

Banking

Aug 26 BNM Statistics: Firmer Loan Growth; Improving Funding Mix

Highlights

- Business lending continued to strengthen and CASA mix improved, but household demand and approvals softened, while asset quality edged weaker with coverage broadly stable.
- We expect sector earnings to grow by a decent 6% in 2027. Earnings resilience will be underpinned by modest loans growth, stable credit costs and relatively stable NIM with banks' asset liability management helping to offset some of the headwinds from yield pressure.
- Maintain OVERWEIGHT. Amid the ongoing Middle East geopolitical uncertainties, we adopt a barbell strategy, favouring Hong Leong Bank for its defensive profiles and capital management upside, while CIMB offers attractive value with one of the sector's highest dividend yields at around 6.5%.

Analysis

- Business lending drives further acceleration.** Loan growth strengthened to 5.7% yoy in Aug 26 (Jul 26: 5.6%), led by business loans rising to 6.8% (Jul 26: 6.4%), while household growth eased to 5.0% (Jul 26: 5.1%). Working-capital growth accelerated to 5.3% (Jul 26: 4.5%), offsetting softer SME growth of 3.8% (Jul 26: 4.5%), while mortgage, hire-purchase and credit-card growth all moderated.
- Business approvals remain the key pipeline support.** Approved loan growth moderated to 10.9% yoy in Aug 26 (Jul 26: 25.1%) as household approvals contracted -10.7% (Jul 26: -2.8%). Business approvals remained strong at 31.2% (Jul 26: 53.2%), supported by working capital at 50.9%, while SME approvals improved to 7.7% (Jul 26: -3.2%). Mortgage and hire-purchase approvals weakened further, keeping the household pipeline subdued.
- CASA strengthens despite softer deposit growth.** Total deposit growth moderated to 5.2% yoy in Aug 26 (Jul 26: 5.6%), trailing loan growth and lifting the loan-to-deposit ratio to 89.8% (Jul 26: 88.8%). Encouragingly, CASA growth accelerated to 7.9% (Jul 26: 7.1%) and CASA mix improved to 31.1% (Jul 26: 30.7%), partly offsetting continued contraction in fixed deposits and supporting the overall funding mix.
- Asset quality softens but remains contained.** Total GIL rose slightly to 1.44% in Aug 26 (Jul 26: 1.43%), with household GIL increasing to 1.11% (Jul 26: 1.10%) and business GIL to 1.92% (Jul 26: 1.91%). SME GIL increased to 3.63% (Jul 26: 3.58%), while LLC was broadly stable at 81.4%, suggesting no material deterioration in coverage during the month.

Peer Comparison

Company	Ticker	Rec	Price	Target	Upside	FYE	PE			Yield	ROE	Market Cap.	Price/
			30 Sep 26	Price	To TP		2025	2026F	2027F				NAV ps
			(RM)	(RM)	(%)		(x)	(x)	(x)	(%)	(%)	(\$m)	(x)
Public Bank	PBK MK	BUY	4.70	5.54	17.9	Dec-25	12.6	12.1	11.3	6.2	12.4	22,360	1.5
CIMB Group	CIMB MK	BUY	7.79	9.30	19.4	Dec-25	10.7	10.1	9.3	6.5	11.6	20,607	1.1
HL Bank	HLBK MK	BUY	23.14	24.50	5.9	Jun-25	10.3	10.6	10.1	4.8	10.8	12,294	1.2
HLFG	HLFG MK	BUY	18.74	22.00	17.4	Jun-25	6.9	6.5	5.4	5.2	9.6	5,260	0.6
Maybank	MAY MK	HOLD	9.99	11.58	15.9	Dec-25	10.7	10.2	10.0	6.6	11.0	29,616	1.1
RHB Bank	RHBBANK MK	HOLD	7.50	9.10	21.3	Dec-25	9.7	9.3	8.9	7.0	10.2	8,024	0.9
AMMB	AMM MK	HOLD	6.38	7.30	14.4	Mar-25	10.1	9.6	9.1	6.2	9.7	5,179	0.9
Alliance Bank	ABMB MK	HOLD	4.69	5.20	10.9	Mar-25	9.8	9.4	8.8	5.9	9.3	1,989	0.9
Affin Bank	ABANK MK	HOLD	2.00	2.48	24.0	Dec-25	9.0	8.3	7.5	4.8	4.8	1,290	0.4
Bank Islam	BIMB MK	HOLD	2.07	2.45	18.4	Dec-25	7.5	7.6	8.3	6.6	7.1	1,150	0.5

Source: Bloomberg, UOB Kay Hian

Analyst(s)

Philip Wong

philipwong@uobkh.com
+603 2147 1996

Keith Wee

keithwee@uobkh.com
+603 2147 1981

OVERWEIGHT (Maintained)

Segmental Rating

Segment	Rating
Bank	OVERWEIGHT (MAINTAINED)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Hong Leong Bank	HLBANK MK	BUY	23.14	24.50
CIMB	CIMB MK	BUY	7.79	9.30

Source: Bloomberg, UOB Kay Hian

Summary Of Banking Data

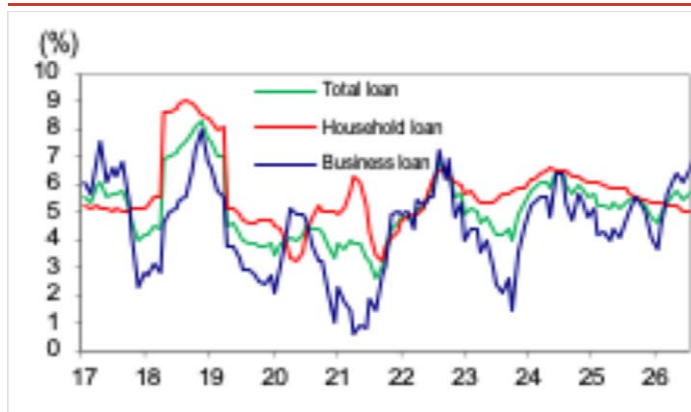
	yoy % chg		
	Jun-26	Jul-26	Aug-26
Loan Outstanding	5.5	5.6	5.7
- Business	6.1	6.4	6.8
- Household	5.0	5.1	5.0
Loan Applied	27.0	16.8	(0.3)
- Business	45.9	37.0	5.5
- Household	12.5	1.6	(5.1)
Loan Approved	22.8	25.2	10.9
- Business	35.3	53.3	31.2
- Household	8.6	(2.7)	(10.7)
Loan Disbursed	7.0	7.6	38.2
- Business	8.0	9.1	20.8
- Household	3.3	2.9	1.9
Loan Repaid	12.4	6.0	9.9
- Business	13.9	6.9	12.1
- Household	7.2	2.9	2.9
Impaired Loans	6.2	4.8	6.1
- Business	4.8	1.6	2.6
- Household	7.8	8.8	10.5

Source: BNM

Valuation/Recommendation

- **Maintain OVERWEIGHT.** We remain constructive on the sector, underpinned by: a) potential dividend upside, supporting attractive yields of around 5.5%; b) a relatively defensive earnings profile compared with export sectors exposed to tariff risks; c) potential inflows from emerging market MSCI rebalancing; and d) strong provision buffers across the sector. The sector's 1.0x P/B remains undemanding relative to its ROE of about 10%. By comparison, Singapore banks trade at a significantly higher P/B of about 1.65x, despite delivering only a modestly stronger ROE of around 13%.
- **Stock picks.** Amid the ongoing geopolitical uncertainties in the Middle East, we adopt a barbell investment approach. We favour Hong Leong Bank for their defensive earnings profiles and near-term capital management upside following the adoption of Basel III reforms in Jun 26. At the other end, we like CIMB as a high-beta and liquid laggard that is likely to recover the fastest once geopolitical tensions ease.

Loans: Total, Household And Business



Source: BNM

- Total loan growth strengthened to 5.7% yoy in Aug 26 (Jul 26: 5.6%), extending the rebound from 4.8% in Dec 25.
- Business growth rose to 6.8%, while household growth eased to 5.0%, widening the divergence between the two segments.
- Business lending has become the clear growth engine, offsetting the gradual moderation in household borrowing through 2026.
- Overall loan growth remains around mid-single-digits, broadly within the relatively steady range observed over the past year.

Household Loan Sub-Segments: Mortgage, Auto And Credit Card



Source: BNM

- Mortgage growth eased to 5.3% (Jul 26: 5.4%), extending its gradual moderation from 6.2% in Aug 25.
- Hire-purchase growth slowed to 5.2% (Jul 26: 5.5%), continuing the normalisation from 6.9% a year earlier.
- Credit card growth remained weakest at 3.1%, sharply below 9.4% in Aug 25 after sustained deceleration.

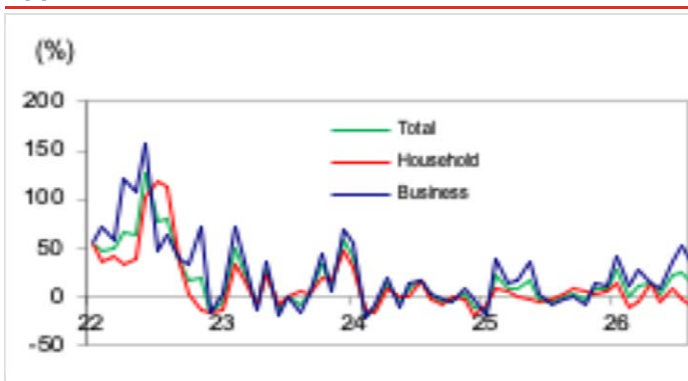
Key Business Loan Sub-Segments: Working Capital And Small And Medium Enterprises (SME)



Source: BNM

- Working-capital growth accelerated to 5.3% (Jul 26: 4.5%), rebounding strongly from 2.0% at end-25.
- SME growth eased to 3.8% (Jul 26: 4.5%), well below 7.2% in Aug 25.
- The divergence suggests larger corporate and working-capital demand is driving business growth more than SME borrowing.

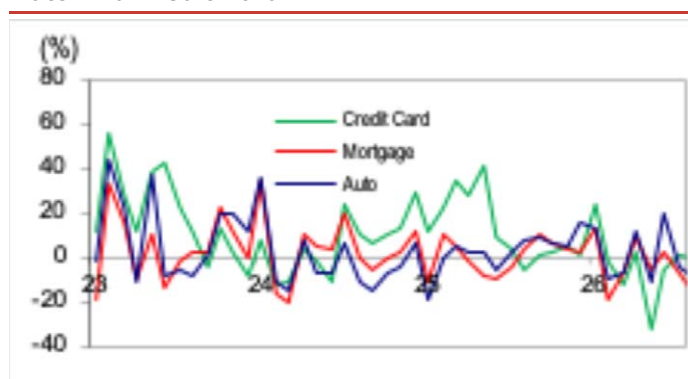
Approved Loans: Total, Household And Business



Source: BNM

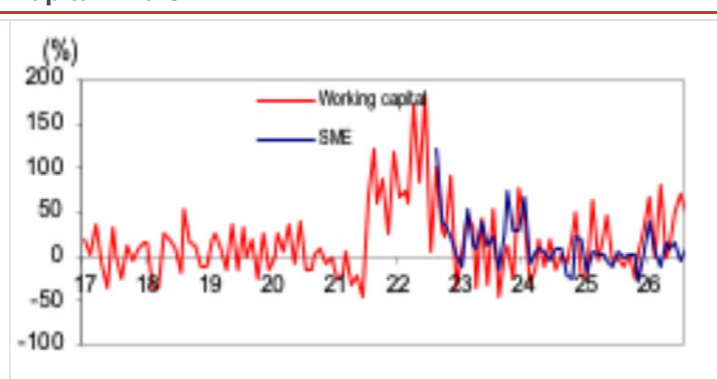
- Total approvals slowed to 10.9% yoy (Jul 26: 25.1%), but remained positive following a volatile first half.
- Business approvals stayed robust at 31.2%, led by working capital at 50.9%, despite easing sharply from July.
- Household approvals contracted 10.7%, with mortgage and hire-purchase approvals falling 15.1% and 8.3%, respectively.
- SME approvals improved to 7.7% (Jul 26: -3.2%), but the business pipeline remains concentrated in working-capital financing.

Household Approved Loan Sub-Segment: Mortgage, Auto And Credit Card

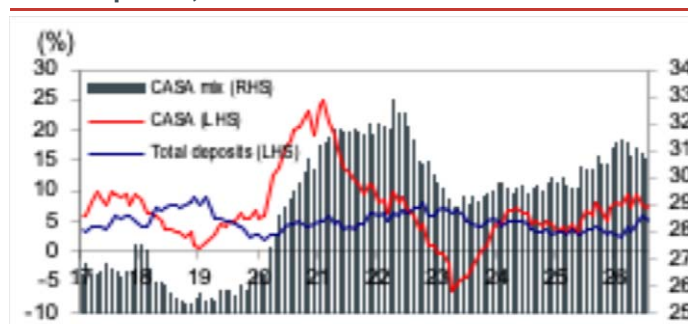


Source: BNM

Key Business Approved Loan Sub-Segments: Working Capital And SME



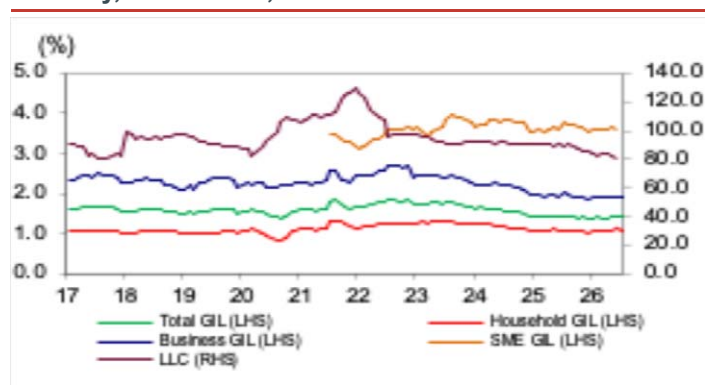
Total Deposits, CASA Growth And CASA Mix



Source: BNM

- Deposit growth eased to 5.2% yoy (Jul 26: 5.6%), now lagging loan growth of 5.7%.
- CASA growth accelerated to 7.9% (Jul 26: 7.1%), reversing July's moderation and continuing to outpace total deposits.
- CASA mix improved to 31.1% (Jul 26: 30.7%), returning close to its end-25 level.
- LDR rose to 89.8% (Jul 26: 88.8%), signalling some tightening in liquidity despite the stronger CASA mix.

Industry, Household, Business And SME GIL Vs Loan-Loss Coverage (LLC)



Source: BNM

- Total GIL edged up to 1.44% (Jul 26: 1.43%), reversing part of the improvement seen at end-25.
- Household and business GIL rose slightly to 1.11% and 1.92%, respectively, indicating modest broad-based deterioration.
- SME GIL increased to 3.63% (Jul 26: 3.58%), but remains below its Aug 25 level of 3.74%.
- LLC was stable at 81.4%, but remains below 90.0% in Aug 25, leaving less coverage cushion despite contained GIL ratios.

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