Affin Bank (ABANK MK)

3Q26: Robust Loan Growth Comes At A Cost

Highlights

- Higher impairments outweighed the double-digit income growth, driving an 8.7% decline in Affin's 9M26 earnings and missing expectations.
- Management expects NIM to stabilise, but funding constraints and potential additional credit buffers temper the earnings outlook.
- Maintain HOLD as elevated credit costs continue to weigh on earnings prospects; lower target price to RM2.13 from RM2.48 following earnings cuts.

3Q26 Results

Year to 31 Dec (RMm)	3Q26	qoq%	yoy%	9M26	yoy%
Net Interest Income	258.4	9.9	24.5	748.0	19.4
Islamic Banking	238.1	(4.5)	9.4	722.6	13.9
Fees & Commissions	80.2	(15.6)	8.5	290.9	51.3
Net Trading Income	80.8	203.9	(2.0)	164.8	(20.7)
Other Operating Income	33.7	(18.0)	425.7	66.6	(23.9)
Total Income	691.2	6.8	17.6	1,992.8	14.0
Operating Expenses	(453.1)	10.7	2.9	(1,272.8)	2.7
PPOP	238.1	0.0	61.1	720.1	41.5
Provision on loans	(76.4)	(3.0)	(320.6)	(224.1)	2,535.2
PBT	154.1	(6.7)	(15.4)	500.2	(7.4)
Net Profit	113.6	(10.9)	(21.7)	376.6	(8.7)
Core Net Profit	113.6	(10.9)	(21.7)	376.6	(8.7)
EPS (sen)	4.3	(13.4)	(24.5)	14.6	(10.1)
DPS (sen)	0.0	n.a.	n.a.	0.0	n.a.
BVPS (RM)	4.64	(4.9)	(3.3)	4.64	(3.3)
Financial Ratios (%)	**3Q26**	**qoq +/- ppt**	**yoy +/- ppt**	**9M26**	**yoy +/- ppt**
NIM	1.47	(0.05)	0.08	1.47	0.01
Loan Growth, yoy	14.0	0.4	6.3	14.0	6.3
Deposit Growth, yoy	1.0	0.6	(3.5)	1.0	(3.5)
Loan/Deposit Ratio	109.7	3.9	12.6	109.7	12.6
Cost/Income Ratio	65.6	2.3	(9.3)	63.9	(7.0)
ROE	3.6	(0.5)	(1.1)	4.1	(0.5)
NPL Ratio	1.76	(0.06)	(0.11)	1.76	(0.11)
Credit Costs (bp)	35.3	(2.2)	53.5	35.0	31.0
Loan Loss Coverage	69.4	(1.8)	(2.3)	69.4	(2.3)
CET-1 CAR	12.3	(0.3)	(1.2)	12.3	(1.2)

Source: Affin Bank, UOB Kay Hian

Analysis

- **Below expectations.** Affin Bank (Affin) delivered 3Q26 net profit of RM113.6m (-21.7% yoy, -10.9% qoq), bringing 9M26 earnings to RM376.6m (-8.7% yoy). Earnings came in below expectations, with 9M26 earnings accounting for 68% and 71% of our and consensus full-year estimates, respectively. The shortfall reflected elevated impairment charges and higher operating expenses, which weighed on earnings despite continued income growth.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	826	875	931	992	1,072
Non-Interest Income	652	700	690	733	780
Net profit (rep./act.)	510	540	470	572	648
Net profit (adj.)	547	540	470	572	648
EPS (sen)	21.6	21.0	17.9	21.4	24.3
PE (x)	9.0	9.3	10.9	9.1	8.0
P/B (x)	0.4	0.4	0.4	0.4	0.4
Dividend yield (%)	0.0	4.3	3.7	4.4	5.0
Net int margin (%)	1.54	1.62	1.63	1.65	1.68
Cost/income Ratio (%)	76.9	69.7	62.8	63.0	63.0
Loan loss cover (%)	82.4	74.1	71.6	72.2	72.0
Consensus net profit		-	528	617	685
UOBKH/Consensus (x)		-	0.89	0.93	0.95

Source: Affin Bank, Bloomberg, UOB Kay Hian

Analyst

Philip Wong

philipwong@uobkh.com

(603) 2147 1996

HOLD (Maintained)

Share Price	RM1.95
Target Price	RM2.13
Upside	8.7%
Previous TP	RM2.48

Stock Data

Sector	Financials
Bloomberg ticker	ABANK MK
Shares issued (m)	2,632.2
Market cap (RMm)	5,159.1
Market cap (US$m)	1,271.1
3-mth avg daily t'over (US$m)	0.5

Price Performance (%)

52-week high/low				RM2.82/RM1.91
1mth	**3mth**	**6mth**	**1yr**	**YTD**
0.0	(12.1)	(20.0)	(14.8)	(16.6)

Major Shareholders (%)

SG Assetfin Holdings	25.4
Bank of East Asia	23.9
LTAT	20.3

Balance Sheet Metrics

FY26F NAV/Share (RM)	4.57
FY26F CAR Tier -1 (%)	13.9

Price Chart



Source: Bloomberg

Company Description

Affin Bank is a Malaysian banking group offering retail, corporate, Islamic and investment banking.

- **9M26 earnings declined 8.7% yoy,** as stronger operating income was outweighed by higher impairments and weaker associate contributions. Net income increased 14.0% yoy, supported by stronger net interest and fee income, while pre-provision operating profit rose 41.5%. However, impairment charges increased to RM233.9m from RM14.8m, while associate earnings fell 66.5%.
- **3Q26 earnings.** Net profit declined 21.7% yoy to RM113.6m, primarily reflecting a reversal from net impairment writebacks of RM34.8m in 3Q25 to impairment charges of RM86.1m. These outweighed a 17.6% revenue growth and a relatively modest 2.9% increase in operating expenses. On a qoq basis, earnings fell 10.9%, as higher operating expenses absorbed the 6.8% increase in revenue, leaving pre-provision operating profit broadly flat. Higher impairment charges, lower associate contributions and a higher effective tax rate further weighed on earnings.
- **NIM edged downwards.** Quarterly BAU NIM declined 5bps qoq to 1.47%, although 9M26 NIM remained marginally higher yoy at 1.47% (+1bps). Loan yields were unchanged qoq at 5.08%, while funding costs increased 2bps to 3.14%. Funding mix weakened as CASA mix falling to 24.2% from 26.7%, partly reflecting a large corporate withdrawal. Management highlighted intensifying deposit competition, with market fixed deposit rates approaching 4%. Nevertheless, management expects NIM to remain around current levels, supported by RM1.4b of asset repricing in 4Q26.
- **Loans expanded 14.0% yoy** and 3.0% qoq, vs deposit growth of 5.4% and 1.7%, respectively. Consequently, LDR rose to 105.15% (3Q25: 97.23%). Enterprise and corporate banking led growth, expanding 23.7% and 21.0% yoy, while mortgage and auto growth was intentionally moderated. Management intends to slow lending, raise pricing and secure accompanying deposits, particularly CASA.
- **GIL improved, but retail pressures persisted.** Group GIL eased to 1.76% from 1.82%, supported by corporate recoveries, while mortgage GIL increased to 1.90% from 1.84%. Management cited household affordability pressures and temporary collection disruption following a system migration. With collection processes stabilising, it expects retail delinquency trends to taper towards 4Q26. Stage 2 loans rose to 6.25% from 5.89%, including precautionary reclassification of selected share-margin accounts amid market weakness. That said, overall GIL remains well below the 3.0% pandemic average.
- **Credit costs remain elevated.** Annualised 9M26 net credit cost was 35bps, vs 4bps a year earlier. Management indicates full-year gross credit costs of around 44-50bps, with additional 4Q buffers under consideration ahead of a softer 2027 outlook. Loan-loss coverage fell to 69.38%, although coverage including regulatory reserves reached 118.06%. Management targets coverage of at least 70%, with RM30-40m of potential recoveries anticipated by December or 1Q27.

Valuation/Recommendation

- **Maintain HOLD with a lower target price of RM2.13 (from RM2.48) (0.46x 2027F P/B, ROE: 4.6%)** in tandem with our revised assumptions. The peg is above its historical mean P/B of 0.40x. The premium seems justified considering the Sarawak state government has become the bank's new major shareholder, which will bolster the bank's funding franchise and unlock growth by deepening its foothold in the state's SME and public sector financing.

Earnings Revision/Risk

- We trim our 2026-28 earnings by 16/7/5% respectively to factor in primarily higher credit cost assumptions.

Key Assumptions

(%)	2026F	2027F	2028F
Loan Growth	9.0	6.0	6.5
Credit Cost (bp)	40.5	30.0	25.5
ROE	3.9	4.6	5.1

Source: UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental
- **Sustainable financing commitment.** Affin's sustainable financing portfolio reached RM12.06b in 2025, representing 15.19% of total loans and financing, exceeding its 15% target. The group targets a 25% share by 2028. - **Paperless initiative.** Ceased printing hard-copy annual loan statements and half-yearly unit trust statements in 2025. Digital delivery of unit trust statements reduced paper consumption by approximately 20,000 A4 sheets and 10,000 envelopes.
Social
- **Board and upper management gender diversity.** Women represented 42% of the Board as at end-2025, while female representation in top and senior management stood at 33.33% and 34.03%, respectively.
Governance
- **Independent board composition.** Independent Non-Executive Directors accounted for 67% of the Board, or eight out of 12 directors. The Board is chaired by an Independent Non-Executive Director.

Source: Affin Bank, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Interest income	2,946	3,231	3,646	3,899
Interest expense	(2,071)	(2,300)	(2,654)	(2,827)
Net interest income	875	931	992	1,072
Fees & commissions	283	371	401	433
Other income	417	318	332	347
Non-interest income	700	690	733	780
Income from islamic banking	867	961	1,028	1,100
Total income	**2,442**	**2,581**	**2,753**	**2,952**
Staff costs	(1,025)	0	0	0
Other operating expense	(677)	(1,621)	(1,734)	(1,860)
Pre-provision profit	740	960	1,019	1,092
Loan loss provision	(24)	(337)	(268)	(242)
Other provisions	(7)	(13)	(8)	(9)
Associated companies	52	20	24	28
Other non-operating income	0	0	0	0
Pre-tax profit	761	631	767	870
Tax	(221)	(161)	(196)	(222)
Minorities	0	0	0	0
Net profit	**540**	**470**	**572**	**648**
Net profit (adj.)	540	470	572	648

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Cash with central bank	6,156	10,516	12,202	13,586
Govt treasury bills & securities	6,881	6,881	7,088	7,371
Interbank loans	316	329	342	356
Customer loans	78,546	85,559	90,709	96,664
Investment securities	25,929	25,929	26,707	27,776
Associates & JVs	853	1,069	1,111	1,156
Fixed assets (incl. prop.)	1,682	1,603	1,667	1,734
Other assets	3,710	3,823	3,976	4,135
Total assets	**124,074**	**135,709**	**143,804**	**152,777**
Interbank deposits	8,569	10,343	10,757	11,187
Customer deposits	79,000	80,580	85,818	91,825
Derivative payables	628	653	680	707
Debt equivalents	6,127	8,577	9,006	9,456
Other liabilities	17,531	23,425	25,042	26,695
Total liabilities	**111,855**	**123,578**	**131,302**	**139,870**
Shareholders' funds	12,219	12,131	12,502	12,907
Minority interest - accumulated	0	0	0	0
Total equity & liabilities	**124,074**	**135,709**	**143,804**	**152,777**

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Capital Adequacy				
Tier-1 CAR	14.8	14.6	14.3	14.1
Total CAR	17.3	17.0	16.7	16.4
Total assets/equity (x)	10.2	11.2	11.5	11.8
Tangible assets/tangible common equity (x)	10.8	11.9	12.3	12.6
Asset Quality				
NPL Ratio	1.6	1.8	1.7	1.7
Loan Loss Coverage	74.1	71.6	72.2	72.0
Loan Loss Reserve/Gross Loans	1.2	1.3	1.3	1.2
Increase in NPLs	(6.8)	18.8	3.4	1.8
Credit Cost (bp)	3.2	40.5	30.0	25.5
Liquidity				
Loan/Deposit Ratio	99.4	106.2	105.7	105.3
Liquid Assets/Short-Term Liabilities	15.2	19.5	20.3	20.7
Liquid Assets/Total Assets	10.8	13.1	13.7	13.9

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Growth				
Net Interest Income, yoy Chg	5.9	6.4	6.6	8.1
Fees & Commissions, yoy Chg	(5.0)	31.1	8.0	8.0
Pre-Provision Profit, yoy Chg	47.4	29.8	6.1	7.2
Net Profit, yoy Chg	6.0	(12.9)	21.5	13.4
Customer Loans, yoy Chg	10.8	8.9	6.0	6.6
Customer Deposits, yoy Chg	7.1	2.0	6.5	7.0
Profitability				
Net Interest Margin	1.62	1.63	1.65	1.68
Cost/Income Ratio	69.7	62.8	63.0	63.0
Adjusted ROA	0.5	0.4	0.4	0.4
Reported ROE	4.5	3.9	4.6	5.1
Adjusted ROE	4.5	3.9	4.6	5.1
Valuation				
P/BV (x)	0.4	0.4	0.4	0.4
P/NTA (x)	0.4	0.5	0.4	0.4
Adjusted P/E (x)	9.3	10.9	9.1	8.0
Dividend Yield	4.3	3.7	4.4	5.0
Payout ratio	40.0	40.0	40.0	40.0

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at this link or by scanning the QR code below:

The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full.