charts, you will note interest income grew 6% year-over-year to SAR 4.4 billion, while funding costs increased 7%, albeit on a smaller balance to reach SAR 2.2 billion resulting in that 5% net interest income growth. On a quarterly basis, net interest income was stable as a 2% decline in the interest income was offset by a 4% decline in funding costs. On the next slide, we look at net interest margin, which came in at 302 basis points for the quarter. That's down 7 basis points from a year ago, but it's also up 5 basis points from last quarter, even with SIBOR rates declining by 18 basis points.

Looking at the year-over-year decline, the main driver was higher funding costs on our debt securities and term loans, again, as we worked on diversifying liquidity sources. But quarter-over-quarter, we're seeing decent traction. The 5-basis points improvement came from 2 factors. First, our funding costs declined faster than asset yields, partly due to repricing timing in addition to the traction on spreads. And secondly, there was a positive impact from the cash flow hedge, which limited some of the impact from market rate movements. Net-net, we are actively managing our margin position and remain comfortable with our full year NIM guidance of around 3%.

Next, on rate sensitivity. As stated last quarter, though we are targeting a neutral interest rate position, we continue to carry small negative rate sensitivity, meaning we benefit as rates fall. 100 basis points downward shift rate shift would impact net interest margin positively by

approximately 3 basis points or roughly SAR 100 million in interest income. Having said that, our rate cut projections are now more moderate than previously anticipated. But given the limited interest rate risk profile, we do not foresee any significant change in impact.

Looking at the repricing profile in the top right chart, liabilities repricing within 1 year stand at SAR 161 billion. Adding our SAR 21.9 billion cash flow hedge notional brings us to SAR 183 billion, which is slightly above the SAR 177.2 billion in repricing assets. This is what drives our small negative sensitivity profile. Also, you will note the decline in cash flow hedges by SAR 3.1 billion year-to-date or SAR 8.5 billion from last year.

This is not changing our prudent approach to interest rate risk management as the investment book, which has fixed rate exposure provides similarities in terms of hedging, grew by SAR 3 billion during the quarter or SAR 9 billion since last year, effectively replacing the cash flow hedges. We continue to actively manage interest rate risk using cash flow hedges and fixed rate investments, whichever makes more economic sense given the current market conditions and our asset liability structure.

On the next slide, non-interest income declined by 5% year-over-year, driven mainly by lower fee and commission income, which fell 17%, partly offset by higher investment income. The decline in fees can be attributed to 2 main factors. First, brokerage and asset management fees were down 22%, reflecting reduced investor activity given the subdued nature of the domestic equity markets into 2026. Second, card fees were lower due to ongoing campaign costs wherein there was no such cost during Q1 2025. Exchange income also declined modestly year-on-year, while trading income was broadly stable given market conditions.

In non-funded exposure, we also saw a 3% decline Q-on-Q as some corporate clients shifted from letters of credit to open account arrangements for faster delivery given supply chain pressures amid the geopolitical situation. Investment-related income saw strong growth where we took advantage of market volatility to capture gains and also improve overall yields. On a sequential basis, non-interest income rose 21%, driven by stronger investment-related income, including capital gains from the investment book, also supported by higher banking fees.

Next, we discuss operating expenses. Operating expenses were up 6% year-on-year. Most of the underlying quarter-on-quarter cost growth was in staff cost, which was increased SAR 28 million on a sequential basis. This is in addition to depreciation increases. The increased employee expenses reflected annual salary adjustments, performance-linked compensation and a modest increase in headcount. Depreciation rose as several major transformation projects went live.

The quarter did include some smaller non-recurring write-offs, so the underlying depreciation cost is somewhat lower.

Having said that, technology investment remains a key priority for the bank. So, depreciation may stay elevated in the near to medium term as projects go live, but this will support long-term efficiency and business growth of the bank. As a result, cost-to-income came in at 34.1%, up 1.2 percentage points from last year. We are currently above our sub-33% target, but we expect to trend back towards that range as operating leverage builds throughout the year. On a sequential basis, expenses declined 4%, normalizing after year-end exceptional items in Q4 of 2025. Lastly, cost to average interest-earning assets improved 1 basis point to 1.24%, demonstrating that our earning asset growth is outpacing expense growth.

Moving next to impairments and provisions. On Slide 17, the total impairment charge was down 12% year-over-year to SAR 246 million, mainly from lower commercial impairments and reversals in investment and other impairments. This was partly offset by higher consumer impairments, mainly driven by J-B portfolio growth. On a quarterly basis, impairments were up slightly due to lower reversals in the investments and others, but the underlying trend remains healthy. At the same time, we've also been building up provisions on a single name that has been on our watch list from last year with clear expectations expected over the next few quarters in terms of migration.

As mentioned, we have proactively built sufficient coverage, so any potential impact is expected to be manageable. For now, we have not seen any downgrades or stage transitions or increase in default rates that are caused due to the geopolitical situation. Therefore, we are not changing our cost of risk guidance for the year. Overall, cost of risk improved to 48 basis points from 51 basis points a year ago, supported by the decline in impairments and overall portfolio growth.

On the next slide, the NPL ratio ticked up by 4 basis points year-to-date to 101 basis points. This was driven by higher NPL balances for both consumer and commercial portfolios. However, this increase is business as usual and within expectations. The NPL coverage is down 2.6 percentage points year-to-date, mainly reflecting a slight reduction in Stage 3 coverage, but remains comfortable overall at 175.8%.

Moving on to liquidity. Our liquidity profile remains strong with all metrics comfortably above regulatory requirements. The net stable funding ratio stands at 124% and the liquidity coverage ratio at 186%, both well above the minimums. The regulatory loan-to-deposit ratio came in at 76.6% for the quarter, which continues to provide room to grow the loan book and the headline loan-to-deposit ratio stood at 111%. What I'd add here is that we are managing liquidity

dynamically. The system liquidity environment has improved compared to last year, and we're well positioned to support our expected lending growth. Our diversified funding base, including the retail deposits, our wholesale relationships alongside the debt capital markets give us flexibility as we scale.

On the next slide, with reference to capital, capital ratios remain healthy across the board. Our CET1 ratio is at 15.9%, Tier 1 at 18.8% and total CAR at 21%. Again, all comfortably above regulatory minimums. The change year-to-date has been driven by loan growth and, therefore, RWA growth outpacing the equity growth, which was mainly driven from retained earnings, but still provides plenty of headroom for balance sheet growth throughout the year. We are well positioned for the countercyclical buffer effective from next month, starting in May. We continue to expect to maintain our CET1 ratio above 15% through organic capital generation while supporting our lending growth and strategic initiatives.

Moving now to guidance, where I've covered many of these throughout the update so far. We are reaffirming all full year 2026 guidance. First quarter results position us well to deliver on these commitments across the metrics. On loans, although annualized growth may show a higher figure, part of this was working capital loans. We do expect that over the course of the full year, this will fall within the high single digit. On net interest margin, we continue to grow the balance sheet in line with keeping the net interest margin in mind, utilizing the non-interest-bearing deposits against the spread changes on the loan book.

For cost of risk, we do expect to continue to maintain within the 45 to 55 basis point range, mainly driven by normalization in commercial loans, but also growth mainly coming from the J-B portfolio. For cost to income, as highlighted previously, the first quarter for the year, we did expect to be around these levels. And then going forward, with higher operating revenue greater than operating expenses, we do expect the cost-to-income ratio to come back under the 33% guidance. For return on equity and CET1, both are currently in our ranges and no changes in expectations there.

To wrap up, BSF delivered a solid first quarter. Net income grew 3% year-over-year. We maintained a resilient margin of just over 3%. We saw good traction in non-interest-bearing deposits. Commercial lending picked up meaningfully and credit quality remains healthy. The momentum from Q1 positions us well for the rest of the year. The commercial pipeline is active. Retail and J-B are scaling. Our deposit initiatives are working and operating leverage is set to come through.

We remain on track to deliver our 2026 guidance across all metrics and starting to make progress towards our Strategy 2030 objectives. The platform investments, deposit initiatives and the upcoming business banking launch are all building towards sustained performance. With that, we can now get started with the Q&A.

Elena Sanchez (Operator)

Thank you very much for the presentation. We will move to the Q&A. If you have a question, you can click on the raise hand button and I will unmute your microphone or you can also type your question in the designated chat area. We'll take the first question from the line of Shabbir Malik. Shabbir, please go ahead.

Shabbir Malik (Analyst)

Hi, thank you. Can you hear me?

Elena Sanchez (Operator)

Yes, we can. Please go ahead.

Shabbir Malik (Analyst)

Thanks. So just one question, please, around your expectations for loan growth of high single digit. Do you expect any potential slowdown in demand or credit appetite as a result of the geopolitical uncertainty, either from the corporate sector or from the retail sector? And maybe I think more of a medium-term question. We are 5 years away from the potential conclusion of Vision 2030. What sectors do you think are likely to be prioritized? And what does it mean for your corporate loan growth? Or which sectors do you think is going to drive corporate loan growth for the bank over the next few years? Thank you.

Bader AlSalloom (Chief Executive Officer)

Thank you very much for your question. I'll take both questions here. Now regarding your first question on loan growth and then we anticipate any impact of changes in the geopolitical situation. We do not. We stay and we've stuck to our loan growth guidance for now as we still have not seen any major impact or any major changes in customer activity. There are obviously some reported disruptions across some of the sectors. And we do hear or we do expect that there may be some supply chain disruptions down the road if this continues. However, for the time being, we still have a healthy pipeline. We do not see any changes to customer activities and, hence, why we have stuck to our loan growth guidance.

Now, addressing your second question when it comes to more specifically within wholesale and what are the sectors that we will continue to focus on. Obviously, our large sectors or major sectors, even though we do have a diversified portfolio. However, there are specific sectors within the portfolio that we will continue to focus on, such as manufacturing, utilities, health services, commerce and services. So, this will continue to be the focus sectors going forward.

Now, given the geopolitical situation, we do expect more focus or more traction on logistics and infrastructure. And those are 2 sectors that are within our focus sectors, but we do anticipate further focus on it, especially from a government sector going forward. So, to answer your question, no major changes or no change to our loan growth, and we do have a healthy pipeline that has still not been affected and hopefully will not be affected by the geopolitical situation.

Shabbir Malik (Analyst)

Thank you very much. Maybe if I can ask one more question. I may have missed it, but in terms of provisioning, have you taken any provisioning overlays or you felt comfortable with the quality of the book? And -- basically, any provisions are business as usual?

Ramzy Darwish (Chief Strategy & Finance Officer)

We have not yet taken any overlays. I think we did make an assessment across the sector. But as of yet, given the limited impact that we see and the fact that the ECL model is driven by several variables, which in an ironic way, actually provide less ECL given the current situation with oil prices. We highlighted that this is something that we are looking at, but it's not something that we've taken any in Q1 so far.

Shabbir Malik (Analyst)

Thank you. That's helpful.

Elena Sanchez (Operator)

We'll take the next question from Murad Ansari. Please go ahead.

Murad Ansari (Analyst)

Hi. Good afternoon. Congratulations on a solid set of results. So, 2 questions on -- firstly, on the loan repricing. You did talk about on pushing better margins on loans to customers. So, I just wanted to get your thoughts on how that is progressing. And if you could just give us some

initial thoughts on how you see the liquidity environment so far during the first quarter? And has it changed in any way from the conflict?

And secondly, on fees, you mentioned that clients have shifted from LCs to open account, and that has had an impact on your fee income growth. Has that reverted back to normal? Do you see that continuing for some time? And how does that impact your fee income growth outlook for the course of the year? Thank you.

Bader AlSalloom (Chief Executive Officer)

Thank you for the question. I'll take the first one, which is regarding our loan repricing. As mentioned before, this is an exercise of an initiative that we started in the second half of 2024. So, it was well before any of our competitors actually started this. We continue with this initiative. We continue to reprice our loans by looking at the overall comprehensive relationship return. And this pressure has actually eased as more and more banks, more of the competition, given the spike in cost of funding. They have also started their own repricing exercise. So, this has definitely helped us meet some of the pushback or the pressure that we do see from the market. So, to sum it up, to answer your question, we are continuing our loan repricing initiative, and we see that initiative continuing to run like as intended.

Ramzy Darwish (Chief Strategy & Finance Officer)

I'll take the second question with regards to liquidity. So far, the impact on liquidity and deposits within the Kingdom have been limited. We're monitoring the situation closely and maintain strong capital and liquidity buffers. And we also have a tested contingency funding plan that would enable the bank to be resilient in case of any stress. Having said that, we continue to see stable deposit behavior with no signs whatsoever of outflows.

Money markets remain functioning normally, with access to short-term liquidity through repos and otherwise quite efficiently with no repricing. System liquidity remains comfortable, as evident in the weekly reports of reverse repo levels from the Central Bank. It's important to highlight that the deposit base within the Kingdom is predominantly resident, which provides a structural stability.

In fact, the system deposits have continued to grow, and we have not seen any pressure or outflows on that front when compared to other parts of the region. The impact locally has been more contained than many of our GCC peers. If tensions persist, we could see second-order effects, mainly through higher cost -- funding costs, some deposit repricing pressure, but that

would be really not the case as of today. At this stage, the story remains stability, prudence, and really, far from stress.

Bader AlSalloom (Chief Executive Officer)

And I'll take the third question on fees. So, you're right, we did highlight the non-funded exposure. But the reason is we wanted to look at it more from a balanced perspective. So, there is a small 3% quarter-on-quarter non-funded exposure decline there. But in terms of fee income, it has more of a negligible impact, to be honest. And as of right now, we still don't see a shift back towards letters of credit.

The main impact on fee income in Q1 were the 2 that was highlighted. The first on the capital arm in terms of brokerage and asset management. This was driven by market activity and the market overall in terms of indices, in terms of trade volume. And on credit cards, just a comparison to last year, we did not have a campaign on cards at that time, whereas this year in Q1, we did. The campaigns initially started last year during the second quarter. So eventually, you'll start to see the year-on-year become more comparable and in line with our expectation.

Murad Ansari (Analyst)

Thank you very much.

Elena Sanchez (Operator)

Thank you. We'll take the next question from Ahmad Alkandari. Please go ahead. Apologies. I think we lost the line of the previous attendee of Ahmad Alkandari. We'll wait for him to come back in the queue again. In the meantime, we'll take the next question from Olga Veselova. Please go ahead.

Olga Veselova (Analyst)

Thank you for presentation and taking my questions. My questions are again about liquidity and funding. One, I look at your deposit inflows year-to-date, and they seem to be a bit lower than sector average. Is this because you see higher pricing competition from bigger banks? Or this is because deposits have been very much driven by government-related entities year-to-date and you are not really receiving these GE funds? So that's question number one.

And question number two is on liquidity. You did mention during your presentation that liquidity pressures are easing given that loan growth is slowing down in the banking sector. But we do not really see narrowing of SAIBOR-SOFR spread. Why do you think is this? Is this maybe

because of smaller role of GE banks on the interbank markets in March, April? Or are there any other reasons for that? And my third question related to liquidity. Do you think higher oil prices may help money base to grow better later in the year or there is not necessarily a good connection there? Thank you.

Bader AlSalloom (Chief Executive Officer)

Thank you for your question. So, I'll take the first question with regards to the easing pressure on -- whether the system has been easing pressure. We have not -- we're actually seeing further deposit demand in the system, and this is evident by the reverse repo increase that we witnessed from SAMA data, as mentioned by the CFO. So, from that front, we're actually seeing more deposit requests for pricing on day-to-day. SAIBOR-SOFR spread, I would say this is purely a structural supply and demand based on some interbank activities. So, we did see actually a slight convergence in terms of spread, maybe not to the extent that we have seen a few years ago because the structure remain that credit demand continues to outpace what is available in terms of deposits. So, I wouldn't expect that to go back to levels whereby we've been having a higher deposit than loans across the system.

So, demand for liability will continue, whether it's through this conflict or otherwise, driven mainly by the credit demand that is in the market. The third item was...

Olga Veselova (Analyst)

Oil prices.

Bader AlSalloom (Chief Executive Officer)

Oil prices. I would say, typically, you would see oil benefits would factor into the banking sector between 6 months to 9 months. However, driven by the complexity that the economy is where are we today, given the fact that the paymaster has shifted as well, that could not be directly witnessed immediately. But I would not really rely on the volatility in oil prices impacting the liquidity in the short term. This would be -- this would take its impact over the course of, let's say, a few years.

Olga Veselova (Analyst)

Thank you.

Elena Sanchez (Operator)

Thank you. We'll take the next question from Ahmad Alkandari. Please go ahead.

Ahmad Alkandari (Analyst)

Hello. Can you hear me?

Elena Sanchez (Operator)

Yes, we can. Please go ahead.

Ahmad Alkandari (Analyst)

Hi. I would like to understand the foreign currency swap position in terms of currency exposure. And in a scenario that foreign currencies are more volatile, can this position result in losses, especially that we have seen net hedging losses from this position of around SAR 74 million in 2025? Just would like to understand the risk of this position?

Bader AlSalloom (Chief Executive Officer)

Sorry, could you just clarify foreign currency-related losses.

Ahmad Alkandari (Analyst)

Yes. So basically, under held as cash flow hedges in note 1 -- in your -- yearly financials, you have commission rate swaps and you have foreign currency swap. The foreign currency swap amount is about SAR 29 billion. So, in the note, you clarified that you had losses of currency swap amounting of SAR 74 million. So, I just would like to understand the position in scenario where there is more volatility in foreign currencies and what are the potential of having such losses in the future.

Ramzy Darwish (Chief Strategy & Finance Officer)

Okay. Maybe I'll start with this and if the Treasurer wants to add. So, from an accounting perspective, we're typically not taking FX exposures directly, whether that's in the spot market or the swap market. These would be controlled within the Value at Risk. But when we look at it within the context of the cash flow hedges, typically, we would be using this for funding purposes and the additional premium or the difference in terms of rate would be amortized over the life of that transaction until maturity. These would typically be within 1 year, but it is used for funding and that premium difference between the Saudi Riyal funding cost and the

dollar would be amortized over the life. So, it's not a transaction specific that is being impacted by market moves. It is purely that premium.

Ahmad Alkandari (Analyst)

Okay. Clear. Thank you.

Elena Sanchez (Operator)

We'll take the next question from Naresh Bilandani. Please go ahead. Naresh, please unmute your microphone.

Naresh Bilandani (Analyst)

Hi. Can you hear me?

Elena Sanchez (Operator)

Yes, we can. Please go ahead.

Naresh Bilandani (Analyst)

Excellent. Thank you very much. Sorry for that. It's Naresh Bilandani from Jefferies. I would like to go back to your guidance again -- please, again. Could you please just -- I'm looking for some qualitative insight here. You know what, I was -- I came into this presentation. I was rather hoping that you would say that it is possibly a little bit too early to reassess the guidance and you may revisit that in the second quarter. Is that the message you're trying to offer by keeping the guidance unchanged? Or you feel that despite the conflict in the region, it's pretty much business as usual on most key value drivers and you sense that the risks are relatively low going into the second quarter?

I'm just trying to understand when you say you've kept the guidance unchanged, does it -- is it because you have high confidence that we are unlikely to see any meaningful economic risks develop? Or you feel that it is still too early to make a reassessment and Q2 will probably offer you a better visibility on setting your annual targets? That's the first question. My second question is, as we have heard on reprioritization of projects within Vision 2030 and certain sectors being prioritized over the others, I mean a renewed strategy from the key agencies in the Kingdom. I'm keen to understand, are there any asset quality risks that you feel that could potentially come through into the second half of the year?

Any exposures that you had to certain giga projects or other areas of project finance that could lead to an elevation in the cost of risk pressure? Because again, specifically pointing out to this point that you've kept your cost of risk guidance unchanged. So, I'm just keen to see what sort of -- like is your thought process on the risk evolution in those areas as we go into the second half? Thank you.

Ramzy Darwish (Chief Strategy & Finance Officer)

Thank you, Naresh. I'll take the first question in terms of the guidance. So, it's more the former. So, on our side, it really is more or less business as usual. Obviously, the geopolitical conflict has required some different assessments. But as of yet, we have not seen any impact, if at all. We do expect, like the CEO mentioned that maybe there will be some supply chain issues even if the situation is resolved that would take some time to filter out.

Nevertheless, we would not expect it to have a meaningful impact on any of the specific business guidance that we provided. And in terms of expectations, barring the fee income, which is not really a guidance measure, but it's included in the overall return on equity, everything else has been more or less in line with our budget, our expectations and targets. So, for that reason, we've not adjusted anything on the guidance.

Bader AlSalloom (Chief Executive Officer)

Thank you, Ramzy. I'll take the second question, which is more related to reprioritization and mainly the exposure to giga-projects. We at BSF continue to be selective in our origination. When it comes to giga-projects, our direct exposure to giga-projects continues to be fairly limited. And -- but even the exposure that we do have a direct exposure is of high quality and investment grade and to a large extent, collaterals. However, when it comes to our indirect exposure, may be impacted by reprioritization. That's mainly the contracting sector.

But again, we follow a very disciplined diversification strategy. Even within our contracting sector, we continue to have a well-diversified portfolio and well diversified even when it comes - - not just when it comes to number of contractors, also when it comes to the projects or the project volumes. So even with the reprioritization, our clients -- some of our clients, mainly the contractors, may be slightly impacted. However, given our very diversified contracting mix, we do not foresee any major impact on our quality.

Naresh Bilandani (Analyst)

Thank you, Bader. That's very clear. Ramzy, just a very, very quick follow-up. While we still wait for the full financials to come out, I think based on your presentation, it looks like the fee income is only -- up only slightly compared to the fourth quarter. And given the fact that the second quarter will be the first full quarter of the impact potentially from the regulations, do you reckon Q2, we are likely to see this line still continue to remain subdued? And will this be -- is Q1 reflective of the new reality from which we should model on the fee income for the rest of the year?

Ramzy Darwish (Chief Strategy & Finance Officer)

Sure. So, on fee income, the main impact at least compared to last year was on the campaign. But if we were to compare Q4 to Q1, it would be very similar, if not actually slightly less on the cards in terms of expenses. And like you mentioned, the full impact, I think at the full year level, we're estimating somewhere around SAR 20 million. So, it shouldn't be meaningful, let's say, quarter-on-quarter. And when we look at the overall strategy implementation, we would start to see some, not all, impact from the other line items that we're looking at.

This would include business banking, would include insurance and similarly on the cards and trade as well. So, I wouldn't say it's a baseline that we would be using and in terms of our aspirations. As highlighted in the strategy, there is a significant pickup that we would expect over the course of the next 5 years, but it would be, again, a step-by-step change in terms of development.

Naresh Bilandani (Analyst)

Got it. Thank you very much, Ramzy. Thanks a lot.

Elena Sanchez (Operator)

Thank you. We'll take the last question from the line of Nauman Khan. Please go ahead.

Nauman Khan (Analyst)

Hello. Thank you. Can you hear me?

Elena Sanchez (Operator)

Yes, we can.

Nauman Khan (Analyst)

Thank you for the opportunity for asking me -- for allowing me to ask these questions. Just a couple of questions back to liquidity as well. Again, if you can just elaborate a little more on the liquidity element of the -- that we've experienced in Q1 because I think that is drastically different to what we experienced in Q4 where the banks were facing a lot of tight liquidity and the cost of funds were going up. So, all of a sudden, there has been a major change in Q1 about the liquidity dynamics across the board.

I do understand that you have shown a subdued growth in deposits as compared to your peers. But again, across the board, there has been a very strong growth in deposit base. Can you elaborate what kind of deposits they have come in? And are they transitional in nature, if you can talk about that? And why is improved liquidity not translating into lower SAIBOR as well? So, if you can elaborate on this. It's difficult to wrap our heads around it, if you can talk about it.

Bader AlSalloom (Chief Executive Officer)

Okay. I'll start with the -- on the liquidity front, when you compare Q4 with Q1, typically end of the year, we continue to see a much faster credit growth than deposits. And there's always this end-of-year impact coming on balance sheets and so on, that banks would always tend to compete for the deposit base. Q1 witnessed a slower -- we've seen -- in the first couple of months, if you look at the SAMA data, that we have seen a normalization in credit growth compared to deposits. So basically, we saw the opposite of what we used to see deposits outpacing credit and liquidity situation has improved.

On the SAIBOR front, I would attribute that to again, overall credit, that the credit is higher than deposits across the system. That would have the natural impact of a premium across the SAIBOR curve. However, that also leads this to the Fed fund expectations, of which it used to be pricing more cuts than its -- than now. So, the market has shifted significantly from pricing in 3 cuts in 2026 to barely 1 cut across this year. We do not anticipate much of any cuts for the year...

Nauman Khan (Analyst)

Thank you very much. Just one last question on your -- because you're assuming a -- relatively lower loan growth this year as compared to previous years. So, is there any change for your AT1 issuances this year or going forward? Should we assess or should we estimate that I think the AT1 issuance that you did last year or start of the year should now a more normalized or reduced pace going forward? Is that would be assumption to do as well?

Bader AlSalloom (Chief Executive Officer)

So, with regards to our capital base, we have prefunded all our capital requirements prior to 2026. With the recent issuance of the local Saudi Riyal-denominated Tier 1, replacing the SAR 5 billion being called in November of last year. We do not have any capital requirements in 2026. We see that we're quite optimized in terms of capital. In fact, we are at 21% in terms of total capital, and we have ample room to grow. There's no need for this year. And we still have many other ammunitions when it comes to really managing that ratio. So, I think, for 2026, I would say confidently that we have limited capital requirements. Beyond that, we will see based on our credit growth and other requirements.

Elena Sanchez (Operator)

Thank you very much. We have ended now the Q&A session. If you have any remaining questions, you can send them to the BSF Investor Relations team. I would like to hand over the call now back to management for any closing remarks. Thank you.

Bader AlSalloom (Chief Executive Officer)

I would like to thank you all for taking the time today to join us and for your continued engagement. Have a good day. Thank you very much.