Banque Saudi Fransi (BSF)

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 19.70	SAR 22.50	+14.2%	ACCUMULATE

2Q26 Net Profit higher than our estimate

- Banque Saudi Fransi (BSF/the Bank) reported a 6.0% YOY increase in net profit to SAR 1,487 Mn in 2Q26, supported by higher funded and non-funded income, partially offset by higher operating expenses, impairment charges and zakat expenses.
- Net funded income increased 6.7% YOY to SAR 2.3 Bn in 2Q26, supported by higher returns from financing and investments, along with growth in net advances; this was partially offset by a 5.0% YOY increase in funded expenses to SAR 2.2 Bn in 2Q26.
- Non-funded income increased 5.0% YOY to SAR 506 Mn in 2Q26, driven by higher trading income, dividend income and gains on non-trading investments, partially offset by lower net fee and commission income, exchange income and other operating income.
- Operating expenses increased 6.0% YOY to SAR 925 Mn in 2Q26, mainly driven by higher salaries and employee-related expenses, other operating expenses, G&A expenses and depreciation & amortization expenses.
- The cost-to-income ratio declined 13 bps YOY to 32.5% in 2Q26, reflecting stronger income growth relative to operating expenses during the quarter.
- Pre-provision profit increased 6.6% YOY to SAR 1,924 Mn in 2Q26.
- Impairment charges increased 13.3% YOY to SAR 267 Mn in 2Q26, mainly due to higher impairment charges on other financial assets, partially offset by lower impairment charges for expected credit losses on loans and advances.
- Net advances increased 6.8% YOY and 1.0% QOQ to SAR 224.2 Bn in 2Q26, coupled with a growth in investments supporting balance sheet expansion.
- Customer deposits increased 12.0% YOY and 2.5% QOQ to SAR 204.6 Bn in 2Q26, reflecting continued growth in the Bank's funding base.
- The Bank's loan-to-deposit ratio declined by 528 bps YOY and 159 bps QOQ to 109.6% in 2Q26, reflecting stronger deposit growth relative to lending expansion.
- BSF's total assets increased 8.6% YOY and 1.0% QOQ to SAR 328.0 Bn in 2Q26, supported by growth in lending and higher investments.

Earnings Call Summary

- BSF delivered a resilient quarter, supported by healthy business momentum despite ongoing regional geopolitical uncertainty.
- Strategy 2030 execution progressed steadily, with 21 strategic initiatives underway and seven delivering early benefits.
- Loan growth remained broad-based, while management maintained its high single-digit growth guidance for 2026.
- Commercial lending moderated sequentially, although the corporate financing pipeline remained well diversified, with management expecting 2H26 corporate credit demand to remain broadly in line with 1H26.
- The Bank will focus on relationship-based lending, ancillary business, asset quality and portfolio diversification over aggressive financing.
- BSF remains focused on expanding CASA, as lower-cost deposits continue to be the primary driver of funding cost optimization and NIM expansion.
- Sequentially, NIM improved on lower funding costs, while 2026 guidance remained unchanged at c. 3.0%, with limited balance sheet sensitivity to interest rate movements and continued focus on reducing funding costs.

- BSF began repricing corporate loans in late 2024 and continued through 2025. While some clients initially resisted higher pricing, acceptance improved as more banks repriced loans due to rising funding costs. The bank expects repricing to continue in 2026, although only for selected corporate clients.
- Fee income remained under pressure during 1H26, with recovery expected as strategic initiatives gain traction, while management expects fee income to become the primary driver of non-funded income as trading and investment gains normalize during 2H26.
- Management expects operating expenses to remain broadly stable in 2H26, with only modest inflation-related increases and no recurrence of the one-off costs incurred in 4Q25.
- Asset quality remained resilient, prompting management to narrow 2026 cost of risk guidance to 45–50 bps, incorporating updated macroeconomic assumptions.
- Provision coverage remained comfortable despite lower NPL coverage, reflecting portfolio movements rather than credit deterioration, with management indicating there are no plans to materially increase Stage 3 coverage from current levels.
- Geopolitical developments have not materially affected customer activity, financing demand or underlying credit quality.
- Capital and liquidity remained comfortably above regulatory requirements, supporting future growth and shareholder returns, while management indicated funding costs remain the key constraint for incremental loan growth.
- Exposure to giga projects remains limited, with existing exposures progressing as planned and management seeing no material credit concerns from ongoing project reprioritization.
- Management reaffirmed FY26 guidance across key metrics, reflecting confidence in earnings and balance sheet resilience.

BSF – P&L

SAR Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch
Funded income	4,324	4,433	4,577	4,571	0.1%	5.9%	3.3%
Funded expense	2,128	2,216	2,234	2,319	-3.7%	5.0%	0.8%
Net funded income	**2,196**	**2,217**	**2,343**	**2,252**	**4.0%**	**6.7%**	**5.7%**
Non-funded income	482	491	506	448	12.8%	5.0%	3.0%
Operating income	**2,678**	**2,708**	**2,849**	**2,700**	**5.5%**	**6.4%**	**5.2%**
Operating Expenses	873	922	925	916	1.0%	6.0%	0.3%
Pre-provision profit	**1,805**	**1,786**	**1,924**	**1,784**	**7.8%**	**6.6%**	**7.7%**
Impairment	236	246	267	257	3.9%	13.3%	8.6%
PBT	**1,569**	**1,540**	**1,656**	**1,527**	**8.4%**	**5.5%**	**7.5%**
Zakat	166	159	169	159	6.4%	1.8%	6.4%
Net profit attributable	**1,403**	**1,381**	**1,487**	**1,368**	**8.7%**	**6.0%**	**7.7%**

FABS estimate & Co Data

Management Guidance:

Metric	1H 2026 Outcome	2026 Guidance	1H 2026 Revision	Guidance Drivers
Loans & Advances Growth	+4.4% YTD ⃁ Bn 224.2	High single digit	unchanged	The guidance reflects stronger volumes in both commercial and consumer portfolios, with JB driving growth in consumer lending.
Net Interest Margin	3.04% ▼ -7 bps YOY	~3.00%	unchanged	Impact from lower NIBD ratio to be partly offset by increased spread from repricing of corporate loans and growth in JB.
Cost of Risk	44bps ▼ -6 bps YOY	45-50bps	narrowed from 45-55bps	Cost of risk outlook refined to reflect a more measured normalization of the commercial book, alongside growth in JB and prudent forecasting of recoveries.
Cost to Income Ratio	33.2% ▲ +0.5 ppts YOY	<33%	unchanged	Cost to income ratio to move towards the guided range aided by positive operating leverage.
Return on Equity	12.1% ▼ -42 bps YOY	12-13%	unchanged	ROE guidance is supported by higher net interest income, increased fee generation, and disciplined operating and risk cost containment.
Core Equity Tier 1 Ratio	15.9% ▼ -29 bps YTD	>15%	unchanged	Capital ratios are expected to remain stable through retained earnings, balancing growth-related capital consumption.

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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