Q3 2026 Earnings Call

Company Participants

- Bader AlSalloom, Chief Executive Officer
- Ramzy Darwish, Chief Strategy & Finance Officer
- Yasminah Abbas, Head of Group Commercial Delivery & Investor Relations
- Zuhair Mardam, Chief Treasury and Investment Officer

Other Participants

- Murad Ansari, Analyst, GTN Financials
- Naresh Bilandani, Analyst, Jefferies
- Rahul Rajan, Analyst, Bank of America

Presentation

Rahul Rajan

Hello, ladies and gentlemen, good afternoon. This is Rahul Rajan from the Bank of America Global Research Team. I welcome you to the BSF 3Q Earnings Call.

I please, I will now pass over to the BSF management.

Yasminah Abbas

Good afternoon, ladies and gentlemen, and welcome to BSF's Third Quarter 2026 Earnings Call. First, I'd like to thank you, Rahul, and the Bank of America team for hosting us today. Speaking first is BSF's CEO, Bader AlSalloom, who will go over the earnings summary for the quarter, as well as an overview of the BSF 2030 Strategy, Execution, and Dashboard. He is then followed by CSFO, Ramzy Darwish for a more detailed walkthrough of the financial performance.

We have with us today as well, CTIO, Zuhair Mardam, who will participate in the Q&A session later. Before we begin, please note that today's discussion may include forward-looking statements, which are subject to risks and uncertainties. Actual results may differ from those expressed or implied. Please refer to the disclaimer on Page 22 of our earnings presentation for further details.

Without further ado, I'll hand over the mic to the CEO, Bader AlSalloom.

Bader AlSalloom

Thank you, Yasminah, and good afternoon, everyone, and thank you for joining BSF's nine-month 2026 earnings call. Before turning to the results, let me briefly touch on the broader operating backdrop. The regional operating environment has been extremely challenging since the end of Feb, with geopolitical conditions remaining unpredictable and volatile. We continue to monitor the market and macro conditions closely by conducting stress tests under different oil price scenarios.

Throughout the conflict, our business has remained stable, with customer behavior and credit quality as expected and trading holding steady. At the same time, we are reviewing our exposures at a more granular level, with particular focus on specific economic sectors and collateral protection where required.

Against that backdrop, BSF delivered another period of profitable growth in the first nine months, and we continue to move Strategy 2030 from early activation into disciplined execution. With that context, let me walk you through the financial highlights.

Starting with Slide 3, the balance sheet grew well across the main lines. Loans and advances grew by 7% year-on-year, supported by growth in both commercial and consumer balances. Investments grew 11% year-on-year as we added fixed rate securities to capture yield and manage rate positioning.

On the funding side, customer deposits rose 9% year-on-year driven by an increase in non-CASA balances, while CASA balances declined, bringing the CASA ratio to 41.7%. We continue to manage the funding mix closely given the current rate environment.

On the P&L, net income rose 7% year-on-year driven primarily by top-line expansion. Both net interest income and non-interest income contributed, with non-interest income up 8% on a year-by-year basis supported by trading and investment income. NIM for the first nine months stood at 3.01%, down 5 basis points year-on-year. NIM declined 13 basis points sequentially in the third quarter, primarily reflecting higher funding costs as CASA balances declined.

Now turning to Slide number 4, asset quality remains sound. The NPL ratio improved to 0.95% year-on-year, and cost of risk held broadly stable at 43 basis points. Coverage declined to 165.3%, reflecting the write-off of two fully covered corporate accounts earlier this year. Capital liquidity remains strong and well above regulatory minimums. Overall, the Bank carries a sound risk profile and healthy buffers into the final quarter of the year.

Next, let me provide you an update on our strategy. Since the launch in Feb, our strategic programs have moved from early activation into steady execution across the franchise. We are seeing encouraging traction across several initiatives. We remain focused on becoming a better, stronger, and faster bank by strengthening the core businesses that drive performance today, while building the capabilities for growth tomorrow.

On strengthening the core within Wholesale Banking, we expanded client coverage through structured account planning, onboarded new government relationships, scaled supply chain finance, and grew the POS footprint supporting income and deposit momentum. In Retail and Affluent, we introduced three new branches -- branch formats this year designed to serve different customer needs: flagship, core, and light.

The Muhammadiyah branch in Riyadh opened in Q3 as our first showcase of this model, bringing together personalized service, digital solutions and self-service facilities for individuals, corporates and SMEs. We also launched the digital credit card journey and rolled out new efficient and fast digital journeys across onboarding and deposits to improve our acquisition and service. In Treasury, we built a stronger cross-sell pipeline with wholesale clients, launched a new commodity leasing revenue stream and scaled alternative investments.

In BSF Capital, we accelerated execution across asset management, wealth and capital markets by launching new products, building pipelines and alternatives in real estate, expanding international trading access and progressing integration within the bank to support cross-sell. On preparing for the future within Business Banking, we grew deposits and active client relationships, built momentum across POS, E-channels and payroll adoption, and launched targeted campaigns to support client acquisition. A new business banking digital platform and app is also on track for launch before year-end.

In JB, we modernized the core lending platform, launched top-up and buyout products, expanded the auto finance dealer network, and automated underwriting to shorten processing times. These initiatives have been well received by customers. The core businesses are gaining traction, revenue is diversifying, and solid foundations for future growth are being built. Heading into the final quarter of the year and throughout 2027, the priority is to accelerate execution, close the gap in areas that need further work, and turn these initiatives into measurable business outcomes.

Our KPI dashboard shows that ongoing execution of our strategy with some areas progressing faster than others. Under Better, we are monitoring three key metrics: net income market share is near 6% against a target range of 8% to 10%. Non-interest income share remains broadly stable at 18%, and we expect this to improve as cross-sell and fee generation pick up. CASA ratio has moved to 41.7% from the 2025 baseline of 43%, reflecting the deposit mix shift we covered earlier.

Under Stronger, results are on track. Return on equity is gradually improving, standing at 12.4% moving towards our target of above 15% by 2030. CET1 remains healthy at 15.3%, and the cost-to-income ratio has improved to 32.9%. We expect continued progress here as more strategic initiatives kick in.

Under Faster, STP remains an area that we are watching as we continue to build out automation. Digital penetration remains stable at 65% to 70%, and we expect to deploy additional AI and analytics use cases before year end to support better decision-making across the businesses.

Overall, the trajectory is positive, and we are focused on converting that into consistent results across all three pillars.

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

Ramzy Darwish

Thank you, Bader. Good afternoon, everyone, and a warm welcome to all of you joining us today. We truly appreciate your continued interest and support as we share the latest developments and progress at BSF.

I'm pleased to share that the third quarter delivered a strong return on equity, marking the best performance of the year. This achievement is a testament to our team's resilience and strategic focus. We've seen consistent loan growth, a notable uplift in non-interest income, and a well-managed cost structure. These results have been achieved in a dynamic and evolving economic environment, where we've remained agile and proactive in our positioning, waiting for greater clarity while continuing to capitalize on emerging opportunities.

Across the business, we remain deeply engaged in several key initiatives. These are not just about maintaining momentum, but about laying a solid foundation for the remainder of 2026 and shaping our strategic plans going into 2027. Our teams are working closely to refine and adapt where necessary, ensuring that we stay on track to deliver our long-term goals and continue to create value for our stakeholders.

Let me now take you through our financial performance for the first nine months of 2026, beginning with the balance sheet on Slide 8. Total assets increased 10% year-to-date to reach SAR338 billion. This was mainly driven from the loan book, which rose 7% year-to-date with additional support from investments and interbank placements.

Our investment portfolio has expanded by 6% year-to-date with a focus on fixed rate government securities. This strategic allocation reflects our ongoing commitment to managing interest rate risk and optimizing returns across the balance sheet. On the funding side, total liabilities increased by 12% year-to-date largely due to growth in customer deposits and interbank funding.

As we mentioned in the last quarter, the rise in interbank funding is a reflection of a normalization trend from the relatively low base seen at the end of 2025. Additionally, this quarter's growth in interbank liabilities was deliberate move to manage the cost of funds in line with our balance sheet expansion.

Debt securities and term loans have declined by 6% year-to-date primarily due to planned maturities. However, we've seen a modest increase on a sequential basis, thanks to new certificate of deposit issuances. Total equity has seen a slight decline year-to-date. This is mainly due to the dividend payment of SAR1.4 billion, as well as changes in other comprehensive income largely driven by mark-to-market movements related to interest rate fluctuations amounting to approximately SAR800 million.

We'll now move to loans and advances, which you can find on Slide 9. Our loan book has grown by 7% year-to-date, driven by strong momentum across both the Commercial and Consumer segments. This reflects our proactive approach to supporting our clients and aligning with the broader economic vision of the Kingdom.

On the commercial side, loan growth stood at 6% year-to-date. The key contributors to this growth were the utilities, commerce, and services sectors, with additional support from the mining industry and other diversified segments. These results are largely driven by new business, as we continue to capitalize on strategic investments and align with the national investment agenda, particularly in the areas of utilities and infrastructure development.

On the consumer side, we saw robust growth of 13% year-to-date, with mortgages and personal loans leading the charge up by 14% and 15%, respectively. Notably, JB contributed approximately one-third of the growth in the non-mortgage consumer portfolio, underscoring the strength of the subsidiary financing company.

Overall, we remain confident in the trajectory of our loan growth and continue to be on track with our full year guidance for high-single-digit growth. That said, as we move into the final months of the year, we are adopting a more selective approach, prioritizing profitable growth over volume. This means we will continue to be dynamic and strategic in how we manage our balance sheet, ensuring that we maintain both quality and sustainability in our credit portfolio.

With that, let's now turn to deposits, which you can find on Slide 10. Total customer deposits grew by 4% year-to-date, driven primarily by an increase in non-CASA balances, which rose by 6.5%. CASA deposits, while up slightly, contributed less to the overall growth.

Turning to the third quarter more specifically, we observed a modest decline in customer deposits. This was the result of a combination of general market outflows and a shift in customer behavior, with CASA balances moving into time deposits. This was not due to any transitory or temporary deposits, but rather a reflection of broader liquidity environment during the quarter. As a result, the CASA ratio ended at 41.7%, a decrease of 1.3 percentage points year-to-date.

While we remain committed to increasing the CASA ratio over time, we expect this to be a medium-term trend as market conditions continue to normalize. We are closely monitoring key market indicators such as

deposit flows and credit dynamics. For example, in August, the system experienced a modest net outflow of deposits even as credit continued to expand, contrasting with the first seven months of the year, where deposit growth had outpaced loan growth. We will continue to track these indicators to better understand the evolving landscape and the opportunities it may present.

With that, let's now move to the profit and loss section, which is on Slide 11. Net income for the first nine months of the year grew by 7% year-over-year. This was supported by a 6% increase in operating income with contributions from both net interest income and non-interest income. However, this growth was partially offset by higher operating expenses and increased impairment charges, which I will elaborate on shortly. In the third quarter, net income reached SAR1.5 billion, marking another record for the quarter and representing a 12% increase compared to the same period last year.

On a sequential basis, net income was marginally up, driven by a stronger performance in non-interest income, which more than offset the slight decline in net interest income. We also recorded some recoveries related to tax and zakat during the quarter, which contributed positively to the bottom line.

Return on average equity for the nine months stood at 12.38%, remaining largely stable compared to the prior year. In the third quarter specifically, ROE improved by 67 basis points to 12.84% primarily due to the lower level of capital resulting from the previously mentioned dividend payment and impact of changes in other comprehensive income.

Let's now take a closer look at the key components of the P&L, starting with net interest income, which is detailed on Slide 12. Net interest income for the first nine months of 2026 reached SAR6.9 billion, reflecting a 6% year-over-year increase. This growth was supported by an 8% rise in average interest-earning assets as well as a positive contribution from our loan book, investment portfolio, and cash flow hedging activities.

Additionally, we saw a reduction in interest expenses on balances due to banks, which further supported the NII. However, this was partially offset by higher funding costs on debt, which we continue to actively manage. In the third quarter specifically, interest income increased by 2% on a quarter-over-quarter basis, while interest expenses rose by 6%, leading to a 2% decline in net interest income for the quarter. While this quarterly dip is notable, it's important to highlight that, over the full nine-month period, we saw SAR633 million increase in interest income compared to a SAR246 million increase in cost of funds. This resulted in a positive SAR387 million in net interest income delta compared to the same period last year, reinforcing the strength of our performance over the long term.

With that, let's now turn to net interest margin on Slide 13. Our net interest margin in the nine months ended September 2026, it stood at 301 basis points, a 5 basis points decline compared to the prior year. On a quarterly basis, NIM decreased by 13 basis points to 294 basis points, reflecting the evolving dynamics in the funding and liability structure. This decline was primarily driven by three key factors. One, CASA volume decline, with customers shifting a portion of their balances into term deposits, which carry a higher cost. Second, the cost of term deposits themselves increased during the quarter, particularly in the final weeks as the market conditions evolved. And third, the most recent interest rate hike in September had a more immediate impact on the liability side of our balance sheet, as liabilities reprice faster than assets. This means that the cost of funds increased more quickly than the yield on our assets, which typically takes longer to adjust.

Taken together, these three factors are estimated to have resulted in a SAR73 million reduction in net interest income for the quarter, all else being equal. Looking ahead, we are currently factoring in one additional rate hike before the end of the year. Based on this assumption, we expect NIM to remain broadly stable and continue to be in line with our full year guidance of around 3%.

Beyond 2026, the trajectory of NIM will continue to be influenced by CASA trends, market interest rates and the progress of our repricing initiatives. On our part, we are actively working to reprice loans to better reflect current funding costs, remain selective on new lending to protect asset yields and enhance CASA acquisition and retention as part of our broader Strategy 2030 Initiatives.

With that, let's now move to rate sensitivity, which is covered on Slide 14. Our interest rate sensitivity for the quarter remained at 7 basis points, slightly above what we had anticipated. While this is marginal, we still consider this level to be very low, and it remains consistent with our strategic objective of maintaining a largely hedged balance sheet.

The reason for the slight deviation from our original expectations was primarily due to a shift in deposit mix, where CASA balances were partially replaced by shorter-term time deposits at the end of the quarter. This substitution had the effect of increasing the sensitivity figure. However, it is important to note that this is not a structural shift, and we remain confident in our ability to manage and reduce sensitivity over time.

Additionally, the notional amount of cash flow hedges has declined by 29% year-to-date as our balance sheet has evolved. This reduction is largely a result of growth in retail assets and fixed-rate investments, as well as changes in the liability mix, which have collectively reduced the need for hedging activity.

Now let's turn to non-interest income on Slide 15. Non-interest income delivered a 10% sequential increase in the third quarter, and for the nine months of 2026, it was up 8% year-over-year. This growth was driven by stronger performance in trading and investment-related income, which more than offset a small decline in net fees and commissions as well as other income categories. The decline in other income, as shown in the top right chart, was largely a base effect from a one-off asset sale gain of approximately SAR30 million recorded in the second quarter of last year. This makes the current year-over-year comparison more challenging, but we remain encouraged by the underlying trends.

Trading income saw a boost from increased client-related transactions as well as proprietary trading activity, both of which benefited from improved market conditions and higher client engagement. The increase in investment-related income was primarily driven by higher dividend inflows, reflecting the strong performance of our investment portfolio and our focus on income-generating assets.

Net fees and commission income rose by 12% on a sequential basis, and for the nine months, the decline has been reduced to just 2% year-over-year. Within this, we saw several positive developments. Trade finance fees increased by 3% and other fees rose by 27%, with bancassurance playing a key role. This is a clear reflection of our Strategy 2030 focus on fee diversification and cross-selling, and we are encouraged by the momentum we're seeing in these areas.

Card fees experienced a year-over-year loss primarily due to the ongoing cost of promotional campaigns. However, we are pleased to note that the loss significantly narrowed in the third quarter as both income and cost trends improved. This is a positive sign that our efforts to optimize card economics are beginning to bear fruit.

Brokerage and asset management fees were lower year-over-year, reflecting weaker market activity and the impact of the ongoing conflict, which has had a dampening effect on investor confidence and transaction volumes. Looking ahead, we are committed to building on the momentum in non-interest income, particularly in the fourth quarter and beyond as we continue to diversify our revenue streams and drive long-term profitability.

With that, let's now move to operating expenses covered on Slide 16, where operating expenses for the first nine months increased by 7% year-over-year, driven primarily by higher employee costs, general and administrative expenses, and increased depreciation as a number of our transformation and digitalization projects continue to go live. These investments are part of our broader 2030 Strategy aimed at enhancing efficiency, improving customer experience, and future-proofing our operations.

On a quarterly basis, operating expenses remained broadly stable compared to the second quarter, which is a positive sign that we are managing our cost base effectively in the near term. The cost-to-income ratio for the third quarter came in at 32.3%, and for the nine months, it stood at 32.9%, both of which are largely stable compared to the prior year. This demonstrates our continued ability to balance cost management with strategic investments.

Additionally, the cost to average interest-earning assets declined marginally to 121 basis points as our asset base grew by 8%, outpacing the 7% increase in expenses. This reflects positive operating leverage, which we expect to continue as our revenue streams grow and scale. We remain fully committed to managing costs at current levels and driving positive operating leverage through revenue growth. Our objective is to maintain the cost-to-income ratio below 33%, supported by our strategic initiatives, operational efficiency programs, and ongoing focus on digital transformation.

With that, let's now move on to the risk section, starting with Slide 17. The total impairment charge for the nine months stood at SAR784 million, up 4% year-on-year. Within this, lower commercial impairments were offset by higher consumer impairments. Despite this increase, the cost of risk remained stable at 43 basis points for the nine months, a testament to the strong credit quality of our loan book and the prudent risk management practices we continue to apply across the business.

Our ECL model continues to provide a robust and forward-looking view of credit risk in our portfolio. So far, we have not seen material impacts from the current macroeconomic environment as reflected in our relatively benign cost of risk figures for both the third quarter and year-to-date. That said, we are now updating our ECL model more frequently, incorporating macroeconomic variables to ensure that it remains responsive and reflective of the latest developments, particularly in light of the geopolitical uncertainty we are currently navigating. In the third quarter, we also applied a small additional overlay to our ECL model as a prudent precaution in case the model does not fully capture the potential impact of the geopolitical situation.

We will continue to monitor and assess our position closely, and as new data becomes available, we will determine if any adjustments to the ECL model assumptions or the overlay are required in future reporting periods.

Now moving to NPL and coverage on Slide 18. Asset quality remained strong and stable during the quarter, with the non-performing loan ratio at 95 basis points showing improvement on both a year-over-year and quarter-over-quarter basis. This improvement was supported by write-offs in the second quarter and some

minor write-offs in the current quarter, which helped to clean up the portfolio and maintain a healthy credit profile.

The coverage ratio stood at 165.3% at the end of the quarter, a decline year-to-date, but an improvement of 6 percentage points on a sequential basis. Specifically, Stage 3 coverage was at 58.4% at quarter end, and we expect this to remain relatively stable in the near term.

Now let's move to liquidity and capital, starting with liquidity on Slide 19. Our position remains strong and well above regulatory requirements, reflecting prudent liquidity management practices and robust balance sheet structure. The LCR ratio stood at 170% and the NSFR ratio at 121%, both of which indicate a positive and stable liquidity position.

The regulatory LTD ratio was at 79.7%, with the headline LTD ratio at 113.4%. These figures reflect our healthy liquidity buffer and our ability to meet short and long-term funding needs without undue stress. Given the deposit trends, however, and the resulting cost of funds, we are increasing our focus on being more active in managing the balance sheet, including repricing strategies that better reflect the true cost of deposit gathering, while also recognizing the long-term value of client relationships. Overall, we aim to maintain the LD ratio around these levels going forward, ensuring sustainable liquidity management, while supporting continued growth and customer acquisition.

Let's now move to capital on Slide 20, where the capital position remains healthy and robust, with total capital stable at SAR56.5 billion and the capital adequacy ratio at 20.2%, well above regulatory requirements. The sequential decline in capital ratios was primarily driven by the dividend payment and the impact of changes in OCI during the quarter. Specifically, the OCI alone reduced the CET1 ratio by 32 basis points, which is a normal and expected outcome following the move-in rates.

Looking ahead to the fourth quarter, we expect capital to increase again in the absence of a dividend payment, and we remain comfortable with our overall capital position. This provides us with the flexibility to support continued growth, while maintaining healthy capital buffers above regulatory thresholds.

Our capital management strategy remains focused on balancing growth with prudence, ensuring that we are well positioned to navigate any macroeconomic or market volatility, while delivering long-term value to our stakeholders.

With that, let's now move to the full year guidance, which is covered on Slide 21. We are reaffirming all of our full year 2026 guidance metrics. We remain on track across all metrics and are confident in delivering our full year commitments, but willing to prioritize some over others.

In closing, to sum up. The third quarter delivered our strongest return -- return on equity performance of the year, with profitability improving alongside continued loan growth, a turnaround in fee income including positive contributions from BSF Capital, and stable costs even as net interest margin faced pressure from funding costs and deposit mix shifts as liquidity conditions in the market tightened.

We remain mindful of the geopolitical environment, but we continue to see opportunity for profitable loan growth, while taking a more selective approach for the remainder of the year. Positive dynamics, particularly around CASA, remain an area where we are watching closely, and our balance sheet and capital position stayed healthy through the quarter. All in, the results position us well for the rest of the year.

With that, we will open the line for questions.

Questions And Answers

Q – Rahul Rajan

Thank you. We will now open the line for questions. So, participants if you have questions requested to kindly raise your hand, else you can also submit your questions to the chat box. While the question queue lines up, maybe I could go ahead with a few questions from my side, please.

Firstly, is around your comments on LDR. You mentioned that you would like to maintain LDR at these levels. So, if we were to see the ongoing cost of funds pressure continuing, would you prefer to slow down the lending growth to match that of the deposit growth, or would you prefer to just raise deposits at higher rates in order to fund the credit growth, although that might be negative from a NIM perspective? So that's number one.

Secondly is talking about NIMs. We did see a quite a substantial NIM pressure in 3Q. So how do you see cost of funds in the fourth quarter and also into 2027? Any risks to your 2030 Strategy guidance or what can you see or what can you do rather to help improve NIMs from here? So that's number two.

And thirdly is on the loan growth perspective. We saw a strong retail loan growth in third quarter, close to 6%. Similarly, even SMEs also saw a decent growth 6% quarter-on-quarter. So, if you can just help us understand, what is driving this loan growth in retail and in SMEs also, how are you differentiating yourself versus peers? Thank you.

A – Ramzy Darwish

Thank you for the question. I'll take the first one to start on the loan-to-deposit ratio. So, we do want to maintain that loan-to-deposit ratio on the headline around these levels. I think we have to be more dynamic as we work through this quarter and also going into next year, where we have to identify whether the costs can pass to the clients on the loan side, so repricing. I think if we're unable to really pass on the true cost of funds, then our preference will be to manage the balance sheet by reducing the loan growth as a result.

So, I think right now we want to have both options open. We want to continue growing the loan book in line with our 2030 Strategy, but that will be subject to our ability to pass on the cost of funds or to garner a cheaper cost of funds going forward. That will allow for that. In terms of the second question, on net interest margin.

A – Zuhair Mardam

Sure. So, on the -- on NIM -- the third quarter we had a step back that came in at 294 basis points for the quarter, down 13 basis points from the second quarter. For the whole year, as the CFO mentioned, we are at 301 basis point, which is 5 basis points lower than late last year. The pressure is really on the funding side. Liquidity got tighter towards the end of the quarter, and we've witnessed a shift from CASA into term deposits. So, our CASA stood at 41.7%.

Deposits are also in competition towards the end of the quarter and running through actually towards this quarter as well, and because of liabilities continues to reprice faster than assets, we had felt that quite a bit towards the end of the quarter.

On the loan front, repricing would only come as facilities reset, and we expect that to happen throughout Q4 and into Q1 of next year. Cost of funding is really 9 basis points, while rose about 9 basis points, while assets slip 4 basis points. Taken together, we estimate that to be around the SAR70 million of NII in the quarter.

As where we would land, CFO had mentioned we expect -- we expect our guidance to remain the same. We are guiding exactly the same. However, if more pressure continues throughout Q4, we'd expect that to slip maybe slightly below 3%. In terms of interest rate hikes, which is really nothing to do with our any NIM sensitivity since we target neutrality, we would -- we are pricing in 25 basis point hike in Q4.

What works really in our favor is that, in terms of higher rates with -- at least within Q4 would expect that to feed into the loan pricing, as facilities would continue repricing. We're also continuing to reprice our corporate book in terms of margin, being more selective on new corporate lending and growing deposits through strategic initiatives such as our business banking. So, it's less about how rates would go but really how we can continue improving our funding mix.

A – Ramzy Darwish

And on the last question on the retail loan growth, I think there's a confluence of factors that have really added to this. One is the low base that we're starting with. In terms of attention, we've obviously put more towards the retail group through the strategy. But also, we've adjusted KPI's incentives, and the like to drive performance there.

In terms of pricing, I'd say we're middle of the pack compared to the competition. So, this would be not a major driver. And lastly, probably product creation. So, variations of products have allowed also for new opportunities to grow. So, a combination of all of these have really led to the retail loan growth. And again, from the lower base, we project that this is still an area where we can continue to outgrow the market.

Q – Rahul Rajan

Thank you. We have a question from Murad Ansari. You might please ask your question.

Q – Murad Ansari

Hi. Thanks for the presentation. I just want to get your thoughts on the liquidity side, since you did mention that fourth quarter, towards the end, the liquidity situation tightened, and there was some rotation from CASA into time as well. I just wanted to get a sense of how October has been. Is this trend kind of continuing into October, and do you expect this to sustain in fourth quarter? And particularly in view of how there was volatility on the interbank rates in the first half of October? So just your thoughts on how you see the liquidity situation evolving, and how much pressure are we -- do we see fourth quarter to remain a pressure point on funding?

My second question was on the RWA density. Since the end of last year, I think we've been seeing consistently -- consistent decline in RWA density over the past. This is the third quarter in a row, so just wanted to get an idea of what's helping this to improve?

And then finally, on cost of risk, how things are, you're looking at very much regular assessments of your portfolios. You've taken -- I think you've talked about taking overlays in the first half as well. How should we think about fourth quarter cost of risk? Because you're trending at about 43 basis points, which is below your 45 to 50 basis point kind of range. Should we be looking at you being a little bit more conservative on asset quality and coverage levels as we close fourth quarter? Thank you.

A – Zuhair Mardam

Thank you for your question. So, I'll start off with the liquidity question. I would say, coming into Q4, it's still early days. I think it's more of a first impression on a continuation of what we have witnessed in Q3. So, since the end of September, as I mentioned earlier, SAIBOR rates have come off a bit, but deposit pricing or competition on deposits hasn't really followed. Clients are asking a premium on term deposits. This is also somehow cyclical at this time of the year, where banks aim to cover your turn. So, October feels a lot like the end of the quarter of last quarter, but we're still assuming that the quarter would remain tight up until December.

With regards to the geopolitics, I would say the impact was less direct than expected. In the first half, we've seen liquidity actually going easier. That's the first time in years whereby deposits had outpaced loans. Government deposits had grown in the first half. We've seen funds coming back within the Kingdom, and wholesale markets remained relatively functional. Several institutions have tapped the market this year as well on the wholesale funding side. On our side, we continue to print CDs and private placement issuances, also bilateral fundings. We haven't seen a real drop in demand with regards to the geopolitical tension.

I think the main tightening that we've seen is really in the third quarter coming from government deposits coming down and credit outpacing deposits. Whether that's really linked to the conflict through oil revenue or otherwise, or just time of spending, it's hard to tell. And I wouldn't really want to overstate it either way. From our perspective, or even the banking sector, you see that liquidity is solid in terms of ratios, and our contingency funding plans are in place.

One point I would like to mention is that the Saudi, or the local banking sector, is predominantly resident, unlike several of our neighboring countries whereby they hold large sum of foreign deposits and that is significant. So, I believe that we're quite resilient on that front.

A – Ramzy Darwish

And I'll take the question on the next two. So, for RWA density, I think the main element there is the growth in retail versus other lending. So, retail having a lower risk weight overall would be driving the RWA density slightly lower. Separately, we've been working on what we would put under the capital optimization theme, but really identification of internal elements, where we make sure we are recognizing the full collateral, the ratings, et cetera, that provide a justification for the adjustments in RWA in accordance with Basel and the Central Bank regulations.

And on the third question for provisions, I think it is dependent on a few things, but we still view that we will land below the 50 basis points for the full year. It depends on loan growth for Q4 specifically, because this will drive ECL based on IFRS 9 requirements, and then separately, I think the longer the conflict continues, we have started now again to add to the overlay, and potentially we would take more there as well. I think we do have to make this call and analysis on a running basis. So, we will evaluate it in the fourth quarter and make it a judgment on that case.

Q – Rahul Rajan

Thank you. We have a question from Naresh Bilandani. Please go ahead.

Q – Naresh Bilandani

Hi, it's Naresh Bilandani from Jefferies. Thank you very much for the presentation. A few quick questions, please. One, can you kindly highlight the reasons for the low effective tax rate that we've seen in this quarter, and what would be your guidance on the sustainability of the same from this point on? That's the first one.

Second is, I mean, clearly the relative improvement that we've seen come through on a quarterly basis in the fee incomes is also being helped by reduction overall in the fee expense line. Could you please highlight the underlying reasons of the same? And when I see the slide on the breakdown in the fee incomes, while we are seeing a strength across the board, clearly there's a line called other fees which has shown sort of like a meaningful improvement, albeit from a small base. So further clarifications on those areas would be extremely helpful.

And my third question, and sorry once again for just a near-term guidance, we've seen a very strong set come through on the exchange income line. Amid the continuation of the geopolitical risk, would you see the strength in this exchange income carry through in Q4, or was this the peak for the near-term? Thank you so much.

A – Ramzy Darwish

Thank you, Naresh, for the question. I'll start with the tax rate. So, this was mainly driven lower because of a recovery of zakat on Saudi Government sukuk. I think some of the other banks had something similar earlier in the year, but for us this is a one-off. I think we do have some recoveries that will kick in also over the next quarter or two, but it's not something that we would consider as a long-term reduction.

On the next question for fees. On fee expenses, I think the major drive here was the decline in terms of fee expenses was an adjustment on credit cards particular as it relates to rewards and miles and such. So, we've made an adjustment or some adjustments this year to lessen the campaign costs for the credit card, and this is what's driven fee expenses lower compared to the higher expenses previously. And on the other item for other fees, this is mainly driven by the bancassurance product, which we've had in the past. But we've really put greater focus on it this year in the effort to drive non-interest income within the retail business. So, this is an area where we've built greater traction between the business lines as it relates to bancassurance as a product for the bank.

A – Zuhair Mardam

I'll take the FX question. On the exchange income, we have witnessed an improvement in margins despite having trade volumes coming down for the year as per SAMA data. We expect the margins to continue in Q4. However, going forward, I think the evolution of exchange income will depend on balance sheet growth overall and trade activity. Should the conflict be resolved earlier and trade activities resume, as we've seen in the last year, we expect that to have a positive momentum into next year. But if things remain as they are and we have a prolonged, let's say, conflict, we'd expect that to be subdued, and we try to work a bit more on the margin income.

Q – Rahul Rajan

Thank you. We have a few -- we have a few questions on the text box, so I'll probably just go through those. First is on the NIM sensitivity. Could you please confirm if NIM will be positively correlated with rate hikes or the other way around?

A – Zuhair Mardam

So, the NIM, the way we look at it is just the short answer is that we are negatively impacted by higher rates, so that 7 basis points we benefit if interest rate goes down. But I think the way we look at it is how much fixed rate assets we have against our fixed rate liabilities plus equity, and that turns out to be exactly at 100%. So, we do not factor in any repricing or duration. It's purely a static balance sheet as of end of period and shocking the interest rate by 100 basis points.

Our target is to remain neutral. We are neutral towards interest rates. The NIM, as per the definition here is basically to your question is negative 7 basis points.

A – Ramzy Darwish

I'll just add, on the ground, what you see here in the sensitivity is a snapshot, whereas what we're trying to manage is the daily impact and average in terms of interest rate moves on the income statement. And the ambition and target is to maintain a neutral position there. But on a day-to-day basis, you might have, again, similar to the snapshot we have at the end of this quarter, a 7-basis point sensitivity. But the ambition is as close to zero. And that's a structural decision the bank has had over its history.

Q – Rahul Rajan

Thank you. The next question is regarding NPL in the Retail segment has been rising in the past few quarters and, in absolute terms, is 2x the 3Q '25 level. Are you concerned about this, and what is the action plan for correcting this trend?

A – Ramzy Darwish

Yeah, so no concern. This is actually in line with our expectations given what we've highlighted in the 2030 Strategy, because we have JB as a -- as an element within the overall group. The cost of risk there and the NPL is expected to be higher than the retail business. So, a majority of the increase is actually what we have on JB. And when we look at it as a product from a yield and a triple net basis, it's still very profitable for the Bank.

So, we understand the cost of risk. The NPL will be higher than the Bank's existing retail business. But overall, we continue to view it as a profitable business line to continue to scale.

Q – Rahul Rajan

Thank you. Next up is on cost of risk. Cost of risk remain broadly stable at 43 basis points in nine months '26. As we look into 2027, should we view the current level as a sustainable, normalized cost of risk, or do we expect some normalization from here as the loan book continues to grow?

A – Ramzy Darwish

So, I think it's a bit early to really have some level of guidance on 2027, though we've highlighted in the 2030 Strategy that our expectation, sort of through the cycle cost of risk is 50 to 60 basis points, and that's the average. So, you could have periods where it will be lower and periods where it would be higher than that.

Our expectation I think is that 50 to 60 basis points through the cycle will be what will on average be around given the mix in terms of loan book.

Q – Rahul Rajan

Thank you. Next question is on non-interest-bearing deposits. So, what's the ratio of non-interest-bearing deposits in 3Q '26?

A – Zuhair Mardam

It's 41.7%. That's the CASA ratio.

Q – Rahul Rajan

Thank you. We had a question on dividends. So, any risk to dividends given the ongoing situation similar to what happened during COVID, when Bank cut the dividends?

A – Ramzy Darwish

No, I don't think from the bank side there's any indication right now. We still view our Capital position as fairly strong. I think the macro environment is one we continue to watch, but nothing that will drive our decision-making on dividends at the moment. We still feel there's ample capital available to allow us to grow. But we continue to watch the situation, if any change is warranted.

Q – Rahul Rajan

Sure. Thank you. Question on cost of risk. You mentioned there were some overlays that was taken in 3Q. Would you be able to quantify the overlays, please?

A – Ramzy Darwish

So, it's a touch above SAR50 million. In percentage terms, it's a little over 20% of the impairment we took in Q3.

Q – Rahul Rajan

Thank you. With this I think we have addressed questions in line. Participants, if you have any unanswered questions, request you to kindly direct that to the Investor Relations team at BSF. With this I'd like to hand the call back to the BSF team, please.

A – Bader AlSalloom

Thank you all for joining us this afternoon. We appreciate your time and look forward to speaking with you again next quarter, when we report our full year results. Thank you.

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