Earnings Call Insight | 3Q26

Saudi Equity Research | Sector: Banking | Market: Tadawul

Banque Saudi Fransi (BSF)

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 19.11	SAR 24.00	+26%	BUY

3Q26 Net Profit in line with our estimate

- Banque Saudi Fransi (BSF/the Bank) reported an 11.5% YOY rise in net profit to SAR 1,509 Mn in 3Q26, in line with our estimate of SAR 1,530 Mn, supported by higher net funded and non-funded income, partially offset by higher operating expenses and impairment charges.
- Net funded income increased 6.5% YOY to SAR 2,303 Mn in 3Q26, supported by higher funded income, partially offset by increase in funded expenses.
- Non-funded income increased 27.9% YOY to SAR 559 Mn in 3Q26, mainly driven by higher net fee and commission income, trading income, exchange income and dividend income, partly offset by a decline in gains on non-trading investments.
- Operating expenses increased 8.4% YOY to SAR 926 Mn in 3Q26, primarily driven by higher salaries & employee-related expenses, depreciation & amortization and other G&A expenses, partially offset by rent & premises related expenses.
- Pre-provision profit rose 10.9% YOY to SAR 1,936 Mn in 3Q26.
- Impairment charges increased 14.5% YOY to SAR 271 Mn in 3Q26, mainly due to higher impairment charges for expected credit losses on loans and advances.
- Net advances increased by 6.9% YOY and 2.7% QOQ to SAR 230.4 Bn in 3Q26, supported by higher lending volumes across commercial and consumer segments.
- Customer deposits grew 9.3% YOY but declined 0.7% QOQ to SAR 203.2 Bn in 3Q26, mainly due to increase in time deposits.
- The Bank's loan-to-deposit ratio increased by 376 bps QOQ to 113.4% in 3Q26, driven by growth in net advances alongside a marginal decline in customer deposits.
- BSF's total assets expanded by 7.5% YOY and 3.3% QOQ to SAR 338.6 Bn in 3Q26, supported by growth in lending and investment portfolio.

Earnings Call Summary

- BSF delivered a resilient quarter, supported by healthy business momentum despite ongoing regional geopolitical uncertainty, with 3Q26 net profit reaching a quarterly record of SAR 1.5 Bn.
- Strategy 2030 execution progressed from early activation to steady execution. ROE improved to 12.4% (targeting c. 15% by 2030), while the non-interest income share stood at 18% and the CASA ratio at 41.7% against a target of c. 40%.
- Loan growth remained broad-based, while the Bank maintained its high single-digit growth guidance for 2026. However, the Bank is adopting a more selective approach in the remaining months of the year, prioritising profitable growth over volume.
- Commercial loans grew 6% YTD, led by the utilities, commerce and services sectors and supported by mining. Consumer loans grew 13% YTD, led by mortgages and personal loans, with JB (the Bank's consumer finance subsidiary) contributing c. one-third of non-mortgage consumer growth.
- BSF indicated that if higher funding costs cannot be passed on to customers through repricing, it would prefer to moderate loan growth to keep the headline loan-to-deposit ratio around current levels (113.4%).
- The CASA ratio declined 1.3 ppts YTD to 41.7%, as customers shifted balances into time deposits amid tighter system liquidity. The Bank remains committed to improving the CASA ratio over the medium term as market conditions normalise, with CASA acquisition and retention a key focus under Strategy 2030.
- NIM declined 13 bps QOQ to 2.94% in 3Q26, owing to the CASA-to-time-deposit shift, higher term deposit costs and faster repricing of liabilities following the September 2026 rate hike. Together these reduced NII by c. SAR 70–73 Mn in the quarter. The 9M26 NIM stood at 3.01% (−5 bps YOY), and 2026 guidance was

maintained at c. 3.0%, although the Bank noted NIM could slip slightly below 3% if funding pressure persists through 4Q26.

- Corporate loans continue to be repriced as facilities reset through 4Q26 and into 1Q27. The Bank is also being more selective on new corporate lending to protect asset yields.
- The Bank's NIM sensitivity is −7 bps for a 100-bps rate increase. Management targets a neutral interest rate position over time.
- Exchange income benefited from improved margins despite lower system-wide trade volumes, with BSF expecting margins to be sustained in 4Q26. Going forward, exchange income will depend on balance sheet growth and trade activity, with a positive momentum expected in 2027 if the conflict is resolved, while a prolonged conflict could subdue it.
- The reported cost-to-income ratio stood at 32.3% in 3Q26 and 32.9% in 9M26, with the Bank targeting below 33%, supported by positive operating leverage.
- Asset quality remained resilient, with 9M26 cost of risk at 43 bps. BSF maintained its 2026 cost of risk guidance of 45–50 bps and expects the full year to land below 50 bps. The through-the-cycle cost of risk is expected at 50–60 bps under Strategy 2030.
- The Bank applied an additional ECL overlay of a little over SAR 50 Mn in 3Q26 (c. 20% of the quarter's impairment) as a precaution against geopolitical risk, and is updating its ECL model more frequently with macroeconomic variables.
- The NPL ratio improved to 0.95% in 3Q26 from 0.99% in 3Q25, while the coverage ratio declined to 165.3% in 3Q26 from 178.4% in 4Q25, owing to the write-off of two fully covered corporate accounts earlier in the year, although it improved from 159.3% in 2Q26.
- Stage 3 coverage declined 12.1 ppts YTD to 58.4% in 3Q26 and is expected to remain broadly stable. Consumer NPLs nearly doubled to SAR 563 Mn in 3Q26 from SAR 288 Mn in 3Q25, mainly linked to JB, which the Bank said was in line with expectations given its higher-risk but profitable profile.
- Geopolitical developments have less direct impact than expected on customer behaviour, financing demand and credit quality. The tighter liquidity in 3Q26 came mainly from lower government deposits and credit outpacing deposits, and the Bank expects conditions to remain tight until December 2026.
- Capital and liquidity remained comfortably above regulatory requirements, with CET1 at 15.3%, CAR at 20.2%, LCR at 170.5%, NSFR at 121% and a regulatory LTD ratio of 79.7% as of 9M26. The sequential decline in capital ratios reflected the dividend payment and OCI movements, with OCI alone reducing CET1 by 32 bps, and capital is expected to increase in 4Q26.
- The lower effective tax rate in 3Q26 reflected a one-off zakat recovery on Saudi government sukuk.
- The Bank sees no current risk to dividends, citing an ample capital position.
- The Bank reaffirmed FY2026 guidance across all metrics with high single-digit loan growth, NIM of c. 3.0%, cost of risk of 45–50 bps, cost-to-income below 33%, ROE of 12–13% and CET1 above 15%.

BSF – P&L

SAR Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch
Funded income	4,517	4,577	4,661	4,638	0.5%	3.2%	1.8%
Funded expense	2,355	2,233	2,358	2,200	7.2%	0.1%	5.6%
Net funded income	**2,162**	**2,343**	**2,303**	**2,439**	**-5.6%**	**6.5%**	**-1.7%**
Non-funded income	**437**	**506**	**559**	**502**	**11.5%**	**27.9%**	**10.5%**
Operating income	**2,599**	**2,849**	**2,862**	**2,940**	**-2.7%**	**10.1%**	**0.5%**
Operating Expenses	854	925	926	941	-1.6%	8.4%	0.1%
Pre-provision profit	**1,745**	**1,924**	**1,936**	**1,999**	**-3.1%**	**10.9%**	**0.6%**
Impairment	237	267	271	287	-5.5%	14.5%	1.4%
PBT	**1,508**	**1,656**	**1,666**	**1,712**	**-2.7%**	**10.4%**	**0.6%**
Zakat	156	170	157	181	-13.5%	1.0%	-7.6%
Net profit attributable	**1,353**	**1,487**	**1,509**	**1,530**	**-1.4%**	**11.5%**	**1.5%**

FABS estimate & Co Data

Management Guidance:

Metric	9M 2026 Outcome	2026 Guidance	9M 2026 Revision	Guidance Drivers
Loans & Advances Growth	+7.2% YTD, Bn 230.4	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	3.01%, ▼ -5 bps YOY	~3.00%	unchanged	Impact from lower CASA ratio to be partly offset by increased spread from repricing of corporate loans and growth in JB.
Cost of Risk	43bps, ▶ -1 bps YOY	45-50bps	unchanged	Cost of risk outlook reflect a measured normalization of the commercial book, alongside growth in JB and prudent forecasting of recoveries.
Cost to Income Ratio	32.9%, ▶ +17 bps YOY	<33%	unchanged	Cost to income ratio to remain within the guided range, supported by positive operating leverage.
Return on Equity	12.4%, ▶ -1 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	15.3%, ▼ -95 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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