BSF Earnings Call Q2 – 2026 | July 27, 2026

Moderator:

Hello and welcome. Naresh, you may begin.

Naresh Bilandani:

Thank you. Hi everyone. It's Naresh Bilandani from Jefferies. Welcome to the second quarter 2026 results call of BSF, which Jefferies is very pleased to host today. We have with us today from BSF the following members, Bader Alsalloom, Chief Executive Officer, Ramzy Darwish, Chief Strategy and Finance Officer, Zuhair Mardam, Chief Treasury and Investment Officer, and Yasminah Abbas, Head of Group Commercial Delivery and Investor Relations.

I'll pass the call now to Yasminah to commence the presentation. Thank you.

Yasminah Abbas:

Good afternoon, ladies and gentlemen, and welcome to BSF's H1 2026 earnings call. I would like to thank you, Naresh and the Jefferies team for hosting us today. Speaking first is BSF's CEO, Bader Alsalloom, who will go over the earnings summary, as well as an overview of BSF's 2030 strategy. He is then followed by CSFO Ramzy Darwish for a more detailed walkthrough of the financial performance. Also with us today in the room is CTIO Zuhair Mardam, who will participate in the Q&A session in the second half of the call. Without further ado, I'll hand over the mic to the CEO.

Bader Alsalloom:

Thank you, Yasminah. Good afternoon everyone, and thank you for joining BSF's first half 2026 earnings call. Before I move to the results, let me briefly touch on the current regional environment. We have seen very limited impact on customer behavior and credit quality, and trading remains at normalized levels. While we continue to monitor the situation very carefully and remain engaged with all relevant authorities, the message is very much one of business as usual.

Against that backdrop, we delivered another set of healthy financial results, while also moving our Strategy 2030 agenda from launch into execution. Today's call is therefore an opportunity to do two things. First, to discuss another period of profitable growth supported by solid business momentum and a sound balance sheet. The second is to give our first structured update on how the strategy is being put into action across the franchise.

Now, let's start with the first half year highlights on slide three. The business delivered good momentum across the main lines. Lending growth remained healthy at 7% year-on-year, with both commercial and consumer businesses contributing. Commercial growth remained broad-based, while consumer continued to be led by mortgages and personal lending. We also continued to grow the investment portfolio mainly through fixed rate securities, both to capture attractive yields and to manage interest rate positioning.

On the funding side, customer deposits continue to grow with support from both interest bearing and non-interest bearing balances. The funding mix remained an area we managed closely, particularly in the current rate environment, but overall, the deposit base continues to support the growth of the franchise.

From an earnings standpoint, the first half showed good progress, with operating income increasing 5% year-on-year, supported by growth and net interest income. Net income also increased 5% despite continued investment in transformation. NIM stood at 3.04% for the first half, down seven basis points from the prior year, but improved four basis points to 3.06 in the second quarter.

Now turning to asset quality, capital, and liquidity, the overall picture remains sound. Asset quality continues to be well managed with the MPL ratio broadly stable and the cost of risk still at a healthy level. The downward movement in coverage during the quarter was influenced by the write-off of two fully covered corporate accounts, details of which will be covered by [inaudible 00:04:03]. At the same time, our capital liquidity position remains supportive. We continue to operate with healthy buffers across key regulatory metrics, which gives us room to support business growth, absorb market developments, and continue investing in strategic execution from a position of strength. More broadly, the bank enters the second half with a sound risk profile, healthy liquidity, and a capital base that supports both resilience and growth.

Now let me now turn to the strategy updates. Since launching Strategy 2030 in Feb of this year, we have moved from launch into early execution. Our ambition remains to build a better, stronger, and faster bank by strengthening the core businesses that drive performance today while building the capabilities that will support future growth. Over the past few months, the work has centered on activating the main programs across the bank. As of today, 21 of our 24 strategic programs are active, and seven are already delivering early impact. Within wholesale banking, the focus was on relationship management, broader government and NBFI coverage, and better GTS onboarding. With the next phase centered on bundled transactional solutions. In Treasury and Investment Group, the emphasis has been on client planning and preparing the private credit pipeline with cross-sell now the next priority. At BSF Capital, the strategy has been refreshed around institutional and private banking with the near-term task focused on stronger brokerage and asset management fee generation.

Across the retail businesses, retail specifically affluent has launched new propositions and channels. Business banking is now live and moving into platform roll-outs. Private banking has started to broaden its proposition, and JB has strengthened its digital and operating base. Across all of these businesses, the next step is to convert that early progress into broader client penetration, stronger cross-sell, and better commercial output over time. Strategy is no longer only in architecture. It is now active across the franchise with programs underway in the businesses and enabling functions. And the next phase is about disciplined execution over time.

Let me close the strategy update with slide number six, where we introduce a KPI dashboard that shows the full year 2025 baseline, the first half 2026 outcome, and the 2030 targets across key metrics. The aim is to track execution in a more structured and consistent way over time. At the group level, the picture is balanced across all three pillars of the strategy with some metrics already on track while others remain areas of focus as execution progresses.

Under better, the metrics are broadly in line with the baseline. Net income market share remains at around 6%. Non-interest income share is stable at 18%, and the CASA ratio is holding at 43%. The opportunity now is to build from that base by growing share, increasing fee contribution, and improving the quality of funding as the strategy gains momentum.

Under stronger, the early read is positive. Return on equity stands at 12.1%, keeping us on track toward our target of 15%. CET1 remains healthy at 15.9% above our long-term threshold, and cost-to-income has improved to 33.2% from 34% in 2025, showing early progress on efficiency as well as capital and profitability.

Under faster, we are beginning to see progress in the capabilities that support the operating model. Digital penetration of clients has grown from 65% to 70%, and AI use cases have increased to 16% from less than five in 2025, both showing good momentum. Straight-through processing remains a priority as we continue to improve automation and process efficiency across the group. Overall, we are pleased with the start we have made, and it reinforces our conviction that BSF is entering the next phase of growth from a position of strength.

I'll now hand it over to Ramzy for a detailed financial walkthrough. Over to you, Ramzy.

Ramzy Darwish:

Thank you, Bader, and I'd like to thank you all for joining us today for the second quarter of 2026 in terms of an earnings call. We really appreciate your continued support and interest in the bank. As we wrap up the second quarter of 2026, the economic environment remains fluid and evolving, particularly in light of the ongoing regional geopolitical developments. That said, we are confident in our positioning, and we are continuing to execute our strategy with discipline and focus. Our execution has been steady, and we are seeing positive momentum in several areas of the business. We are pushing forward with our strategic initiatives, and we are very focused on delivering value, not just in the short term, but also in the long term.

We've been working on several key initiatives across the business, and few of them are already starting to show early signs of value creation. These are the ones with the shortest lead times, and we are very encouraged by the progress so far.

For the longer-term initiatives, we are laying the groundwork and ensuring that we have the right systems, processes, and people in place to deliver the full benefits over time. In terms of overall performance, we are largely on track for the quarter, and the business is performing in line with expectations. The only area where we saw a slight deviation was again in fee income, which was behind our initial expectations. This was partly due to seasonal factors, regulatory changes, and to some extent the impact of the recent geopolitical developments. However, we've been able to offset this through other areas of non-interest income, particularly in investment-related and trading income, where we were able to capture opportunities in a more volatile market environment.

At the same time, we are also building the necessary infrastructure and platforms to reignite fee and commission income in the long-term. This includes enhancing our digital capabilities, improving our product offerings, and deepening our client relationships overall. So while we're aware of the near-term headwinds, we're confident in the resilience and growth potential of our fee income over the long-term. With that said, let me now take you through the financial performance of the first half for 2026, starting with the balance sheet on slide 10.

As of 30 June, total assets stood at 328 billion Saudi riyals, an increase of 6% year-to-date. This growth was primarily driven by the loan book, which rose by 4%, with additional support from investments which grew by 8% in addition to interbank placements. This is a testament to our strategic focus on aligning asset growth with long-term value creation.

For instance, the almost 10 billion riyal increase in loans reflects demand remaining robust despite near-term volatility and our continued confidence in the Saudi economy's resilience. We've continued to add to our fixed rate investment portfolio with government securities making up the majority of that growth. This has allowed us to lock in attractive yields and better manage our interest rate exposure, a strategic move as we navigate a developing interest rate environment.

On the funding side, total liabilities increased by 7% year-to-date. With customer deposits continuing to grow, a larger movement came from higher balances and due to banks, which reflects normalized funding activity from a low year-end base. Debt securities and term loans were down 8% year-to-date, mainly due to planned maturities during the period. This is part of our ongoing strategy to manage our debt book efficiently and optimize our cost of funding, ensuring we remain agile in a shifting rate environment.

Total equity was up 1% from year-end, supported by earnings, although this was partly offset by other comprehensive income movement and dividends. Still, we remained secure in the strength of our capital position and the ability to support future growth as CET1 stood at 15.9% at the end of June. This balance sheet strength positions us to capitalize on opportunities in the second half, whether it's accelerating loan growth or further optimizing our funding mix. Furthermore, our capital adequacy ratios remain robust, giving us the flexibility to invest in strategic initiatives while maintaining a buffer against uncertainty.

Let me now move to loans and advances, which continue to be a key driver of our growth and a core part of our strategy to support the evolving needs of the Saudi economy. The loan book continued to grow across both commercial and consumer segments with total loans and advances up 7% year-on-year and 4% year-to-date. This performance reflects our disciplined approach to credit growth, our strong client relationships, and the continued momentum in the sectors we serve. On the commercial side, balances increased 4% year-to-date, and the growth was broad-based with the biggest contributions coming from the contracting and services sectors. However, we also saw solid performance across all of our target sectors within the economy, including commerce, agriculture, and utilities.

That said, Q2 growth was slightly softer compared to Q1, and this was due to the normalization of the short-term working capital uplift we had flagged in the first quarter, as well as higher settlements during Q2.

But here's the key, the underlying pipeline remains healthy, and we're seeing continued demand for financing across a range of industries. On the consumer side, balances grew 6% year-to-date, led by mortgages and personal loans, which increased 6% and 8% respectively. JB, our subsidiary, continued to support non-mortgage consumer lending, contributing a third of the net year-to-date growth, excluding mortgages. Most of the personal loan growth came from the retail banking group, including Lombard loans, which is a great example of how we're leveraging our platform to drive growth. Credit card balances were broadly stable, and this was in line with our expectations against the backdrop of lower travel activity and softer transaction flows. We are not surprised by the performance thus far. We've seen a seasonal slowdown, and while we expect some near-term softness, we remain positive in the long-term value of our credit card portfolio.

Overall, we remain comfortable with the loan growth trends, and we continue to target high single-digit growth for the full year. We are not chasing volume at the expense of quality, and our underwriting discipline remains strong. We're also well positioned to capitalize on the growth in consumer and SME lending, especially as we continue to expand our digital offerings and deepen our client's engagement.

Now let's turn to the other side of the balance sheet, customer deposits, which remain a key pillar of our funding strategy and a critical enabler of long-term sustainable growth. Customer deposits were up 5% year-to-date, reaching 204.6 billion Saudi riyals, with growth coming from both sides of the deposit base. Specifically, interest-bearing deposits increased by 4% and non-interest bearing deposits rose by 6% year-to-date, though this would have included some intermittent deposits throughout.

The NIBD ratio ended the quarter at 43%, an increase of 45 basis points year-to-date. While the ratio did ease slightly from the first quarter, this was due to stronger growth in interest-bearing deposits during the period.

Importantly, nominal NIBD balances continue to increase, which is a positive sign of deposit quality and client stickiness. This performance reflects our targeted approach to deposit acquisition, where we focus not just on volume, but on acquiring the right kind of deposits that support our funding cost discipline and liquidity resilience.

We're also seeing the early benefits of our business banking strategy, which is opening up new deposit-gathering opportunities, especially in the CASA deposits. At the same time, our focus on acquiring new-to-bank customers across all business lines is helping to drive deposit growth while maintaining a balanced funding mix. Looking at system liquidity, we saw improvement compared to last year, and we remain well above regulatory minimums. However, in this environment, our priority remains on growing the deposit base while preserving the quality of our funding.

We're not just managing for today, but building a resilient funding model for the future. This includes leveraging digital channels, deepening client relationships, and optimizing our CASA mix, all of which support our long-term funding strategy and cost-of-fund discipline.

Let's now move to the income statement where we continue to see momentum and profitability supported by strong net interest income growth, stable non-interest income, and a solid credit performance. Net income for the first half of the year came in at 2.868 billion Saudi riyals, a historical record for the bank, and up 5% year-on-year, and by 5% growth in operating income with net interest income up 6% and non-interest income broadly stable. This was partly offset by 6% higher operating expenses, which were in line with our expectations and primarily driven by annual salary adjustments, modest headcount growth, and increased G&A expenses. On a quarterly basis, net income reached 1.487 billion Saudi riyals, also a record, up 6% year-on-year and 8% from the first quarter. The sequential improvement was driven by better top-line performance, although it was partly offset by higher impairments in the second quarter. This reflects our prudent credit risk management as we continue to maintain a strongly underwritten portfolio and satisfactory coverage ratios.

Turning to return on equity. Return on average equity for the first half was 12.12% compared with 12.54% a year ago, a decline of 42 basis points. This was primarily driven by higher average equity balances. However, in Q2 alone, return on average equity improved to 12.17%, showing positive momentum during the period and improved underlying profitability.

We remained confident in our ability to drive ROE higher over time, and we are comfortable with our full-year guidance. This is supported by our disciplined cost management, our continued focus on margin improvement, and our strategy to grow higher margin income streams, particularly in fee income and wealth management.

Overall, we are not managing just for the short term, but building a sustainable model for long-term profitability. This includes optimizing our cost structure, leveraging technology and automation alongside the process for prism transformation, and deepening our cross-sell and fee-income capabilities, all of which are central to our strategy 2030.

Now let's move into the detailed line items, starting with net interest income where first half results increased to roughly 4.6 billion Saudi riyals, up 6% year-on-year, supported by an 8% growth in average interest earning assets. This was driven by positive contributions from loans, investments, and interbank placements while higher funding costs on debt partially offset this growth.

On the bottom charts, interest income rose to nine billion Saudi riyals, up 3% in the quarter, while funding costs increased to 4.45 billion Saudi riyals, up 1% in the quarter, resulting in a 6% increase in net interest income.

There is some element of repricing timing at play here as liabilities tend to reprice faster and may reflect lower cyber levels earlier than we would see on the lending side. Nevertheless, we continue to actively manage our funding mix and leverage our growing deposit base, and we are focused on our ability to sustain and support a stable and sustainable net interest income.

Now let's turn to net interest margin, which is a key indicator of our margin efficiency and pricing discipline. Net interest margin for the first half stood at 304 basis points. This was a seven basis point decline year-on-year, primarily due to higher funding costs on debt securities and term loans as we continue to diversify our liquidity sources.

However, compared to Q1, the quarterly net interest margin improved by four basis points to 306 basis points. And this improvement was driven by two key factors. First, funding costs declined by 13 basis points, which more than offset the six basis points of pressure on asset yields. This was supported by a 10-basis point decline in the average three-month SAIBOR during the quarter, as well as favorable repricing timing on the liability side.

Second, we saw a positive impact from our cashflow hedges, which helped limit the impact of market rate movements and supported margin stability. Additionally, the growth in our NIBD volumes quarter-on-quarter, driven by our strategic focus on attracting new-to-bank clients across all our businesses, helped reduce the cost of funds and contribute to the NIM improvement. Also, we observed that interbank funding costs declined more sharply than the average SAIBOR during the period, which further supported the NIM expansion.

Overall, we are actively managing our margin position, and based on the current rate outlook where we are not factoring in any further rate cuts this year, we expect margins to remain near current levels. This gives us greater assurance in our full-year net interest margin guidance of around 3%.

Next, let's turn to the interest rate sensitivity and our overall risk management approach. As we continue to target neutral interest rate position, we currently report a rate sensitivity of seven basis points as of the end of June, which is slightly higher than the three to four basis points reported earlier. This increase was mainly driven by rollovers in our syndicated loan book where loans moved from the two-to-three-month repricing bucket into the up-to-nine-month bucket.

Over the coming quarters, we expect a gradual decline in NIM sensitivity, assuming a stable balance sheet as these loans transition back into shorter repricing buckets. That said, the current sensitivity level of seven basis points remains low, and it is in line with our strategy to maintain a largely hedged balance sheet.

Additionally, the notional amounts of cashflow hedges declined by 23% year-to-date, primarily because growth in retail assets and fixed-rate investments have reduced the need for additional notional hedges. In fact, the investment book where we hold fixed-rate exposure has grown by two and a half billion riyals during the quarter or five and a half billion riyals year-to-date, effectively replacing the cashflow. This shift reflects our active and dynamic approach to interest rate risk management where we use a mix of cashflow hedges and fixed rate assets given current market conditions and our asset liability structure. Overall, we remain assured in our risk profile, and we continue to manage interest rate risk simply and proactively. Now let's move to non-interest income, which remained largely stable year-on-year at 997 million riyal for the first half. This was despite a decline in fee and commission income. This was offset by stronger performance in investment-related and trading income, reflecting our active approach to capitalizing on market opportunities.

The year-on-year decline in fee and commission income came in at 14%, driven primarily by higher card-related costs from ongoing marketing campaigns, which were not present in the same period last year. Brokerage and asset management fees were also lower year-on-year, down 17% as domestic market activity remained subdued in the first half.

However, trends, particularly in asset management, improved during the second quarter, providing for a 29% sequential growth. Trade finance fees were also lower than in the first half of 2025 in light of supply-chain pressures and the broader geopolitical environment.

On the positive side, investment-related income saw strong growth with gains realized in Q1 from market volatility and continued strength in Q2 as we took advantage of favorable opportunities. Trading income was also robust, supported by increased hedging volumes from clients, as well as a higher income in proprietary trading, reflecting our active risk-taking and market positioning.

On a sequential basis, non-interest income rose by 21% during Q2, driven by trading income and improved fee performance, particularly in banking fees, which showed a clear upward trend.

Looking ahead, we expect a stronger contribution from non-interest income in the second half, particularly from fee lines as we build on the momentum seen in the second quarter and continue to optimize our fee-generating capabilities across all businesses.

Next, let's turn to operating expenses, which increased by 6% year-on-year for the first half, driven by annual salary adjustments, modest headcount growth, and higher G&A, in addition to higher and increased depreciation as major transformation projects continue to go live.

Q2 expenses were broadly unchanged compared to the first quarter, reflecting a more normalized quarterly run rate as opposed to the elevated costs in the fourth quarter of 2025, which did include exceptional and non-recurring items. Depreciation costs rose as a result of the ongoing transformation projects, laying the foundation for long-term efficiency and scalability. For the first half, the cost-to-income ratio came in at 33.2% compared to 32.7% a year ago, while operating expenses as a percentage of average interest earning assets improved to 122 basis points, a two-basis point reduction year-on-year.

On a sequential basis, the Q2 cost-to-income ratio improved to 32.5%, which provides further confidence in our abilities to stay within our full-year guidance of below 33%.

Looking ahead, we expect stronger operating leverage in the second half, supported by continued earning asset growth, technology efficiencies, and the scaling of our transformation initiatives. Technology investment remains a key priority, and while depreciation may remain elevated in the near-to-medium term, it is a strategic investment that will support long-term efficiency and sustainable growth.

Next, let's address impairments and provisions, which remain a key focus area for the bank. The total impairment charge for the first half stood at 513 million riyals, broadly in line with the same period last year. This stability was driven by lower commercial impairments, which were partly offset by higher consumer and other impairments. On a year-on-year basis, the cost of risk improved by six basis points to 44 basis points compared to 50 basis points in the first half of 2025, reflecting stronger portfolio growth and improved credit quality. In the second quarter, the impairment charge increased to 267 million, up 9% quarter-on-quarter, primarily due to a charge in investments and other exposures. This was driven by growth in related balances, including off-balance sheet items compared to a reversal in the first quarter. However, credit loss impairments declined over the same period, supported by recoveries from previously written off accounts and continued strong asset quality. Against the backdrop of sustained long growth, we have not seen a material impact on impairments from the current regional geopolitical situation. While we remain vigilant, current trends position us towards the lower end of our full year guidance range. As a result, we are tightening our full year cost of risk guidance to 45 to 50 basis points, down from 45 to 55 basis points previously, to reflect the credit loss experience during the first half.

We have proactively built sufficient coverage for exposures on our watch list, ensuring any potential future migration is well managed. At this stage, we are not seeing broader stress in the portfolio and our guidance there remains unchanged. Let's now take a closer look at NPL trends and coverage, which remain within our risk appetite and expectations. The NPL ratio improved to 97 basis points in Q2, down from 101 basis points in the first quarter and remain stable compared to the same period last year, reflecting continued strong credit quality and disciplined underwriting. During the quarter, a single name exposure previously on our watch list and highlighted in the first quarter earning call, moved to NPL status. However, this was more than offset by the write-off of two corporate accounts, which led to a modest reduction in NPL balances on a Q-on-Q basis.

The NPL coverage ratio declined to 159%, primarily due to the fact that the two corporate accounts written off were fully covered by provisions while the new classified, non-performing exposures had lower coverage levels. Overall, coverage remains at a satisfactory level and we are not seeing broader stress across the portfolio at this stage. Now let's turn to liquidity, which remains strong and well above regulatory requirements. At the end of June, the liquidity coverage ratio stood at 169%, the net stable funding ratio at 125%, and the SAMA loan-to-deposit ratio at 77.8%, while the headline loan-to-deposit ratio was at 109.6%. All of these metrics are well within comfort zones and provide ample flexibility for continued growth. The quarter-on-quarter decline in LCR to 169% was primarily driven by higher net cash outflows, which were largely a result of the normal timing of loan and deposit maturities around quarter end.

High quality liquid assets remain broadly stable, and we continue to maintain a strong and diversified funding base, including retail, wholesale relationships and access to the debt capital markets, which give us flexibility to support our growth ambitions. We are actively managing liquidity and the system liquidity has improved compared to last year, which positions us well to support our expected lending growth in the second half. While we continue to monitor the headline loan-to-deposit ratio closely, the SAMA ratio and other regulatory ratios provide the balance sheet flexibility to scale the business in a sustainable and resilient manner. Now, let's move to capital, which remains strong and well above regulatory requirements, providing ample headroom for growth and shareholder returns.

At the end of June, the capital adequacy ratio stood at 20.8%, the tier one ratio at 18.8%, and the CET1 ratio at 15.9%. These levels are comfortably above the minimums and reflect a robust capital position. Total regulatory capital increased to 57.1 billion Saudi riyals during the first half, driven by earnings with an offset from dividends and other comprehensive incomes. Risk-weighted assets rose 4% year-to-date, reflecting continued long growth and expansion in the portfolio. Furthermore, the additional counter-cyclical capital buffer introduced by the regulator had a limited impact as our starting capital position was already strong. We did not expect any changes to our capital allocation policies as a result. Capital levels continue to support business growth, meet regulatory thresholds with additional headroom and allow us to offer attractive dividend returns to shareholders.

Let's now turn to the full year 2026 guidance, which we remain confident in and are maintaining across all key metrics with one refinement to our cost of risk range as highlighted earlier. Performance in the first half has been mostly in line with our expectations and the results position us well to deliver on our full year commitments. On loan growth, we continue to expect high single-digit growth for the year, in line with our guidance. While Q1 growth was supported by working capital facilities, the underlying demand remains strong and we are maintaining our full year outlook. Net interest margin is expected to remain around current levels, supported by continued balance sheet growth and non-interest-bearing deposits while funding costs remain stable in the current environment.

Cost of risk is now narrowed to a range of 45 to 50 basis points, reflecting the credit loss experience in the first half. This tightening of guidance is a positive reflection of our asset quality and proactive risk management. Cost to income was marginally above our target range in the first half, but Q2 already showed improvement to 32.5%, and we expect the full year ratio to remain below 33% as operating income begins to outpace expenses. Return on equity and CET1 remain within our expected ranges and we see no reason to revise our full year expectations there. In summary, the first half has reinforced our confidence in the guidance we've set, and we remain committed to delivering strong, sustainable performance in the second half.

To conclude, BSF delivered a stronger second quarter return than the first with improved profitability, solid net interest income growth and a well-performing margin. The loan book continued to grow even as some temporary Q1 effects were unwound and costs remained stable, reinforcing operational discipline. Deposit growth remained healthy, and the balance sheet continues to perform well with liquidity and capital metrics well above regulatory minimums and providing strong support for future growth. We're also starting to see early progress towards our strategy 2030 objectives with platform investments, deposit initiatives and the expansion of business banking laying the foundation for sustainable performance. With that, we conclude and are happy to open the line for questions.

Moderator:

If you'd like to ask a question, please use the raise hand feature. If you're dialed in by phone, please use star nine to raise your hand and star six to unmute your line. I'll pause for a moment to allow the queue to form. Our first question comes from Shabbir Malik with Morgan Stanley. Feel free to unmute and ask your question.

Shabbir Malik:

Hi, thank you very much for this presentation. Congratulations on a good set of results. My first question is around costs. If we think about your OPEX trend sequentially over the next two quarters, is it fair to assume that it's going to be around a similar level or a modest kind of growth relative to 2Q? I think you've highlighted that last year, fourth quarter, you had a one-off. So is it fair to assume that we should not see a similar kind of increase in the fourth quarter this year? That's my first question on expenses. My next question is on the NIM sensitivity. You've pointed out that your NIM sensitivity has increased to roughly about seven basis points, a 100 basis points increase.

Your NIM expectation of course, is around 3%. But assuming there is a rate hike, is there scope for a positive revision into your NIM guidance for this year? So any comments on that would be pretty useful as well. And finally, in terms of the growth expectations for the remainder of the year, how are you seeing the corporate pipeline? And is the demand that you see on the corporate side specific to you or is more of a sector-wide trend? So thoughts on the corporate loan demand in the second half, that will be pretty helpful as well. Thank you.

Ramzy Darwish:

Thank you, Shabbir. I'll maybe take the first question on cost. Q4 of last year, we did have these non-recurring costs. We do not expect it to reoccur in Q4 of this year. So our expectations is you'll see small growth, maybe inflation related. But also, this would include within the staff expense line, for example, a higher bonus pool that is connected to net income. But there shouldn't be a significant delta quarter-on-quarter. The quarterly cost for Q1 and Q2 should really be the base to build off of for the second half of the year.

Zuhair Mardam:

And on the NIM questions, first of all, we're guiding the market at around 3% as a range. This is not really a decimal point. We are at 3.04% for the first half of the year and around 3.06% for the quarter. And that really sits comfortable with our 3% range. We expect no change in rates until the end of the year. As for what kind of major variable that would move NIM up or down, I think the single element is really the CASA ratio. Our sensitivity rates is low, plus/minus seven basis point move per 100 basis point shop for size of a balance sheet is really minimum in our context. And really, the CASA ratio could be a big variable to that.

So this is not really the path that determines the outcome, not the sensitivity itself. It's really how much non-interest bearing deposits we're able to attract, and that is subject of market conditions, client behavior. You can see that sector-wide, SAMA's data up until May, the interest-bearing deposits grew around 13% against a 2% only increase in non-interest bearing deposit. We have grown our CASA base faster than the market, but we are conscious that we are operating against that trend. The other element is that we've managed our cost of funding relatively well, fell 13 basis points compared to only a six basis point in asset yields. And that gap is really what we're trying to focus on in improving our margins.

Bader Alsalloom:

And regarding the third question on growth, we see the second half of the year more in line with the first half and in line with our guidance of higher single digit. And more specifically on the corporate pipeline, as Ramzi mentioned, we do have a healthy pipeline for our corporate book with no specific concentration on any sector. Of course, we will continue our conservative view on growth to maintain the quality of our book, while at the same time, of course, maintaining the diversification of our book from a sectorial basis.

Shabbir Malik:

Thank you.

Moderator:

Our next question comes from Aybek Islamov with HSBC. Feel free to unmute and ask your question.

Aybek Islamov:

Yes, thank you for the conference call, thank you for taking my question. I would like to hear your thoughts about the GCC bank lending into Saudi Arabia. Are you observing any change in trends? Obviously, there are a number of markets which are reporting tighter funding positions since beginning of March. And are you seeing any refinancing demand picking up from the corporate customers? What are your thoughts on this? And if that trend continues, could there be any implications for the asset quality?

Ramzy Darwish:

Aybek, could we just get a clarification? You're asking about lending into KSA overall or lending to KSA banks?

Aybek Islamov:

Lending to KSA corporates by the other GCC banks. And I have a second question.

Ramzy Darwish:

Sure. Maybe I'll take that one, but I think we always viewed this as a positive in the past, given it does introduce additional liquidity. I think given what's happening in terms of the regional disruption, let's say, the GCC banks outside of KSA have maybe faced more concerns on the liquidity front. So changes there, I would say are expected, but we haven't seen anything in terms of discussion or decisions within our corporate space, at least for now.

Aybek Islamov:

Thank you. And a second follow-up question. I mean, everyone's referring, including yourself, to the geopolitical situation, the fact that it's different now. And why not take this as an opportunity to raise provisioning levels, be more precautionary, planning for some potential second order impact coming from inter-GCC capital flows slowing down?

Ramzy Darwish:

We haven't yet seen any impact in terms of geopolitical related to our corporate space. I think one element that we've done internally at BSF, not necessarily an overlay, but we are updating the macroeconomic model. And as a result of that, there were additional provisions that we took on the entire book, given the change in the macroeconomic inputs to the model.

Murad Ansari:

Thank you.

Moderator:

Our next question comes from Rahul Bajaj with Citi. Feel free to unmute and ask your question.

Rahul Bajaj:

Hi, thanks for taking my question. This is Rahul Bajaj from Citi. I have two questions mainly. The first one is on asset quality NPLs, and the second one is on non-interest income. On the asset quality question, I see that stage three coverage has declined during second quarter. And you, I think, mentioned that there was one specific account which moved to stage three and there were a couple of accounts which moved out. Would you be looking to boost stage three coverage over the next few quarters and bring it back to the levels where they were prior to these account moves?

And link to it on the NPL side, just trying to understand your exposure to giga projects which have been canceled or which have been put on the back burner. I mean, what kind of stress do you see from such giga projects which have been canceled? One of your peer banks on the earnings call actually said that they had to take provisions for an account in a giga project where the giga project was canceled. Do you see that as a risk for BSF? So that's my first question. My second question, on non-interest revenue, I see that the second quarter non-II line is being supported by trading investment gains, but a large part of these are quite volatile. And if these line items do not provide same tailwind in the second half of the year, do you expect fee income to recover to make up for the loss, or you expect a slightly more muted non-interest revenue trend possibly in the second half of the year? Those are my questions. Thank you.

Ramzy Darwish:

I'll take maybe the first and the third question. On the asset quality side, in terms of coverage, I think we're still comfortable with our coverage levels. As mentioned, I think the transition caused the majority of this change. I think for the specific name that is now NPL, it would be below the stage three NPL coverage. So presumably this would at least come up to the same level as the average. But on the aggregate, there's no intention at least to make any changes to coverage as a result of that. So this level is around where we're comfortable with in the long term.

And on the third question for non-interest income, I think the treasurer can add to the comment on specifically trading income, but when we look at the second half of the year, we do see fee income playing a larger role. I think in the first half we had significant support coming not only on the trading line, but also on capital gains, which, in the second half, we have less of an expectation for. So fee income will be the major driver. And what we saw in Q2 at least gives us that positive momentum that we hope to continue to build on in the third and fourth quarters.

Zuhair Mardam:

I think this is well-covered. So basically the increase is really driven by both propriety trading desks as well as favored market opportunities for our clients in a volatile environment, which we were able to capture some flows through disciplined execution. I would like to emphasize that there has been no change in our risk appetite or our trading strategy. This is the same book run within the same limits in a market that offered more. And we expect some of those flows to wind down. However, we continue to monitor this current volatile environment and try to capture some of those flows.

Bader Alsalloom:

And regarding the question on the giga projects, of course we at BSF have limited exposures to giga projects. In 2025, we did increase our exposure to one specific giga project, which is still on track with no signs of any deterioration. And just to be clear, there are no canceled giga projects. There are reprioritizations being done on some of the giga projects, but no giga projects were canceled.

Rahul Bajaj:

That is clear. Thank you.

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Moderator:

Thank you. Our next question-

Rahul Bajaj:

That is clear. Thank you.

Moderator:

Thank you. Our next question comes from Murad Ansari with GTN Middle East. Feel free to unmute to ask your question.

Murad Ansari:

Yes. Hi. Good day. Thanks for the presentation. So just two questions. One is on loan growth. So you've clearly laid out your strategy of being more disciplined in terms of lending through the year, but I think the general messaging at the start of the year was that there is corporate credit demand. So two questions I had on loan growth. First was how do you see the loan pricing environment now? We've seen a general deceleration in loan growth momentum. Deposit growth momentum has been stronger versus loan growth. So there's definitely better balance sheet liquidity across the sector. Has that given some pricing power to the banks? And are you seeing the corporate client being a little bit more accommodative to upward pricing request? And secondly, on your particular loan growth outlook, I mean your corporate book was broadly flat sequentially. Obviously there's cross origination and repayment as well, and you're guiding towards similar trend into the second half. So my question was that if we're seeing general improvement in pricing and the corporate credit appetite is there, then your growth outlook for second half, what is the key filter that you're using? Is that more about managing diversification of the loan book or being more conservative on capital or is pricing still a challenge? So when you say mid-single or high single digit loan growth for the year, what's the key driver here in terms of stopping you from growing faster? Thank you.

Ramzy Darwish:

Thank you for the question. I think the CEO maybe will comment on pricing. We had, I think, been one of the first banks to highlight that we were going through this exercise in increasing pricing to accommodate, I guess, the liquidity situation of the past couple of years. But I'd say when we look at growth overall, we're comfortable to grow so long as we can grow profitably. And within that, many factors and variables, partly what the treasurer had mentioned in terms of the ability to generate CASA and non-interest-bearing deposits. Part of it would come into the ancillary business and fee income that can be generated on top of the client relationship. Because when we look at marginal growth for marginal time deposit funding, the net interest margin and the return on assets is not meeting the thresholds that we would want to accommodate for that.

So that puts a bit of a break in terms of how much we could grow. I think capital is plentiful. Liquidity is available. It's the cost that can be funded at that time.

Bader Alsalloom:

And if I may add maybe on the second part of your question when it comes to what's going to be driving the loan growth for the second half, we of course will continue our discipline growth focusing on asset quality, diversification. And given our shift now to profitability, overall pricing. What I mean by overall pricing is when it comes to ancillary business that comes from a specific corporate client. So given our focus on trade finance, treasury, BSF Capital, JB, and others, we are looking at relationships now or the relationships that we want to grow in. We are looking at the overall pricing and the return. So those are going to be the main three drivers that will drive our disciplined loan growth for the second half.

Murad Ansari:

And in terms of pricing, just to comment on how do you see the pricing environment? You were indeed the first one talking about a push to raise pricing, but how do you see the environment now? Is the corporate customer more accepting of the higher pricing on loans? Is that something that is coming through quite favorably for you? And if I may add on the deposit side as well, I think as you said, the general trend has been time deposit growth has been stronger in general for the sector. Is there an element of banks, and in your case also specifically, looking to lock and deposit or extending the duration of the funding that we're seeing across the sector?

Bader Alsalloom:

I mean when it comes to pricing or repricing, more specifically, as you mentioned, we were one of the first banks to actually start our repricing exercise. It was in late '24, so all through '25, we continued our repricing exercise in our corporate book. More recently, or to be specific, maybe starting in the second half of 2025 is when we saw other lenders start to reprice. In the beginning, when we started, there was lots of or some resistance from some of our corporate clients. But as more and more banks, especially on the back of higher costs of funding, started to reprice, that pressure definitely eased. As of today and as of the first half of 2026, we continue, of course, our repricing exercise. Other banks are also repricing, and we've seen a reduction in that pressure that's coming in from our corporate clients when it comes to repricing.

And we will of course continue and we believe that the market will continue to reprice their loan book for corporate clients. Again, not across the board, but for specific clients.

Zuhair Mardam:

On the last question with regards to the deposit extension, typically the banking sector in the Kingdom has short-term deposit duration. We do offer products on extending onshore deposits medium-term. But if you look at the net stable funding ratio of local banks, you see that's quite comfortable. So the focus is not really there as most banks have raised quite significant size of medium-term funding through the wholesale market.

Murad Ansari:

All right, thank you so much.

Moderator:

This concludes the Q&A section. I'll now pass back for closing remarks.

Bader Alsalloom:

Thank you very much everyone. I'd like to thank you all for taking the time to join us today, and for your continued engagements. Have a good evening.